

# Celgene 2005



*Con el compromiso de mejorar la vida  
a los pacientes de todo el mundo*



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# *La revolución de REVLIMID® – ¡Un cambio de rumbo!*

El 27 de diciembre de 2005, la Administración de Alimentos y Medicamentos de los Estados Unidos (FDA) aprobó el fármaco REVLIMID (lenalidomida), que ha supuesto un cambio en Celgene y en la forma de tratar los síndromes mielodisplásicos (SMD) con supresión del 5q. REVLIMID es el primero de nuestra novedosa clase de compuestos inmunomoduladores, una terapia de vanguardia entre los fármacos de administración oral. REVLIMID acaba de ser aprobado en los Estados Unidos para tratar a pacientes con anemia dependiente de transfusiones causada por síndromes mielodisplásicos (SMD) de riesgo bajo o intermedio-bajo, asociados a una anomalía citogenética de supresión del cromosoma 5q, que pueden ir acompañados o no de otras anomalías citogenéticas. Los SMD constituyen un grupo de cánceres de la sangre que afectan aproximadamente a 300.000 personas en todo el mundo y cada año se diagnostican de 10.000 a 20.000 nuevos casos en los Estados Unidos.

Con el fin de garantizar, en la medida de lo posible, un acceso seguro a los beneficios clínicos de esta importante y novedosa terapia, REVLIMID puede adquirirse en farmacias contratadas al amparo de RevAssist<sup>SM</sup>, un programa patentado de educación y recetas seguras que está a la vanguardia del sector. Asimismo hemos presentado REVLIMID en los Estados Unidos y estamos preparando su lanzamiento en la Unión Europea.

Tanto REVLIMID como todos los productos de nuestra compañía ofrecen unos ingresos estables que van en aumento. Al mismo tiempo seguimos invirtiendo en nuestro futuro a través de una nutrida línea de prometedores compuestos.

Hemos asumido el compromiso de llevar nuestros beneficiosos tratamientos de vanguardia a miles de personas en todo el mundo. Estamos estableciendo amplios programas de respaldo al paciente con el fin de garantizar su acceso a los beneficios clínicos que nuestros novedosos tratamientos pueden brindarles. Igualmente estamos dedicando un gran esfuerzo a avanzar en el rápido desarrollo de nuevos fármacos que traigan la esperanza a enfermos de cáncer y enfermedades inflamatorias, de manera que cada vez haya más pacientes que reciban ayuda.

¡La revolución de REVLIMID acaba de empezar!

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## *Con el compromiso de mejorar la vida a los pacientes de todo el mundo*

El índice de supervivencia en personas que padecen cáncer ha aumentado a un ritmo constante desde la década de los setenta, pero aún es necesario que haya más avances. Solamente este año el cáncer afectará a casi 1,4 millones de norteamericanos, y a unos 11 millones de personas en todo el mundo.

Se calcula que cerca de 600.000 personas en Estados Unidos, y 7 millones en todo el mundo, morirán de cáncer durante este año, por eso Celgene y sus más de 1.000 empleados trabajan sin descanso para descubrir, desarrollar y ofrecer tratamientos innovadores que modifiquen la enfermedad y que permitan controlar mejor las enfermedades incurables y sobrevivir a ellas. Nuestro objetivo es transformar ciertos tipos de cáncer en enfermedades que sean, o bien curables, o bien que puedan tratarse como afecciones crónicas, de manera que los pacientes de cáncer puedan vivir más tiempo y con una mayor calidad de vida.

Muchas enfermedades tan variadas como los cánceres de la sangre, la psoriasis y la anemia de células falciformes son actualmente incurables. Su tratamiento se basa en regímenes complejos y cuidados paliativos que resultan costosos para el sistema sanitario, y que a menudo también son difíciles de sobrellevar para el paciente. En Celgene estamos aplicando los últimos avances en investigación molecular y celular para desarrollar tratamientos novedosos que apunten a los mecanismos de la enfermedad en su origen con el fin de que resulte en mejoras significativas para el paciente.



**Chet & REVLIMID®**



**Marjatta &  
Expanded Access**



**Don & S.T.E.P.S.®**



**Norma &  
Clinical Trials**

## *Nuestro compromiso es acercar más tratamientos modificadores de la enfermedad al paciente que las necesita.*

Celgene ha asumido el compromiso de ayudar a los pacientes con cáncer (10 millones de enfermos sólo en los Estados Unidos), así como a aquellos que sufren numerosas enfermedades y trastornos debilitantes. En 2005 investigadores clínicos informaron de una mejora en las estadísticas de supervivencia en varios ensayos clínicos realizados en pacientes con mieloma múltiple y que habían sido tratados con REVLIMID® y THALOMID®. Los resultados clínicos demostraron, además, que en pacientes con SMD con anomalía citogenética por eliminación del cromosoma 5q, REVLIMID redujo, o incluso eliminó, la necesidad de realizar transfusiones.



Nuestra amplia y variada línea de compuestos novedosos es un compromiso a largo plazo para encontrar, desarrollar y ofrecer tratamientos modificadores de la enfermedad totalmente nuevas. THALOMID, REVLIMID, ALKERAN® y FOCALIN-XR™ ya están a disposición de los pacientes, y estamos evaluando otros compuestos prometedores que se encuentran en las etapas preclínica y clínica. Dichos compuestos

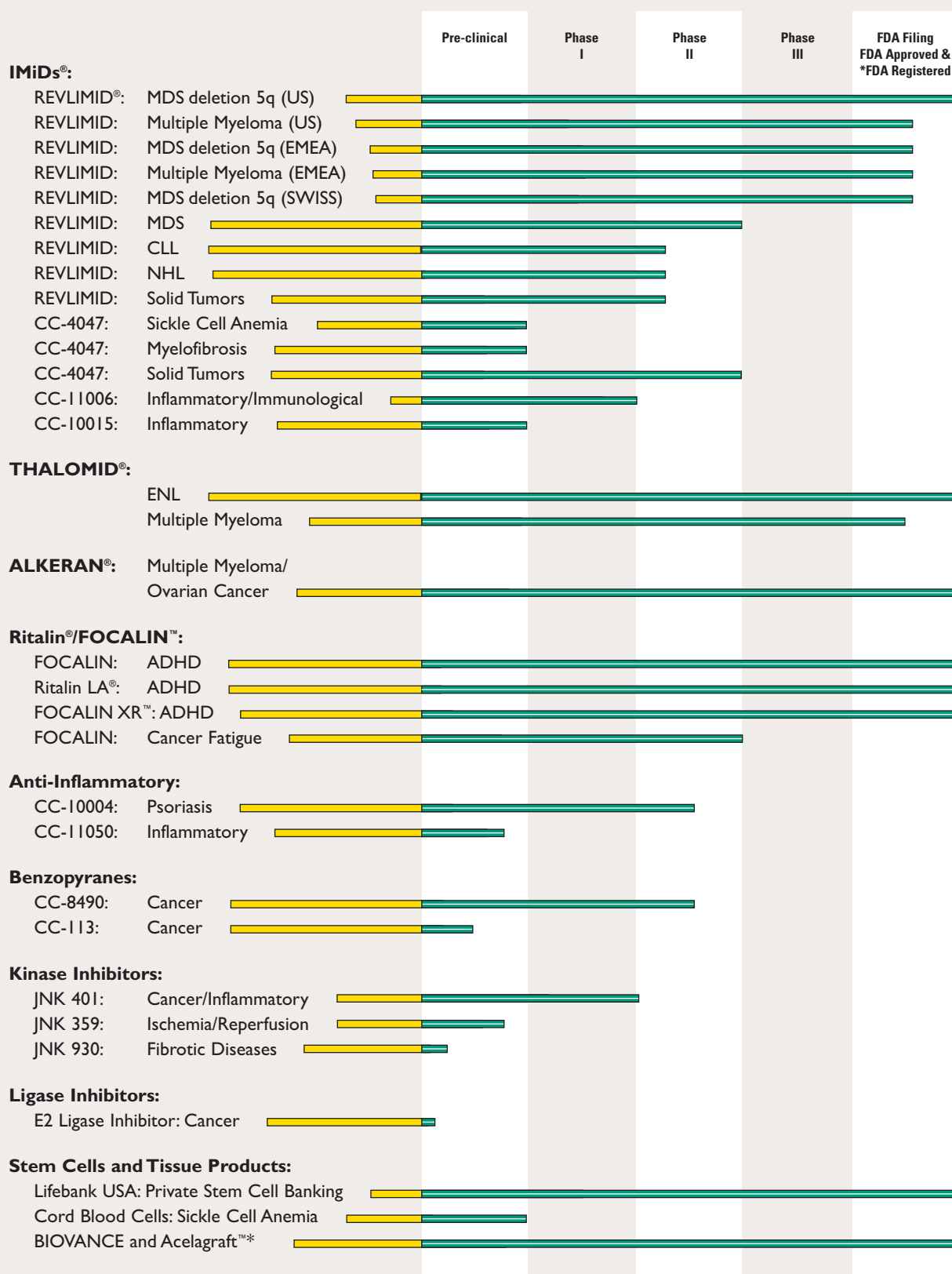


representan muchas clases de agentes terapéuticos que consisten en moléculas pequeñas para administración oral y están diseñados para modificar potencialmente el curso de la enfermedad mediante la regulación selectiva de los genes y proteínas asociados a ella. La diversidad de nuestra línea de productos en desarrollo nos brinda la posibilidad de poder llegar a descubrir y desarrollar tratamientos innovadores en los próximos años. Hasta ahora hemos dedicado casi el 40 por ciento de nuestros ingresos totales a investigación y desarrollo,

más del doble del promedio del sector. Dicha inversión nos ha posicionado para emplear a científicos de fama internacional con el fin de llevar a cabo una gran variedad de programas de investigación y desarrollo con un único objetivo: descubrir y ofrecer tratamientos de vanguardia que mejoren la calidad de vida y las perspectivas de los pacientes gravemente enfermos de todo el mundo.

En última instancia, nos imaginamos un mundo en el que la mayoría de las enfermedades puedan ser curadas. Hasta entonces trabajaremos para ayudar a que tanto el cáncer y como otras enfermedades puedan llegar a controlarse.

## PRODUCT PIPELINE



## Estimados accionistas:

En 2005, nuestro tercer año completo con ganancias, Celgene obtuvo unos resultados extraordinarios que culminaron en la última semana de diciembre con la aprobación de REVLIMID® por parte de la FDA. Nuestras principales prioridades corporativas para 2005 se mantuvieron constantes: completar varios ensayos clínicos de envergadura y enviar datos clínicos convincentes a la FDA para su revisión. La importancia de los datos obtenidos en dichos ensayos clínicos, así como la consiguiente aprobación de la FDA, nos han colocado en una buena posición para lograr nuestros objetivos corporativos en 2006.

### Acelerar el impulso

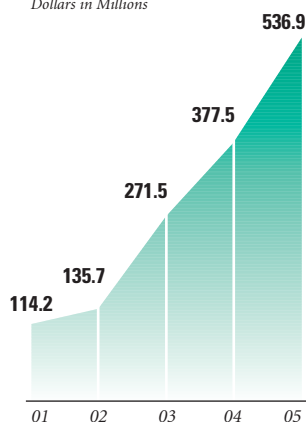
El año 2005 fue excepcional para Celgene no sólo por la aprobación de REVLIMID, sino también porque ha sido un año de transformaciones en varios aspectos. Tanto en sus operaciones comerciales como en sus programas clínicos y de investigación, la compañía logró resultados excelentes, así como un sólido rendimiento económico. Entre los logros se incluyen los valores récord obtenidos en las ventas y en los ingresos totales; la aprobación de FOCALIN XR™ y de REVLIMID por parte de la FDA; la presentación de la Solicitud complementaria para nuevo fármaco para el uso de REVLIMID en el mieloma múltiple y la subsiguiente aceptación para revisión prioritaria por parte de la FDA; la aceptación de nuestra solicitud para REVLIMID en la Unión Europea y en Suiza para síndromes mielodisplásicos (SMD) por supresión 5q; nuestro Día del Analista 2005 y, finalmente, el anuncio de nuestros planes de sucesión en la dirección de la compañía.



**John W. Jackson**  
Presidente ejecutivo

**“Estamos orgullosos de nuestros programas de asistencia, que ayudan a garantizar que los pacientes tengan acceso a los beneficios clínicos de nuestros innovadores tratamientos.”**

**Total Revenue**  
Dollars in Millions



El día 1 de mayo de 2006, Sol J. Barer asumió el cargo de Director general (CEO) y Robert J. Hugin fue nombrado Presidente y Director Operativo (COO) de Celgene Corporation. Confiamos plenamente en que la nueva dirección continúe con la tradición cultural de nuestra empresa y con su espíritu innovador característico, ayudando a transformar las vidas de tantas personas en todo el mundo y a Celgene en una escala global.

En el año 2005 obtuvimos importantes resultados económicos, con unos ingresos y unas ganancias operativas récord. Los ingresos totales del año alcanzaron los 536,9 millones de dólares, lo que supone un aumento del 42 por ciento con respecto a 2004. Las ventas de THALOMID® ascendieron a 387,8 millones de dólares, mientras que en 2004 fueron de 308,6 millones, es decir, que se produjo un aumento del 26 por ciento. Los ingresos obtenidos de la familia de fármacos de FOCALIN™ y Ritalin® sumaron un total de 72,8 millones de dólares, que incluye el histórico pago de 20 millones por parte de Novartis una vez que la FDA aprobara FOCALIN XR. Las ventas de ALKERAN® alcanzaron los 49,7 millones de dólares, lo que supone un aumento sustancial con respecto al año anterior.

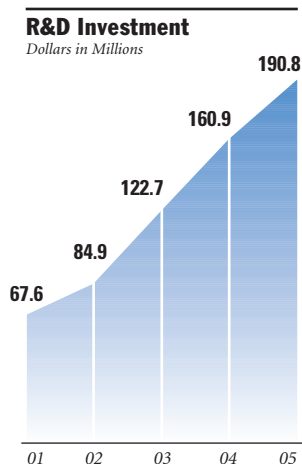
Las ventas de THALOMID, que constituyen la principal aportación a nuestros impresionantes resultados económicos, se vieron impulsadas por el creciente aumento de datos clínicos positivos que han aparecido en publicaciones médicas de renombre y que han sido presentados en importantes congresos médicos internacionales. En 2005 se estaban llevando a cabo en todo el mundo más de 100 ensayos clínicos en los que sometía a evaluación el fármaco THALOMID.

Recientemente han aparecido datos clínicos sin precedentes sobre THALOMID que acentúan aún más su importancia como tratamiento potencial para el mieloma múltiple. Un comité independiente de control de datos

recomendó que se dieran a conocer los resultados de nuestro ensayo pivotal en fase III para la evaluación de THALOMID® como terapia oral combinada en el tratamiento de mieloma múltiple de diagnóstico reciente. Dicha decisión fue debida a que los datos clínicos excedían de forma abrumadora el valor de  $p < 0,0015$  que había sido previamente elegido como parámetro para detener el ensayo clínico en el punto final primario del avance de la enfermedad. La Solicitud complementaria para nuevo fármaco que hemos presentado para que THALOMID sea aprobado como fármaco contra el mieloma múltiple de diagnóstico reciente se encuentra en proceso de revisión, y esperamos la resolución de la FDA para fines de mayo de 2006.

En 2005 invertimos el 36 por ciento de nuestros ingresos en investigación y desarrollo con el objetivo de garantizar un crecimiento sostenible y a largo plazo de nuevos productos y un aumento de los ingresos, así como para seguir cumpliendo con nuestro compromiso de mejorar la vida de los pacientes en todo el mundo. Por otro lado, hemos acelerado el avance de programas normativos clave para la etapa final, y hemos progresado en el trabajo de compuestos muy prometedores para el desarrollo en la etapa más temprana y en la fase preclínica. Hemos incrementado las inversiones en investigación y desarrollo en los programas de fase II y III para REVLIMID®, que han sido diseñados para extender el uso de REVLIMID en el tratamiento de una amplia diversidad de cánceres hematológicos y tumores sólidos. Como consecuencia de la permanente inversión que realizamos en la investigación de tratamientos modificadores de enfermedades, en la actualidad contamos con una importante línea de compuestos. Hasta la fecha hemos recibido la aprobación de la FDA para tres productos y puede que dos de ellos reciban la aprobación o la ampliación de su etiqueta tanto en los Estados Unidos como en la Unión Europea a lo largo del año 2006.

El 27 de diciembre de 2005 la FDA aprobó REVLIMID como la primera terapia oral para el tratamiento de pacientes con SMD con anomalía citogenética de supresión del cromosoma 5q, que pueden ir acompañados o



no de otras anomalías citogenéticas. Los SMD constituyen un conjunto de cánceres de la sangre que afectan aproximadamente a 300.000 personas en todo el mundo. Según la Sociedad Americana del Cáncer, en los Estados Unidos se diagnostican entre 10.000 y 20.000 nuevos casos cada año. La mayoría de los pacientes con SMD tienen que depender a menudo de las transfusiones para poder controlar los síntomas de fatiga y anemia crónica, hasta que finalmente desarrollan toxicidad o una sobrecarga de hierro que pueden resultar potencialmente mortales. Teniendo como objetivo la causa de la enfermedad, mediante los cuidados paliativos se subraya la necesidad médica imperiosa de que se desarrollen nuevos tratamientos que puedan llegar a la enfermedad, algo que todavía no se ha conseguido.

### Ejecución del plan

Nuestro objetivo para el año 2006 es claro. Nuestra prioridad más acuciante es llevar a cabo el lanzamiento más importante de la industria farmacéutica contra los cánceres hematológicos. Durante varios años hemos estado desarrollando los planes para crear y ejecutar el lanzamiento de REVLIMID, sin parangón a escala internacional. A medida que vamos entendiendo mejor el funcionamiento tanto de los SMD como de los exclusivos beneficios terapéuticos de REVLIMID, intentamos que este medicamento llegue cada vez a un mayor número de personas. De hecho, Celgene ha adoptado un enfoque global interfuncional con el fin de desarrollar planes, iniciativas y herramientas que puedan servir de ayuda a los servicios médicos para mejorar las vidas de los pacientes de SMD de todo el mundo.

Nuestro objetivo es que REVLIMID, según la aprobación realizada para SMD, es que sustituya a los cuidados paliativos que se llevan a cabo en la actualidad y se transforme en el estándar de tratamiento para pacientes con SMD de riesgo bajo e intermedio-bajo con anomalía citogenética por supresión 5q. Nuestra intención es cara



**Dr. Sol J. Barer**  
Director ejecutivo

**“El valor y el potencial de nuestra franquicia oncológica dependen directamente del volumen cada vez mayor de resultados clínicos sin precedentes.”**

a conocer la enfermedad de los SMD con supresión 5q en todo el mundo, así como el valor terapéutico de nuestro fármaco, REVLIMID®. Igualmente esperamos asociarnos con grupos de apoyo con el fin de concienciar sobre esta enfermedad y ayudar a que los pacientes tengan acceso a opciones terapéuticas más eficaces. Finalmente queremos que tanto los pacientes como los servicios médicos puedan llegar a disfrutar de una experiencia positiva con nuestro producto.

Estamos entusiasmados con nuestro lanzamiento, y muy satisfechos con los primeros resultados obtenidos. El departamento comercial de Celgene está dando a conocer toda la información necesaria sobre los riesgos y los beneficios de nuestro fármaco, y al mismo tiempo estamos llevando a cabo con eficacia nuestros planes clínicos y de normativas. Por otro lado estamos evaluando el potencial de REVLIMID en otras áreas. En un ensayo clínico abierto en fase II, el fármaco REVLIMID demostró estar indicado para ampliaciones de los SMD. Igualmente hemos obtenido destacados resultados en dos ensayos clínicos de fase III en los que se llevó a cabo un estudio comparativo entre la combinación de REVLIMID con dexametasona y el uso en solitario de dexametasona en pacientes con mieloma múltiple con tratamientos previos. Nuestra intención es completar una serie de ensayos clínicos de gran calidad para que puedan ser registrados y, de dar resultados positivos, podrían dar lugar a que REVLIMID fuera aprobado para su comercialización internacional para tratar determinadas enfermedades de la sangre, entre ellas están el mieloma múltiple de diagnóstico reciente, la leucemia linfocítica crónica, el linfoma no Hodgkin agresivo, la mielofibrosis y la amiloidosis. De esta manera se podrían atender las necesidades médicas de más de un millón de pacientes en todo el mundo.

Un objetivo de Celgene es ser una de las compañías biofarmacéuticas más importantes del mundo. Somos una empresa líder reconocida en el área de la hematología, y constituimos un valioso recurso para los servicios médicos que tratan a pacientes con enfermedades hematológicas debilitantes, muestra importante de ellos es la aprobación de REVLIMID por parte de la FDA. Hemos establecido un programa de asistencia al paciente líder en el sector, ofreciendo tratamiento gratuito a los pacientes que lo necesiten, así como un programa de Soluciones de Respaldo al Paciente (PSS, en sus siglas en inglés) para aquellos pacientes cuyo seguro sea insuficiente o que carecen de él. Actualmente estamos llevando a cabo un Programa de Acceso Ampliado, mediante el cual proporcionamos REVLIMID bajo supervisión médica y de forma gratuita a pacientes que sufren mieloma múltiple refractario o recurrente. Al mismo tiempo la FDA está revisando nuestra Solicitud complementaria para nuevo fármaco presentada para el REVLIMID. Por otro lado, Celgene apoya también a diversas organizaciones sin ánimo de lucro que proporcionan asistencia de copago a pacientes

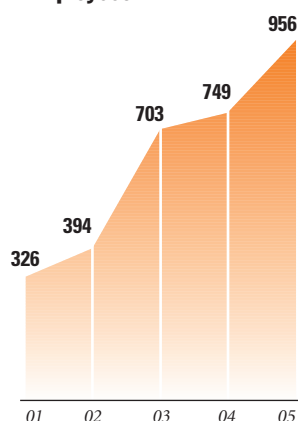
con SMD o mieloma múltiple. Dichas organizaciones colaboran con los pacientes independientemente del tipo de terapia elegida por el médico que los trata. Celgene trabaja diariamente para que los pacientes que luchan contra el cáncer y otras enfermedades debilitantes saquen el mayor partido a la vida, y para ello ayuda a los pacientes necesitados a que puedan participar de los beneficios clínicos de nuestros innovadores medicamentos, y lleva a cabo investigaciones de vanguardia con el fin de aumentar los tratamientos que mejorarán la calidad de vida de los pacientes.

### Asegurar el futuro

Estamos logrando un notable progreso en diversas áreas del desarrollo de fármacos. El principal objetivo de nuestros programas de estudios clínicos es ampliar nuestro conocimiento sobre todo el potencial del REVLIMID, a la vez que evaluar y estimular el prometedor potencial de una amplia gama de otros productos exclusivos e innovadores. En 2005 nuestros programas de estudios clínicos dieron notables resultados, como ya explicamos tanto en nuestra conferencia del Día del Analista celebrada en noviembre,

como en los principales congresos médicos de todo el mundo. Cabe destacar que en la reunión anual de la Sociedad Americana de Hematología (ASH) celebrada en diciembre, investigadores clínicos de los más importantes centros de investigación oncológica proporcionaron datos sin precedentes obtenidos de ensayos clínicos recientes y en curso sobre THALOMID® y REVLIMID y que están indicados para una amplia gama de enfermedades, incluido el mieloma múltiple. Los más de 100 resúmenes presentados en la asamblea de la ASH (en sesiones plenarias, orales y de pósters) reflejaban con precisión los avances de nuestros programas clínicos. Entre las presentaciones se incluyeron 30 resúmenes que evaluaban el fármaco REVLIMID, y 77 que evaluaban el fármaco THALOMID. Continuaremos haciendo importantes inversiones en compuestos prometedores que cuentan con el potencial para dar resultados clínicos del tipo

### Employees





de los presentados a lo largo de 2005. Nos estimulan nuestros logros del año 2005, y nos entusiasman las oportunidades que nos brinda el futuro.

