SYKES ENTERPRISES INC
Form DEF 14A
April 20, 2018
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant Filed by a party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Sykes Enterprises, Incorporated**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No Fee Required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**SYKES ENTERPRISES, INCORPORATED**

April 20, 2018

Dear Shareholder:

I am pleased to invite you to attend the Sykes Enterprises, Incorporated 2018 Annual Meeting of Shareholders. The meeting will be held at the Florida Museum of Photographic Arts, The Cube at Rivergate Plaza, 400 North Ashley Drive, Cube 200, Tampa, Florida, 33602, on Tuesday, May 22, 2018, at 8:00 a.m., Eastern Daylight Saving Time. In the following pages, you will find the Notice of Annual Meeting of Shareholders as well as a proxy statement which describes the items of business to be conducted at the meeting.

Your vote is important, so to assure your representation at the Annual Meeting, please vote on the matters described in this proxy statement by completing the enclosed proxy card and mailing it promptly in the enclosed envelope. If your shares are held in street name by a brokerage firm, bank or other nominee, the nominee will supply you with a proxy card to be returned to it. It is important that you return the proxy card as quickly as possible so that the nominee may vote your shares. If your shares are held in street name by a nominee, you may not vote those shares in person at the Annual Meeting unless you obtain a power of attorney or legal proxy from that nominee authorizing you to vote the shares, and you present that power of attorney or proxy at the Annual Meeting.

Sincerely,

**James T. Holder**
*Secretary*

**Important notice regarding the availability of proxy materials**

**for the Shareholders Meeting to be held on May 22, 2018**

This proxy statement and our 2017 Annual Report to Shareholders are available at:

https://materials.proxyvote.com/871237

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**SYKES ENTERPRISES, INCORPORATED**

**400 North Ashley Drive**

**Tampa, Florida 33602**

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

| | |
|---|---|
| **Date and Time:** | **8:00 a.m. Eastern Daylight Saving Time on May 22, 2018** |
| **Place:** | Florida Museum of Photographic Arts, The Cube at Rivergate Plaza<br>400 N. Ashley Drive, Cube 200, Tampa, FL 33602 |
| **Items of Business:** | **1.** To elect three directors to hold office until the 2020 Annual Meeting of Shareholders and to elect an additional director to hold office until the 2019 Annual Meeting of Shareholders;<br>**2.** To hold a shareholder advisory vote on executive compensation;<br>**3.** To ratify the appointment of Deloitte & Touche LLP as independent auditors of the Company; and<br>**4.** To transact any other business as may properly come before the Annual Meeting. |

Only shareholders of record as of the close of business on March 19, 2018 will be entitled to vote at the Annual Meeting or any adjournment or postponement of the Annual Meeting. Information relating to the matters to be considered and voted on at the Annual Meeting is set forth in the proxy statement accompanying this Notice.

**Tampa, Florida**

**April 20, 2018**

By Order of the Board of Directors,

**James T. Holder**
*Secretary*

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## GENERAL INFORMATION

**SYKES ENTERPRISES, INCORPORATED**

**400 North Ashley Drive**

**Tampa, Florida 33602**

## PROXY STATEMENT

**2018 ANNUAL MEETING OF SHAREHOLDERS**

**Tuesday, May 22, 2018**

**GENERAL INFORMATION**

This proxy statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Sykes Enterprises, Incorporated (the Company ) for the Annual Meeting of Shareholders (the Annual Meeting ) to be held at the Florida Museum of Photographic Arts, The Cube at Rivergate Plaza, 400 North Ashley Drive, Cube 200, Tampa, Florida, 33602, on Tuesday, May 22, 2018, at

8:00 a.m., Eastern Daylight Saving Time, and any adjournment or postponement of the Annual Meeting. This proxy statement and the annual report to shareholders of the Company for the year ended December 31, 2017 are first being mailed on or about April 20, 2018 to shareholders entitled to vote at the Annual Meeting.

### Shareholders Entitled To Vote

The record date for the Annual Meeting is March 19, 2018. Only shareholders of record as of the close of business on the record date are entitled to notice of the Annual Meeting and to vote at the Annual Meeting. As of the record date, 42,496,818 shares of common stock were outstanding and entitled to vote at the Annual Meeting.

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspector of elections appointed for the Annual Meeting, who will also determine whether a quorum is present for the transaction of business. The Company s Bylaws provide that a quorum is present if the holders of a majority of the issued and outstanding shares of common stock entitled to vote at the meeting are present in person or represented by proxy. Abstentions will be counted as shares that are present and entitled to vote for purposes of determining whether a quorum is present. Shares held by nominees for beneficial owners will also be counted for purposes of determining whether a quorum is present if the nominee has the discretion to vote on at least one of the matters presented, even though the nominee may not

exercise discretionary voting power with respect to other matters and even though voting instructions have not been received from the beneficial owner (a broker non-vote ). At the Annual Meeting, if a quorum exists, directors will be elected by a majority vote, as more fully described under Proposal 1 Election of Directors below. Approval of the other proposals will require the affirmative vote of a majority of the votes cast on the proposal at the Annual Meeting. Broker non-votes will not be counted as votes cast in determining whether a Proposal has been approved.

Shareholders are requested to vote by completing the enclosed Proxy and returning it signed and dated in the

enclosed postage-paid envelope. Shareholders are urged to indicate their votes in the spaces provided on the Proxy. Proxies solicited by the Board of Directors of the Company will be voted in accordance with the directions given in the Proxy. Where no instructions are indicated, signed Proxies will be voted FOR each of the proposals listed in the Notice of Annual Meeting of Shareholders. Returning your completed Proxy will not prevent you from voting in person at the Annual Meeting, should you be present and wish to do so.

Any shareholder giving a Proxy has the power to revoke it at any time before it is exercised by:

filing with the Secretary of the Company written notice of revocation,

submitting a duly executed Proxy bearing a later date than the previous Proxy, or

appearing at the Annual Meeting and voting in person.

Proxies solicited by this proxy statement may be exercised only at the Annual Meeting and any adjournment of the Annual Meeting and will not be used for any other meeting.

The cost of solicitation of Proxies by mail on behalf of the Board of Directors will be borne by the Company. Proxies also may be solicited by personal interview or by telephone by directors, officers, and other employees of the Company without additional compensation. The Company also has made arrangements with brokerage firms, banks, nominees, and other fiduciaries that hold shares on behalf of others to forward proxy solicitation materials to the beneficial owners of such shares. The Company will reimburse such record holders for their reasonable out-of-pocket expenses.

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## PROPOSAL 1: ELECTION OF DIRECTORS

Prior to the Annual Meeting, the Company s Board of Directors (the Board ) was comprised of nine individuals. Effective as of April 22, 2018, the Board increased the size of the Board by one to ten individuals and designated such vacant seat as a CLASS II seat. Currently, the Board is divided into three classes (designated CLASS I, CLASS II, and CLASS III ), with three directors in each of CLASS I and CLASS III and four directors in CLASS II. Each class generally serves a three-year term expiring at the third annual meeting of shareholders after its election. However, the Board member to be elected at the Annual Meeting to the recently created CLASS II seat will hold office until the 2019 Annual Meeting of Shareholders.

The term of the three current CLASS III directors will expire at the Annual Meeting. The Company s Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, has nominated Charles E. Sykes, William J. Meurer and Vanessa C.L. Chang to stand for election as CLASS III directors, whose terms will all expire at the 2021 Annual Meeting of Shareholders. Additionally, to fill the recently created additional CLASS II seat, the Board, upon the recommendation of the Nominating and Corporate Governance Committee, has nominated W. Mark Watson.

Provided that a quorum is present at the Annual Meeting, each nominee shall be elected by the affirmative vote of a majority of the votes cast with respect to that nominee s election. A majority of votes cast means that the number of shares voted for a director s election exceeds 50% of the number of votes cast with respect to that director s election. Votes cast shall include (i) votes for the election of such director and (ii) votes against the election of such director, and shall exclude abstentions with respect to that director s election and broker non-votes.

Incumbent directors Sykes, Meurer and Chang have provided to the Company contingent letters of resignation from the Board which shall become effective only if such director fails to receive a sufficient number of votes for re-election at the Annual Meeting and the Board determines to accept the resignation. The Board will consider and act upon the contingent letter of resignation of a director who fails to receive the affirmative vote of a majority of the votes cast on his election within ninety (90) days after the date on which the election results were certified and will promptly make public disclosure of the results of its decision. The Board, in making its decision, may consider any factors or other information that it considers appropriate and relevant. The director who has tendered his resignation shall not participate in the decision of the Board with respect to his resignation. If such incumbent director s resignation is not accepted by the Board, such director shall continue to serve until his successor is duly elected, or his earlier resignation or removal.

In the event any nominee is unable to serve, the persons designated as proxies will cast votes for such other person in their discretion as a substitute nominee. The Board of Directors has no reason to believe that the nominees named herein will be unavailable or, if elected, will decline to serve.

**THE BOARD OF DIRECTORS RECOMMENDS THE FOLLOWING NOMINEES FOR ELECTION AS DIRECTORS IN THE CLASS SPECIFIED AND URGES EACH SHAREHOLDER TO VOTE FOR THE NOMINEES. EXECUTED PROXIES IN THE ACCOMPANYING FORM THAT ARE NOT OTHERWISE MARKED WILL BE VOTED AT THE ANNUAL MEETING FOR THE ELECTION AS DIRECTORS OF THE NOMINEES NAMED BELOW.**

**Directors Standing for Election at the 2018 Annual Meeting**

**CLASS III TERM EXPIRES AT THE 2018 ANNUAL MEETING.**

| Name | Age | Position(s) with the Company | Director Since |
|---|---|---|---|
| Charles E. Sykes | 55 | Director, President & Chief Executive Officer | 2004 |
| William J. Meurer [2][3] | 74 | Director & Chairman of the Audit Committee | 2000 |
| Vanessa C.L. Chang [3][4] | 65 | Director | 2016 |

**CLASS II TERM EXPIRES AT THE 2019 ANNUAL MEETING.**

| Name | Age | Position(s) with the Company | Director Since |
|---|---|---|---|
| W. Mark Watson | 67 | Nominee | N/A |

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## PROPOSAL 1: ELECTION OF DIRECTORS

**Directors Whose Term of Office Continues**

**CLASS II TERM EXPIRES AT THE 2019 ANNUAL MEETING.**

| me | Age | Position(s) with the Company | Direct Sin |
|---|---|---|---|
| ul L. Whiting (1)(2)(4) | 74 | Director & Chairman of the Compensation Committee | 200 |
| General Michael P. DeLong (Ret.) (1)(2) | 72 | Director & Chairman of the Nominating and Corporate Governance Committee | 200 |
| rlos E. Evans (1)(4) | 66 | Director | 201 |

**CLASS I TERM EXPIRES AT THE 2020 ANNUAL MEETING.**

| Name | Age | Position(s) with the Company | Director Since |
|---|---|---|---|
| James S. MacLeod (3) | 70 | Director & Non-Executive Chairman | 2005 |
| William D. Muir, Jr. (1)(4) | 49 | Director & Chairman of the Finance Committee | 2014 |
| Lorraine L. Lutton (2)(3) | 52 | Director | 2014 |

(1) *Member of the Compensation Committee*
(2) *Member of the Nominating and Corporate Governance Committee*
(3) *Member of the Audit Committee*
(4) *Member of the Finance Committee*

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## DIRECTOR QUALIFICATIONS AND BIOGRAPHICAL INFORMATION

Biographical information for each of the director nominees is set forth below, including the key qualifications, experience, attributes, and skills that led our Board to the conclusion that each of the director nominees should serve as a director.

Our Board includes individuals with strong backgrounds in executive leadership and management, accounting and finance, and Company and industry knowledge, and we believe that, as a group, they work effectively together in overseeing our business. We believe that our directors hold themselves to the highest standards of integrity and that they are committed to representing the long-term best interests of our shareholders. While we do not have a formal diversity policy, we believe that our directors diversity of backgrounds and experiences, which include public accounting, military, aerospace, manufacturing, banking, technology, healthcare, telecommunications, finance and retail, results in different ideas and varying viewpoints that contribute to effective oversight of our business.

### *Mr. Sykes*

**Director Since August 2004**

*Charles E. Sykes* was elected to the Board of Directors in August 2004 to fill the vacancy created by the retirement of the Company s founder and former Chairman, John H. Sykes. Mr. Charles Sykes joined the Company in September 1986 and has served in numerous capacities throughout his years with the Company. Mr. Sykes was appointed as Vice President of Sales, North America in 1999 and between the years of 2000 to 2003 served as Group Executive, Senior Vice President of Marketing and Global Alliances, and Senior Vice President of Global Operations. Mr. Sykes was appointed President and Chief Operating Officer in July, 2003 and was named President and Chief Executive Officer in August 2004. Mr. Sykes received his Bachelor of Science degree in mechanical engineering from North Carolina State University in 1985. He currently serves on the boards of the Greater Tampa Chamber of Commerce, the Tampa Bay Partnership, the Tampa Bay Metro Board of the American Heart Association, Feeding America of Tampa Bay, Inc., Junior Achievement of Tampa Bay, and the Board of Visitors for North Carolina State University, and is a member of the Florida Council of 100.

**Qualifications:**

As the Chief Executive Officer of the Company, Mr. Sykes provides the Board with information gained from hands-on management of Company operations, identifying near-term and long-term goals, challenges and opportunities. As the son of the Company s founder and having worked for the Company for his full career, he brings a continuity of mission and values on which the Company was established.

### *Mr. Meurer*

**Director Since October 2000**

*William J. Meurer* was elected to the Board of Directors in October 2000 and is Chairman of the Audit Committee and a member of the Nominating and Corporate Governance Committee. Previously, Mr. Meurer was employed for 35 years with Arthur Andersen LLP where he served most recently as the Managing Partner for Arthur Andersen s Central Florida operations. Since retiring from Arthur Andersen in 2000, Mr. Meurer has been a private investor and consultant. Mr. Meurer also serves on the Board of Trustees for Lifelink Foundation, Inc. and as a member of the Board of Directors of the Eagle Family of Funds.

**Qualifications:**

As former managing partner of an international public accounting firm, Mr. Meurer brings to our Board relevant experience with financial accounting, audit and reporting issues, SEC filings and complex corporate transactions.

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## DIRECTOR QUALIFICATIONS AND BIOGRAPHICAL INFORMATION

### *Ms. Chang*

**Director Since March 2016**

*Vanessa C.L. Chang* was elected to the Board of Directors in 2016 and is a member of the Audit and Finance Committees. Ms. Chang has been a director of EL & EL Investments (Vancouver B.C. Canada), a private real estate investment business, from 1999 until 2018. She served as chief executive officer and president of ResolveItNow.com (Los Angeles, CA), an online dispute resolution service from 2000 to 2002, was senior vice president of Secured Capital Corporation (Los Angeles, CA), a real estate investment bank in 1998, and from 1986 until 1997 she was a partner in the accounting firm KPMG Peat Marwick LLP (Los Angeles, CA). Ms. Chang serves as a director of Edison International and its wholly-owned subsidiary, Southern California Edison Company (a regulated electric utility Los Angeles, CA), a director of Transocean Ltd. (an offshore contract driller, Zug Switzerland), and a director or trustee of sixteen funds advised by the Capital Group s subsidiaries in the American Funds and Capital Group Private Client Services families (Los Angeles, CA). She is a graduate of the University of British Columbia and a Certified Public Accountant (inactive).

**Qualifications:**

Ms. Chang brings to the Board experience in accounting and financial reporting and oversight matters. She also brings experience as a director of public, private, and non-profit organizations, as well as knowledge of securities regulation and corporate governance.