### **Cultivando una cultura global**

Un importante objetivo de 2005 fue acelerar la transformación de Celgene en una compañía biofarmacéutica de carácter mundial. Con ese fin establecimos nuestro cuartel general internacional en Neuchâtel, Suiza. Consideramos que los mercados internacionales ofrecen excelentes oportunidades para Celgene y nuestros novedosos fármacos. El aumento sustancial del número de pacientes afectados por SMD y mieloma múltiple en los mercados desarrollados fuera de los Estados Unidos, así como las otras enfermedades hematológicas en estudio, suponen un gran incentivo para extender nuestra presencia en el mercado internacional.

Con el fin de alcanzar este importante objetivo es fundamental que sigamos reforzando nuestra cultura en el ámbito internacional. La innovación, la creatividad, y el desarrollo y fortalecimiento de nuestro personal son características profundamente enraizadas en la cultura de Celgene, cuyos trabajadores tienen la oportunidad de modelar su propio futuro y sus propios logros. De esta manera, nuestros empleados influirán directamente sobre la vida de pacientes oncológicos de todo el mundo, y sobre el éxito de Celgene. Seguimos atrayendo a directivos de primera clase y que son esenciales para llevar a cabo con éxito nuestros planes clínicos, comerciales y de normativas fuera de los Estados Unidos. Actualmente nos encontramos en el proceso de construir nuestra infraestructura comercial para respaldar el potencial lanzamiento de REVLIMID en determinados países extranjeros. Nos sentimos fuertes con el avance logrado hasta este momento y nuestro objetivo es construir una organización internacional de primera clase, diseñada para reaccionar con rapidez una vez los organismos reguladores han aprobado nuestros fármacos.

En 2006 esperamos lograr un gran avance en todas las áreas de Celgene, y nos preparamos para un futuro prometedor. Estamos seguros de que REVLIMID está a punto de convertirse en un medicamento revolucionario. Podrá llegar a transformar el estándar de tratamiento en todo el mundo para pacientes afectados por diversos tipos de cáncer, así como la compañía Celgene a escala internacional. Tras el lanzamiento de REVLIMID, Celgene está posicionada mejor que nunca. THALOMID® y el resto de los productos que comercializamos nos proporcionan una base de ingresos estable que va en aumento. Estamos preparados para presentar REVLIMID en los Estados Unidos, la Unión Europea, Australia y Canadá una vez haya sido aprobado.

En Celgene reconocemos que los numerosos resultados positivos alcanzados hasta el momento son el fruto del trabajo de un equipo de personas decididas, dedicadas y capaces: nuestros accionistas y nuestros asociados. Queremos agradecer los inestimables consejos de Frank T. Cary durante los últimos 20 años, como asesor confiable y buen amigo de todos nosotros. Por otro lado damos la bienvenida a Rodman L. Drake al Consejo de administración de la compañía, y esperamos contar con su valiosa contribución.

A todos ustedes, les agradecemos su extraordinario apoyo.



**Robert J. Hugin**  
*Presidente y Director de operaciones*

**“Tras el lanzamiento  
de REVLIMID®,  
Celgene está  
posicionada mejor  
que nunca.”**

John W. Jackson  
*Presidente ejecutivo*

Dr. Sol J. Barer  
*Director ejecutivo*

Robert J. Hugin  
*Presidente y Director de operaciones*

## *Modificar el curso de la enfermedad centrándose en la causa, no en los síntomas*

Nada suscita más temor e incertidumbre en el paciente que ser diagnosticado de cáncer. Nuestra misión en Celgene es desarrollar tratamientos innovadores, modificadores de la enfermedad, que beneficien a los pacientes y que ayuden a reducir la carga sobre los recursos de los servicios médicos. Los compuestos IMiDs®, nuestra clase patentada de nuevos compuestos inmunomoduladores, actúan mediante diversos mecanismos sobre las causas de las enfermedades que tratan y no simplemente sobre los síntomas. Nuestra novedosa línea



incluye también otras clases de compuestos nuevos que ofrecen un gran potencial para el futuro. REVLIMID® (lenalidomida), nuestro primer compuesto IMiDs aprobado por la FDA, pasó la prueba en 2005 y se utiliza en pacientes con síndromes mielodisplásicos con anomalía cromosómica de supresión 5q y que dependen de las transfusiones. REVLIMID se administra de forma oral y puede tomarse en casa, así el paciente



puede disponer a su gusto del tiempo que de otra manera debería pasar en el consultorio del médico, o en el hospital, recibiendo transfusiones de sangre. Los ensayos clínicos han demostrado que en dos terceras partes de estos pacientes con SMD, la administración de REVLIMID eliminó la necesidad de realizar transfusiones debilitantes, invasivas y que consumen el tiempo del paciente. Además, en más de la mitad de los pacientes que mostraron respuesta citogenética, el tratamiento con REVLIMID eliminó las anomalías citogenéticas (es decir, las células genéticamente anormales) de la médula de los pacientes. En 2005, un estudio publicado en *el New England Journal of Medicine* mostró que tras más de dos años de seguimiento, los pacientes estudiados aún no habían alcanzado la duración media de respuesta esperada. Para estos pacientes, el beneficio clínico de

REVLIMID fue realmente incommensurable.

REVLIMID también se encuentra en revisión como terapia combinada (es decir, que se administra junto con otros fármacos) para el tratamiento del mieloma múltiple refractario o recurrente. A finales de diciembre se presentó ante la FDA una Solicitud complementaria para nuevo fármaco indicado para dicha enfermedad. El mieloma múltiple es un cáncer de la sangre en el que las células plasmáticas (componentes importantes del sistema inmunológico) proliferan de forma descontrolada y se acumulan en la médula ósea. Afecta a más de 200.000 personas en todo el mundo, y ocupa el segundo lugar entre los cánceres de sangre más frecuentes. A principios de marzo de 2006, la FDA concedió una prioridad de revisión a la Solicitud complementaria para nuevo fármaco presentada para el REVLIMID y estableció un plazo hasta el 30 de junio de 2006 conforme a lo

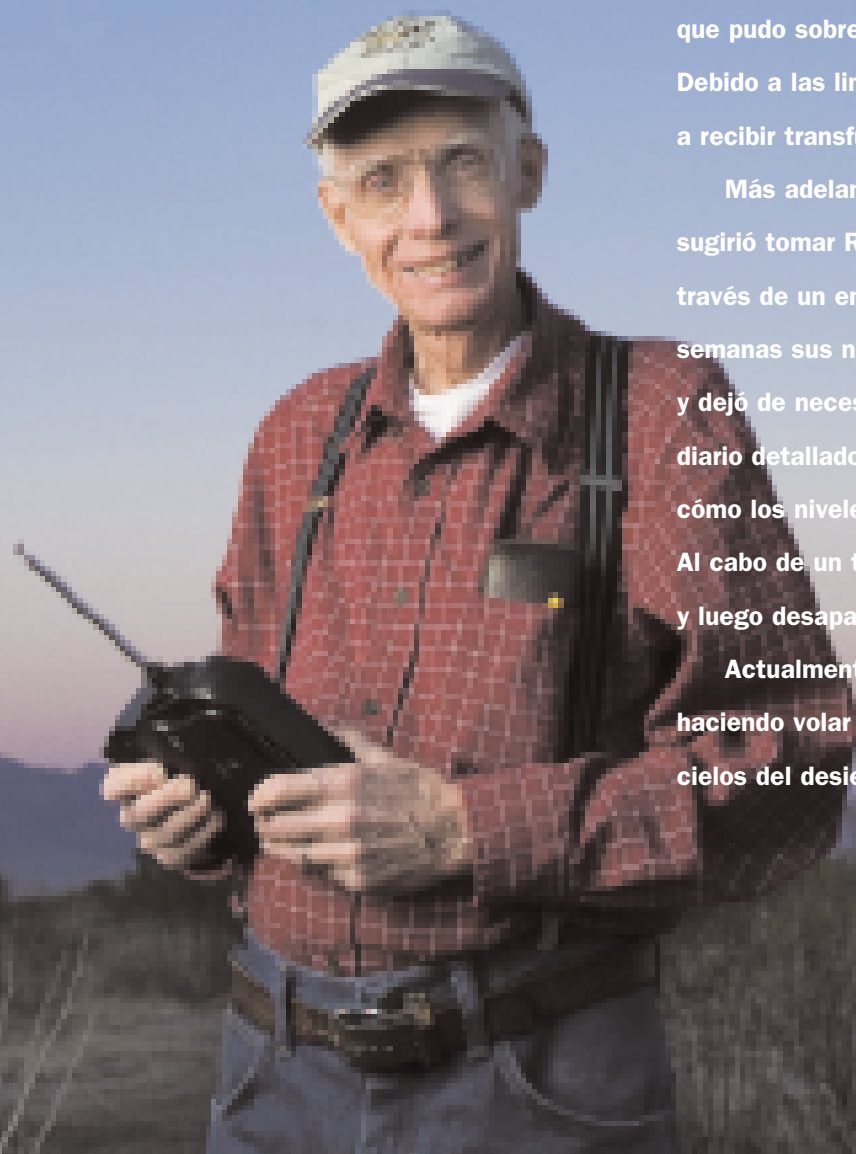


## Chet & REVLIMID®

Cuando en el año 2001 la fatiga crónica alejó a Chet Hodge de su pasatiempo favorito, construir y volar aviones en miniatura, este ingeniero electrónico no se quedó con los brazos cruzados. “Estaba extremadamente cansado y fatigado, y busqué tratamiento médico.” Tras enterarse de que el diagnóstico era síndrome mielodisplásico con supresión del cromosoma 5q, Chet comenzó a averiguar todo lo que pudo sobre este tipo de cáncer de la sangre. Debido a las limitadas opciones médicas, comenzó a recibir transfusiones cada cinco o seis semanas.

Más adelante, en abril de 2002, su médico le sugirió tomar REVLIMID, que estaba disponible a través de un ensayo clínico. En un plazo de tres semanas sus niveles sanguíneos se estabilizaron y dejó de necesitar las transfusiones. “Llevaba un diario detallado de mis recuentos sanguíneos, y veía cómo los niveles iban subiendo gradualmente.” Al cabo de un tiempo la fatiga empezó a disminuir y luego desapareció por completo.”

Actualmente, Chet goza de buena salud y disfruta haciendo volar sus aviones hechos a mano por los cielos del desierto. “Hoy, me siento bastante bien.”



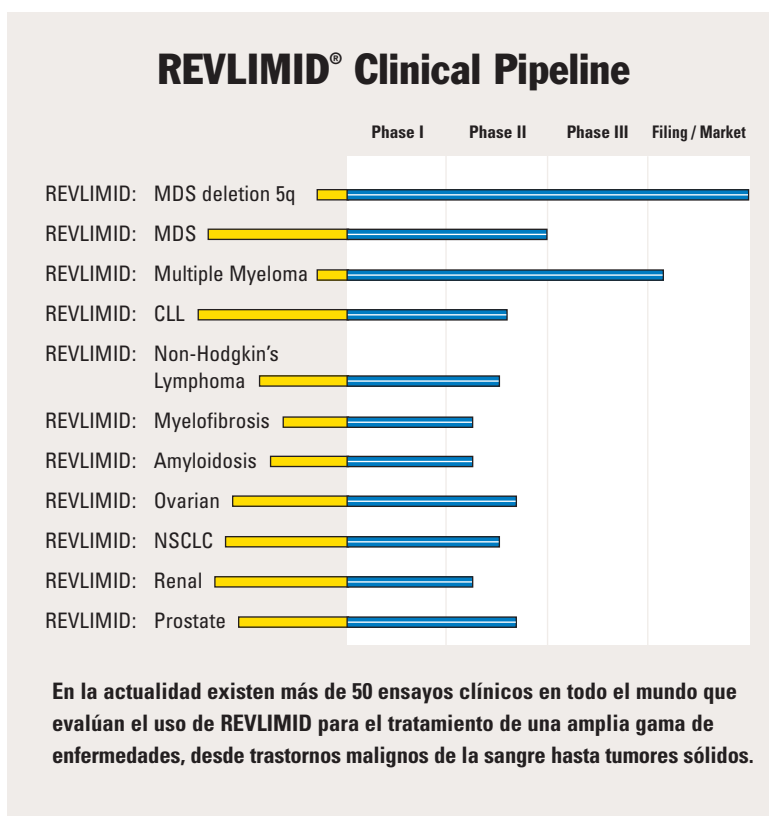
establecido por la Ley de tasas para Usuarios de medicamentos con receta (PDUFA). Por otro lado, Celgene ha creado un Programa de Acceso Ampliado líder en el sector, que proporciona a los pacientes de toda Norteamérica con mieloma múltiple recurrente o refractario que cumplan los requisitos, un amplio acceso a los beneficios clínicos potenciales de REVLIMID mientras nuestra Solicitud complementaria para nuevo fármaco es sometida a revisión por parte de la FDA.

El amplio corpus de datos clínicos que sustentan nuestros productos sigue aumentando, e impulsa el creciente uso de dichos productos. En la asamblea de diciembre de 2005 de la Sociedad Americana de Hematología (ASH), los investigadores presentaron datos clínicos

de nuestro ensayo clínico pivotal de fase III de Norteamérica, en el que se demuestra que la combinación de REVLIMID con dexametasona dio lugar a una mejora estadísticamente significativa (en comparación con la administración de dexametasona sola) en la supervivencia global entre los pacientes con mieloma múltiple. Los datos también mostraron que la media de supervivencia global en los pacientes tratados con REVLIMID con dexametasona aún no había sido alcanzada. A principios de año, y a raíz de estos impresionantes datos, se dieron a conocer los ensayos de REVLIMID para mieloma realizados tanto a escala internacional como en los Estados Unidos, y todos los pacientes que formaban parte de dicho ensayos tuvieron la oportunidad de tomar REVLIMID. Más adelante, esperamos presentar nuevos datos en los principales congresos médicos de todo el mundo, y en las más importantes publicaciones a escala internacional.

En general, la asamblea 2005 de la ASH fue la más exitosa para nosotros hasta la fecha, con más de 100 resúmenes presentados, tanto sobre THALOMID® como REVLIMID. Los datos se expusieron en 23 presentaciones orales y en una sesión plenaria. En 2006 esperamos que continúe el importante flujo de datos clínicos sobre los productos de Celgene en congresos médicos internacionales de primer nivel, incluidos los de la Sociedad Americana de Oncología Clínica, la Sociedad Americana de Hematología, la Asociación Europea de Hematología y la Conferencia Europea de Oncología Clínica.

Si bien REVLIMID ha mostrado resultados muy impactantes para el SMD y el mieloma múltiple, su potencial muestra que puede estar indicado para un gran número de enfermedades, muchas más de las que se



calculaban inicialmente. Existen más de 50 ensayos clínicos en curso en los que se va a evaluar el uso de REVLIMID® para tratar una amplia gama de enfermedades, entre las que se incluyen la leucemia linfocítica crónica o (LLC), el linfoma no Hodgkin (LNH), la mielofibrosis, la amiloidosis sistémica primaria y el linfoma de células T, así como otras enfermedades hematológicas malignas y tumores sólidos. Los primeros datos son prometedores. En 2006 esperamos continuar con el diseño y los estudios preliminares para ensayos clínicos aptos para registro, tanto para LLC como para LNH. Además, teniendo en cuenta el elevado nivel de interés clínico que existe sobre REVLIMID, prevemos que una buena cantidad de dichos estudios dará lugar también a en 2006 y 2007 aparezcan de artículos escritos por investigadores de renombre en publicaciones importantes.

El THALOMID® (talidomida) es el motor impulsor del crecimiento de nuestra compañía, y también respalda nuestros servicios de apoyo integral al paciente, nuestros programas de gestión de riesgos y nuestros programas de investigación y desarrollo. El THALOMID recibió la aprobación de la FDA por primera vez en 1998 y estaba indicado para una enfermedad inflamatoria asociada con la lepra. Actualmente se está evaluando el THALOMID en más de 100 ensayos clínicos en todo el mundo, en esta ocasión para su uso en la lucha contra tumores sólidos y cánceres hematológicos. Como consecuencia del continuo interés investigativo en este compuesto, se siguen aportando importantes datos clínicos en publicaciones y en congresos médicos internacionales de renombre.

Al igual que REVLIMID, THALOMID se administra por vía oral. Además, se está estudiando con miras a retrasar la necesidad de realizar trasplantes de médula ósea, que resultan costosos y son invasivos. En enero de 2006, un comité de seguridad independiente de monitorización de datos sacó a la luz el ensayo internacional pivotal de Celgene sobre THALOMID más dexametasona para el tratamiento del mieloma múltiple de diagnóstico reciente. El parámetro de valoración clínica principal del ensayo, el tiempo transcurrido hasta la progresión de la enfermedad, fue aproximadamente tres veces más prolongado en el grupo que recibió THALOMID que en el grupo de control.

A través de una Solicitud complementaria para nuevo fármaco presentada ante la FDA, el THALOMID está actualmente en revisión para ser utilizado en combinación en el tratamiento del mieloma múltiple de diagnóstico reciente. Se espera tener la decisión de la FDA el 25 de mayo de 2006.

Creemos que los resultados positivos obtenidos sobre REVLIMID representan el preludio de un futuro muy atractivo y prometedor para los compuestos IMiDs®. Tras una década de investigaciones hemos aprendido que modificando la estructura molecular de cada compuesto IMiDs tenemos la posibilidad de abordar las propiedades biológicas y clínicas específicas necesarias para cambiar el curso de una enfermedad. Estamos trabajando en el compuesto CC-4047 para el tratamiento de la anemia de células falciformes y tumores sólidos. El fármaco CC-11006 tiene un mecanismo de acción similar al de REVLIMID y optimiza sus atributos positivos. Los compuestos IMiDs también están demostrando gran utilidad más allá del cáncer. Como el CC-10015 cruza la barrera hematoencefálica, es potencialmente útil en el tratamiento de enfermedades inflamatorias y enfermedades malignas del sistema nervioso central. Por todo ello es muy posible que el “próximo REVLIMID” se encuentre ya dentro de nuestra creciente biblioteca de compuestos novedosos, prometedores y de gran importancia.





## Marjatta & Expanded Access

En el año 2003, en un análisis de sangre de rutina Marjatta Doherty, nacida en Finlandia, encontró una explicación para su cansancio. Tras una evaluación más profunda por parte de su médico, se encontró que la anemia que la afectaba en realidad se debía a un trastorno de las células plasmáticas, precursor de mieloma múltiple, diagnóstico que finalmente recibió en julio de 2004.

El verano pasado, cuando comenzó a tener dolores en la clavícula, se hizo evidente la necesidad de un tratamiento agresivo. El hematólogo de Marjatta le recomendó que comenzara un régimen con REVLIMID®, disponible a través del Programa de Acceso Ampliado de Celgene, y este tratamiento le dio buenos resultados.

Hoy Marjatta ha vuelto a disfrutar de un pasatiempo que la apasiona desde 1985, hacer quilts. "Doy las gracias por haber tomado REVLIMID y que me diera tan buen resultado. Mi médico pensó que sería ideal para mí, y tenía razón."



## *El paciente es lo primero. Por ello le aseguramos un acceso amplio a los beneficios clínicos de nuestros innovadores tratamientos.*

Celgene ha creado programas de vanguardia en la industria, para proporcionar información, y acercar nuestros innovadores tratamientos a los pacientes que cumplan los requisitos, porque consideramos que todos los pacientes deben poder beneficiarse de los avances en la prevención, detección y tratamiento del cáncer.

Los pacientes con SMD con anomalía cromosómica de supresión 5q, que pueden ir acompañados o no de otras anomalías, tienen REVLIMID® a su disposición a través de RevAssist<sup>SM</sup>, programa de distribución y gestión de riesgos desarrollado por Celgene. (Véase el apartado “Seguridad” en la página 14.) En este programa, las farmacias contratadas atienden las recetas de REVLIMID; instruyen al paciente sobre los posibles efectos secundarios, y asisten a pacientes y médicos con sus consultas sobre la cobertura del seguro en planes concretos.

Celgene trabaja en estrecho colaboración con otras organizaciones con el fin de ofrecer cobertura de medicamentos oncológicos orales que hayan sido recetados a pacientes que los necesitan. Actualmente REVLIMID y THALOMID® cumplen con los requisitos para la cobertura estipulados por la Ley de Medicamentos Recetados, Mejora y Modernización de Medicare del año 2003. No obstante, cada plan específico de Medicare Part D evaluará a REVLIMID y THALOMID para incluirlo en su propio vademécum.

Para aquellos pacientes que no cuentan con un seguro que cubra REVLIMID o THALOMID, Celgene ha creado el programa Patient Support Solutions (PSS, Soluciones de Respaldo al Paciente), que pone los productos de Celgene a disposición de aquellas personas que con poco poder adquisitivo. Celgene también ofrece apoyo económico a Partnership for Prescription Assistance, un programa de la Asociación Norteamericana de Investigadores y Fabricantes de Productos Farmacéuticos para personas que carecen de cobertura para medicamentos y no pueden afrontar los tratamientos que tanto necesitan.

En el caso de pacientes que no cumplan los requisitos para poder obtener los fármacos de manera gratuita, el programa PSS los deriva a programas estatales de asistencia y a organizaciones sin ánimo de lucro. Para los pacientes que no pueden afrontar el copago de sus coberturas para medicamentos, Celgene apoya económicamente a las organizaciones que administran programas independientes de asistencia con copagos.

Para los pacientes con mieloma múltiple que cumplan los requisitos para el acceso a REVLIMID con anterioridad a su aprobación para dicha enfermedad, y que no puedan formar parte de un ensayo clínico, Celgene ha puesto REVLIMID a disposición de dichos pacientes a través de un Programa de Acceso Ampliado (EAP, Expanded Access Program)

Para obtener más información sobre el programa PSS de Celgene visite la página web: [www.pssprogram.com](http://www.pssprogram.com).

Conforme a lo establecido en los reglamentos de Medicare, el 15 de mayo es el último día para incorporarse a un plan de medicamentos recetados de Medicare que ofrezca cobertura para 2006, sin incurrir en cargos por ingreso fuera de término. Para saber más sobre la inscripción y las opciones que ofrece el beneficio para medicamentos recetados de Medicare, llame al teléfono 1-800-MEDICARE o visite la página web: [www.medicare.gov](http://www.medicare.gov).