### *Mr. Watson*

**Nominee for Director**

*W. Mark Watson* has been nominated for election as a director at the Annual Meeting. Mr. Watson, a certified public accountant, currently is the president of WM Watson, LLC, a consulting services organization. From 1973 to 2013, Mr. Watson held various positions at Deloitte Touche Tohmatsu ( Deloitte ) including Marketplace Leader, Lead Client Service Partner and Lead Audit Partner. Having spent his entire professional career at Deloitte, he worked with many midmarket to Fortune Global 500 companies, developing strengths in operations and strategic thinking implementation. Mr. Watson serves on the Board of Directors of, and as the Chairman of the Audit Committee for, BioDelivery Sciences International, Inc., Momentum Health Holdings, LLC and HedgePath Pharmaceuticals, Inc. Mr. Watson has a Bachelor of Science degree in accounting from Marquette University. He currently serves on the Board of Trustees for the Moffitt Medical Group and the audit and finance committees for Moffitt Cancer Center and has served on various other civic and charitable boards in the past.

**Qualifications:**

As a result of his 40 years of experience with Deloitte, as well as his other professional and civic engagements, Mr. Watson brings to the Board valuable financial analytical skills, a deep understanding of accounting and management issues, strategic thinking and sound judgment.

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## DIRECTOR QUALIFICATIONS AND BIOGRAPHICAL INFORMATION

### *Mr. Whiting*

**Director Since December 2003**

*Paul L. Whiting* was elected to the Board of Directors in December 2003 and served as Non-Executive Chairman from August 2004 until May 2016. He is Chairman of the Compensation Committee and a member of the Finance and the Nominating and Corporate Governance Committees. Since 1997, Mr. Whiting has been President of Seabreeze Holdings, Inc., a privately held investment company. Previously, Mr. Whiting held various positions within Spalding & Evenflo Companies, Inc., including Chairman, Chief Executive Officer and Chief Financial Officer. Presently, Mr. Whiting sits on the boards of The Bank of Tampa and The Tampa Bay Banking Co. Mr. Whiting also serves on the boards of various civic organizations, including, among others, Academy Prep Foundation and Academy Prep Center of St. Petersburg. He was the founder and past President of Academy Prep Center of Tampa, a full scholarship, private college preparatory middle school for low-income children.

**Qualifications:**

Mr. Whiting s public company CEO, CFO and director experience as well as his private investment company business experience provides a unique combination of leadership, financial and business analytical skills, business judgment and investment banking knowledge to the Board.

### *Lt. Gen. DeLong*

**Director Since September 2003**

*Lt. General Michael P. DeLong (USMC Retired)* was elected to the Board of Directors in September 2003 and is Chairman of the Nominating and Corporate Governance Committee and a member the Compensation Committee. From October 2003 to February 2008, Lt. Gen. DeLong served as Vice Chairman of Shaw Arabia Limited, President of Shaw CentCom Services, LLC, and Senior Vice President of the Shaw Group, Inc. From February, 2008 through February 2013, Lt. Gen. DeLong served as Vice President of Boeing International Corporation. On March 1, 2013, Lt. Gen. DeLong was named President and CEO and General Manager of Gulf to Gulf Contractors International and serves as an advocate for several companies in Kuwait and Saudi Arabia in transactions with Boeing. From 1967 until his retirement on November 1, 2003, Lt. Gen. DeLong led a distinguished military career, most recently serving as the Deputy Commander, United States Central Command at MacDill Air Force Base, Tampa, Florida. He holds a Master s Degree in Industrial Management from Central Michigan University and an honorary Doctorate in Strategic Intelligence from the Joint Military Intelligence College and graduated from the Naval Academy as an Aeronautical Engineer.

**Qualifications:**

Lt. Gen. DeLong s military career, together with his international business executive experience, allows him to bring to the Board leadership and skills in strategic analysis and judgment as well as a knowledge of international business and political environments

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## DIRECTOR QUALIFICATIONS AND BIOGRAPHICAL INFORMATION

### *Mr. Evans*

**Director Since May 2016**

*Carlos E. Evans* was elected to the Board of Directors at the annual meeting in May 2016 and is a member of the Compensation and Finance Committees. Mr. Evans retired from Wells Fargo Bank in May 2014, where he served as executive vice president and group head of the eastern division of Wells Fargo commercial banking. Mr. Evans was also responsible for the bank s government and institutional banking group and he served on Wells Fargo s management committee. Mr. Evans joined First Union National Bank in 2000 as the wholesale banking executive for the commercial segment prior to its merger with Wachovia Corporation in 2001. From 2006 until Wachovia s merger with Wells Fargo in 2009, Mr. Evans was the wholesale banking executive and an executive vice president for the Wachovia general banking group, overseeing the commercial, business and community banking segments, the dealer financial services business and the government, tax exempt and not-for-profit healthcare groups. Before joining First Union, Mr. Evans served in a variety of roles at Bank of America and its predecessors including NationsBank, North Carolina National Bank and Bankers Trust of South Carolina, which he joined in 1973. Mr. Evans received his B.A. in economics from Newberry College. He is also a graduate of the Commercial Lending School in Oklahoma and the Colgate Darden Commercial Lending School at the University of Virginia. Mr. Evans is chairman emeritus of the board of the Spoleto Festival USA and chairman of the board of the Medical University of South Carolina Foundation. He is also on the boards of Queens University of Charlotte and three private companies, National Coatings and Supplies Inc., American Welding & Gas Inc. and Johnson Management.

**Qualifications:**

Mr. Evans brings to the Board a vast array of experiences in commercial banking, including financial aspects of governmental, tax exempt and not-for-profit healthcare groups. Mr. Evans decades of experience in various management roles provides a significant level of business acumen and judgment.

### *Mr. MacLeod*

**Director Since May 2005**

*James S. MacLeod* was elected to the Board of Directors in May 2005, and was elected as Non-Executive Chairman in May 2016. He is a member of the Audit Committee. Mr. MacLeod has served in various positions at CoastalStates Bank in Hilton Head Island, South Carolina since February 2004 and is currently its Executive Chairman. Mr. MacLeod serves on the Board of Directors of CoastalStates Bank and has served as Chairman of the Board of CoastalSouth Bancshares, its holding company, since 2011. From June 1982 to February 2004, he held various positions at Mortgage Guaranty Insurance Corp in Milwaukee, Wisconsin, the last 7 years serving as its Executive Vice President. Mr. MacLeod has a Bachelor of Science degree in Economics from the University of Tampa, a Master of Science in Real Estate and Urban Affairs from Georgia State University and a Masters in City Planning from the Georgia Institute of Technology. Mr. MacLeod is also a Trustee of the Allianz Global Investors Funds and serves as

Chairman of their Governance Committee, he serves as a Trustee and Board Vice Chairman of the University of Tampa, and serves as a Director of the Medical University of South Carolina (MUSC) Foundation.

**Qualifications:**

As a result of his extensive financial services background, Mr. MacLeod brings to the Board valuable financial analytical skills and experience, a deep understanding of cash transaction and management issues, as well as business acumen and judgment.

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## DIRECTOR QUALIFICATIONS AND BIOGRAPHICAL INFORMATION

### *Mr. Muir*

**Director Since May 2014**

*William D. Muir, Jr.* was elected to the Board of Directors in 2014 and is Chairman of the Finance Committee and a member of the Compensation Committee. Mr. Muir served as the Chief Operating Officer of Jabil Circuit, Inc. (NYSE: JBL), from 2013 through 2017. From 2009 to 2013, Mr. Muir served as Jabil s Executive Vice President and Chief Executive Officer, Global Manufacturing Services, responsible for $14B of annual revenue with commercial leadership across diversified markets, including Healthcare & Life Sciences, Enterprise & Infrastructure, High Velocity and Industrial & Clean-tech. Additionally, Mr. Muir led the global, integrated capabilities in Operations, Supply Chain and Design which underpin these diversified businesses. Previously, Mr. Muir served as Regional President for Asia, responsible for Jabil s Operations and Business Development efforts across China, India, Vietnam, Malaysia, Singapore and Japan. In this capacity, he resided in Shanghai from 2004 through 2007 and subsequently in Singapore until 2009. Prior to his leadership role in Asia, Mr. Muir led Global Business Development efforts for Jabil across large-scale customer relationships and has also held roles leading Operations across the Americas.