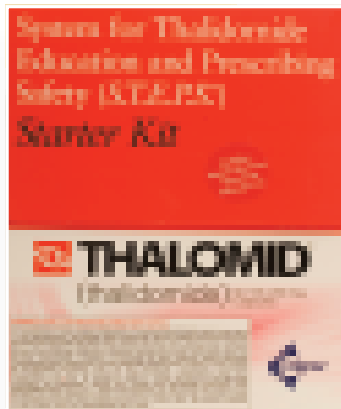


## Garantizar un acceso seguro al paciente en la medida de lo posible

Creemos que es importante hacer llegar los nuevos tratamientos revolucionarios a los pacientes que los necesitan, y igualmente es fundamental garantizar que pueden tener un acceso seguro a los beneficios clínicos de los medicamentos. Para complementar la aprobación de REVLIMID® en 2005, Celgene creó el programa RevAssist<sup>SM</sup>, que contempla la educación y seguridad del paciente al tiempo que garantiza un acceso relativamente rápido y conveniente al REVLIMID. Bajo el programa RevAssist se distribuirá el REVLIMID a través de una red de farmacias contratadas, donde enfermeros y farmacéuticos capacitados instruirán al paciente sobre los riesgos potenciales antes de que se le pueda entregar su receta.



Si bien RevAssist se diseñó específicamente para REVLIMID, se deriva de la experiencia que adquirimos con nuestro innovador Sistema de Educación y Seguridad para Recetas de Talidomida, o S.T.E.P.S.®, (System for Thalidomide Education and Prescribing Safety), el primer programa de distribución de medicamentos y gestión de riesgos aprobado por la FDA.



Desde su instauración en 1998, S.T.E.P.S. ha hecho posible que más de 130.000 pacientes con diversas enfermedades debilitantes y potencialmente mortales reciban los beneficios terapéuticos potenciales de THALOMID®. A su vez, S.T.E.P.S. se ha convertido en uno de los programas líderes de la industria más ampliamente reconocidos, tanto por el acceso como la seguridad del paciente. A fines de 2004, Celgene cerró acuerdos de licencia no exclusiva con los fabricantes de isotretinoína. Estas compañías ahora pueden hacer uso de determinadas patentes de uso de S.T.E.P.S. de Celgene para desarrollar programas de gestión de riesgos que distribuyan este fármaco, que tiene importantes beneficios terapéuticos pero también efectos secundarios

potencialmente graves. Gracias a los acuerdos de licencia, los pacientes podrán beneficiarse este año de estos programas de distribución y gestión de riesgos.

S.T.E.P.S., y ahora RevAssist, son una muestra de la colaboración entre la compañía y el gobierno, los grupos de apoyo y los socios de la industria. También reflejan nuestro compromiso para respaldar el acceso a los pacientes a tratamientos innovadores, y a la vez garantizar que dichos tratamientos se receten correctamente.





## Don & S.T.E.P.S.<sup>®</sup>

Cuando a Don Baylor le diagnosticaron mieloma múltiple su primera reacción fue que no quería perderse ningún juego. Don, el jugador más valioso de la Liga Americana de Béisbol en 1979, era el entrenador de los Mets de Nueva York cuando recibió el diagnóstico tras un examen físico de rutina en marzo de 2003. Basándose en los datos clínicos presentados en congresos médicos y publicaciones de renombre, el médico de Don le recetó THALOMID<sup>®</sup>, disponible según el Sistema de Educación y Seguridad para Recetas de Talidomida, S.T.E.P.S.<sup>®</sup> Este programa le permitía a Don recibir los beneficios de THALOMID, a la vez que garantizaba su adhesión a un programa estricto de gestión de la seguridad.

Hoy este legendario entrenador y jugador de béisbol juega al golf tres o cuatro veces por semana, y se siente estupendamente.





## Norma & Clinical Trials

Antes de 2001 a Norma Travis le gustaba cuidar de su jardín y cantar y bailar en el coro de su iglesia. Pero cuando en agosto de ese año le diagnosticaron mieloma múltiple, todas sus actividades se interrumpieron abruptamente. “Tenía dolores tan horribles... en una escala de uno a diez, tenía un 12.” Norma no sabía nada sobre mieloma múltiple, pero aprendió todo lo que pudo sobre su enfermedad. Y tras agotar otras opciones, su médico le recomendó que se incorporara a un ensayo clínico de REVLIMID®.

Esta decisión demostró ser de incalculable valor para Norma, y para cientos de pacientes como ella, que acceden a los beneficios clínicos de REVLIMID a través de ensayos clínicos.

En estos días Norma lleva una vida plena y activa, atendiendo las flores de su jardín. “REVLIMID me devolvió la vida.”



## *Tratamientos de vanguardia con resultados de calidad para una mejor atención médica*

Celgene continúa desarrollando una de las líneas de productos más sólidas de la industria biofarmacéutica. Para ello nos centramos en enfermedades potencialmente mortales o cuadros debilitantes crónicos, para los cuales los tratamientos actuales son inadecuados. Creemos que los enfoques innovadores basados en la regulación de genes e inmunomodulación pueden dar lugar a tratamientos muy beneficiosos para la vida de los pacientes. Basándonos en nuestro creciente conocimiento de los procesos biológicos que subyacen a los cánceres hematológicos y tumores sólidos, y las enfermedades neuroinmunes e inflamatorias, estamos invirtiendo en una gama de programas terapéuticos innovadores con el fin de tratar la causa de las enfermedades interviniendo en diversos mecanismos de acción y vías intracelulares.



### **Compuestos IMiDs®: un grupo increíblemente poderoso de pequeñas moléculas**

Nuestra cartera de compuestos IMiDs incluye REVLIMID® y cientos de compuestos inmunomoduladores. Dichos compuestos se diferencian desde el punto de vista estructural y clínico del THALOMID®, y son más seguros y potentes y tienen menos efectos secundarios. Los prometedores resultados obtenidos con REVLIMID en cánceres hematológicos, y la aprobación del medicamento por parte de la FDA para tratar un tipo de SMD, validan claramente el potencial de nuestra nutrida línea de IMiDs en desarrollo. Dicha línea ofrece a los pacientes la esperanza de poder controlar en el futuro y a largo plazo tanto el cáncer como las enfermedades inmunoinflamatorias debilitantes.

Entre nuestros compuestos principales, que ya se encuentran en la etapa de pruebas en humanos, se incluyen REVLIMID, CC-4047, CC-11006 y CC-10015. REVLIMID se estudia en ensayos clínicos de última fase y sigue demostrando resultados clínicos significativos en una amplia gama de enfermedades hematológicas malignas, como son el mieloma múltiple, la leucemia linfocítica crónica, el linfoma no Hodgkin, los síndromes mielodisplásicos, la mielofibrosis, la amiloidosis y el linfoma de células T.

CC-4047 es una molécula pequeña de administración oral y uno de nuestros más potentes compuestos IMiDs en desarrollo. Estamos planificando ensayos clínicos de fase II para determinar la seguridad y eficacia del CC-4047 como tratamiento potencial para la mielofibrosis y la anemia de células falciformes. Los fármacos CC-4047 y REVLIMID tienen distintos perfiles de mecanismo de acción que pueden llevar a su evaluación en distintas enfermedades, o en diferentes estadios de la misma enfermedad.

El fármaco CC-11006 es un compuesto oral que Celgene ha identificado como tratamiento potencial para enfermedades hematológicas malignas y dolencias inflamatorias crónicas. Muchas de estas enfermedades, como la fibrosis pulmonar intersticial inflamatoria y la esclerodermia, son en la actualidad prácticamente imposibles de tratar. A fines de 2005 se iniciaron los ensayos clínicos con CC-11006 y una vez hayan sido completados evaluaremos cuáles son nuestras opciones de desarrollo.

CC-10015 es un potente compuesto IMiDs de administración oral que ha demostrado capacidad para

penetrar en el sistema nervioso central (SNC) en varios modelos animales. Esperamos que a fines de 2006 se inicien los ensayos clínicos de fase I con CC-10015 para enfermedades inflamatorias o inmunológicas relacionadas con el SNC.

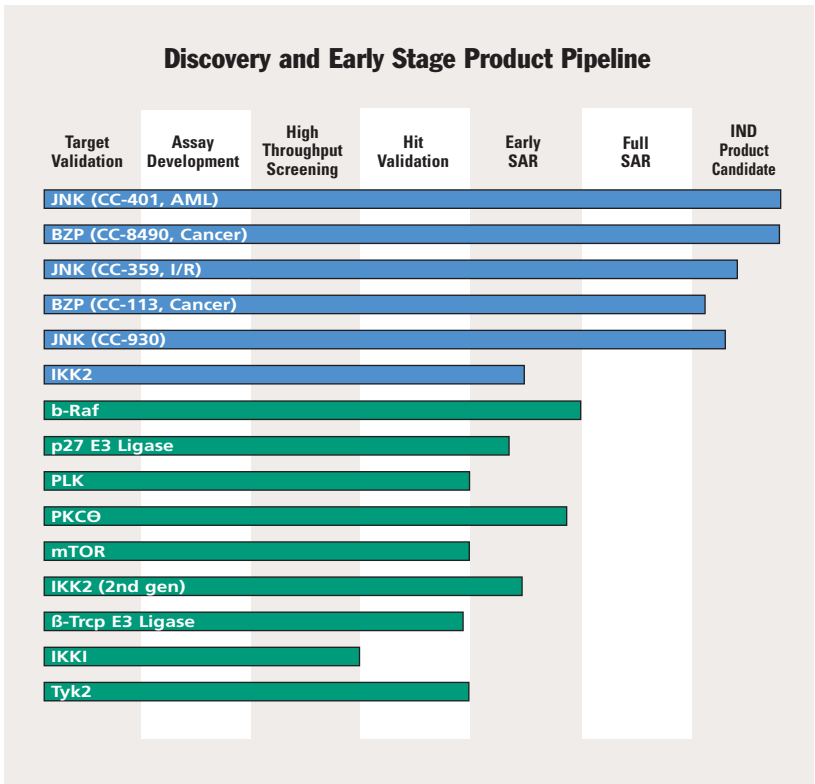
Partiendo de estos compuestos iniciales, Celgene seguirá invirtiendo ampliamente en compuestos inmunomoduladores diseñados con distintos atributos y que ofrecen un notable potencial clínico tanto en aplicaciones oncológicas como no oncológicas. Por otro lado, los científicos de la compañía apuntan a mecanismos celulares y moleculares precisos que constituyen las dianas terapéuticas de los compuestos IMiDs®. Dichas investigaciones conducirán a un conocimiento más exhaustivo de la biología de los IMiDs que dará lugar a nuevas aplicaciones clínicas y comerciales.

### Programas de descubrimiento de fármacos de nueva generación

Además de nuestras investigaciones sobre compuestos IMiDs, tenemos en marcha otros cinco programas de descubrimiento de fármacos en nuestra sólida línea de productos en desarrollo. En el primero de ellos intentamos encontrar un nuevo tratamiento oral para las enfermedades inflamatorias crónicas. CC-10004, el principal de nuestros fármacos en investigación en esta clase, es un medicamento de molécula pequeña de administración oral que inhibe la producción de diversos mediadores proinflamatorios, incluidos PDE-4, TNF-alfa, interleucina-2, interferon-gamma, leucotrienos y óxido nítrico sintasa. Sobre la base de los resultados promisorios en ensayos clínicos pilotos de fase II, Celgene está fomentando el desarrollo clínico de CC-10004 para psoriasis en placas de carácter moderado a grave.

Un interesante programa sobre las vías de degradación intracelular de proteínas está colocando a Celgene a la vanguardia de las investigaciones para el descubrimiento de nuevos tratamientos potencialmente revolucionarios. En Celgene Research San Diego estamos identificando dianas de fármacos y compuestos que regulan la vía de la ubiquitina ligasa, con el objetivo de controlar la proliferación y supervivencia celular. Dichos compuestos tienen

el potencial de constituir una clase importante y nueva de agentes terapéuticos contra el cáncer y las enfermedades inflamatorias.



### Las investigaciones en la señalización celular

Varios de los programas más importantes e interesantes que tenemos en curso tratan sobre la investigación en la señalización celular. Las dianas de señalización celular comprenden diversas enzimas entre las que se incluyen cinasas, fosfatasa y ligasas, así como factores de transcripción, y más de 1.000 de estas dianas moleculares son adecuadas para el desarrollo de fármacos. Celgene está en buena posición para competir de manera efectiva en este campo, con un sólido programa y activos de propiedad intelectual.

Tres de los compuestos que estamos evaluando actualmente son inhibidores de la cinasa N-terminal de c-Jun (o JNK), que han sido indicados en tratamientos clínicos clave en cáncer y enfermedades inflamatorias. Dichas tratamientos representan necesidades médicas insatisfechas. CC-401, nuestro principal candidato para JNK, está actualmente en investigación en un ensayo de fase I para leucemia mieloide aguda. CC-359 es un compuesto de acción prolongada que se encuentra en evaluación para el tratamiento de lesiones por reperfusión e isquemia. Y se está evaluando un tercer compuesto inhibidor de la JNK, CC-930, como tratamiento potencial para la fibrosis. Además, estamos estudiando otros inhibidores de cinasas, que pueden ser utilizados para tratar enfermedades específicas, como por ejemplo, la inflamación aguda y el cáncer (bRAF, IKK2, mTOR) y las enfermedades mediadas por células T e inflamación crónica (IKK1, PKC $\theta$ , TYK2).

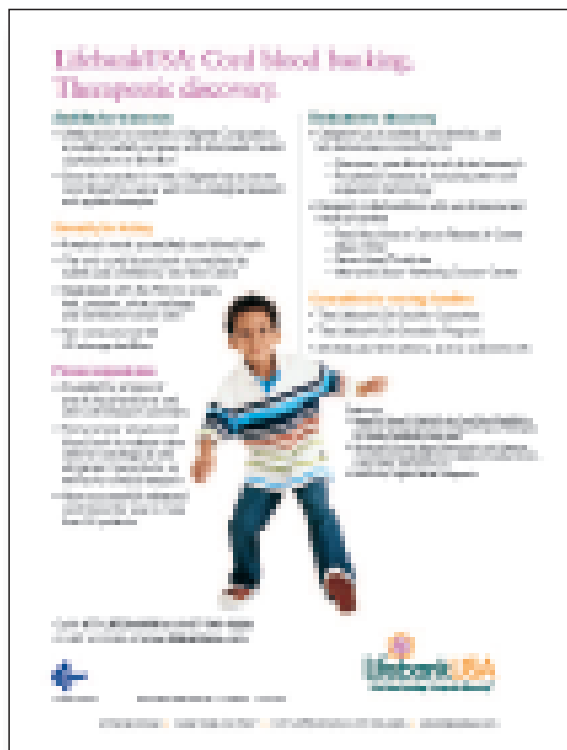
Otra área interesante de investigación es nuestro programa de descubrimiento en la vía de señalización del factor de transcripción NF-kappa B, que juega un papel esencial en la proliferación celular y diversos aspectos de la metástasis y angiogénesis, y está surgiendo como un posible enlace entre la inflamación crónica y el cáncer. Celgene Research San Diego viene estableciendo una posición sustancial en este campo desde hace varios años.

### Las fronteras de la medicina: la investigación en células madre placentarias

Celgene Cellular Therapeutics está dedicada a la investigación en células madre de placentas humanas y de sangre de cordón umbilical, en ambos casos fuentes no controvertidas y accesibles de células madres. Nuestros estudios sobre células madre placentarias durante los últimos tres años han desvelado una variedad de actividades biológicas con elevado potencial terapéutico. Nuestros científicos además han caracterizado células madres con expresión de propiedades específicas, incluidos marcadores celulares de superficie críticos para la inmunotolerancia. Estos descubrimientos tan importantes servirán como base para un gran número de nuevos derechos de propiedad intelectual.

Una de las propiedades más interesantes de los compuestos IMiDs<sup>®</sup> es el fuerte impacto que parecen tener sobre las células madres. En hemoglobinopatías como la anemia de células falciformes, nuestros investigadores han demostrado que los compuestos IMiDs pueden interactuar con las células madre y modularlas de tal modo que se diferencien en eritrocitos (glóbulos rojos). También hemos descubierto un método para expandir la población de células madre en la sangre del cordón umbilical con el fin de ayudar a generar una gran cantidad de células que podrían estar indicadas en el futuro para dosis terapéuticas o para el tratamiento de pacientes con cáncer.

En Celgene estamos en una posición única, que nos permite estudiar y desarrollar tanto moléculas pequeñas que en la actualidad nos ofrecen la posibilidad de transformar enfermedades complejas en cuadros crónicos manejables, como tratamientos con células madre que pueden contener la promesa de una cura futura para enfermedades que hasta ahora son incurables. Es evidente que la investigación que estamos llevando a cabo en la actualidad podrá ser de vital importancia para Celgene a medida que avanzamos.



## *Capacidad para realizar operaciones comerciales, de fabricación y de desarrollo clínico en todo el mundo.*

2005 fue el año en que se produjo el auge de Celgene a escala internacional. Partiendo de los impresionantes datos clínicos obtenidos sobre REVLIMID®, presentamos en la Unión Europea una Solicitud de autorización de comercialización (Marketing Authorization Application) para su uso en SMD asociados con anomalía citogenética por eliminación del 5q, y siguiendo la misma estrategia que en Estados Unidos. La Agencia Europea del Medicamento aceptó revisar dicha solicitud. Asimismo hemos solicitado una autorización de comercialización en Suiza y esperamos realizar presentaciones de normativas en otros mercados internacionales.

En este momento ya se están llevando a cabo conversaciones con Japón y Canadá. Por otro lado, la Agencia Europea del Medicamento aceptó la Solicitud de autorización para comercializar REVLIMID en la Unión Europea dentro del tratamiento de mieloma múltiple refractario o recurrente, y será sometida a revisión en abril de 2006.

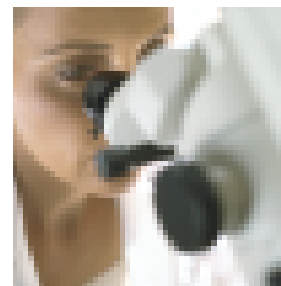
En espera de que se apruebe la comercialización de REVLIMID en la Unión Europea y otros mercados internacionales claves, hemos comenzado los preparativos de su lanzamiento. Con este fin hemos reunido un equipo de directivos de primera clase, en el que se incluyen directores generales de cada uno de los países clave. Su labor es asentar las operaciones a nivel mundial. La sede central de Celgene International Sàrl ha sido establecida en Neuchâtel, Suiza, donde también está en marcha la construcción de una planta de REVLIMID según las BPF.



Estamos estableciendo iniciativas de acceso a fármacos fuera de los Estados Unidos, y garantizando un amplio acceso a los beneficios clínicos de nuestros innovadores tratamientos. Mediante los programas de acceso, como por ejemplo nuestro Programa de Acceso Ampliado y Name Patient, los pacientes europeos que lo requieran podrán utilizar nuestro fármaco REVLIMID. Mientras tanto la Agencia Europea del Medicamento está revisando nuestra solicitud de aprobación para la comercialización de REVLIMID como tratamiento para el mieloma múltiple refractario o recurrente.

Los cimientos sobre los que estamos estableciendo nuestra presencia en todo el mundo son sólidos. 2005 ha sido el tercer año consecutivo en el que hemos sido una empresa rentable. Nuestros ingresos totales alcanzaron un valor récord de 536,9 millones de dólares, lo cual representa un aumento del 42 por ciento en los ingresos totales con respecto a 2004, y un 35 por ciento de aumento en las ventas totales de productos. Igualmente hemos logrado un aumento del 100 por ciento en nuestros ingresos de explotación ajustados interanuales. En 2005 Celgene se incorporó al Index® Nasdaq-100 y durante su primer año fue la acción que produjo un mejor rendimiento.

A día de hoy Celgene es una empresa biofarmacéutica integrada a nivel mundial y de diversidad cultural, que realiza operaciones clínicas en casi 17 países de todo el mundo. Como prueba de la innovación y calidad de nuestras actividades científicas y el potencial de nuevos tratamientos emergentes, Celgene ha conseguido tener entre sus filas a los mejores trabajadores y nos complace saber que han decidido realizar su carrera profesional con nosotros. Todos ellos son profesionales experimentados y muy preparados que trabajan juntos con el fin de apoyar tanto el desarrollo clínico como nuestros objetivos comerciales, creando en todo el mundo una cultura exclusiva de Celgene.







## Consejo de administración

### In Memoriam



**Frank T. Cary**, miembro del Consejo de administración de Celgene desde 1987, falleció el 1 de enero de 2006. Frank Cary había sido Presidente del Comité ejecutivo del Consejo de administración desde 1990, así como miembro del Comité de nombramientos y administración, y del Comité de desarrollo y compensación de gestión. Durante toda su carrera en Celgene Frank Cary nos proporcionó su inestimable experiencia, sus consejos y su buen criterio, y fue un consejero y un amigo de confianza. Tanto sus amigos como sus colegas de Celgene lamentan sinceramente su ausencia.



### John W. Jackson

*Presidente ejecutivo*

John W. Jackson es nuestro Presidente del consejo de administración desde enero de 1996, e igualmente es Presidente del Comité ejecutivo de nuestro Consejo de administración. Ejerció el cargo de Director ejecutivo desde enero de 1996 al 1 de mayo de 2006. Desde febrero de 1991 a enero de 1996 fue Presidente de Gemini Medical, una firma consultora fundada por él mismo dedicada al asesoramiento en inversiones y en estrategias para empresas de dispositivos médicos. Anteriormente, desde febrero de 1986 a enero de 1991, fue Presidente de la División internacional de Dispositivos médicos de American Cyanamid, una importante compañía farmacéutica, en la que también ejerció diversos cargos, incluido el de Vicepresidente internacional, desde 1978 a 1986. John Jackson desempeñó varios cargos en el marketing de productos y servicios relacionados con la salud humana desde 1971 a 1978 dentro de la importante compañía farmacéutica, Merck & Company. Se licenció en la Universidad de Yale, y obtuvo un máster en el INSEAD, en Francia.



### Dr. Sol J. Barer

*Director ejecutivo*

El Dr. Sol J. Barer es nuestro Director ejecutivo desde el 1 de mayo de 2006 y ha sido uno de nuestros directores desde marzo de 1994. Es también miembro del Comité ejecutivo del Consejo de administración. Ejerció el cargo de Presidente desde octubre de 1993 al 1 de mayo de 2006, y fue Director de operaciones desde marzo de 1994 al 1 de mayo de 2006. Fue Vicepresidente senior de ciencia y tecnología y Vicepresidente/Director general de Chiral Products desde octubre de 1990 a octubre de 1993, y nuestro Vicepresidente de tecnología desde septiembre de 1987 a octubre de 1990. El Dr. Barer se doctoró en química orgánica y física por la Universidad de Rutgers. Es Director de Semorex, Inc. y Presidente del Consejo asesor del Decano de la Escuela de Posgrado de Rutgers.



### Robert J. Hugin

*Presidente y Director de operaciones*

Robert J. Hugin es nuestro Presidente y Director de operaciones desde el 1 de mayo de 2006 y ha sido director del Consejo de administración desde diciembre de 2001. Ejerció el cargo de Vicepresidente senior y Director financiero desde junio de 1999 al 1 de mayo de 2006. Anteriormente había sido Director gerente de J.P. Morgan & Co. Inc., empresa a la que se había incorporado en 1985. En 1976 se licenció por la Universidad de Princeton y, tras servir como oficial de infantería en el cuerpo de Marines de los Estados Unidos realizó un máster en gestión empresarial en la Universidad de Virginia en 1985. Robert J. Hugin es también director de The Medicines Company, Coley Pharmaceutical Group y Family Promise, una organización nacional sin ánimo de lucro que ayuda a las familias sin techo.



### Jack L. Bowman

*Anteriormente fue Presidente del Grupo Johnson & Johnson y Vicepresidente ejecutivo de American Cyanamid.*

En la actualidad es uno de nuestros directores desde abril de 1998, Presidente del Comité de nombramientos y administración, y miembro del Comité de desarrollo y de Compensación de gestión. Ejerció el cargo de Presidente del Grupo de Compañías de Johnson & Johnson desde 1987 a 1994, y desde 1983 a 1987 fue Vicepresidente Ejecutivo de American Cyanamid. Es también Director de Targeted Genetics y de AVI BioPharma, Inc.



**Michael D. Casey***Ex Presidente y Director ejecutivo de Matrix Pharmaceutical, Inc.*

Michael D. Casey es uno de nuestros directores desde agosto de 2002, y forma parte del Comité de nombramientos y administración y del Comité de auditoría. De septiembre de 1997 a febrero de 2002 ejerció los cargos de Presidente ejecutivo, Presidente, Director ejecutivo y Director de Matrix Pharmaceutical, Inc. De noviembre de 1995 a septiembre de 1997, el señor Casey fue Vicepresidente ejecutivo de Schein Pharmaceutical, Inc.. En diciembre de 1996 fue nombrado Presidente de la División de productos minoristas y especializados de Schein. De junio de 1993 a noviembre de 1995 fue Presidente y Director de operaciones de Genetic Therapy, Inc. De 1989 a junio de 1993 fue Presidente de McNeil Pharmaceutical (una división de Johnson & Johnson) y Vicepresidente de ventas y marketing de la empresa Ortho Pharmaceutical Corp. (una subsidiaria de Johnson & Johnson) de 1985 a 1989. También es director de Allos Therapeutics, Inc., Cholestech Corporation, OrthoLogic Corp. y Durect Corp.

**Rodman L. Drake***Director gerente de CIP Management*

Rodman L. Drake fue nombrado para el Consejo de administración de Celgene en abril de 2006, y forma parte de los Comités de nombramientos y auditoría. Ha sido Director gerente de CIP Management desde 1997, y es miembro del comité de inversiones de su grupo Resource Capital Funds. Anteriormente fue Co-Presidente de KMR Power Company y Director ejecutivo y Director gerente de Cresap McCormick and Paget. Además, es director de Jackson Hewitt, Student Loan Corporation, Parsons Brinckerhoff, Hyperion Funds, Excelsior Funds, y del Animal Medical Center de Nueva York.

**Dr. Arthur Hull Hayes, Jr.***Ex Comisionado de la Administración de Drogas y Alimentos de los Estados Unidos*

El Dr. Arthur Hull Hayes, Jr. es uno de nuestros directores desde 1995 y miembro del Comité de auditoría de nuestro Consejo de administración. Desde julio de 1991 a enero de 2006 fue Presidente y Director de operaciones de MediScience Associates, una organización de consultoría que trabaja con empresas farmacéuticas, compañías biomédicas y gobiernos extranjeros, y Profesor Clínico de Medicina y Farmacología en la Escuela de Medicina de la Universidad Estatal de Pennsylvania de 1981 a 2004. Desde 1986 a 1990 fue Presidente y Director ejecutivo de E.M. Pharmaceuticals, una división de E. Merck AG, y de 1981 a 1983 desempeñó el cargo de Comisionado de la Administración de Drogas y Alimentos de los Estados Unidos. El Dr. Hayes es también Director de Myriad Genetics, Inc., Tapestry, Inc.

**Dra. Gilla Kaplan***Profesora y miembro pleno del Laboratorio de Inmunidad Micobacteriana y Patogénesis del Public Health Research Institute.*

La Dra. Gilla Kaplan es directora de nuestra compañía desde abril de 1998 y miembro del Comité de auditoría de nuestro Consejo de administración. Desempeña también el cargo de directora del Laboratorio de Inmunidad Micobacteriana y Patogénesis del Public Health Research Institute de Newark, Nueva Jersey, y donde fue designada como miembro pleno en 2002. La Dra. Kaplan es también Profesora de Medicina y Profesora de la Universidad de Medicina y Odontología de Nueva Jersey. Anteriormente, la Dra. Kaplan fue inmunóloga en el laboratorio de Inmunología y Fisiología Celular de la Rockefeller University, en Nueva York, donde era Profesora Asociada.

**Richard C.E. Morgan***Director ejecutivo de Amphion Innovations PLC*

Richard C.E. Morgan es director de nuestra compañía desde 1987; Presidente del Comité de desarrollo y Compensación de gestión y miembro del Comité Ejecutivo de nuestro Consejo de administración. El señor Morgan es el Director ejecutivo de Amphion Innovations y de otras compañías privadas. También pertenece a la junta de Orbis International, Inc.

**Dr. Walter L. Robb***Presidente de Vantage Management Inc. y ex Vicepresidente Sénior de investigación y desarrollo corporativo de la General Electric Company*

El Dr. Walter L. Robb es uno de nuestros directores desde 1992 y desempeña el cargo de Presidente del Comité de auditoría de nuestro Consejo de administración. Ha sido asesor privado y Presidente de Vantage Management Inc., una compañía consultora y de servicios de inversión, desde enero de 1993. El Dr. Robb fue Vicepresidente Sénior de investigación y desarrollo corporativo de la General Electric Company, y miembro del Consejo ejecutivo corporativo de 1986 a diciembre de 1992. Es Presidente del Consejo de administración de Capital District Sports, y también director de Mechanical Technology, Inc. y varias compañías privadas.

## C O N T E N T S

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## 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 Statement of Operations for the year ended December 31, 2005, 2004 and 2003 and the Consolidated Balance Sheet data as of December 31, 2005 and 2004 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, 2002 and 2001 and the Consolidated Balance Sheets data as of December 31, 2003, 2002 and 2001 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.

<i>(In thousands, except per share data)</i>	2005	Years Ended December 31,			
		2004	2003	2002	2001
<b>CONSOLIDATED STATEMENTS OF OPERATIONS DATA:</b>					
Total revenue	\$ 536,941	\$ 377,502	\$ 271,475	\$ 135,746	\$ 114,243
Costs and operating expenses	453,357	334,774	274,124	250,367	139,186
Other income, net	7,551	20,443	28,310	23,031	20,807
Equity in losses of associated company	6,923	—	—	—	—
Income tax provision (benefit)	20,556	10,415	718	(98)	(1,232)
Income (loss) from continuing operations	63,656	52,756	24,943	(91,492)	(2,904)
Discontinued operations:					
Gain on sale of chiral assets	—	—	750	1,000	992
Net income (loss) applicable to common stockholders	\$ 63,656	\$ 52,756	\$ 25,693	\$ (90,492)	\$ (1,912)
Income (loss) from continuing operations per common share <sup>(1)</sup> :					
Basic	\$ 0.19	\$ 0.16	\$ 0.08	\$ (0.30)	\$ (0.01)
Diluted	\$ 0.18	\$ 0.15	\$ 0.07	\$ (0.30)	\$ (0.01)
Discontinued operations per common share <sup>(1)</sup> :					
Basic	\$ —	\$ —	\$ 0.01	\$ —	\$ —
Diluted	\$ —	\$ —	\$ 0.01	\$ —	\$ —
Net income (loss) applicable to common stockholders <sup>(1)</sup> :					
Basic	\$ 0.19	\$ 0.16	\$ 0.08	\$ (0.29)	\$ (0.01)
Diluted	\$ 0.18	\$ 0.15	\$ 0.08	\$ (0.29)	\$ (0.01)
Weighted average number of shares of common stock outstanding <sup>(1)</sup> :					
Basic	335,512	327,738	323,548	309,348	300,432
Diluted	390,585	345,710	341,592	309,348	300,432
<b>CONSOLIDATED BALANCE SHEETS DATA</b>					
Cash, cash equivalents, and marketable securities	\$ 724,260	\$ 748,537	\$ 666,967	\$ 261,182	\$ 310,041
Total assets	1,246,637	1,107,293	813,026	336,795	353,982
Long-term obligations under capital					
leases and equipment notes payable	2	4	16	40	46
Convertible notes	399,984	400,000	400,000	—	11,714
Accumulated deficit	(170,754)	(234,410)	(287,166)	(312,859)	(222,367)
Stockholders' equity	635,775	477,444	331,744	281,814	310,425

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

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Introduction

We are a multi-national 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®, which gained recent FDA approval in MDS patients with the 5q chromosomal deletion and is under review by the FDA for multiple myeloma, and THALOMID® (thalidomide), which is currently marketed for the treatment of erythema nodosum leprosum, or ENL, and under review by the FDA for the treatment of multiple myeloma. Over the past several years, THALOMID® net sales have grown steadily driven mainly by its off-label use for treating multiple myeloma and other cancers. The sales growth of THALOMID® has enabled us to make substantial investments in research and development, which has advanced our broad portfolio of drug candidates in our product pipeline, including a pipeline of IMiDs® compounds, which are a class of compounds proprietary to us and having certain immunomodulatory and other biologically important properties. We believe that the sales growth of THALOMID®, the growth potential for REVLIMID®, the depth of our product pipeline, near-term regulatory activities and clinical data reported at major medical conferences provide the catalyst for future growth.

### Factors Affecting Future Results

Future operating results will depend on many factors, including demand for our products, regulatory approvals of our products, 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 in Part I, Item 1A of this Annual Report on Form 10-K. Some of the more salient factors that we are focused on are: the ability of REVLIMID® to successfully penetrate relevant markets; competitive risks; and our ability to advance clinical and regulatory programs.

*The ability of REVLIMID® to successfully penetrate relevant markets:* REVLIMID® 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 and we have begun to execute our product launch strategies, which includes among other things: registering physicians in the RevAssist<sup>SM</sup> program, which is a proprietary risk-management distribution program tailored specifically to help ensure the safe use of REVLIMID®; sponsoring numerous medical education programs designed to educate physicians on MDS; and, partnering with contracted pharmacies to ensure safe and rapid distribution of REVLIMID®. In addition, we have implemented an expanded access program to provide patients with relapsed or refractory multiple myeloma free access to REVLIMID® while the FDA reviews our sNDA for that indication. We do not, however, have long-term data on the use of the product and cannot predict whether REVLIMID® will gain widespread

acceptance, which will mostly depend on the acceptance of regulators, physicians, patients and opinion leaders. The success of REVLIMID® will also depend, in part, on prescription drug coverage by government health agencies, commercial and employer health plans, and other third-party payers. As an oral targeted cancer agent, REVLIMID® qualifies as a Medicare Part D drug. Each Part D plan will review REVLIMID® for addition to their formulary. As with all new products introduced into the market, there may be some lag time before being reviewed on each plan's formulary. We are encouraged that during this formulary review process, patients have been given access to REVLIMID® and there have been no reported denials for coverage.

*Competitive Risks:* The landscape for the treatment of multiple myeloma and other cancer and immune-inflammatory related diseases is highly competitive. While competition could reduce THALOMID® sales and limit REVLIMID® launch expectations, we do not believe that competing products will eliminate REVLIMID® and THALOMID® use entirely. In addition, generic competition could reduce THALOMID® sales. However, we own intellectual property which includes, for example, U.S. patents covering our S.T.E.P.S.® distribution program for the safer delivery of thalidomide, which all patients receiving thalidomide in the United States must follow. We also have exclusive rights to several issued patents covering the use of THALOMID® in oncology and other therapeutic areas. Even if generic competition were able to enter the market, we expect REVLIMID®, which is now available commercially, to at least partially replace THALOMID® sales.

*Ability to advance clinical and regulatory programs:* A major objective of our on-going clinical trials programs is to broaden our knowledge about the full potential of REVLIMID® and to continue to evaluate the drug in a broad range of indications including lymphocytic leukemia, Non-Hodgkin's Lymphoma, Amyloidosis and myelofibrosis. The significant near-term regulatory catalysts that we are focused on include: the FDA's decision regarding our sNDA for THALOMID® in multiple myeloma (a Prescription Drug User Fee Act, or PDUFA, date of May 25, 2006 has been set); the FDA's decision regarding our sNDA for REVLIMID® in relapsed or refractory multiple myeloma; and from an international perspective, the European Medicines Agency, or EMEA, decision regarding our Marketing Authorization Application, or MAA, for REVLIMID® in MDS with the 5q chromosomal deletion.

### Company Background

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.

In July 1998, we received approval from the FDA to market THALOMID® for use in ENL, a complication of the treatment of leprosy, and in September 1998 we commenced sales of THALOMID® in the United States. Since then, sales of THALOMID® have grown significantly each year. In 2003, 2004 and 2005 we recorded net THALOMID® sales of \$223.7 million, \$308.6 million and \$387.8 million, respectively.

In April 2000, we signed a licensing and development agreement with Novartis Pharma AG in which we granted to Novartis a license for FOCALIN™, our chirally pure version of RITALIN®. The agreement provided for significant upfront and milestone payments to us based on the achievement of various stages in the regulatory approval process. It also provided for us to receive royalties on the entire family of RITALIN® products. Pursuant to the agreement we retained the rights to FOCALIN™ and FOCALIN XR™ in oncology indications.

In August 2000, we acquired Signal Pharmaceuticals, Inc., now Celgene Research San Diego, a privately held biopharmaceutical company focused on the discovery and development of drugs that regulate genes associated with disease. 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® 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). 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, regenerative medicine and biomaterials for organ and wound repair.

In March 2003, we entered into a supply and distribution agreement with GlaxoSmithKline, or GSK, to distribute, promote and sell ALKERAN, 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® from GSK and distribute the products in the United States under the Celgene label. The agreement has been extended through March 31, 2009.

In October 2004, we acquired Penn T Limited, or Penn T, a worldwide supplier of THALOMID®. Through manufacturing agreements entered into with a third party in connection with this acquisition, we are able to control manufacturing for THALOMID® worldwide and we also increase our participation in the potential sales growth of THALOMID® in key international markets. In December 2004, following our acquisition of Penn T, 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.

On December 27, 2005, the FDA approved REVLIMID® 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.

Until 2003, we had sustained losses in each year since our incorporation in 1986. For the years ended December 31, 2003, 2004 and 2005 we posted net income of \$25.7 million, \$52.8 million and \$63.7 million, respectively, and at December 31, 2005 we had an accumulated deficit of \$170.8 million. We expect to make substantial additional expenditures to further develop and commercialize our products. We expect that our rate of spending will accelerate as a result of increases in clinical trial costs, expenses associated with regulatory approval and expenses related to commercialization of products currently in development. However, we anticipate these expenditures to be more than offset by increased product sales, royalties, revenues from various research collaborations and license agreements with other pharmaceutical and biopharmaceutical companies, and investment income.

### Stock Split

On December 27, 2005, we announced that the Board of Directors approved a two-for-one stock split payable in the form of a 100 percent stock dividend. Stockholders received one additional share for every share they owned as of the close of business on February 17, 2006. The additional shares were distributed on February 24, 2006. As a result, our authorized shares increased from 280,000,000 to 580,000,000 and shares outstanding increased from 172,057,726 shares to 344,115,452 shares as of the close of business on February 24, 2006. All share and per share amounts in the consolidated financial statements have been restated to reflect the two-for-one stock split effective February 17, 2006.

### Results of Operations –

#### Fiscal Years Ended December 31, 2005, 2004 and 2003

**Total Revenue:** Total revenue and related percentages for the years ended December 31, 2005, 2004 and 2003, were as follows:

				% Change	
				2004 to 2005	2003 to 2004
(In thousands \$)	2005	2004	2003		
Net product sales:					
THALOMID®	\$387,816	\$308,577	\$223,686	25.7%	38.0%
FOCALIN™	4,210	4,177	2,383	0.8%	75.3%
ALKERAN®	49,748	16,956	17,827	193.4%	(4.9%)
REVLIMID®	2,862	—	—	N/A	N/A
Other	989	861	557	14.9%	54.6%
Total net product sales	\$445,625	\$330,571	\$244,453	34.8%	35.2%
Collaborative agreements and other revenue	41,334	20,012	15,174	106.5%	31.9%
Royalty revenue	49,982	26,919	11,848	85.7%	127.2%
Total revenue	\$536,941	\$377,502	\$271,475	42.2%	39.1%

**Net Product Sales:**

**2005 compared to 2004:** THALOMID® net sales were higher in 2005, as compared to 2004, primarily due to price increases implemented as we move 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® sales were higher gross to net sales accruals for sales returns, Medicaid rebates and distributor chargebacks, which are recorded based on historical data. Included in 2005 were sales of \$8.7 million from our U.K. subsidiary, CUK II, to Pharmion Corporation. Focalin™ 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, net sales were higher in 2005, as compared to 2004, due to price increases implemented during 2005 and an increase in sales volumes. ALKERAN, use in combination therapies for the treatment of hematological diseases continues to grow driven by clinical data reported at major medical conferences around the world. Also contributing to the increase in ALKERAN, sales volumes was the resolution of supply disruptions experienced in 2004, which resolution led to more consistent supplies of ALKERAN, for injection and consequently more consistent end-market buying patterns. REVLIMID, 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™ program. Other net product sales consist of sales of dehydrated human amniotic membrane for use in ophthalmic applications, which are generated through our Celgene Cellular Therapeutics division.

**2004 compared to 2003:** THALOMID® net sales were higher in 2004, as compared to 2003, primarily due to price increases implemented in the second half of 2003 and in the first nine months of 2004. The total number of prescriptions, which increased 9.4% from the prior year period, was offset by lower average daily doses. FOCALIN™ net sales were higher in 2004, as compared to 2003, due to the timing of shipments to Novartis for their commercial distribution. ALKERAN® net sales were lower in 2004, as compared to 2003, due to supply disruptions earlier in the year, which lead to inconsistent supplies of ALKERAN® IV and consequently inconsistent end-market buying patterns. Other net product sales consist of sales of dehydrated human amniotic membrane for use in ophthalmic applications, which are generated through our Celgene Cellular Therapeutics division.

**Gross to Net Sales Accruals:** We record gross to net sales accruals for sales returns, sales discounts, Medicaid rebates and distributor charge-backs and services. 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 qualified programs. Distributor services accruals are based on actual fees paid to wholesale distributors for services provided. Medicaid rebates and distributor charge-backs increased due to higher sales volumes and price increases, which increase the respective rebate and chargeback amounts. The gross to net accrued balances were \$34.2 million and \$19.7 million at December 31, 2005 and 2004, respectively. Gross to net sales accruals for the years ended December 31, 2005, 2004 and 2003 were as follows:

(In thousands \$)	2005	2004	2003	% Change	
				2004 to 2005	2003 to 2004
Gross product sales	<b>\$548,853</b>	\$385,055	\$283,208	42.5%	36.0%
Less: Gross to net sales accruals					
Returns and allowances	<b>21,256</b>	16,279	12,659	30.6%	28.6%
Discounts	<b>10,948</b>	7,448	5,503	47.0%	35.3%
Medicaid rebates	<b>35,098</b>	15,780	12,975	122.4%	21.6%
Distributor charge-backs	<b>33,658</b>	14,977	7,618	124.7%	96.6%
Distributor services	<b>2,268</b>	—	—	N/A	N/A
Total net product sales	<b>\$445,625</b>	\$330,571	\$244,453	34.8%	35.2%

**Collaborative agreements and other revenue:** Revenues from collaborative agreements and other sources in 2005 included a \$20.0 million milestone payment from Novartis for the NDA approval of Focalin XR™; \$13.9 million related to our sponsored research, license and other agreements with Pharmion Corporation; \$5.1 million from umbilical cord blood enrollment, collection and storage fees generated through our LifeBank USA<sup>SM</sup> business; \$0.9 million for licensing to EntreMed, Inc. rights to develop and commercialize our tubulin inhibitor compounds; \$0.5 million related to the agreements providing manufacturers of isotretinoin, a non-exclusive license to our S.T.E.P.S.® patent portfolio encompassing restrictive drug distribution systems; and, \$0.9 million from other miscellaneous research and development agreements. Revenues from collaborative agreements and other sources in 2004 included a \$7.5 million milestone payment from Novartis related to their FOCALIN® XR NDA submission; \$7.5 million related to our sponsored research, license and other agreements with Pharmion Corporation; \$3.7 million of umbilical cord blood enrollment, collection and storage fees generated through our Celgene Cellular Therapeutics division; \$0.5 million related to the agreements providing manufacturers of isotretinoin, a non-exclusive license to our S.T.E.P.S.® patent portfolio encompassing restrictive drug distribution systems; and \$0.8 million from other miscellaneous research and development and licensing agreements. Revenues from



collaborative agreements and other sources in 2003 included \$6.0 million related to the agreement to terminate the Gelclair™ co-promotion agreement with OSI Pharmaceuticals Inc.; \$4.3 million of thalidomide research and development funding and S.T.E.P.S. licensing fees received in connection with the Pharmion collaboration agreements; \$1.3 million of reimbursements from Novartis for shipments of bulk raw material used in the formulation of FOCALIN® XR and utilized in clinical studies conducted by Novartis; \$2.9 million of umbilical cord blood enrollment, collection and storage fees generated through our Stem Cell Therapies segment; and \$0.7 million from other miscellaneous research and development and licensing agreements.

**Royalty revenue:** Royalty revenue in 2005 included \$48.5 million of royalties received from Novartis on sales of their entire family of Ritalin, drugs and Focalin XR™, which gained FDA approval on May 27, 2005; \$0.6 million of royalties received from Pharmion on their commercial sales of THALOMID®, and \$0.8 million of miscellaneous other royalties. Royalty revenue in 2004 and 2003 was \$26.9 million and \$11.8 million, respectively, and consisted solely of royalties received from Novartis on sales of their entire family of RITALIN® drugs. The year-over-year increases in Ritalin, royalty revenue was due to increases in the royalty rate on both Ritalin, and Ritalin, LA as well as an increase in Ritalin, LA sales by Novartis.

**Cost of Goods Sold:** Cost of goods sold and related percentages for the years ended December 31, 2005, 2004 and 2003 were as follows:

(In thousands \$)	2005	2004	2003
Cost of goods sold	<b>\$80,727</b>	\$59,726	\$52,950
Increase from prior year	<b>\$21,001</b>	\$ 6,776	\$32,083
Percentage increase			
from prior year	<b>35.2%</b>	12.8%	153.7%
Percentage of net			
product sales	<b>18.1%</b>	18.1%	21.7%

**2005 compared to 2004:** Cost of goods sold were higher in 2005, as compared to 2004, primarily due to higher royalties on THALOMID®, net sales and higher ALKERAN®, 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.

**2004 compared to 2003:** Cost of goods sold increased in 2004 from 2003, primarily as a result of higher royalties paid on THALOMID®, partially offset by lower ALKERAN® costs. As a percentage of net product sales, however, cost of goods sold decreased primarily due to lower ALKERAN® costs. Profit margins on THALOMID® remained flat, as the increase in cost of goods sold (resulting from higher royalties paid) were offset by higher net sales (which were due to price increases implemented in the second half of 2003 and in the first nine months of 2004).