**Qualifications:**

Mr. Muir brings to our Board a diverse background spanning engineering, manufacturing, supply chain, business development, and operations. He has been a leader in information technology, supply chain, security, quality, engineering innovation, and global, strategic accounts. Mr. Muir s decade long global and domestic profit and loss responsibility also brings valuable business financial acumen to the Board.

### *Ms. Lutton*

**Director Since May 2014**

*Lorraine L. Lutton* was elected to the Board of Directors in 2014 and is a member of the Audit and Nominating and Corporate Governance Committees. Since 2016, Ms. Lutton has served as the President and Chief Executive Officer of Roper St. Francis Health Care, an integrated health system with 3 acute care hospitals in Charleston, South Carolina. Prior to joining Roper St. Francis, Ms. Lutton had been employed by the BayCare Health System since 1992 in various capacities, serving most recently as the President of St. Joseph s Hospital, a 529 bed tertiary acute care facility in Tampa Florida. Ms. Lutton received her bachelor s degree in public health, health policy and administration from the University of North Carolina at Chapel Hill, and her master s degree in business administration from the Anderson Graduate School of Management at UCLA. Ms. Lutton is a Fellow of the American College of Healthcare Executives.

**Qualifications:**

Ms. Lutton brings to our Board substantial business experience in the healthcare arena, as well as communication, planning, organizational and management skills.

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# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE

The Company maintains a corporate governance page on its website which includes key information about its corporate governance initiatives, including its Corporate Governance Guidelines, Code of Ethics, and charters for the committees of the Board of Directors. The corporate governance page can be found at www.sykes.com, by clicking on Company, then Investor Relations and then on the links under the heading Corporate Governance.

The Company s policies and practices reflect corporate governance initiatives that are compliant with the listing requirements of the Nasdaq Stock Market and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

- the Board of Directors has adopted clear corporate governance policies;
- a majority of the board members are independent of the Company and its management;
- all members of the key board committees the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Finance Committee are independent;
- the independent members of the Board of Directors meet regularly without the presence of management;
- the Company has adopted a code of ethics that applies to all directors, officers and employees which is monitored by its Nominating and Corporate Governance Committee;
- the charters of the Board committees clearly establish their respective roles and responsibilities; and
- the Company s Audit Committee has established procedures for the receipt, retention and treatment, on a confidential basis, of complaints received by the Company, including the Board and the Audit Committee, regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters. These procedures are described under Communications with our Board below.

### Certain Relationships and Related Person Transactions

**Review and Approval of Related Person Transactions.** In order to ensure that material transactions and relationships involving a potential conflict of interest for any executive officer or director of the Company are in the best interests of the Company, under the Code of Ethics adopted by the Board of Directors for all of our employees and directors, all such conflicts of interest are required to be reported to the Board of Directors, and the approval of the Board of Directors must be obtained in advance for the Company to enter into any such transaction or relationship. Pursuant to the Code of Ethics, no officer or employee of the Company may, on behalf of the Company, authorize or approve any transaction or relationship, or enter into any agreement, in which such officer, director or any member of his or her immediate family, may have a personal interest without such Board approval. Further, no officer or employee of the Company may, on behalf of the Company, authorize or approve any transaction or relationship, or enter into any agreement, if they are aware that an executive officer or a director of the Company, or any member of any such person s family, may have a personal interest in such transaction or relationship, without such Board approval.

The Company s Audit Committee reviews all conflict of interest transactions involving executive officers and directors of the Company, pursuant to its charter.

**In the course of their review of a related party transaction, the Board and the Audit Committee consider:**

- the nature of the related person s interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount and type of transaction;
- the importance of the transaction to the Company;
- the importance of the transaction to the related person;
- whether the transaction would impair the judgment of the director or executive officer to act in the best interests of the Company; and
- any other matters the Board or Audit Committee deems appropriate.

Any member of the Board or the Audit Committee who has a conflict of interest with respect to a transaction under review may not participate in the deliberations or vote respecting approval of the transaction, provided, however, that such director may be counted in determining the presence of a quorum.

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## CORPORATE GOVERNANCE

**Related Party Transactions.** On January 25, 2008, the Company entered into a real estate lease with Kingstree Office I, LLC, an entity controlled by Mr. John Sykes, the founder, former Chairman and former Chief Executive Officer of the Company, relating to the Company s call center in Kingstree, South Carolina. On May 21, 2008, the

Audit Committee of the Board reviewed this transaction and recommended approval to the full Board, which also approved the transaction. During the year ended December 31, 2017, the Company paid $451,575.36 to Kingstree Office I, LLC as rent on the Kingstree facility.

### Leadership Structure

In 2005, our Board of Directors separated the positions of Chairman of the Board and Chief Executive Officer, believing that an independent non-employee Chairman could provide a diversity of view and experience in

consultation with the Chief Executive Officer. The Board continues to believe that the Company is best served by having this bifurcated leadership structure.

### Risk Oversight

The Board has determined that the role of risk oversight will currently remain with the full Board as opposed to having responsibility delegated to a specific committee. Management has created an enterprise risk management

committee which is primarily responsible for identifying and assessing enterprise risks, developing risk responses and evaluating residual risks. The chairperson of this committee reports directly to the full Board.

### Director Independence

In accordance with Nasdaq rules, the Board affirmatively determines the independence of each director and nominee for election as a director in accordance with guidelines it has adopted, which include all elements of independence set forth in the Nasdaq listing standards. Based upon these standards, at its meeting held on March 15, 2018, the Board determined that each of the following non-employee directors was independent and had no relationship with the Company, except as a director and shareholder of the Company:

(1) Paul L. Whiting
(2) Lt. General Michael P. DeLong (Ret.)
(3) William J. Meurer
(4) Carlos E. Evans
(5) James S. MacLeod
(6) Vanessa C.L. Chang
(7) Lorraine L. Lutton
(8) William D. Muir, Jr.

In connection with its decision to nominate Mr. W. Mark Watson to stand for election at the Annual Meeting, the Board has affirmatively determined that he is independent and has no previous or current relationship with the Company.

## Nominations for Directors

The Nominating and Corporate Governance Committee (the Nominating Committee ) is responsible for screening potential director candidates and recommending qualified candidates to the Board for nomination. The Nominating Committee considers all relevant criteria including, age, skill, integrity, experience, education, time availability, stock exchange listing standards, and applicable federal and state laws and regulations. The Nominating Committee has a specific goal of creating and maintaining a board with the heterogeneity, skills, experience and personality that lend to open, honest and vibrant discussion, consideration and analysis of Company issues, and accordingly the Nominating Committee also considers

individual qualities and attributes that will help create the desired heterogeneity.

The Nominating Committee may use various sources for identifying and evaluating nominees for directors including referrals from our current directors, management and shareholders, as well as input from third party executive search firms retained at the Company s expense. If the Nominating Committee retains one or more search firms, such firms may be asked to identify possible nominees, interview and screen such nominees and act as a liaison between the Nominating Committee and each nominee during the screening and evaluation process. The Nominating Committee will review the resume and

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## CORPORATE GOVERNANCE

qualifications of each candidate identified through any of the sources referenced above, and determine whether the candidate would add value to the Board. With respect to candidates that are determined by the Nominating Committee to be potential nominees, one or more members of the Nominating Committee will contact such candidates to determine the candidate s general availability and interest in serving. Once it is determined that a candidate is a good prospect, the candidate will be invited to meet the full Nominating Committee which will conduct a personal interview with the candidate. During the interview, the Nominating Committee will evaluate whether the candidate meets the guidelines and criteria adopted by the Board, as well as exploring any special or unique qualifications, expertise and experience offered by the candidate and how such qualifications, expertise and/or experience may complement that of existing Board members. If the candidate is approved by the Nominating Committee, as a result of the Nominating Committee s determination that the candidate will be able to add value to the Board and the candidate expresses his or her interest in serving on the Board, the Nominating Committee will then review its conclusions with the Board and recommend that the candidate be selected by the Board to stand for election by the shareholders or fill a vacancy or newly created position on the Board.