**Research and Development:** Research and development expenses consist primarily of salaries and benefits, contractor fees (paid principally to contract research organizations to assist in our clinical development programs), costs of drug supplies for

our clinical and preclinical programs, costs of other consumable research supplies, regulatory and quality expenditures and allocated facilities charges such as building rent and utilities.

Research and development expenses and related percentages for the years ended December 31, 2005, 2004 and 2003 were as follows:

(In thousands \$)	2005	2004	2003
Research and			
development expenses	<b>\$190,834</b>	\$160,852	\$122,700
Increase from prior year	<b>\$ 29,982</b>	\$ 38,152	\$ 37,776
Percentage increase			
from prior year	<b>18.6%</b>	31.1%	44.5%
Percentage of total			
revenue	<b>35.5%</b>	42.6%	45.2%

**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, 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, in Europe. Research and development expenses are targeted to increase 20 to 25 percent in 2006 in support of our ongoing global regulatory filings, late stage clinical trials and clinical progress in multiple proprietary development programs.

**2004 compared to 2003:** Research and development expenses increased by \$38.2 million in 2004 from 2003, primarily due to increased spending in various late-stage regulatory programs such as Phase II regulatory programs for REVLIMID® in myelodysplastic syndromes and multiple myeloma, including ongoing REVLIMID® Phase III SPA trials in multiple myeloma.

Research and development expenses in 2005 consisted of \$73.9 million spent on human pharmaceutical clinical programs; \$69.1 million spent on other pharmaceutical programs, including toxicology, analytical research and development, drug discovery, quality assurance and regulatory affairs; \$36.9 million spent on biopharmaceutical discovery and development programs; and \$10.9 million spent on placental stem cell and biomaterials programs. These expenditures support multiple core programs, including REVLIMID®, THALOMID®, CC-10004, CC-4047, CC-11006, TNFα inhibitors, other investigational compounds, such as kinase inhibitors, benzopyranones and ligase inhibitors and placental and cord blood derived stem cell programs. Research and development expenses in 2004 consisted of \$67.0 million spent on human pharmaceutical clinical programs; \$44.7 million spent on other human pharmaceutical programs, including toxicology, analytical research and development, drug discovery, quality assurance and regulatory affairs; \$40.6 million spent on biopharmaceutical discovery and development programs; and \$8.6 million spent on placental stem cell and biomaterials programs. In 2003, \$47.6 million was spent on human

pharmaceutical clinical programs; \$34.4 million was spent on other human pharmaceutical programs, including toxicology, analytical research and development, drug discovery, quality assurance and regulatory affairs; \$33.7 million was spent on biopharmaceutical discovery and development programs; and \$7.0 million was spent 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 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.

In general, the estimated times to completion within the various stages of clinical development are as follows:

Clinical Phase	Estimated Completion Time
Phase I	1-2 years
Phase II	2-3 years
Phase III	2-3 years

Due to the significant risks and uncertainties inherent in preclinical testing and clinical trials associated with each of our research and development projects, the cost to complete such projects is not reasonably estimable. 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 in completing a project.

*Selling, General and Administrative:* Selling expenses consist primarily of salaries and benefits for sales and marketing and customer service personnel and other commercial expenses to support our sales force. General and administrative expenses consist primarily of salaries and benefits, outside services for legal, audit, tax and investor activities and allocations of facilities costs, principally for rent, utilities and property taxes.

Selling, general and administrative expenses and related percentages for the years ended December 31, 2005, 2004 and 2003 were as follows:

(In thousands \$)	2005	2004	2003
Selling, general and administrative expenses	<b>\$181,796</b>	\$114,196	\$98,474
Increase from prior year	<b>\$ 67,600</b>	\$ 15,722	\$32,302
Percentage increase from prior year	<b>59.2%</b>	16.0%	48.8%
Percentage of total revenue	<b>33.9%</b>	30.3%	36.3%

*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® 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, offset by lower THALOMID® and ALKERAN® 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. Selling, general and administrative expenses are targeted to increase 10 to 15 percent in 2006; in addition, international selling, general and administrative expenses are expected to be in a range of \$30 to \$35 million for ongoing expansion of commercial and manufacturing capabilities in Europe. Actual expenses will be dependent on the progress of discussions with the international regulatory authorities.

*2004 compared to 2003:* Selling, general and administrative expenses increased by \$15.7 million in 2004 from 2003, as a result of an increase of approximately \$12.0 million in general administrative and medical affairs expenses primarily due to higher headcount-related expenses and an increase of approximately \$3.6 million in sales force expenses primarily due to the creation of a sales operations group. The sales operations group, among other things, manages pricing and reimbursement, corporate accounts, customer service and government affairs, as well as sales fleet expenses.

*Interest and other income, net:* Interest and other income, net in 2005 included \$27.7 million of interest and realized gains on our cash, cash equivalents and marketable securities portfolio, offset by unrealized losses of \$6.9 million for changes in the estimated value of our investment in EntreMed, Inc. warrants prior to our March 31, 2005 exercise, \$3.1 million for other-than-temporary impairment write-downs recognized on two securities held in our available-for-sales marketable securities portfolio and \$0.7 million of foreign exchange and



other miscellaneous net losses. Interest and other income, net in 2004 included \$28.3 million of interest and realized gains on our cash, cash equivalents and marketable securities portfolio and \$3.6 million of foreign exchange and other miscellaneous net gains, offset by an unrealized losses of \$1.9 million for changes in the estimated value of our investment in EntreMed, Inc. warrants. Interest and other income, net in 2003 included \$21.8 million of interest and realized gains on our cash, cash equivalents and marketable securities portfolio and \$16.6 million of unrealized gains for changes in the estimated value of our investment in EntreMed, Inc. warrants.

*Equity in losses of affiliated companies:* On March 31, 2005, we exercised warrants to purchase 7,000,000 shares of EntreMed, Inc. common stock. Since we also hold 3,350,000 shares of EntreMed voting preferred shares that are convertible into 16,750,000 shares of common stock, we determined that we have significant influence over EntreMed and are applying the equity method of accounting to our common stock investment effective March 31, 2005. Under the equity method of accounting, we recorded equity losses of \$6.9 million in 2005, which includes a charge of \$4.4 million to write down the value of the investment ascribed to in-process research and development, \$0.2 million related to amortization of acquired intangible assets, \$1.6 million to record our share of EntreMed losses and a charge of \$0.7 million to eliminate our share of THALOMID, royalties payable to EntreMed, Inc. During 2003, we recorded \$4.4 million for our share of the EntreMed losses until the investment was written down to zero in the third quarter of 2003.

On February 2, 2006 we, along with a group of other investors, entered into an agreement to invest \$30.0 million in EntreMed in return for newly issued EntreMed common stock and warrants to purchase additional shares of EntreMed common stock at a conversion price of \$2.3125 per warrant. Our portion of the investment was \$2.0 million for which we received 864,864 shares of EntreMed common stock and 432,432 warrants. The warrants will be accounted for at fair value with changes in fair value recorded through earnings.

*Interest expense:* Interest expense was \$9.5 million, \$9.6 million and \$5.7 million in 2005, 2004 and 2003, respectively, and primarily reflects interest expense and amortization of debt issuance costs on the \$400 million convertible notes issued on June 3, 2003. Interest expense in 2003 only includes seven months of interest expense and amortization of debt issuance costs.

*Income tax benefit (provision):* The income tax provision for 2005 was \$20.6 million and reflects tax expense impacted by certain expenses incurred outside the United States for which no tax benefit can be recorded, offset by the benefit from 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. This determination was based upon the 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® plus dexamethasone compared to patients receiving dexamethasone alone. This, in concert with our nine consecutive quarters of profitability, led to the conclusion that it is more likely than not that we will generate sufficient taxable income to realize the benefits of our deferred tax assets. The elimination of valuation allowances relating to certain historical acquisitions were first offset against goodwill and intangibles with the balance applied to reduce income tax expense. The elimination of valuation allowances relating to tax deductions that arose in connection with stock option exercises were offset against components of equity. The income tax provision for 2004 was \$10.4 million, which reflects an effective underlying tax rate of 16.5%. Our tax rate in 2004 rose from 2003 primarily due to federal tax expense and decreases in the valuation allowance available to offset income tax expense. In 2003, our income tax provision was \$0.7 million and included income tax expense of \$1.1 million for federal and state purposes, offset by a tax benefit of \$0.4 million from the sale of certain state net operating loss carryforwards.

*Gain on sale of chiral assets:* In January 1998, we completed the sale of our chiral intermediate business to Cambrex Corporation. Pursuant to the minimum royalty provisions of the agreement, we received \$0.8 million in 2003.

*Net income:* Net income and per common share amounts for the years ended December 31, 2005, 2004 and 2003 were as follows:

<i>(In thousands, except per share amounts)</i>	<b>2005</b>	2004	2003
Net income	<b>\$63,656</b>	\$52,756	\$24,943
Per common share amounts:			
Basic	<b>\$0.19</b>	\$0.16	\$0.08
Diluted	<b>\$0.18</b>	\$0.15	\$0.08
Weighted average number of shares of common stock utilized to calculate per common share amounts:			
Basic	<b>335,512</b>	327,738	323,548
Diluted	<b>390,585</b>	345,710	341,592

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

*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 of \$159.4 million (driven primarily by a \$79.2 million increase in THALOMID, net sales, a \$32.8 million increase in ALKERAN, net sales, a \$21.8 million increase in royalty revenues received from Novartis related to the Ritalin, line of drugs and Focalin XR™ and a \$12.5 million increase in milestone payments from Novartis related to Focalin XR™) offset by higher operating

expenses of \$118.6 million (driven by REVLIMID, clinical and regulatory research and development costs and REVLIMID, pre-launch selling, general and administrative costs) and unrealized losses recorded in 2005 of \$6.9 million for changes in the estimated value of our investment in EntreMed, Inc. warrants prior to our March 31, 2005 exercise, \$3.1 million for other-than-temporary impairment write-downs recognized on two securities held in our available-for-sales marketable securities portfolio and our share of equity losses of EntreMed, Inc. of \$6.9 million.

**2004 compared to 2003:** Income from continuing operations increased in 2004 from 2003 due to an increase in total revenue of \$106.0 million (attributable primarily to an increase in THALOMID® net sales) partly offset by higher operating expenses of \$60.7 million and a decrease in interest and other income, net of \$7.9 million (attributable to a \$1.9 million decrease in fair value of EntreMed warrants versus a prior year increase of \$16.6 million partly offset by an increase in interest income and foreign exchange gains and the inclusion in 2003 of equity losses of associated companies of \$4.4 million).

### Liquidity and Capital Resources

Net cash provided by operating activities was \$41.9 million in 2005, as compared to \$155.9 million in 2004. The decrease was primarily due to higher working capital levels and higher income taxes paid, partially offset by higher net income in 2005. Net cash provided by operating activities in 2004 increased \$137.2 million from 2003. The increase in 2004 compared to 2003 was primarily due to higher earnings, the receipt of \$80.0 million in connection with the December 2004 THALOMID® development and commercialization collaboration with Pharmion and a decrease in net working capital levels.

Net cash used in investing activities was \$103.1 million in 2005 and included cash outflows of \$35.9 million for 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 for the exercise of warrants to purchase 7,000,000 shares of EntreMed common stock. Net cash used in investing activities was \$92.6 million in 2004 and included cash outflows of \$109.9 million for the October 2004 acquisition of Penn T, \$7.0 million for an investment and \$36.0 million for capital expenditures. Partially offsetting these outflows were cash inflows of \$60.3 million from net sales of available-for-sale marketable securities. Net cash used in investing activities was \$443.6 million in 2003 and included cash outflows of \$421.2 million for net purchases of available-for-sale marketable securities, \$12.0 million for the purchase of a Pharmion Corporation senior convertible note and \$11.2 million for capital expenditures.

Net cash provided by financing activities was \$52.6 million, \$16.0 million and \$399.7 million in 2005, 2004 and 2003, respectively, and included cash inflows from the exercise of common stock options and warrants of \$52.6 million, \$16.0 million and \$12.0 million in 2005, 2004 and 2003, respectively. Included in 2003 were cash inflows of \$387.8 million from

net proceeds of the issuance of our convertible notes on June 3, 2003.

Currency rate changes negatively impacted our cash and cash equivalents balances by \$3.3 million and \$4.4 million in 2005 and 2004, respectively. At December 31, 2005, cash, cash equivalents and marketable securities were \$724.3 million, a decrease of \$24.3 million from December 31, 2004 levels. The decrease was primarily due to a decrease in cash and cash equivalents and a reduction in unrealized gains on our available-for-sale marketable securities portfolio.

We expect increased research and product development costs, clinical trial costs, expenses associated with the regulatory approval process and commercialization of products and capital investments. In addition, we expect increased commercial expenses, such as marketing and market research. However, existing cash, cash equivalents and marketable securities available for sale, combined with 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, 2005:

(In millions \$)	Payment Due By Period				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Convertible note obligations	\$ —	\$400.0	\$ —	\$ —	\$400.0
Operating leases	3.4	5.5	5.0	3.9	17.8
ALKERAN® supply agreements	34.7	67.3	—	—	102.0
Other contract commitments	4.5	7.3	2.0	—	13.8
	\$42.6	\$480.1	\$7.0	\$3.9	\$533.6

**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 33,022,360 shares of common stock at a stock-split adjusted conversion price of \$12.1125 per share. At December 31, 2005, the fair value of the convertible notes exceeded the carrying value of \$400.0 million by \$660.0 million (for more information see Note 10 of the Notes to the Consolidated Financial Statements).

**Operating (facilities) leases:** We occupy the following facilities under lease arrangements that have remaining lease terms greater than one year.

- 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 have two five-year renewal options. Annual rent for these facilities is \$0.8 million.

- 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 \$2.0 million and is subject to specified annual rental increases.

- 20,000-square feet of office and laboratory space in Cedar Knolls, New Jersey. The leases for this facility have terms ending between September 2007 and April 2009 with renewal options ranging from either one or two additional five-year terms. Annual rent for this facility is \$0.3 million and is subject to specified annual rental increases.

- 11,000 square feet of 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 \$0.1 million.

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.

For a schedule of payments related to operating leases, refer to Note 18 of the Notes to the Consolidated Financial Statements.

**ALKERAN® Purchase Commitments:** In March 2003, we entered into a supply and distribution agreement with GlaxoSmithKline, or GSK, to distribute, promote and sell ALKERAN® (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® tablets and ALKERAN® for infusion from GSK and distributes 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, 2005, the remaining minimum purchase requirements under the agreement totaled \$102.0 million.

**Other Contract Commitments:** We signed an exclusive license agreement with CMCC, which terminated any existing thalidomide analog agreements between CMCC and EntreMed and directly granted to Celgene an exclusive worldwide license for the analog patents. Under the agreement, we are required to pay CMCC \$2.0 million between 2005 and 2006. The outstanding balance related to this agreement was \$1.0 million at December 31, 2005. Additional payments are possible under the agreement depending on the successful development and commercialization of thalidomide analogs.

In connection with the acquisition of Penn T on October 21, 2004, we entered into a Technical Services Agreement with Penn Pharmaceutical Services Limited, or PPSL, and Penn Pharmaceutical Holding Limited pursuant to which PPSL provides the services and facilities necessary for the manufacture of THALOMID® and other thalidomide formulations. The total cost to be incurred over the five-year minimum agreement period is approximately \$11.0 million. At December 31, 2005, the remaining cost to be incurred was approximately \$7.8 million.

In October 2003, we signed an agreement with Institute of Drug Technology Australia Limited, or IDT, for the manufacture of finished dosage form of THALOMID® capsules. The agreement requires minimum payments for THALOMID® capsules of \$4.7 million for the three-year term commencing with the FDA's approval of IDT as an alternate supplier. The FDA granted IDT approval to manufacture THALOMID® capsules in April 2005. The agreement provides us with additional capacity and reduces our dependency on one manufacturer for the production of THALOMID®. At December 31, 2005, the remaining minimum obligation under this agreement was \$4.0 million.

## New Accounting Principles

In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment," or SFAS 123R. SFAS 123R requires compensation cost relating to share-based payment transactions be recognized in financial statements based on the fair value of the equity or liability instruments issued. SFAS 123R covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee stock purchase plans. SFAS 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees.

However, SFAS No. 123 permitted entities to continue to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. We will be required to adopt the provisions of SFAS No. 123R in the first quarter of fiscal year 2006. Management is currently evaluating the requirements of SFAS No. 123R. The adoption of SFAS No. 123R is expected to have a material effect on our consolidated financial statements. See Note 1, Nature of Business and Summary of Significant Accounting Policies, to the Consolidated Financial Statements included elsewhere in this Annual Report for the pro forma impact on net income and net income per share from calculating stock-based compensation cost under the fair value method of SFAS No. 123. However, the calculation of compensation cost for share-based payment transactions after the effective date of SFAS No. 123R may be different from the calculation of compensation cost under SFAS No. 123.

In December 2005, in recognition of the significance of the REVLIMID® regulatory approval, the Board of Directors approved a resolution to grant the 2006 annual stock option awards in 2005 pursuant to the 1998 Stock Incentive Plan, or the 1998 Plan, and the 1995 Non-Employee Directors' Incentive Plan. All stock options awarded pursuant to the 1998 Plan were granted fully vested, with half issued at an exercise price, or strike price, of \$34.05 per option and the other half issued at a strike price of \$35.67 per option, which was at a premium to the closing price of \$32.43 per share, adjusted for the February 17, 2006

two-for-one stock split, of our common stock on the Nasdaq National Market on the grant date of December 29, 2005. The Board's decision to grant these options was in recognition of the REVLIMID® regulatory approval and in response to a review of our long-term incentive compensation programs in light of changes in market practices and recently issued changes in accounting rules resulting from the issuance of FASB No. 123R, which we are required to adopt effective the first quarter of 2006. Management believes that granting these options prior to the adoption of FASB No. 123R will result in our not being required to recognize cumulative compensation expense of approximately \$70.8 million for the four-year period ending December 31, 2009.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—An Amendment of ARB No. 43. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company is currently evaluating the potential impact of this pronouncement on its financial position and results of operations.

Emerging Issues Task Force, or EITF, Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," or EITF 03-01, was issued in February 2004. The provisions of EITF 03-01 for measuring and recognizing an other-than-temporary impairment proved controversial and as a result, FASB Staff Position ("FSP") FSP 115-1 and FSP 124-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" was issued in November 2005, clarifying the requirements of EITF 03-01 concerning the evaluation of whether an impairment is other-than-temporary. FSP FAS 115-1 and FAS 124-1 refers to SEC Staff Accounting Bulletin ("SAB") Topic 5M, "Other Than Temporary Impairment of Certain Investments In Debt And Equity Securities," and EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets," to evaluate whether an impairment is other than temporary. We are in compliance with these requirements and continue to monitor these developments to assess the possible impact on our financial position and results of operations.

### Critical Accounting Policies

A critical accounting policy is one which 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 are for both early- and late-stage compounds and are focused on specific disease areas. For the early-stage compounds, the agreements are relatively short-term agreements that are renewable depending on the success of the compounds as they move through preclinical development. 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 Issue, or EITF, 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 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.

In accordance with SAB 104, upfront payments 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 upfront fee is recognized is modified accordingly on a prospective basis. Revenues from the achievement of research and development milestones, which represent the achievement of a significant step in the research and development process are recognized when and if the milestones are achieved.

*Gross to Net Sales Accruals For Sales Returns, Medicaid Rebates and Chargebacks:* We record an allowance for sales returns based on the actual returns history for consumed lots and the trend experience for lots where product is still being returned. We record sales discounts accruals based on payment terms extended to customers. We record Medicaid rebate



accruals based on historical payment data and estimates of Medicaid beneficiary utilization. We record distributor charge-back accruals based on the differentials between product acquisition prices paid by wholesalers and lower government contract pricing paid by eligible customers covered under federally qualified programs. We record distributor services accruals based on actual fees paid to wholesale distributors for 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.

*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. 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. At the end of 2005, we determined that two securities with an amortized cost basis of \$7.0 million had sustained an other-than-temporary impairment and recognized a \$3.1 million impairment loss, which was recorded in interest and other income, net.

*Accounting for Long-Term Incentive Plans:* The recorded liability for long-term incentive plans was \$8.3 million as of December 31, 2005. Plan payouts may be in the range of 0% to 200% of the participant's salary for the 2005 Plan, 0% to 150% of the participant's salary for the 2006 Plan and 0% to 200% of the participant's salary for the 2007 Plan. The 2006 performance cycle was approved by the Management Compensation and Development Committee of the Board of Directors on January 19, 2006 and began on January 1, 2006 and will end on December 31, 2008, or the 2008 Plan. Plan payouts may be in the range of 0% to 200% of the participant's salary for the 2008 Plan. The estimated payout for the 2005 Plan is \$4.5 million and maximum potential payouts are \$4.5 million, \$6.8 million and \$7.2 million for the 2006, 2007 and 2008 Plans, respectively. The Company accrues the long-term incentive liability over each three-year cycle. Prior to the end of a three-year cycle, our 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.

## 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, 2005, our market risk sensitive instruments consisted of marketable securities available for sale and unsecured convertible notes issued by us.

The Company 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, 2005, we had one foreign currency forward contract outstanding to buy U.S. dollars and sell Swiss francs for a notional amount of \$62.0 million. The forward contract expires on April 13, 2006 and is an economic hedge of a U.S. dollar payable of a Swiss foreign entity, which is remeasured through earnings each period based on changes in the spot rate. The unrealized loss on the forward contract, based on its fair value at December 31, 2005, was approximately \$0.2 million, and was recorded in accrued expenses with the offsetting loss recorded in earnings. Assuming that the year-end exchange rates between the U.S. dollar and the Swiss franc were to adversely change by a hypothetical ten percent, the change in the fair value of the contract would decrease by approximately \$6.4 million. However, since the contract hedges foreign currency payables, 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, 2005, our marketable securities available for sale consisted of U.S. government agency securities, mortgage-backed obligations, corporate debt securities and 1,939,600 shares of Pharmion common stock. Marketable securities available for sale are carried at fair value, are held for an indefinite period of time and are intended to be used to meet 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 all 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 other income, net. At the end of 2005, we determined that two securities with an amortized cost basis of \$7.0 million had sustained an other-than-temporary impairment and recognized a \$3.1 million impairment loss related to these securities due to reductions in their future estimated cash flows.

As of December 31, 2005, 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 Year	1 to 3 Years	3 to 5 Years	5 to 7 Years	Over 7 Years	
Principal amount	\$272,760	\$74,904	\$227,402	\$3,000	\$2,900	\$580,966
Fair value	\$272,857	\$75,714	\$213,070	\$1,980	\$2,856	\$566,477
Average interest rate	4.4%	4.7%	4.4%	7.1%	N/A	4.5%

*Pharmion Common Stock:* At December 31, 2005, we held a total of 1,939,600 shares of Pharmion Corporation common stock, which had an estimated fair value of approximately \$34.5 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 \$14.3 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 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 33,022,360 shares of common stock at a stock-split adjusted conversion price of \$12.1125 per share (for more information see Note 10 of the Notes to the Consolidated Financial Statements). At December 31, 2005, the fair value of the convertible notes exceeded the carrying value of \$400.0 million by approximately \$660.0 million, which we believe reflects the increase in the market price of our common stock to \$32.40 per share, on a split-adjusted basis, as of December 31, 2005. 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.

## 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, 2005, 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, 2005.

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, a copy of which is included herein.