The three Class III directors whose terms expire at the Annual Meeting have each been recommended to the Board by the Nominating Committee, and nominated by the Board to stand for re-election. Furthermore, Mr. Watson has been recommended to the Board by the Nominating Committee, and nominated by the Board to stand for election as a new director, to fill the Class II Board seat created by the recent expansion of the Board from nine to ten individuals. Mr. Watson was recommended to the Committee for consideration by non-management members of our Board of Directors.

The Nominating Committee will consider qualified nominees recommended by shareholders who may submit recommendations to the Nominating Committee in care of our Corporate Secretary, 400 North Ashley Drive, Suite 2800, Tampa, Florida 33602. Any shareholder nominating an individual for election as a director at an annual meeting must provide written notice to the Secretary of the Company, along with the information specified below, which notice must be received at the principal business

office of the Company no later than the date designated for receipt of shareholders proposals as set forth in the Company s proxy statement for its annual shareholders meeting. If there has been no such prior public disclosure, then to be timely, a shareholder s nomination must be delivered to or mailed and received at the principal business office of the Company not less than 60 days nor more than 90 days prior to the annual meeting of shareholders; provided, however, that in the event that less than 70 days notice of the date of the meeting is given to the shareholders or prior public disclosure of the date of the meeting is made, notice by the shareholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the annual meeting was mailed or such public disclosure was made.

To be considered by the Nominating Committee, shareholder nominations must be accompanied by: (1) the name, age, business and residence address of the nominee; (2) the principal occupation or employment of the nominee for at least the last ten years and a description of the qualifications of the nominee; (3) the number of shares of our stock that are beneficially owned by the nominee; (4) any legal proceedings involving the nominee during the previous ten years and (5) any other information relating to the nominee that is required to be disclosed in solicitations for proxies for election of directors under Regulation 14A of the Exchange Act, together with a written statement from the nominee that he or she is willing to be nominated and desires to serve, if elected. Also, the shareholder making the nomination should include: (1) his or her name and record address, together with the name and address of any other shareholder known to be supporting the nominee; and (2) the number of shares of our stock that are beneficially owned by the

shareholder making the nomination and by any other supporting shareholders. Nominees for director who are recommended by our shareholders will be evaluated in the same manner as any other nominee for director.

We may require that the proposed nominee furnish us with other information as we may reasonably request to assist us in determining the eligibility of the proposed nominee to serve as a director. At any meeting of shareholders, the Chairman of the Board may disregard the purported nomination of any person not made in compliance with these procedures.

## Communications with our Board

Shareholders and other parties interested in communicating with our Board of Directors may do so by writing to the Board of Directors, Sykes Enterprises, Incorporated, 400 North Ashley Drive, Suite 2800, Tampa, Florida 33602. Under the process for such

communications established by the Board of Directors, the Executive Vice President and General Counsel of the Company reviews all such correspondence and regularly forwards to all members of the Board a summary of the correspondence. Directors may at any time review a log of

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all correspondence received by the Company that is addressed to the Board or any member of the Board and request copies of any such correspondence. Correspondence that, in the opinion of the Executive Vice President and General Counsel, relates to concerns or complaints regarding accounting, internal accounting controls and auditing matters is summarized and the summary and a copy of the correspondence is forwarded to the Chairman of the Audit Committee. Additionally, at

the direction of the Audit Committee, the Company has established a worldwide toll free hotline administered by an independent third party through which employees may make anonymous submissions regarding questionable accounting or auditing matters. Reports of any anonymous submissions are sent to the Chairman of the Audit Committee as well as the Executive Vice President and General Counsel of the Company.

## Meetings and Committees of the Board

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of his or her duties and to attend all Board, committee and shareholders meetings. The Board met seven times during 2017, of which four were regularly scheduled meetings and three were unscheduled meetings. The Board also acted

once by unanimous written action in 2017. All directors attended at least 75% of the meetings of the Board and of the committees on which they served during the fiscal year ended December 31, 2017. All of the directors attended the 2017 Annual Meeting of Shareholders on May 24, 2017.

## Committees of the Board

The Board has four standing committees to facilitate and assist the Board in the execution of its responsibilities. The Board may also establish special committees as needed to assist the Board with review and consideration of non-routine matters. The standing committees are the Audit Committee, Finance Committee, Compensation Committee and Nominating and Corporate Governance Committee. All the committees are comprised solely of non-employee, independent directors. Charters

for each committee are available on the Company s website at www.sykes.com by first clicking on Company, then Investor Relations and then on Documents and Charters under the heading Corporate Governance. The charter of each

committee is also available in print to any shareholder who requests it. The table below shows the current membership and membership for the entire year 2017 for each of the standing Board committees.

| Non-employee Directors | Audit Committee | Finance Committee | Nominating and Corporate Governance Committee | Compensation Committee |
|---|---|---|---|---|
| Paul L. Whiting | | | | Chair |
| Lt. General Michael P. DeLong (Ret.) | | | Chair | |
| James S. MacLeod (Chairman of the Board) | | | | |
| William J. Meurer | Chair | | | |
| Carlos E. Evans | | | | |
| Lorraine L. Lutton | | | | |
| William D. Muir, Jr. | | Chair | | |
| Vanessa C.L. Chang | | | | |
| **Employee Director** | | | | |
| Charles E. Sykes | | | | |
| No. of Meetings in 2017 | 9 | 2 | 4 | 6 |

**Audit Committee.** The Audit Committee serves as an independent and objective party to monitor the Company s financial reporting process and internal control system. The Committee s responsibilities, which are discussed in detail in its charter, include, among other things, the appointment, compensation, and oversight of the work of

the Company s independent auditing firm, as well as reviewing the independence, qualifications, and activities of the auditing firm. The Company s independent auditing firm reports directly to the Committee. All proposed transactions between the Company and the Company s officers and directors, or an entity in which a Company

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## CORPORATE GOVERNANCE

officer or director has a material interest, are reviewed by the Committee, and the approval of the Committee is required for such transactions. The Board has determined that Mr. Meurer is an audit committee financial expert within the meaning of the rules of the Securities and Exchange Commission. The Committee is governed by a written charter, which is reviewed on an annual basis.

Additional information about the Audit Committee is included under the heading Audit Committee Disclosure later in this proxy statement.

**Finance Committee.** The principal purpose of the Finance Committee is to assist the Board of Directors in evaluating significant investments and other financial commitments by the Company. The Committee has the authority to review and make recommendations to the Board with respect to debt and equity limits, equity issuances, repurchases of Company stock or debt, policies relating to the use of derivatives, and proposed mergers, acquisitions, divestitures or investments by the Company that require approval by the full Board. The Committee also has authority to approve capital expenditures not previously approved by the Board of Directors. The level of authority applies to capital expenditures in excess of $5 million but less than $10 million. This authority is used, and the Committee convened only, when management recommends a decision prior to the next Board meeting. The Committee is governed by a written charter, which is reviewed on an annual basis.

**Nominating and Corporate Governance Committee.** The purpose of the Nominating and Corporate Governance Committee is to: (a) identify individuals qualified to become

members of the Board of Directors of the Company and its subsidiaries; (b) recommend to the Board of Directors director nominees for election at the annual meeting of shareholders or for election by the Board of Directors to fill open seats between annual meetings; (c) recommend to the Board of Directors committee appointments for directors; (d) develop and recommend to the Board of Directors corporate governance guidelines applicable to the Company; and (e) monitor the Company s compliance with good corporate governance standards. The Committee is governed by a written charter, which is reviewed on an annual basis.

**Compensation Committee.** The Compensation Committee s responsibilities, which are discussed in detail in its charter, include, among other things, the establishment of the base salary, incentive compensation and any other compensation for the Company s President and Chief Executive Officer, and to review and approve the President and Chief Executive Officer s recommendations for the compensation of certain executive officers reporting to him. This Committee also monitors the Company s management incentive cash and equity based bonus compensation arrangements and other executive officer benefits, and evaluates and recommends the compensation policy for the directors to the full Board for consideration. The Committee also determines compensation and benefits of the Company s non-employee directors. This Committee is also responsible for providing oversight and direction regarding the Company s employee health and welfare benefit programs. The Committee is governed by a written charter, which is reviewed on an annual basis.

### Compensation Committee Interlocks and Insider Participation

None.

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## DIRECTOR COMPENSATION

Although the Company does not have a formal, written compensation plan for non-employee directors, the Board of Directors, upon the recommendation of the Compensation Committee, has determined to pay non-employee directors a combination of cash and equity compensation on an annual basis (the Annual Retainer ). The amount of the cash and equity compensation is subject to change each year. The equity compensation payable to non-employee directors is paid under the Company s 2011 Equity Incentive Plan.

Beginning in 2015, the total value of the Annual Retainer was $155,000, payable $55,000 in cash and the remainder paid in stock, the amount of which was determined by dividing $100,000 by the closing price of the Company s common stock on the date of the annual shareholders meeting, rounded to the nearest whole number of shares. At the Board s regularly scheduled meeting on December 6, 2016, upon the recommendation of the Compensation Committee, the Board determined that the amount of the cash compensation payable to

non-employee directors beginning on the date of the 2017 annual shareholders meeting would be increased by $15,000 per year to a total of $70,000. Accordingly, the annual cash and equity compensation for non-employee directors currently is $70,000 and $100,000 per member, respectively.

Currently, all new non-employee directors joining the Board receive an initial grant of shares of common stock on the date the new director is elected or appointed, the number of which is determined by dividing $60,000 by the closing price of the Company s common stock on the trading day immediately preceding the date a new director is elected or appointed, rounded to the nearest whole number of shares. The initial grant of shares vests in 12 equal quarterly installments, one-twelfth on the date of grant and an additional one-twelfth on each successive third monthly anniversary of the date of grant. The award lapses with respect to all unvested shares in the event the non-employee director ceases to be a director of the Company, and any unvested shares are forfeited.

In addition to the Annual Retainer award, the non-employee Chairman of the Board receives an additional annual cash award of $100,000, and each non-employee director serving on a committee of the Board receives an additional annual cash award in the following amounts:

| Position | Amount |
|---|---|
| *Audit Committee* | |
| Chairperson | $ 20,000 |
| Member | $ 10,000 |
| *Compensation Committee* | |
| Chairperson | $ 15,000 |
| Member | $ 7,500 |
| *Finance Committee* | |

| | |
|---|---|
| Chairperson | $ 12,500 |
| Member | $ 7,500 |
| *Nominating and Corporate Governance Committee* | |
| Chairperson | $ 12,500 |
| Member | $ 7,500 |

The annual grant of shares vests in four equal quarterly installments, one-fourth on the day following the annual meeting of shareholders, and an additional one-fourth on each successive third monthly anniversary of the date of grant. The annual grant of cash, including all amounts paid to a non-employee Chairman of the Board and all amounts paid to non-employee directors serving on committees of the Board, vests in four equal quarterly installments, one-fourth on the day following the annual meeting of shareholders, and an additional one-fourth on each successive third monthly anniversary of the date of grant. The award lapses with respect to all unpaid cash and

unvested shares in the event the non-employee director ceases to be a director of the Company, and any unvested shares and unpaid cash are forfeited.

The Board may pay additional cash compensation to any non-employee director for services on behalf of the Board over and above those typically expected of directors, including but not limited to service on a special committee of the Board. Directors who are executive officers of the Company receive no compensation for service as members of either the Board of Directors or any committees of the Board.

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## DIRECTOR COMPENSATION

The following table contains information regarding compensation paid to the non-employee directors during fiscal year ending December 31, 2017, including cash and shares of the Company s common stock.

| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) |
|---|---|---|---|---|---|---|---|
| **Name** | **Fees Earned or Paid in Cash ($)[1]** | **Stock Awards ($)[2]** | **Option Awards ($)** | **Non-Equity Incentive Plan Compensation ($)** | **Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)** | **All Other Compensation ($)** | **Total ($)** |
| Vanessa C.L. Chang | 83,750 | 100,008 | | | | 17,552[3] | 201,310 |
| Lt. General Michael P. DeLong (Ret.) | 86,250 | 100,008 | | | | | 186,258 |
| Carlos E. Evans | 81,250 | 100,008 | | | | 421 | 181,679 |
| Lorraine L. Lutton | 83,750 | 100,008 | | | | | 183,758 |
| James S. MacLeod | 176,250 | 100,008 | | | | 7,612 | 283,870 |
| William J. Meurer | 93,750 | 100,008 | | | | 3,574 | 197,332 |
| William D. Muir, Jr. | 86,250 | 100,008 | | | | 51 | 186,309 |
| Paul L. Whiting | 96,250 | 100,008 | | | | | 196,258 |

(1) *Amounts shown include the cash portion of the Annual Retainers and other amounts paid in cash for services on Board committees paid to each non-employee director in 2017. The amount shown for Mr. MacLeod includes $100,000 he receives for his services as independent Chairman of the Board.*

(2) *The amounts shown in column (c) represent the Annual Retainer amounts paid in shares of the Company s common stock. The amounts are valued based on the aggregate grant date fair value of the awards in accordance with FASB ASC Topic 718 (formerly FAS 123(R)). See Notes 1 and 24 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 1, 2018, for a discussion of the relevant assumptions used in calculating the grant date fair value in accordance with FASB ASC Topic 718.*

(3) *This amount is comprised of business-related travel expenses of $16,914 and seminar fees of $638.*

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## COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (this CD&A ) is intended to assist our shareholders in understanding our compensation philosophy, strategy, program design, policies, and practices, with a focus on our 2017 compensation decisions and results for our Named Executive Officers (NEOs). For 2017, our NEOs were as follows:

| Name | Title |
|---|---|
| Charles E. Sykes | President and Chief Executive Officer ( CEO ) |
| John Chapman | Executive Vice President and Chief Financial Officer |
| Lawrence R. Zingale | Executive Vice President and General Manager |
| James T. Holder | Executive Vice President, General Counsel and Corporate Secretary |
| David L. Pearson | Executive Vice President and Chief Information Officer |
| Andrew J. Blanchard | Former Executive Vice President and General Manager |

### Executive Summary

Sykes is a complex global business serving sophisticated and demanding clients. Our business and financial strategies require careful expense management while providing superior customer service and value. This requires experienced executive leadership with sound business judgment, a passion for service excellence, and the ability to understand and implement the Company s strategic growth plan, including leveraging our proprietary technology and effectively managing our global customer response team.

Our compensation philosophy and strategy has been, and continues to be, focused on the following principles and objectives:

- Provide market competitive total compensation opportunities;
- Emphasize variable incentives (short-term and long-term) over fixed compensation (base salary);
- Establish performance measures and goals that will align pay with performance;
- Encourage long-term stock ownership to create strong alignment between management and our shareholders;

Adopt appropriate governance practices, processes and policies; and

Maintain a simple and straight forward program that is easy to understand and communicate.

**2017 Compensation Actions**

Heading into 2017, the Compensation Committee (the Committee ) was satisfied with the overall existing design of the executive compensation program and believed that

the structure was accomplishing the objectives outlined above. Accordingly, only minimal changes were made for 2017, as summarized below:

Mr. Sykes, Mr. Holder and Mr. Pearson received salary increases to bring them to a level more in line with external market pay data;

No changes to short-term or long-term incentive opportunities; and

No changes to the short-term incentive plan design.

No changes to the long-term incentive plan design, which remained a mix of Performance Shares (50%), Stock Appreciation Rights (SARs) (30%), and Restricted Stock (20%); with Performance Shares tied to 3-year Revenue and Plan Adjusted Operating Income goals (subsequently changed to Adjusted Operating Income for three year plans beginning in and after 2018 as discussed below).