## Report of Independent Registered Public Accounting Firm

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, 2005, 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, 2005, 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, 2005, 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, 2005 and 2004, 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, 2005, and the related consolidated financial statement schedule, and our report dated March 15, 2006 expressed an unqualified opinion on those consolidated financial statements and related schedule.

KPMG LLP  
Short Hills, New Jersey

March 15, 2006



## 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, 2005 and 2004, 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, 2005. 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, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, 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.

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, 2005, 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 March 15, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

**KPMG LLP**

Short Hills, New Jersey  
March 15, 2006

## Consolidated Balance Sheets

	December 31,	
(Dollars in thousands, except per share amounts)	2005	2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 123,316	\$ 135,227
Marketable securities available for sale	600,944	613,310
Accounts receivable, net of allowance of \$3,739 and \$2,208 at December 31, 2005 and December 31, 2004, respectively	77,913	46,074
Inventory	20,242	24,404
Deferred income taxes	113,059	4,082
Other current assets	37,363	26,783
Total current assets	972,837	849,880
Property, plant and equipment, net	77,477	53,738
Investment in affiliated company	17,017	—
Intangible assets, net	96,988	108,955
Goodwill	33,815	41,258
Deferred income taxes	31,260	14,613
Other assets	17,243	38,849
Total assets	\$1,246,637	\$1,107,293
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 16,414	\$ 18,650
Accrued expenses	92,908	68,534
Income taxes payable	14,715	41,188
Current portion of deferred revenue	6,473	6,926
Deferred income taxes	—	5,447
Other current liabilities	5,127	670
Total current liabilities	135,637	141,415
Long term convertible notes	399,984	400,000
Deferred revenue, net of current portion	59,067	73,992
Other non-current liabilities	16,174	14,442
Total liabilities	610,862	629,849
<b>Commitments and Contingencies</b>		
Stockholders' equity:		
Preferred stock, \$.01 par value per share, 5,000,000 shares authorized; none outstanding at December 31, 2005 and 2004	—	—
Common stock, \$.01 par value per share, 575,000,000 and 275,000,000 shares authorized at December 31, 2005 and 2004, respectively; issued 344,125,158 and 165,079,198 shares at December 31, 2005 and 2004, respectively	3,441	1,651
Common stock in treasury, at cost; 1,953,282 and 10,564 shares at December 31, 2005 and December 31, 2004, respectively	(50,601)	(306)
Additional paid-in capital	853,601	641,907
Accumulated deficit	(170,754)	(234,410)
Accumulated other comprehensive income	88	68,602
Total stockholders' equity	635,775	477,444
Total liabilities and stockholders' equity	\$1,246,637	\$1,107,293

See accompanying Notes to Consolidated Financial Statements

## Consolidated Statements of Operations

	Years Ended December 31,		
(Dollars in thousands, except per share amounts)	2005	2004	2003
Revenue:			
Net product sales	\$445,625	\$330,571	\$244,453
Collaborative agreements and other revenue	41,334	20,012	15,174
Royalty revenue	49,982	26,919	11,848
Total revenue	536,941	377,502	271,475
Expenses:			
Cost of goods sold	80,727	59,726	52,950
Research and development	190,834	160,852	122,700
Selling, general and administrative	181,796	114,196	98,474
Total expenses	453,357	334,774	274,124
Operating income (loss)	83,584	42,728	(2,649)
Other income and expense:			
Interest and other income, net	17,048	29,994	38,369
Equity in losses of affiliated company	6,923	—	4,392
Interest expense	9,497	9,551	5,667
Income before income taxes	84,212	63,171	25,661
Income tax provision	20,556	10,415	718
Income from continuing operations	63,656	52,756	24,943
Discontinued operations:			
Gain on sale of chiral assets	—	—	750
Net income	\$ 63,656	\$ 52,756	\$ 25,693
Income from continuing operations per common share:			
Basic	\$ 0.19	\$ 0.16	\$ 0.08
Diluted	\$ 0.18	\$ 0.15	\$ 0.07
Discontinued operations per common share:			
Basic	\$ —	\$ —	\$ 0.01
Diluted	\$ —	\$ —	\$ 0.01
Net income per common share:			
Basic	\$ 0.19	\$ 0.16	\$ 0.08
Diluted	\$ 0.18	\$ 0.15	\$ 0.08

See accompanying Notes to Consolidated Financial Statements

**Consolidated Statements of Stockholders' Equity***Years Ended December 31, 2005, 2004 and 2003*

<i>(Dollars in thousands)</i>	Common Stock	Treasury Stock
Balances at December 31, 2002	\$ 802	\$ —
Net income		
Other comprehensive income:		
Net change in unrealized gain on available for sale securities, net of tax		
Less: reclassification adjustment for gain included in net income		
Comprehensive income		
Exercise of stock options and warrants	11	
Issuance of common stock for employee benefit plans	1	
Expense related to non-employee stock options and restricted stock granted to employees		
Income tax benefit upon exercise of stock options		
Collection of notes receivable from stockholders		
Balances at December 31, 2003	\$ 814	\$ —
Net income		
Other comprehensive income:		
Net change in unrealized gain on available for sale securities, net of tax		
Less: reclassification adjustment for gain 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	
Exercise of stock options and warrants	13	
Issuance of common stock for employee benefit plans	1	
Expense related to non-employee stock options and restricted stock granted to employees		
Income tax benefit upon exercise of stock options		
Balances at December 31, 2004	\$1,651	\$ (306)
Net income		
Other comprehensive income:		
Net change in unrealized (loss) on available for sale securities, net of tax		
Less: reclassification adjustment for gain 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		
Treasury stock - mature shares tendered related to option exercise		(50,295)
Issuance of common stock related to the 2:1 stock split	1,720	
Conversion of long-term convertible notes		
Exercise of stock options and warrants	69	
Issuance of common stock for employee benefit plans	1	
Expense related to restricted stock granted to employees		
Income tax benefit upon exercise of stock options		
<b>Balances at December 31, 2005</b>	<b>\$3,441</b>	<b>\$(50,601)</b>

*See accompanying Notes to Consolidated Financial Statements*

Additional Paid-in Capital	Accumulated Deficit	Notes Receivable from Stockholders	Accumulated Other Comprehensive Income (Loss)	Total
\$591,277	\$(312,859)	\$ (42)	\$ 7,028	\$286,206
	25,693			25,693
			10,939	10,939
			(7,355)	(7,355)
				\$ 29,277
11,959				11,970
2,774				2,775
704				704
770				770
		42		42
\$607,484	\$(287,166)	\$ —	\$10,612	\$331,744
	52,756			52,756
			56,362	56,362
			(3,050)	(3,050)
			4,678	4,678
				\$110,746
				(306)
(823)				—
16,329				16,342
4,266				4,267
449				449
14,202				14,202
\$641,907	\$(234,410)	\$ —	\$68,602	\$477,444
	63,656			63,656
			(46,171)	(46,171)
			1,853	1,853
			(14,775)	(14,775)
			(9,421)	(9,421)
				\$(4,858)
30,199				30,199
				(50,295)
(1,720)				—
16				16
76,346				76,415
3,506				3,507
(243)				(243)
103,590				103,590
\$853,601	\$(170,754)	\$ —	\$ 88	\$635,775

## Consolidated Statements of Cash Flows

	Years Ended December 31,		
(Dollars in thousands)	2005	2004	2003
<b>Cash flows from operating activities:</b>			(Revised)
Net income	\$63,656	\$52,756	\$25,693
Discontinued operations	—	—	(750)
Income from continuing operations	63,656	52,756	24,943
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization of long-term assets	14,286	9,690	8,027
Provision for accounts receivable allowances	11,463	8,315	5,951
Realized loss (gain) on marketable securities available for sale	1,853	(3,050)	(7,355)
Unrealized loss (gain) on value of EntreMed warrants	6,875	1,922	(16,574)
Equity losses of affiliated company	6,923	—	4,392
Non-cash stock-based compensation expense	(243)	449	704
Amortization of premium/discount on marketable securities available for sale, net	1,763	2,085	1,238
Loss on asset disposals	290	—	84
Amortization of debt issuance cost	2,443	2,443	1,422
Amortization of discount on note obligation	53	108	137
Deferred income taxes	(91,356)	(79,847)	—
Shares issued for employee benefit plans	3,506	4,267	2,775
Change in current assets and liabilities, excluding the effect of acquisition:			
Increase in accounts receivable	(43,496)	(13,051)	(23,776)
Decrease (increase) in inventory	4,125	(11,192)	(4,891)
(Increase) decrease in other operating assets	(21,514)	59,978	(9,253)
Increase in accounts payable and accrued expenses	11,809	1,454	30,599
Increase (decrease) in income tax payable	74,155	40,404	(196)
(Decrease) increase in deferred revenue	(4,674)	79,208	498
Net cash provided by operating activities	41,917	155,939	18,725
<b>Cash flows from investing activities:</b>			
Capital expenditures	(35,861)	(36,015)	(11,227)
Purchase of intangible assets	(122)	—	—
Business acquisition	(7,152)	(109,882)	—
Proceeds from the sale of equipment	—	—	138
Proceeds from sales and maturities of marketable securities available for sale	598,319	539,200	415,595
Purchases of marketable securities available for sale	(647,815)	(478,939)	(836,827)
Investment in affiliated company	(10,500)	—	(12,000)
Purchase of investment securities	—	(7,000)	—
Proceeds from the sale of discontinued operations - chiral assets	—	—	750
Net cash used in investing activities	(103,131)	(92,636)	(443,571)
<b>Cash flows from financing activities:</b>			
Net proceeds from exercise of common stock options and warrants	52,640	16,036	11,970
Proceeds from convertible notes	—	—	400,000
Debt issuance cost	—	—	(12,212)
Proceeds from notes receivable from stockholders	—	—	42
Repayment of capital lease and note obligations	(9)	(34)	(101)
Net cash provided by financing activities	52,631	16,002	399,699
Effect of currency rate changes on cash and cash equivalents	(3,328)	(4,406)	—
Net (decrease) increase in cash and cash equivalents	(11,911)	74,899	(25,147)
Cash and cash equivalents at beginning of period	135,227	60,328	85,475
Cash and cash equivalents at end of period	\$123,316	\$135,227	\$60,328
<b>Supplemental schedule of non-cash investing and financing activity:</b>			
Change in net unrealized (loss) gain on marketable securities available for sale	\$ (60,098)	\$ 53,312	\$ (3,584)
Matured shares tendered for stock option exercises and employee tax withholdings	(50,295)	(306)	—
Conversion of convertible notes	16	—	—
Accrual for business acquisition	—	7,499	—
Accrual for license acquisition	4,250	—	—
Equipment acquisition on capital leases	—	—	110
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid	\$ 7,000	\$ 7,000	\$ 3,584
Income taxes paid	36,258	5,493	(653)

See accompanying Notes to Consolidated Financial Statements



## Notes to Consolidated Financial Statements

December 31, 2005 (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 an integrated 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®, THALOMID®, and ALKERAN® and sales of FOCALIN™ to Novartis Pharma AG, or Novartis; a licensing agreement with Novartis which entitles us to royalties on FOCALIN XR™ and the entire RITALIN® 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.

REVLIMID® is an oral immunomodulatory drug approved by the U.S. Food and Drug Administration, or FDA, on December 27, 2005 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 distributed through contracted pharmacies under the RevAssist<sup>SM</sup> program, which is a proprietary risk-management distribution program tailored specifically for REVLIMID®. THALOMID® (thalidomide), approved by the FDA for the treatment of acute cutaneous manifestations of moderate to severe erythema nodosum leprosum, or ENL, an inflammatory complication of leprosy, is widely prescribed for treating multiple myeloma and other cancers. Net THALOMID® product sales accounted for approximately 72%, 82% and 82% of total revenues in 2005, 2004 and 2003, respectively. In October 2004, the Company acquired all of the outstanding shares of Penn T Limited, the UK-based manufacturer of THALOMID®. This acquisition expanded the Company’s corporate capabilities and enabled the Company to control manufacturing for THALOMID® worldwide. In March 2003, the Company entered into a supply and distribution agreement with GlaxoSmithKline, or GSK, to distribute, promote and sell in the United States ALKERAN® (melphalan), a therapy approved for the palliative treatment of multiple myeloma and of carcinoma of the ovary. FOCALIN™ is approved by the FDA for the treatment of attention deficit hyperactivity disorder, or ADHD, in children and adolescents. FOCALIN XR™, an extended release version is approved for the treatment of ADHD in adults, adolescents and children. FOCALIN™ and FOCALIN XR™ are marketed by Novartis. Under the agreement with Novartis, the Company receives royalty payments on the entire RITALIN® family line of products. In December 2002, the Company acquired Anthrogenesis Corp., or Celgene Cellular Therapeutics, a privately held New Jersey based biotherapeutics company and cord blood banking business, which is pioneering the recovery of stem cells from human placental tissues following the completion of full-term, successful pregnancies. The portfolio of products in the Company’s preclinical and clinical-stage pipeline includes IMiDs® compounds, TNFα inhibitors, benzopyrans, kinases inhibitors and ligase inhibitors.

On December 27, 2005, the Company announced that the Board of Directors approved a two-for-one stock split payable in the form of a 100 percent stock dividend. Stockholders received one additional share for every share they owned as of the close of business on February 17, 2006. The additional shares were distributed on February 24, 2006. As a result, the Company’s authorized shares increased from 280,000,000 to 580,000,000 and shares outstanding increased from 172,057,726 shares to 344,115,452 shares as of the close of business on February 24, 2006. All share and per share amounts in the consolidated financial statements have been restated to reflect the two-for-one stock split effective February 17, 2006.

The consolidated financial statements include the accounts of Celgene Corporation and its subsidiaries. All inter-company transactions and balances have been eliminated. The equity method of accounting is used for the Company’s investment in EntreMed common shares. Certain reclassifications have been made to prior years’ financial statements in order 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. 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.

*Cash Flow Statement Revision:* The Company reports cash flows from operations using the indirect method as permitted under Statement of Financial Accounting Standards, or SFAS, No. 95, "Statement of Cash Flows". The Company previously followed the common practice of starting with income from continuing operations to reconcile to net operating cash flows. Upon further review, it was determined that cash flows from operations, under the indirect method, should be reported by reconciling from net income to net operating cash flows and therefore, the Company has revised its Consolidated Statement of Cash Flows for the year ended December 31, 2003. The revision does not result in a change to net cash provided by operating activities for the year then ended.

*Cash Equivalents:* At December 31, 2005 and 2004, cash equivalents were \$83.6 million and \$24.8 million, respectively, and consisted principally of highly liquid funds invested in commercial paper, money market funds, and U.S. government securities such as treasury bills and notes. These instruments have maturities of three months or less when purchased and are stated at cost, which approximates market value because of the short maturity of these investments.

*Financial Instruments:* Certain financial instruments reflected in the Consolidated Balance Sheets, (e.g., cash and cash equivalents, accounts receivable, certain other assets, accounts payable and certain other liabilities) are recorded at cost, which approximate 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 fair value of the following financial instruments are disclosed in the following footnotes: marketable securities (Note 4); EntreMed, Inc. common stock (Note 7); EntreMed, Inc. warrants (Note 8); convertible debt (Note 9); and a foreign currency forward contract is disclosed in the following paragraph.

*Derivative Instruments:* The Company 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, 2005, the Company had one foreign currency forward contract outstanding to buy U.S. dollars and sell Swiss francs for a notional amount of \$62.0 million. The forward contract expires on April 13, 2006 and is an economic hedge of a U.S. dollar payable of a Swiss foreign entity, which is remeasured through earnings each period based on changes in the spot rate. The unrealized loss on the forward contract, based on its fair value at December 31, 2005, was approximately \$0.2 million, and was recorded in accrued expenses with the offsetting loss recorded in earnings.

*Marketable Securities:* The Company's marketable securities are all classified as securities available for sale in current assets and are carried at fair value. Such securities are held for an indefinite period of time and are intended to be used to meet the ongoing liquidity needs of the Company. Unrealized gains and losses (which are deemed to be temporary), if any, are reported in a separate component of stockholders' equity. The cost of investments in 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 other income. The cost of securities is based on the specific identification method.

Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the 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. The impairment would be charged to earnings 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. At the end of 2005, the Company determined that two securities with an amortized cost basis of \$7.0 million had sustained an other-than-temporary impairment and recognized a \$3.1 million impairment loss, which was recorded in interest and other income, net.

*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. The Company has the ability to sell these investments before maturity and has therefore classified the investments as available for sale. The Company has not realized any significant losses on disposal of its investments.

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. 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 as well as 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.

*Property, Plant and Equipment:* Plant and equipment are stated at cost. Depreciation of plant and equipment is provided 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 fixed assets are as follows:

Buildings	40 years
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, while renewals and improvements are capitalized.

*Investment in Affiliated Company:* On March 31, 2005, the Company exercised warrants to purchase 7,000,000 shares of EntreMed, Inc. common stock. Since the Company also holds 3,350,000 shares of EntreMed voting preferred shares convertible into 16,750,000 shares of common stock, the Company determined that it has significant influence over its investee and is applying the equity method of accounting to its common stock investment effective March 31, 2005. As prescribed under the equity method of accounting, the Company began recording its share of EntreMed gains and losses based on the Company's common stock ownership percentage in the second quarter of 2005.

The investment is 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 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 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. The Company evaluates information that it is aware of in addition to quoted market prices, if any, in determining whether an other-than-temporary decline in value exists. After reviewing these factors, the Company has determined that as of December 31, 2005 no adjustment to its investment is required.

*Goodwill and Other Intangible Assets:* Goodwill represents the excess of cost of an acquired entity over the fair value of identifiable assets acquired and liabilities assumed in a business combination. Under SFAS No. 142, "Goodwill and Other Intangible Assets", or SFAS 142, goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with estimable useful lives be amortized to their estimated residual values over their respective estimated useful lives, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets", or SFAS 144.

The Company's intangible assets are categorized as either supply agreements, contract based agreements or technology. Amortization periods related to these categories range from 12 to 14 years.

*Impairment of Long-Lived Assets:* In accordance with SFAS No. 144, 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 disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

*Business Combinations:* SFAS No. 141, "Business Combinations", or SFAS 141, requires that all business combinations be accounted for using the purchase method of accounting. The Company's acquisitions of Penn T Limited on October 21, 2004 and Anthrogenesis Corp. on December 31, 2002, were accounted for using the purchase method.

*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 with translation adjustments recorded as a component of other comprehensive income. Transaction gains and losses are recorded as incurred in interest and other income, net in the Consolidated Statement of Operations.

*Acquired in-Process Research and Development ("IPR&D"):* The value assigned to acquired in-process research and development is determined by identifying those acquired specific in-process research and development projects that would be continued and for which (a) technological feasibility has not been established at the acquisition date, (b) there is no alternative future use, and (c) the fair value is estimable with reasonable reliability. Amounts assigned to IPR&D are charged to expense at the acquisition date.

*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. Research and development costs consist primarily of salaries and benefits, contractor fees (paid principally to contract research organizations to assist in our clinical development programs), cost of drug supplies for our clinical and pre-clinical programs, costs of other consumable research supplies, regulatory and quality control expenditures and allocated facilities charges such as building rent and utilities. 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 the 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.

*Revenue Recognition:* Revenue from the sale of products is recognized upon product shipment. Provisions for discounts for early payments, rebates and sales returns under terms customary in the industry are provided for in the same period the related sales are recorded. Provisions recorded in 2005, 2004 and 2003 totaled approximately \$103.2 million, \$54.5 million and \$38.8 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 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 the consensus reached on 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 accounting, the revenue-recognition policy must be determined for the entire arrangement. Revenues from the achievement of research and development milestones, which represent the achievement of a significant step in the research and development process, are recognized when and if the milestones are achieved.

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. Grant revenue is recognized in accordance with the terms of the grant and as services are performed, and generally equals the related research and development expense.

*Stock-Based Compensation:* The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its fixed stock option plans. As such, compensation expense for grants 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, as amended, establishes accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As permitted under SFAS 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS 123, as amended.

If the exercise price of employee or director stock options is less than the fair value of the underlying stock on the grant date, the Company amortizes such differences to expense over the vesting period of the options. Options or stock awards issued to non-employees and consultants are recorded at fair value as determined in accordance with SFAS 123 and EITF No. 96-18, "Accounting for Equity Instruments That

Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services,” and expensed over the related vesting period.

The following table illustrates the effect on net income and net income per share as if the fair-value-based method under SFAS 123 had been applied. Option forfeitures are accounted for as they occurred and no amounts of compensation expense have been capitalized into inventory or other assets, but instead are considered period expenses in the pro forma amounts. Per share data has been adjusted to reflect the February 17, 2006 two-for-one stock split.

	2005	2004	2003
Net income, as reported	\$63,656	\$52,756	\$25,693
Add stock-based employee compensation (credit) expense included in reported net income (2005 net of tax)	(143)	250	250
Deduct total stock-based employee compensation expense determined under the fair value-based method (2005 net of tax) <sup>(1)</sup>	(52,746)	(26,027)	(21,226)
Pro forma net income	\$10,767	\$26,979	\$ 4,717
Net income per common share:			
Basic, as reported	\$ 0.19	\$ 0.16	\$ 0.08
Basic, pro forma	0.03	0.08	0.01
Diluted, as reported	0.18	0.15	0.08
Diluted, pro forma	0.03	0.08	0.01

<sup>(1)</sup> Includes benefit attributable to recognizing deferred tax assets in 2005.

The weighted-average fair value per share was \$9.60, \$5.22 and \$3.64 for stock options granted in 2005, 2004 and 2003, respectively. The Company estimated the fair values using the Black-Scholes option-pricing model based on the following assumptions:

	2005	2004	2003
Risk-free interest rate	4.24%	3.05%	2.39%
Expected stock price volatility	40.6%	47.4%	52.5%
Expected term until exercise (years)	4.20	3.70	3.50
Expected dividend yield	0 %	0%	0%

**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 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.

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

**Capitalized Software Costs:** Capitalized software costs are capitalized in accordance with Statement of Position No. 98-1, Accounting for the Costs of Computer Software Developed and Obtained for Internal Use, are included in other assets 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 December 2004 the FASB, issued SFAS No. 123R, “Share-Based Payment”, or SFAS 123R. SFAS 123R requires compensation cost relating to share-based payment transactions be recognized in financial statements based on the fair value of the equity or liability instruments issued. SFAS 123R covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee stock purchase plans. SFAS 123R replaces SFAS 123, and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” SFAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, SFAS 123 permitted entities to continue to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. The Company will be required to adopt the provisions of SFAS 123R in the first quarter of fiscal year 2006. Management is currently evaluating the requirements of SFAS 123R. The adoption of SFAS 123R is expected to have a material effect on our consolidated financial statements as noted elsewhere in this footnote. However, the calculation of compensation cost for share-based payment transactions after the effective date of SFAS 123R may be different from the calculation of compensation cost under SFAS 123.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs –An Amendment of ARB No. 43. This Statement amends the guidance in ARB No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal” as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company is currently evaluating the potential impact of this pronouncement on its financial position and results of operations.

EITF Issue No. 03-01, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,” or EITF 03-01, was issued in February 2004. The provisions of EITF 03-01 for measuring and recognizing an other-than-temporary impairment proved controversial and as a result, FASB Staff Position (“FSP”) FSP FAS 115-1 and FAS 124-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,” was issued in November 2005, clarifying the requirements of EITF 03-01 concerning the evaluation of whether an impairment is other-than-temporary. FSP FAS 115-1 and FAS 124-1 refers to SEC Staff Accounting Bulletin (“SAB”) Topic 5M, “Other Than Temporary Impairment of Certain Investments In Debt And Equity Securities,” and EITF Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets,” to evaluate whether an impairment is other than temporary. We are in compliance with these requirements and continue to monitor these developments to assess the possible impact on our financial position and results of operations.

## 2. Acquisitions and Dispositions

*Penn T Limited:* On October 21, 2004, the Company, through an indirect wholly-owned subsidiary, acquired all of the outstanding shares of Penn T Limited, or Penn T, a worldwide supplier of THALOMID®, from a consortium of private investors 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. Penn T was subsequently renamed Celgene UK Manufacturing II, Limited, or CUK II. The results of CUK II after October 21, 2004 are included in the consolidated financial statements.

The purchase price allocation resulted in the following amounts being allocated to the assets received and liabilities assumed based upon their respective fair values.

Current assets, net of cash acquired	\$ 16,855
Intangible assets	99,841
Goodwill	35,465
Assets acquired	152,161
Current liabilities	1,983
Deferred taxes	33,144
Liabilities assumed	35,127
Net assets acquired	\$117,034

Prior to the acquisition, Celgene and Penn T were parties to a manufacturing agreement pursuant to which Penn T manufactured THALOMID® for Celgene. Through a manufacturing agreement entered into with a third party in connection with the acquisition, the Company is able to control manufacturing for THALOMID® worldwide and increases its participation in the potential growth of THALOMID® opportunities in key international markets. This acquisition was accounted for using the purchase method of accounting for business combinations.

The intangible assets consist principally of a product supply agreement that is being amortized over its useful life, which is 13 years. The resulting goodwill and intangible asset have been assigned to the Company's Human Pharmaceuticals operating segment.

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, adjusted to reflect the February 17, 2006 two-for-one stock split. 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.

*Disposition of Chiral Intermediates Business:* In January 1998, the Company completed the sale of its chiral intermediate business to Cambrex Corporation. The Company received \$7.5 million upon the closing of the transaction and is entitled to future royalties, with a present value not exceeding \$7.5 million and certain minimum royalty payments due in 2000 through 2003. Included in the transaction were the rights to Celgene's enzymatic technology for the production of chirally pure intermediates for the pharmaceutical industry, including the pipeline of third party products and the equipment and personnel associated with the business. Pursuant to the minimum royalty provision of the agreement, the Company received approximately \$0.8 million during 2003. The chiral intermediates business is presented as a discontinued operation in the consolidated financial statements.

**3. Earnings Per Share (EPS)**

	2005	2004	2003
<b>Income available to common stockholders:</b>			
Income from continuing operations	\$63,656	\$52,756	\$24,943
Discontinued Operations - gain on sale of chiral assets	—	—	750
Net income	63,656	52,756	25,693
Interest expense on convertible debt, net of tax	5,571	—	—
Net income available to common stockholders	\$69,227	\$52,756	\$25,693
<b>Weighted average number of common shares outstanding:</b>			
Basic:	335,512	327,738	323,548
Effect of dilutive securities:			
Options	21,204	17,062	17,480
Warrants	353	436	372
Restricted shares and other long-term incentives	494	474	192
Convertible debt	33,022	—	—
Diluted:	390,585	345,710	341,592
<b>Earnings Per Share:</b>			
Income from continuing operations			
Basic	\$ 0.19	\$ 0.16	\$ 0.08
Diluted	\$ 0.18	\$ 0.15	\$ 0.07
Discontinued operations			
Basic	\$ —	\$ —	\$ —
Diluted	\$ —	\$ —	\$ 0.01
Net income			
Basic	\$ 0.19	\$ 0.16	\$ 0.08
Diluted	\$ 0.18	\$ 0.15	\$ 0.08

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 the years 2004 and 2003. The total number of potential common shares excluded from the diluted earnings per share computation because their inclusion would have been anti-dilutive was 10,224, 41,686,756 and 42,257,440 shares in 2005, 2004 and 2003, respectively. Share and per share amounts have been adjusted to reflect the February 17, 2006 two-for-one stock split.

**4. Marketable Securities Available for Sale**

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, 2005 and 2004 was as follows:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
<b>December 31, 2005</b>				
Mortgage-backed obligations	\$118,222	\$ 366	\$(1,459)	\$117,129
Government agency bonds and notes	95,961	39	(2,373)	93,627
Corporate debt securities	128,292	192	(5,338)	123,146
Auction rate notes	232,575	—	—	232,575
Marketable equity securities	20,212	14,255	—	34,467
	\$595,262	\$14,852	\$(9,170)	\$600,944

December 31, 2004	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Mortgage-backed obligations	\$166,959	\$ 1,107	\$ (904)	\$167,162
Government agency bonds and notes	798	—	(7)	791
Corporate debt securities	147,864	2,723	(650)	149,937
Auction rate notes	213,550	—	—	213,550
Marketable equity securities	20,212	61,658	—	81,870
	\$549,383	\$65,488	\$(1,561)	\$613,310

The fair value of available-for-sale securities with unrealized losses at December 31, 2005 was as follows:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
<b>December 31, 2005</b>						
Mortgage-backed obligations	\$ 26,211	\$ 218	\$46,699	\$1,241	\$ 72,910	\$1,459
Government agency bonds and notes	78,469	2,364	236	9	78,705	2,373
Corporate debt securities	100,875	4,633	14,295	705	115,170	5,338
	\$205,555	\$7,215	\$61,230	\$1,955	\$266,785	\$9,170

Government agency bonds and notes include U.S. Treasury and U.S. government agency obligations. Unrealized losses for mortgage-backed obligations and government agency bonds and notes were primarily due to increases in interest rates. Unrealized losses for corporate debt securities were primarily due to increases in interest rates as well as downgrades by corporate bond rating agencies. Celgene has more than 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.

Duration of debt securities classified as available-for-sale were as follows at December 31, 2005:

	Amortized Cost	Fair Value
Duration of one year or less	\$273,007	\$272,857
Duration of one through three years	76,632	75,714
Duration of three through five years	219,569	213,070
Duration of five through seven years	2,985	1,980
Duration greater than seven years	2,857	2,856
	\$575,050	\$566,477

## 5. Inventory

Inventory at December 31, 2005 and 2004 consisted of the following:

	2005	2004
Raw materials	\$ 5,044	\$ 4,081
Work in process	1,644	4,356
Finished goods	13,554	15,967
	<b>\$20,242</b>	<b>\$24,404</b>

## 6. Plant and Equipment

Plant and equipment at December 31, 2005 and 2004 consisted of the following:

	2005	2004
Land	\$17,836	\$14,700
Buildings	12,509	10,658
Building and operating equipment	2,618	—
Leasehold improvements	8,741	14,355
Machinery and equipment	27,603	22,955
Furniture and fixtures	6,751	3,865
Computer equipment and software	22,370	11,989
Construction in progress	7,103	63
	<b>105,531</b>	<b>78,585</b>
Less: accumulated depreciation and amortization	<b>28,054</b>	<b>24,847</b>
	<b>\$77,477</b>	<b>\$53,738</b>

## 7. Investment in Affiliated Company

On March 31, 2005, the Company exercised warrants to purchase 7,000,000 shares of EntreMed, Inc. common stock at an aggregate cost of \$10.5 million. The fair value of the warrants at the time of exercise was estimated to be approximately \$12.9 million. As a result, the total value ascribed to the Company's investment was \$23.4 million. Since the Company also holds 3,350,000 shares of EntreMed voting preferred shares that are convertible into 16,750,000 shares of common stock, the Company determined that it has significant influence over its investee and is applying the equity method of accounting to its common stock investment effective March 31, 2005. At March 31, 2005, the residual investment, after taking a charge of approximately \$4.4 million to write down the portion of the investment ascribed to in-process research and development (the charge was included in equity losses of affiliated company), exceeded the Company's proportionate share of the EntreMed net assets by approximately \$13.4 million and consisted of goodwill and intangibles of approximately \$12.6 million and \$0.8 million, respectively. As prescribed under the equity method of accounting, the Company began recording its share of EntreMed gains and losses based on the Company's common stock ownership percentage subsequent to that date. The investment in EntreMed had a carrying value of approximately \$17.0 million at December 31, 2005, which exceeds estimated fair value of the Company's common stock investment by approximately \$3.4 million based on the closing share price of EntreMed common stock on December 31, 2005. The Company deems this decline below carrying value to be temporary. Financial results of the EntreMed equity method investment are included in the human pharmaceuticals segment.

A summary of EntreMed's financial information follows:

	December 31, 2005 (Unaudited)
Current assets	\$35,326
Noncurrent assets	1,106
Total assets	\$36,432
Current liabilities	\$ 6,649
Noncurrent liabilities	230
Minority interest	17
Total equity	29,536
Total liabilities and equity	\$36,432
	(Audited)
Interest in EntreMed equity <sup>(1)</sup>	\$ 4,025
Excess of investment over share of EntreMed equity	12,992
Total investment	\$17,017

	Nine-Month Period Ended December 31, 2005 (Unaudited)
Total revenues	\$ 5,893
Operating loss	11,648
Net loss	10,792
	(Audited)
Celgene share of EntreMed, Inc. losses <sup>(1)</sup>	\$ 1,617
Amortization of intangibles	236
Write-off of in-process research and development	4,383
Elimination of inter-company transaction	687
Equity in losses of affiliated company	\$ 6,923

<sup>(1)</sup> The Company records its share of losses based on its common stock ownership of approximately 14% at December 31, 2005.

On February 2, 2006 the Company, along with a group of investors, entered into an agreement to invest \$30.0 million in EntreMed in return for newly issued EntreMed common stock and warrants to purchase additional shares of EntreMed common stock at a conversion price of \$2.3125 per warrant. The Company's portion of the investment was \$2.0 million for which it received 864,864 shares of EntreMed common stock and 432,432 warrants. The warrants will be accounted for at fair value with changes in fair value recorded through earnings.



**8. Other Financial Information**

Accrued expenses at December 31, 2005 and 2004 consisted of the following:

	2005	2004
Professional and consulting fees	\$ 3,906	\$ 2,026
Accrued compensation	22,087	15,783
Accrued interest, royalties and license fees	18,181	12,840
Accrued sales returns	5,017	9,595
Accrued rebates and chargebacks	27,763	9,255
Accrued acquisition related costs	—	8,010
Accrued clinical trial costs	10,866	7,440
Accrued insurance and taxes	2,256	1,882
Other	2,832	1,703
	<b>\$92,908</b>	<b>\$68,534</b>

Other assets at December 31, 2005 and 2004 consisted of the following:

	2005	2004
Long-term investments	\$ 7,000	\$ 7,000
Long-term deposits	1,754	1,495
Debt issuance costs	5,904	8,347
EntreMed Inc. warrants	—	19,768
Other	2,585	2,239
	<b>\$17,243</b>	<b>\$38,849</b>

On March 31, 2005, the Company exercised the EntreMed Inc. warrants to purchase 7,000,000 shares of EntreMed common stock and has applied the equity method of accounting to its common stock investment in EntreMed subsequent to that date. Interest and other income, net included unrealized losses of \$6.9 million and \$1.9 million related to EntreMed warrants for the years ended December 31, 2005 and 2004, respectively.

**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 33,022,360 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 redeemed, plus accrued interest, prior to maturity in the event of a change of control and certain other transactions defined as a "fundamental change", within the agreement. The Company registered the notes and common stock issuable upon conversion of the notes with the Securities and Exchange Commission, and is required to use reasonable best efforts to keep the related registration statement effective for the defined period. During the year ended December 31, 2005, an immaterial amount of principal was converted into common stock.

At December 31, 2005 and 2004, the fair value of the Company's convertible notes exceeded the carrying value of \$400.0 million by approximately \$660.0 million and \$117.0 million respectively.

## 10. Goodwill and Intangible Assets

*Intangible Assets:* At December 31, 2005, the Company's intangible assets primarily related to the October 21, 2004 acquisition of Penn T and are being amortized over their estimated useful lives. In December 2005, the Company recognized a \$4.3 million intangible for a licensing agreement with Children's Medical Center Corporation, or CMCC, which is being amortized over the patent life of the related product. Intangible asset balances related to the acquisition of Anthrogenesis Corp. were eliminated during the first quarter of 2005 as prescribed by SFAS 109 "Accounting for Income Taxes" due to reversal of the valuation allowance for deferred tax assets recorded at time of acquisition. The gross carrying value and accumulated amortization by major intangible asset class at December 31, 2005 and 2004 were as follows:

	2005				
	Gross Carrying Value	Accumulated Amortization	Cumulative Translation Adjustment	Intangible Assets, Net	Weighted Average Life (Years)
Penn T supply agreements	\$ 99,841	\$(2,787)	\$(4,435)	\$92,619	12.9
License	4,250	—	—	4,250	13.8
Technology	122	(3)	—	119	12.0
<b>Total</b>	<b>\$104,213</b>	<b>\$(2,790)</b>	<b>\$(4,435)</b>	<b>\$96,988</b>	<b>13.0</b>

	2004				
	Gross Carrying Value	Accumulated Amortization	Cumulative Translation Adjustment	Intangible Assets, Net	Weighted Average Life (Years)
Penn T acquisition:					
Supply agreements	\$ 99,841	\$ (75)	\$6,802	\$106,568	12.9
Anthrogenesis acquisition:					
Supplier relationships	710	(284)	—	426	5.0
Customer lists	1,700	(227)	—	1,473	15.0
Technology	609	(121)	—	488	10.0
<b>Total</b>	<b>\$102,860</b>	<b>\$(707)</b>	<b>\$6,802</b>	<b>\$108,955</b>	<b>12.9</b>

Amortization of acquired intangible assets was approximately \$2.1 million and \$0.4 million for the years ended December 31, 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 \$8.5 million for 2006 and \$8.1 million for each of the years 2007 through 2010.

*Goodwill:* At December 31, 2005, the Company's recorded goodwill related to the acquisition of Penn T on October 21, 2004 and has been allocated to the Company's human pharmaceuticals segment. Goodwill related to the acquisition of Anthrogenesis Corp. was eliminated during the first quarter of 2005 as prescribed by SFAS 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:

	Human Pharmaceuticals	Stem Cell Therapy	Total
Balance, December 31, 2003	\$ —	\$3,490	\$ 3,490
Proceeds from sale of net operating loss tax benefit	—	(484)	(484)
Penn T acquisition	35,812	—	35,812
Foreign currency translation	2,440	—	2,440
Balance, December 31, 2004	\$38,252	\$3,006	\$41,258
Reversal of deferred tax asset valuations	—	(3,006)	(3,006)
Purchase accounting adjustments	(347)	—	(347)
Foreign currency translation	(4,090)	—	(4,090)
Balance, December 31, 2005	\$33,815	\$ —	\$33,815

#### 11. Related Party Transactions

EntreMed earns royalty income relating to THALOMID®. As prescribed under the equity method of accounting, the Company eliminates its share of EntreMed's royalty income.

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:* On December 27, 2005, the Company announced a two-for-one stock split payable in the form of a 100 percent stock dividend to shareholders of record on February 17, 2006. On February 16, 2006, the Company's shareholders approved an increase in the number of authorized common shares of stock from 275,000,000 to 575,000,000 with a par value of \$.01 per share, of which 342,171,876 shares were outstanding at December 31, 2005.

*Treasury Stock:* During 2005, certain employees exercised certain stock options containing a reload feature and, pursuant to our stock option plan, tendered 1,831,054 mature shares related to stock option exercises. Such tendered shares are reflected as treasury stock. At December 31, 2005, treasury shares totaled 1,953,282.

A summary of changes in common stock issued and treasury stock is presented below:

Balance December 31,	Common Stock	Common Stock in Treasury
2002	80,176,713	—
Exercise of stock options and warrants	1,105,074	—
Issuance of common stock for employee benefit plans	129,268	—
2003	81,411,055	—
Exercise of stock options and warrants	1,300,297	—
Issuance of common stock for employee benefit plans	98,215	—
Treasury stock – mature shares tendered related to option exercises	—	(5,282)
Issuance of common stock related to 2:1 stock split	82,269,631	(5,282)
2004	165,079,198	(10,564)
Exercise of stock options and warrants	6,850,375	—
Issuance of common stock for employee benefit plans	132,346	—
Treasury stock – mature shares tendered related to option exercises	—	(966,077)
Conversion of long-term convertible notes	660	—
Issuance of common stock related to 2:1 stock split	172,062,579	(976,641)
2005	344,125,158	(1,953,282)

*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. Stock-Based Compensation

*Stock Options and Restricted Stock Awards:* The Company has one shareholder approved equity incentive plan, or the Incentive Plan, that provides for the granting of options, restricted stock awards, stock appreciation rights, performance awards and other stock-based awards to employees and officers of the Company to purchase not more than an aggregate of 69,700,000 shares of common stock under the 1998 plan, as amended, 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 Plans. The 1998 Plan will terminate in 2008.

With respect to options granted under the 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 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 and restricted stock awards granted under the Plans is subject to certain acceleration provisions if a change in control, as defined in the Plans, occurs.

As a result of the acquisition of Anthrogenesis, the Company assumed the former Anthrogenesis Qualified Employee Incentive Stock Option Plan and the Anthrogenesis Non-Qualified Recruiting and Retention Stock Option Plan. Options granted under the Anthrogenesis plans prior to Celgene's acquisition of Anthrogenesis generally vested immediately and expire ten years from the date of grant. The Anthrogenesis options converted into Celgene options at an exchange ratio of 0.4545 on a pre-October 2004 and February 2006 stock split basis. 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 options granted under the Qualified Plan may not be less than the fair 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 granted to executives at the vice-president level and above, after September 18, 2000, contain a reload feature which provides 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 applicable 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. An optionee may not reload the reload stock option unless otherwise permitted by the Compensation Committee. As of December 31, 2005, the Company has issued 10,876,300 stock options to executives that contain the reload features noted above, of which 6,232,004 are still outstanding.

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 4,100,000 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. Additionally, upon the date of each annual meeting of stockholders, each continuing Non-Employee Director receives an option to purchase 10,000 shares of common stock (or a pro rata portion thereof for service less than one year), which vest in full on the date of the first annual meeting of stockholders held following the date of grant. As amended in 2003, continuing Non-Employee Directors receive quarterly grants of 3,750 options aggregating 15,000 options annually, instead of receiving one annual grant of 15,000 options and vesting occurs one year from the date of grant instead of on the date of the first annual meeting of stockholders held following 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 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 fair 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. In December 2005, in recognition of the significance of the REVLIMID® regulatory approval, continuing Non-Employee Directors received the 2006 annual stock option award of 15,000 shares, which were granted at an exercise price equal to the fair value of the Company's common stock on December 29, 2005 and vest pursuant to the standard terms of the plan.

In June 2005, the stockholders of the Company approved amendments to the 1998 Stock Incentive Plan, or the 1998 Plan, and the 1995 Non-Employee Directors' Incentive Plan, or the 1995 Plan, to among other things, increase, on a pre-split basis, the number of shares of common stock that may be subject to awards from 25,000,000 to 31,000,000 for the 1998 Plan and from 3,600,000 to 3,850,000 for the 1995 Plan.

The following table summarizes the stock option activity for the aforementioned Plans:

Balance December 31,	Shares available for grant	Options outstanding	
		Shares	Weighted average exercise price per share
2002	1,160,723	10,829,432	\$21.37
Authorized	4,000,000	—	—
Expired	(308,857)	—	—
Granted	(2,424,027)	2,424,027	36.60
Exercised	—	(1,041,618)	10.69
Cancelled	172,826	(200,092)	26.78
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

The following table summarizes information concerning options outstanding under the Incentive Plans at December 31, 2005:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average exercise price	Weighted average remaining term (yrs.)	Number exercisable	Weighted average exercise price
\$ 0.04 – 5.00	9,773,502	\$ 2.15	4.0	9,753,502	\$ 2.15
5.01 – 10.00	12,174,984	6.88	5.8	12,134,434	6.92
10.01 – 15.00	11,177,106	12.65	7.9	10,950,572	12.91
15.01 – 20.00	6,086,396	16.52	7.2	5,694,516	17.65
20.01 – 30.00	4,982,196	25.10	8.5	4,739,246	26.38
30.01 – 35.67	6,400,194	34.62	9.9	6,188,194	35.81
	50,594,378	\$13.70	6.9	49,460,464	\$14.02



In December 2005, in recognition of the significance of the REVLIMID® regulatory approval, the Board of Directors approved a resolution to grant the 2006 annual stock option awards in 2005. All stock options awarded were granted fully vested. Half of the options granted had an exercise price, or strike price, of \$34.05 per option, which was at a 5% premium to the split-adjusted closing price of the Company's common stock of \$32.43 on the grant date of December 29, 2005, the remaining options granted had a strike price of \$35.67 per option, which was at a 10% premium to the split-adjusted closing price of the Company's common stock of \$32.43 on the grant date of December 29, 2005. The Board's decision to grant these options was in recognition of the REVLIMID® 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 recently issued changes in accounting rules resulting from the issuance of SFAS 123R, which the Company is required to adopt effective in the first quarter of 2006. In addition, the Company granted certain options to key-employees at exercise prices equal to the market price of the Company's common stock on the date of grant that also vested immediately. Management believes that granting fully vested options prior to the adoption of SFAS 123R will result in the Company not being required to recognize cumulative compensation expense of approximately \$76.0 million for the four-year period ending December 31, 2009.

During 2001, the Company issued to certain employees an aggregate of 210,000 restricted stock awards of which 120,000 are still outstanding. Such restricted stock awards will vest on September 19, 2006, unless certain conditions that would trigger accelerated vesting are otherwise met prior to such date. The fair value of these restricted stock awards at the grant date was \$0.8 million, which is being amortized as compensation expense over the contractual vesting period and classified in selling, general and administrative expenses. The Company recorded a \$0.2 million credit to compensation expense for the year ended December 31, 2005 due to cancellation of 90,000 restricted stock awards during the year. The Company recorded compensation expense of \$0.3 million for the years ended December 31, 2004 and 2003, respectively.

*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, 2005, Celgene had 404,696 warrants outstanding to acquire an equivalent number of shares of Celgene common stock at a weighted average exercise price of \$2.95 per warrant. 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 specified percentages of employee contributions and aggregated a total expense charged to operations of \$6.5 million in 2005, \$3.5 million in 2004 and \$4.2 million in 2003.

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 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 \$0.4 million, \$0.8 million and \$0.6 million associated with the matching of the deferral of compensation in 2005, 2004 and 2003, 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, 2005 and 2004, the Company had a deferred compensation liability included in other non-current liabilities in the consolidated balance sheets of approximately \$11.2 million and \$8.8 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.