In the second and third quarters of 2017, management determined there were actions that should be taken to rationalize capacity in the U.S. market. The decision to act on these initiatives resulted in the Company taking impairment charges approximating a total of $5 million over those two quarters. These actions, while determined by the Board to be in the best interest of the Company, would have resulted in 2017 Plan Adjusted Operating Income results falling below the threshold levels set by the Committee earlier in the year to qualify for the earning of any short-term incentive compensation by management. Although the Committee believes that mid-year adjustments to the calculation of eligibility and/or amount of any short-term incentive compensation should occur only in extraordinary circumstances, the Committee does believe that in such circumstances, adjustments may need

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## COMPENSATION DISCUSSION AND ANALYSIS

to be made to ensure that rewards are aligned with the right business decisions and are not influenced by potential short-term gain or impact on bonuses. Accordingly, in October 2017, the Committee re-evaluated those goals to determine if any changes to the calculation of short-term incentive compensation financial targets would be appropriate in light of the unanticipated actions to be taken by the Company. The Committee determined that it would not alter the 2017 short-term financial targets themselves, but would move from using Plan Adjusted Operating Income to Adjusted Operating Income as the method for determining if the financial targets are met. A comparison of the components of Plan Adjusted Operating Income and Adjusted Operating Income and a full discussion of the reasoning for the change is set forth under the heading Performance-Based Annual Cash Incentive Compensation below.

**2017 Company Performance Results**

The Company achieved solid performance results in 2017, as evidenced by the following performance highlights on key measures used in our short-term and long-term incentive plans:

- Revenue increased 8.9% year over year, on a constant currency basis[1], which is a component of our long-term incentive plans;
- Plan Adjusted Operating Income was $112.4 million, which is a component of our long-term incentive plans beginning before 2018;
- Adjusted Operating Income was $117.8 million, which is a component of our short-term incentive plan for 2017;
- Major Market Client Revenue goals were achieved at 86.9% of target;
- EMEA Adjusted Operating Income goals were achieved at 104.4% of target;
- Financial and Health Care Products ( FHP ) Revenue goals were achieved at 101.6% of target;
- 3 Year Cumulative Revenue for 2015 2017 was $4.332 billion, which was 106.15% of target; and
- 3 Year Cumulative Plan Adjusted Operating Income for 2015 2017 was $340.2 million, which was 108.32% of target.

**2017 Executive Compensation Results**

These strong financial results yielded the following strong executive compensation results for 2017:

Short-term incentives for 2017 were earned at 71% of target for each NEO, except for Mr. Zingale who earned 64.1% of target; and

Performance shares for the 2015 2017 period were earned at 87.98% of target

The Committee believes that these pay results are aligned with the Company s performance results, and are indicative of the intended linkage between pay and performance. Additionally, the SARs and Restricted Stock awards, in conjunction with our executive stock ownership guidelines, create further alignment between executive compensation and long-term shareholder value creation.

**2018 Executive Compensation Actions**

In considering changes for 2018, the Compensation Committee focused on the following observations:

Strong shareholder support for the existing executive compensation structure, as expressed by the 2017 Say on Pay vote results where approximately 97.9% of the votes cast at our 2017 Annual Meeting were voted FOR our program;

Strong pay and performance alignment achieved with respect to 2017 and the 3-year period covering 2015 2017;

Strong executive support of the existing executive compensation structure and plan designs; and

Strong alignment with market practices and trends, based on information and analysis provided to the Committee by its independent consultant.

Accordingly, no changes were made to the executive compensation program for 2018, other than the move to using Adjusted Operating Income instead of Plan Adjusted Operating Income as the financial measure for both short and long term incentive compensation beginning for plans in or after 2018.

[1] *See the Company s Current Report on Form 8-K/A filed with the SEC on February 28, 2018, for a reconciliation of the Non-GAAP (generally accepted accounting principles) financial measures to their most directly comparable GAAP financial measures.*

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# COMPENSATION DISCUSSION AND ANALYSIS

## Compensation Philosophy and Objectives

The Committee believes that the most effective executive compensation program is one that is designed to enhance shareholder value by attracting and retaining the talent and experience best suited to manage, guide and build our business. This requires fair and competitive base salaries and benefits designed to attract qualified executives, as well as carefully designed incentive compensation programs to link the interests of the executives to the long-term interests of our shareholders.

In evaluating and determining the complete compensation packages for the Company s executive officers generally, and the NEOs specifically, the Committee reviews relevant market data provided by its outside independent compensation consultant, which includes an evaluation of the executive compensation packages paid to similarly situated executives of similarly situated companies. Although the market pay data is only one of many factors considered when making executive compensation determinations, the Committee generally seeks to position pay opportunities within a range of 80% to 120% of the 50$^{th}$ percentile pay level of similarly situated executives.

However, variations from this objective may occur as dictated by the experience level of the individual executive.

A significant percentage of the target total compensation to our NEOs and other executive officers consists of performance-based incentives which align the interests of our executives with those of our shareholders. Although there is no pre-established policy for the allocation between either cash and non-cash or short-term and long-term performance-based incentive compensation, in 2017 the Committee continued the basic structure utilized in recent years, which determined performance-based incentives as a percentage of base salary, which percentage was validated against current market pay data. A significant percentage of the target total direct compensation to our executive officers is in the form of non-cash, long-term equity incentive awards. A chart showing the relative percentages between base salary and target short-term and long-term incentive compensation of the NEOs for 2017 is included below in the section of this CD&A entitled Elements of Compensation.

## Roles and Responsibilities in Determining Executive Compensation

**The Role of the Compensation Committee**. The Committee has been charged with the responsibility for establishing, implementing and continually monitoring adherence with the Company s compensation philosophy. The Committee s goal is to ensure that the form and amount of compensation and benefits paid to our executive team, specifically including the NEOs, is fair, reasonable and sufficiently competitive to attract and retain high quality executives who can lead the Company to achieve the goals that the Board believes will maximize shareholder value.

For executives other than the CEO, executive compensation matters are first considered by the Committee, which then makes recommendations to the Board. As it relates to the compensation of the Company s CEO, the Committee meets first with the CEO to obtain information regarding performance, objectives and expectations, discusses the matter with the Board and then makes a final compensation determination. The CEO is not present during voting or any deliberations regarding his compensation.

**The Role of the Chief Executive Officer**. The Committee meets periodically with the CEO to discuss and review executive compensation. The CEO provides the Committee with the appropriate business context for executive compensation decisions as well as specific recommendations for each of the executives, including the NEOs. Additionally, the Chairman of the Committee meets periodically with the CEO to discuss the Committee s views

on the CEO s compensation and proposals for adjustments to be considered by the Committee.

**The Role of Senior Management**. The Committee periodically meets with representatives of our Human Resources, Finance, and Legal departments. These individuals provide the Committee with requested data, information, and advice regarding our executive compensation program, specifically with regard to incentive plan designs, performance measures and goals, and disclosure. These representatives are not involved in conversations regarding their own compensation.

**The Role of Outside Independent Consultants**. In accordance with the Committee s charter, the Committee has the authority to retain any outside counsel, consultants or other advisors to the extent deemed necessary and appropriate, including the sole authority to approve the terms of engagement and fees related to services provided. Since 2010, the Committee has utilized Pearl Meyer ( Pearl Meyer ) as its independent executive compensation consultant.

During 2017, at the Committee s request, Pearl Meyer provided the following services:

Attended all regularly scheduled Committee meetings. When appropriate, the Committee has discussions with its consultant without management present to ensure candor and impartiality;

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## COMPENSATION DISCUSSION AND ANALYSIS

Provided research, market data, survey information and design expertise to assist the Company in evaluating executive and director compensation programs;

Advised the Committee on all principal aspects of executive and director compensation, including the competitiveness of program design and award values; and

Provided specific analyses with respect to the compensation of the Company s executive officers.

Pearl Meyer is directly engaged by, and its activities are dictated by, the Committee. Pearl Meyer and its affiliates provide services only to the Committee and are prohibited from providing services or products of any kind to the Company.

In 2017, the Committee assessed the independence of Pearl Meyer and considered whether its work raised any conflicts of interest, taking into consideration the independence factors set forth in the Nasdaq listing rules. Based on that assessment, the Committee determined that Pearl Meyer was independent and that its work did not raise any conflicts of interest.