In 2003, the Company adopted 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, and payable only if employed at the end of the performance cycle. The 2003 performance cycle began on May 1, 2003 and ended on December 31, 2005, or the 2005 Plan. The 2004 performance cycle began on January 1, 2004 and will end on December 31, 2006, or the 2006 Plan and the 2005 performance cycle began on January 1, 2005 and will end on December 31, 2007, or the 2007 Plan. The 2006 performance cycle was approved by the Management Compensation and Development Committee of the Board of Directors on January 19, 2006 and began on January 1, 2006 and will end on December 31, 2008, or the 2008 Plan. Performance measures for the Plans are based on the following components: 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 2005, 2007 and 2008 Plans and 0% to 150% of the participant's salary for the 2006 Plan. The estimated payout for the 2005 Plan is \$4.5 million and the maximum potential payout, assuming objectives are achieved at the 150% level for the 2006 Plan and at the 200% level for the 2007 and 2008 Plans are \$4.5 million, \$6.8 million and \$7.2 million for the 2006 Plan, 2007 Plan and 2008 Plan, 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 common stock fair value 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, 2005, 2004 and 2003, the Company recognized expense related to LTIP of \$4.4 million, \$3.4 million and \$0.5 million, respectively.

#### 15. Accumulated Comprehensive Income

Other Accumulated Comprehensive Income at December 31, 2005 and 2004 consisted of the following:

	2005	2004
Net unrealized gains on marketable securities, net of tax	\$4,833	\$63,926
Currency translation adjustment	(4,745)	4,676
	\$ 88	\$68,602

## 16. Sponsored Research, License and Other Agreements

*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®. Under the terms of the agreement, we receive 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® license fee of 8% in all other licensed territories. Separately in December 2004, following our acquisition of Penn T Limited, our wholly-owned subsidiary Celgene UK Manufacturing II Limited, or CUK II, (formerly known as "Penn T Limited") 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, we received a one-time payment of \$77.0 million. Under the 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 \$10.7 million through December 31, 2005 and is required to fund an additional \$2.7 million in each of 2006 and 2007.

At December 31, 2005 and 2004, we held 1,939,600 shares of Pharmion common stock received in connection with the conversion of a five-year Senior Convertible Promissory Note purchased in April 2003 under a Securities Purchase Agreement with Pharmion and the exercise of warrants received in connection with the November 2001 thalidomide license and April 2003 Securities Purchase Agreement.

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

*Serono:* In late 2004, the Company assumed co-exclusive rights with Serono SA to discover and develop therapeutics that modulate the NFκB pathway utilizing technology and know-how previously licensed to Serono SA. Celgene made a one-time payment of \$6.0 million to Serono SA, which was recorded as research and development expense since this relates to undeveloped technology, and will make milestone and royalty payments on the sales on any resulting products. Serono SA will have reciprocal milestone payment and royalty obligations to Celgene for any products Serono SA discovers, develops and commercializes utilizing the technology and know-how.

*S.T.E.P.S. License Agreements:* In late 2004, the Company entered into an agreement providing manufacturers of isotretinoin (Acutane,) with a non-exclusive license to its patent portfolio directed to methods for safely delivering isotretinoin (Acutane,) in potentially high-risk patient populations in exchange for \$0.5 million. The manufacturers of isotretinoin have licensed these patents with the intention of implementing a new pregnancy risk management system to safely deliver isotretinoin in potentially high-risk patient populations. The Company is entitled to future royalties under these agreements.

**17. Income Taxes**

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

	2005	2004	2003
U.S.	<b>\$135,048</b>	\$244,034	\$25,661
Non-U.S.	<b>(50,836)</b>	(180,863)	—
Income before income taxes	<b>\$ 84,212</b>	\$ 63,171	\$25,661

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

	2005	2004	2003
United States:			
Taxes currently payable:			
Federal	<b>\$11,538</b>	\$ 6,429	\$ —
State and local	<b>8,609</b>	4,067	718
Deferred income taxes	<b>(3,430)</b>	—	—
Total U.S. tax provision	<b>16,717</b>	10,496	718
International:			
Taxes currently payable	<b>4,926</b>	23,486	—
Deferred income taxes	<b>(1,087)</b>	(23,567)	—
Total international tax provision	<b>3,839</b>	(81)	—
Total provision	<b>\$20,556</b>	\$10,415	\$718

Amounts are reflected in the preceding tables based on the location of the taxing authorities. As of December 31, 2005, we have not made a U.S. tax provision on approximately \$77.6 million of unremitted earnings of our international subsidiaries. These earnings are expected to be reinvested overseas. 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, and other relevant factors. Significant judgment is required in making this assessment. At December 31, 2005, 2004 and 2003 the tax effects of temporary differences that give rise to deferred tax assets were as follows:

	2005		2004		2003	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Federal and state net operating						
loss carryforwards	\$ 84,161	\$ —	\$53,477	\$ —	\$141,379	\$ —
Prepaid/deferred items	30,016	—	29,863	—	—	—
Deferred Revenue	19,533	—	24,174	—	—	—
Capitalized research expenses	6,861	—	8,971	—	16,774	—
Research and experimentation						
tax credit carryforwards	19,770	—	17,431	—	9,154	—
Plant and equipment, primarily						
differences in depreciation	618	(295)	2,307	(295)	1,524	—
Inventory	1,607	—	1,362	(928)	—	—
Other Assets	—	(7,325)	—	(2,230)	—	—
Intangibles	7,910	(27,786)	3,182	(29,761)	5,615	—
Accrued and other expenses	20,493	—	14,590	—	6,686	—
Unrealized losses/(gains)						
on securities	—	(848)	—	(33,385)	4,188	(8,893)
Subtotal	190,969	(36,254)	155,357	(66,599)	185,320	(8,893)
Valuation allowance	(10,396)	—	(75,510)	—	(176,427)	—
Total Deferred Taxes	\$180,573	\$(36,254)	\$79,847	\$(66,599)	\$ 8,893	\$(8,893)
Net Deferred Tax Asset	\$144,319	\$ —	\$13,248	\$ —	\$ —	\$ —

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

Percentages	2005	2004	2003
US statutory rate	35.0%	35.0%	35.0%
Foreign losses without tax benefit	27.2	50.5	—
State taxes, net of federal benefit	9.6	4.3	3.3
Other	3.2	1.7	—
Change in valuation allowance	(50.6)	(75.0)	(35.5)
Effective income tax rate	24.4%	16.5%	2.8%

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® (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, 2005, it was more likely than not that the Company would realize its deferred tax assets, net of valuation allowances.

At December 31, 2005, the Company had federal net operating loss carryforwards of approximately \$198.0 million and combined state net operating loss carryforwards of approximately \$ 218.7 million that will expire in the years 2006 through 2025. The Company also has research and experimentation credit carryforwards of approximately \$19.7 million that expire in the years 2006 through 2025. Ultimate utilization/availability of such net operating losses and credits may be curtailed if a significant change in ownership occurs. Signal and Anthrogenesis experienced an ownership change, as that term is defined in

section 382 of the Internal Revenue Code, when acquired by Celgene, as such, there is an annual limitation on the use of these net operating losses in the amount of approximately \$11.6 million and \$3.4 million, respectively. Approximately \$8.1 million of deferred tax assets acquired in the Anthrogenesis acquisition at December 31, 2002 consisted primarily of net operating losses; as such there may be an annual limitation on the Company's ability to utilize the acquired net operating losses in the future.

The Company realized stock option deduction benefits in 2005, 2004, and 2003 for income tax purposes and has increased paid-in capital in the amount of approximately \$103.6 million, \$14.2 million, and \$0.8 million, respectively.

## 18. Commitments and Contingencies

*Leases:* The Company leases office and research facilities under several operating lease agreements in the United States, Switzerland and United Kingdom. The minimum annual rents may be subject to specified annual rental increases. At December 31, 2005, the non-cancelable lease terms for the operating leases expire at various dates between 2006 and 2012 and include renewal options. In 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.

The Company leases certain equipment under a capital lease arrangement. Assets held under capital leases are included in plant and equipment and the amortization of these assets is included in depreciation expense. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2005 are:

<i>(In millions)</i>	Operating leases	Capital leases
2006	\$3.4	\$2
2007	2.9	2
2008	2.6	—
2009	2.5	—
2010	2.5	—
Thereafter	3.9	—
Total minimum lease payments	\$17.8	\$4
Less amount representing interest		1
Present value of net minimum capital lease payments		3
Less current installments of obligations under capital leases		1
Obligations under capital leases, excluding current installments		\$2

Total facilities rental expense under operating leases was approximately \$4.5 million in 2005, \$4.3 million in 2004 and \$3.9 million in 2003.

*Contracts:* In connection with the Company's acquisition of Penn T, the Company entered into a Technical Services Agreement with Penn Pharmaceutical Services Limited, or PPSL, and Penn Pharmaceutical Holding Limited pursuant to which PPSL provides the services and facilities necessary for the manufacture of THALOMID® and other thalidomide formulations. The total cost to be incurred over the five-year minimum agreement period is approximately \$11.0 million. At December 31, 2005, the remaining cost to be incurred was approximately \$7.8 million.

In March 2003, the Company entered into a supply and distribution agreement with GSK to distribute, promote and sell ALKERAN® (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, the Company purchases ALKERAN® tablets and ALKERAN® for infusion from GSK and distributes the products in the United States under the Celgene label. The agreement requires the Company 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, 2005, the remaining minimum purchase requirements under the agreement totaled \$102.0 million.

The Company signed an exclusive license agreement with CMCC, which terminated any existing thalidomide analog agreements between CMCC and EntreMed and directly granted to Celgene an exclusive worldwide license for the analog patents. Under the agreement, the Company is required to pay CMCC \$2.0 million between 2005 and 2006. The outstanding balance related to this agreement was \$1.0 million at December 31, 2005. Additional payments are possible under the agreement depending on the successful development and commercialization of thalidomide analogs.

In October 2003, the Company signed an agreement with Institute of Drug Technology Australia Limited, or IDT, for the manufacture of finished dosage form of THALOMID® capsules. The agreement requires minimum purchases of THALOMID® capsules of \$4.7 million for the three-year term commencing with the April 2005 FDA approval of IDT as an alternate supplier. This agreement provides the Company with additional capacity and reduces its dependency on one manufacturer for the production of THALOMID®. The outstanding balance related to this agreement was \$4.0 million at December 31, 2005.

*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.

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 FOCALIN™. The notification letters contend that United States Patent Nos. 5,908,850, or '850 patent, and 6,355,656, or '656 patent, were invalid. The '656 patent is currently the subject of reexamination proceedings in the United States Patent and Trademark Office. 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™ NDA. Neither the '656 patent nor the '530 patent is part of the patent infringement action against Teva. This case does not involve an ANDA for RITALIN LA® or FOCALIN XR™ as such an ANDA has not been filed. Recently, Teva amended its answer 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. No trial date has been set. If successful, Teva will be permitted to sell a generic version of FOCALIN™, which could significantly reduce the Company's sales of FOCALIN™ to Novartis.

## 19. Segments and Related Information

The Company operates in two business segments – Human Pharmaceuticals and Stem Cell Therapies. The accounting policies of the segments are the same as described in the summary of significant accounting policies.

*Human Pharmaceuticals:* The Human Pharmaceutical segment is engaged in the discovery, development and commercialization of innovative therapies designed to treat cancer and immuno-inflammatory diseases through regulation of cellular, genomic and proteomic targets. The segment derives its revenues from pharmaceutical sales of REVLIMID®, THALOMID®, ALKERAN® and FOCALIN™; royalties from Novartis on their sales of FOCALIN XR™ and the entire RITALIN® family of drugs; and, a licensing and product supply agreement with Pharmion for its sales of thalidomide. This segment includes the EntreMed equity method investment and Signal Pharmaceuticals, LLC., a wholly-owned San Diego-based biopharmaceutical company focused on the discovery and development of drugs that regulate genes and proteins associated with diseases.

*Stem Cell Therapies:* With the acquisition of Anthrogenesis Corp. in December 2002, the Company acquired a biotherapeutics company pioneering the development of stem cell therapies and biomaterials derived from human placental tissue that now operates as Celgene Cellular Therapeutics, or CCT. CCT has organized its business into three main units: (1) stem cells banking for transplantation, (2) private stem



cell banking and (3) the development of biomaterials for organ and tissue repair. CCT has developed proprietary methods for producing biomaterials for organ and tissue repair (i.e. BIOVANCE™). Additionally, CCT has developed proprietary technology for collecting, processing and storing placental stem cells with potentially broad therapeutic applications in cancer, as well as autoimmune, cardiovascular, neurological, and degenerative diseases.

Summarized segment information is as follows:

	Human Pharmaceuticals	Stem Cell Therapies	Unallocated <sup>(2)</sup>	Total
<b>2005</b>				
Total assets	\$499,753	\$22,624	\$724,260	\$1,246,637
Revenue from external customers	530,094	6,847	—	536,941
Inter-segment revenue	—	12,036	—	12,036
Total revenue	\$530,094	\$18,883	\$ —	\$ 548,977
Income (loss) before income taxes <sup>(1)</sup>	109,474	(13,226)	—	96,248
Capital expenditures	34,491	1,370	—	35,861
Depreciation and amortization of long-term assets	13,209	1,077	—	14,286
<b>2004</b>				
Total assets	\$334,932	\$23,824	\$748,537	\$1,107,293
Revenue from external customers	372,957	4,545	—	377,502
Inter-segment revenue	—	—	—	—
Total revenue	\$372,957	\$ 4,545	\$ —	\$ 377,502
Income (loss) before income taxes <sup>(1)</sup>	78,810	(15,639)	—	63,171
Capital expenditures	34,790	1,225	—	36,015
Depreciation and amortization of long-term assets	8,714	976	—	9,690
<b>2003</b>				
Total assets	\$135,123	\$10,936	\$666,967	\$ 813,026
Revenue from external customers	267,980	3,495	—	271,475
Inter-segment revenue	—	—	—	—
Total revenue	\$267,980	\$ 3,495	\$ —	\$ 271,475
Income (loss) before income taxes <sup>(1)</sup>	42,279	(16,618)	—	25,661
Capital expenditures	8,726	2,501	—	11,227
Depreciation and amortization of long-term assets	7,339	688	—	8,027

<sup>(1)</sup> Expenses incurred at the consolidated level are included in the results of the Human Pharmaceuticals segment.

<sup>(2)</sup> Unallocated corporate assets consist of cash and cash equivalents and marketable securities available for sale.

The following table provides a reconciliation of selected segment information to corresponding amounts contained in the Company's Consolidated financial statements:

	2005	2004	2003
Total Revenue from segments	\$548,977	\$377,502	\$271,475
Elimination of intersegment revenue	(12,036)	—	—
Total consolidated revenue	\$536,941	\$377,502	\$271,475
Income before income taxes from segments	\$ 96,248	\$ 63,171	\$ 25,661
Elimination of intercompany profit	(12,036)	—	—
Consolidated income before income taxes	\$ 84,212	\$ 63,171	\$ 25,661

*Operations by Geographic Area:* Revenues outside of North America consist primarily of sales of THALOMID® and REVLIMID® in Europe and royalties from Novartis on their international sales of RITALIN® LA.

Revenues	2005	2004	2003
North America	\$518,439	\$374,686	\$271,475
All Other	18,502	2,816	—
<b>Total Revenues</b>	<b>\$536,941</b>	<b>\$377,502</b>	<b>\$271,475</b>

Long Lived Assets <sup>(1)</sup>	2005	2004
North America	\$ 73,340	\$ 59,131
All Other	134,940	144,820
<b>Total Long Lived Assets</b>	<b>\$208,280</b>	<b>\$203,951</b>

<sup>(1)</sup> 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, 2005, 2004 and 2003, were as follows:

(In thousands \$)	2005	2004	2003
Net product sales:			
THALOMID®	\$387,816	\$308,577	\$223,686
FOCALIN™	4,210	4,177	2,383
ALKERAN®	49,748	16,956	17,827
REVLIMID®	2,862	—	—
Other	989	861	557
<b>Total net product sales</b>	<b>\$445,625</b>	<b>\$330,571</b>	<b>\$244,453</b>
Collaborative agreements and other revenue	41,334	20,012	15,174
Royalty revenue	49,982	26,919	11,848
<b>Total revenue</b>	<b>\$536,941</b>	<b>\$377,502</b>	<b>\$271,475</b>

*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 revenues. In 2005, 2004 and 2003, there were three customers that each accounted for more than 10% of the Company's total revenue. The percent of total sales to each such customer in 2005, 2004 and 2003 were as follows: Cardinal Health 39.0%, 29.5% and 32.5%; McKesson Corp. 27.3%, 18.6% and 17.4%; and Amerisource Bergen Corp. 19.9%, 17.9% and 23.7%. Sales to such customers were included in the results of the Human Pharmaceuticals segment. These same customers accounted for the following percentages of accounts receivable for the years ended December 31, 2005 and 2004, respectively: McKesson Corp. 32.8% and 25.3%; Cardinal Health 30.0% and 32.2%; and Amerisource Bergen Corp. 13.2% and 14.0%.

## 20. Quarterly Results of Operations (Unaudited)

	1Q	2Q	3Q	4Q	Year
<b>2005</b>					
Total revenue	\$112,396	\$145,701	\$129,506	\$149,338	\$536,941
Gross profit <sup>(1)</sup>	99,792	127,505	106,307	122,610	456,214
Income tax benefit (provision)	34,172	(29,967)	(12,975)	(11,786)	(20,556)
Net income	48,214	10,846	668	3,928	63,656
Net earnings per common share <sup>(2)</sup> -					
basic	\$ 0.15	\$ 0.03	\$ —	\$ 0.01	\$ 0.19
diluted	\$ 0.13	\$ 0.03	\$ —	\$ 0.01	\$ 0.18
Weighted average number of shares of common stock outstanding <sup>(3)</sup> -					
basic	331,225	334,282	336,596	339,839	335,512
diluted	382,216	352,023	359,724	359,998	390,585
	1Q	2Q	3Q	4Q	Year
<b>2004</b>					
Total revenue	\$ 82,873	\$ 87,753	\$101,468	\$105,408	\$377,502
Gross profit <sup>(1)</sup>	61,726	64,916	68,637	75,566	270,845
Income tax provision	(801)	(1,156)	(1,974)	(6,484)	(10,415)
Net income	8,914	2,595	19,008	22,239	52,756
Net earnings per common share <sup>(2)</sup> -					
basic	\$0.03	\$0.01	\$ 0.06	\$ 0.07	\$ 0.16
diluted	\$0.03	\$ 0.01	\$ 0.05	\$ 0.06	\$ 0.15
Weighted average number of shares of common stock outstanding <sup>(3)</sup> -					
basic	325,902	327,348	328,181	329,499	327,738
diluted	349,050	353,709	354,128	347,339	345,710

<sup>(1)</sup> Gross profit is computed by subtracting cost of goods sold from net product sales.

<sup>(2)</sup> The sum of the quarters may not equal the full year basic and diluted earnings per share since each period is calculated separately.

<sup>(3)</sup> The weighted average number of shares outstanding reflects the February 17, 2006 two-for-one stock split.

### Schedule II – Valuation and Qualifying Accounts

Year ended December 31,	Balance at beginning of year	Additions charged to expense or sales	Deductions	Balance at end of year
<b>2005</b>				
Allowance for doubtful accounts	\$ 1,370	\$ 1,029	\$ 107	\$ 2,292
Allowance for customer discounts	838	10,434	9,825	1,447
Subtotal	2,208	11,463	9,932	3,739
Allowance for sales returns	9,595	21,160 <sup>(1)</sup>	25,738	5,017
	\$11,803	\$32,623	\$35,670	\$8,756
<b>2004</b>				
Allowance for doubtful accounts	\$ 873	\$ 867	\$ 370	\$ 1,370
Allowance for customer discounts	657	7,448	7,267	838
Subtotal	1,530	8,315	7,637	2,208
Allowance for sales returns	8,368	16,279 <sup>(1)</sup>	15,052	9,595
	\$ 9,898	\$24,594	\$22,689	\$11,803
<b>2003</b>				
Allowance for doubtful accounts	\$ 729	\$ 448	\$ 304	\$ 873
Allowance for customer discounts	291	5,503	5,137	657
Subtotal	1,020	5,951	5,441	1,530
Allowance for sales returns	2,783	12,659 <sup>(1)</sup>	7,074	8,368
	\$ 3,803	\$18,610	\$12,515	\$ 9,898

<sup>(1)</sup> Amounts are a reduction from gross sales.

# Corporate Information

## Sede central

Celgene Corporation  
86 Morris Avenue  
Summit, NJ 07901  
(908) 673-9000

## Agente de transferencias

American Stock Transfer  
& Trust Company  
59 Maiden Lane  
New York, New York 10039

## Audidores externos

KPMG LLP  
150 John F. Kennedy Parkway  
Short Hills, New Jersey 07078

Algunos de los datos que se incluyen en el presente informe anual son proyecciones de futuro. Los factores que aparecen en las proyecciones de futuro o en los documentos de la Comisión de vigilancia y control del mercado de valores de la compañía pueden dar lugar a que los resultados reales de la compañía difieran materialmente de los expresados en cualquiera de las proyecciones de futuro del presente informe anual.

Visite nuestra página web:

[www.celgene.com](http://www.celgene.com)

## Información para accionistas

Las acciones ordinarias de Celgene se negocian en el NASDAQ National Market System. Símbolo en NASDAQ: CELG. Las opciones de Celgene aparecen en la Chicago Board Options Exchange. Símbolo en CBOE: LQH.

A fecha 4 de abril de 2006 existían 104.056 titulares registrados de acciones ordinarias de la compañía. La siguiente tabla establece los precios máximos y mínimos intradiarios de las acciones ordinarias para los períodos indicados, según lo informado por el NASDAQ National Market System, y ha sido ajustada de manera que refleja el desdoblamiento de acciones 2 por 1 de febrero de 2006.

	2005		2004		
	Máx	Mín	Máx	Mín	
Cuarto Trim.	32.68	22.59	16.29	12.87	dólares
Tercer Trim.	29.41	19.77	15.05	11.66	dólares
Segundo Trim.	21.62	16.60	15.15	11.25	dólares
Primer Trim.	17.62	12.35	12.23	9.37	dólares

Las cotizaciones indicadas más arriba representan los precios para corredores de bolsa, y no incluyen primas, descuentos ni comisiones. Celgene no ha pagado dividendos sobre sus acciones ordinarias, ni prevé pagarlos en el futuro cercano. Los accionistas, analistas y demás representantes de la comunidad financiera que deseen obtener más información sobre Celgene deberán dirigir sus consultas a:

Investor Relations  
Celgene Corporation  
86 Morris Avenue  
Summit, New Jersey 07901  
(908) 673-9000

## Asamblea anual

La asamblea general de accionistas de Celgene Corporation se celebrará el miércoles 14 de junio de 2006 en la sede central de Celgene en Summit, Nueva Jersey, a la una de la tarde.

## Formulario 10-K

Los accionistas podrán obtener copias gratuitas del Formulario 10-K para el año que finalizó el día 31 de diciembre de 2005, solicitándolas por escrito al Secretario Corporativo en la sede central de la compañía.

Acelagraft™, Biovance™, y LifebankUSA™ son marcas registradas de Celgene Corporation.  
REVLIMID®, IMiDs®, THALOMID® y S.T.E.P.S.® son marcas registradas de Celgene Corporation.  
RevAssist™ y PSS™ son marcas servicios de Celgene Corporation.  
Focalin™ y Focalin-XR™ son marcas registradas de Novartis Pharma AG.  
Ritalin® es una marca registrada de Novartis Pharmaceuticals Corporation.  
ALKERAN® es una marca registrada de Glaxo SmithKline Corporation.  
PRMP™ es una marca registrada de Pharmion Corporation.

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