**The Role of Peer Group Data**. In making its compensation decisions for 2017, the Committee compared the Company s pay and performance levels against a peer group of twelve publicly traded companies which the Committee believes compete with the Company in the customer contact management industry for executive talent (the Compensation Peer Group ). Pearl Meyer and the Committee annually review the composition of the Compensation Peer Group to determine whether there are new companies which should be added, or existing companies which should be deleted. For its analysis in 2017, the Committee made no changes to the 2016 Compensation Peer Group.

The companies included in the Compensation Peer Group and used as the basis for comparison and analysis by the Committee with respect to 2017 compensation decisions were:

Genpact Limited
Kforce Inc.
Convergys Corporation
FTI Consulting, Inc.
West Corporation
TeleTech Holdings, Inc.
Acxiom Corporation
Syntel, Inc.
ExlService Holdings, Inc.
On Assignment
Maximus, Inc.
CSG Systems International Inc.

In addition to proxy-reported data from the above peer group companies, Pearl Meyer gathers survey-reported pay data from various reputable compensation surveys containing relevant pay data for comparable roles in comparable organizations. Neither Pearl Meyer nor the Committee are aware of the specific companies reporting pay data within

the various surveys used, but the data is selected based on industry and revenue size comparability to the Company.

As in prior years, the competitive market analysis and data are one of many factors considered by the Committee and the Board in making its final pay determinations. Other important factors include the current and expected performance of the Company, the current and expected performance of the executive and ensuring that our executive compensation program is internally consistent and equitable.

## Executive Compensation Analysis

As in prior years, the Committee requested, reviewed, and discussed an independent analysis of the Company s executive compensation program provided by Pearl Meyer. The analysis included a review of compensation competitiveness, pay and performance alignment, our Long-Term Incentive Plan ( LTIP ) design, and an overall risk assessment of the executive compensation program. The following were the significant findings from this analysis:

- Base salaries were generally positioned slightly below the 50th percentile;
- Target total cash compensation (salary plus target short-term incentive opportunity) was slightly below the 50th percentile;
- Long-term incentive grant values were positioned between the 50th and 75th percentiles and the aggregate equity grant rate (as a percent of shares outstanding) was at the 50th percentile;
- Total direct compensation (target total cash compensation plus long-term incentive grant value) was positioned slightly below the 50th percentile;
- Company performance (across a variety of financial and operating metrics) on a 1-year and 3-year basis was generally positioned at the 50th percentile; and

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The overall program strikes a balance between risks and rewards, and is not believed to encourage executives to take undue risks that could materially harm the Company.

The above analysis reflects our executive team in the aggregate. As expected, there is variation by executive (with regard to pay competitiveness) and by performance measure (with regard to relative performance). This analysis was completed in August 2016 and was one of many inputs into the Committee s decisions with regard to our 2017 executive compensation program.

*Results of Our Shareholder Advisory Votes to Approve Compensation of Our NEOs*. At our 2017 and 2016 Annual Meetings of Shareholders, our shareholders had the opportunity to cast advisory votes to approve the compensation of our named executive officers as disclosed in our 2017 and 2016 proxy statements. Approximately 97.9% of the votes cast on this proposal in 2017, and 98.6% of the votes cased on this proposal in

2016, voted to approve, on an advisory basis, the compensation of our named executive officers in 2017 and 2016, respectively. The Committee believes that the results of these votes indicate that our shareholders generally support our executive compensation program. The Committee considered that support when making executive compensation decisions for fiscal 2017. As a result, the Committee recommended that the executive compensation structure for 2017 remain substantially the same, utilizing a combination of base salary, short-term incentive and long-term incentive compensation, with total compensation being weighted heavily toward equity-based compensation. The long-term equity incentive compensation program designs for performance cycles beginning in 2015, 2016 and 2017 are shown below in the tables under the heading Performance-Based, Long-Term Equity Incentive Compensation in this CD&A. The Committee will continue to monitor and consider the outcome of shareholder advisory votes when making future decisions regarding our executive compensation program.

## Elements of Compensation

The compensation program for our executives includes several direct compensation components. Those components are base salary, annual cash incentive awards and equity-based incentive awards, which are granted in

the form of time-based restricted stock (or restricted stock units), performance based restricted stock (or restricted stock units), and time-based SARs.

The relative percentages between base salary, annual cash incentive targets and long-term, equity-based incentive targets as compared to total target compensation for the NEOs for 2017 were as follows:

| Name | Total Direct Compensation | Base Salary | Annual Cash Incentive | Long-Term Equity Incentive |
|---|---|---|---|---|
| Charles E. Sykes | 100% | 16% | 18% | 66% |
| John Chapman | 100% | 27% | 19% | 54% |
| Lawrence R. Zingale | 100% | 27% | 19% | 54% |
| James T. Holder | 100% | 40% | 20% | 40% |
| David L. Pearson | 100% | 40% | 20% | 40% |
| Andrew J. Blanchard | 100% | 27% | 19% | 54% |

Our executives are also permitted to participate in our 401(k) plan which is available to all employees, as well as our non-qualified executive deferred compensation plan. The purpose of the deferred compensation plan is to provide our executives with the ability to take advantage of tax deferred savings which may not be fully available to them under our 401(k) plan.

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## COMPENSATION DISCUSSION AND ANALYSIS

The key elements of our 2017 executive compensation program were as follows:

| Type of Compensation | Element of Compensation | Description | Rationale |
|---|---|---|---|
| Short-Term Incentive Awards | Base Salary | Fixed amount of annual cash compensation | Attracts and retains talented, experienced executives |
| | Annual Performance-Based Cash Incentive Award | Variable cash amount based on achievement of Company (and sometimes individual) performance goals<br><br>Award value generally based on a percentage of the executive s base salary and achievement of Adjusted Operating Income performance targets<br><br>Threshold performance (80% of target performance measures) paid out at 50% of target, maximum performance (120% of target performance measures) paid out at 150% of target | Motivates executives to achieve and exceed annual goals<br><br>Attracts talent by offering a compensation opportunity that awards performance<br><br>Maximizes short-term profitability and drives shareholder value |
| | Stock Appreciation Rights | Entitles recipient to receive, at the time of exercise, shares with a market value equal to the difference between the exercise price of the SARs (the closing price of the underlying shares on the grant date) and the market price of the underlying shares on the date of exercise<br><br>Vest ratably over a three-year period | Value tied to the appreciation of the value of our Common Stock<br><br>Balances short-term and long-term decision making |

| | | | |
|---|---|---|---|
| Long-Term Incentive Awards | Time-Based Restricted Stock (or Stock Unit) Awards | Share-based element of incentive compensation.<br>Vest ratably over a three-year period | Time-based vesting blends a short-term award with long-term incentive<br>Rewards longevity |
| | Performance-Based Restricted Stock (or Stock Unit) Awards | Variable amount of shares paid out to the executive at the end of a three-year performance period<br>Award value based on a percentage of the executive s base salary in the year of grant and achievement of revenue and Plan Adjusted Operating Income performance targets<br>1/3 of the amount of shares paid out are tied to gross revenue, 2/3 of the shares paid out are tied to Plan Adjusted Operating Income<br>Threshold performance (95% of target performance measures) paid out at 50% of the target pay out, maximum performance (110% of target performance measures) paid out at 200% of target payout | Rewards achievement of long-term performance goals<br>Balances short-term and long-term decision making<br>Maximizes long-term profitability and drives shareholder value |

**Base Salary**

Base salary is designed to provide each of our NEOs with a fixed amount of annual compensation that is competitive with the marketplace. Base salaries for the NEOs are determined for each executive based on his or her position and responsibility, and are further informed by using market data provided to the Committee by Pearl Meyer. During its review of base salaries for executives, the Committee primarily considers:

- the market data provided by Pearl Meyer;
- internal review of the executive s compensation, both individually and relative to other officers; and
- individual performance of the executive.

Salary levels are typically considered annually as part of the Company s performance review process as well as upon a promotion or other change in job responsibility. Merit-based increases to the base salaries of our executive leadership team, other than the President and CEO, are based on the Committee s assessment of the individual s

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performance, with input from the President and CEO. Merit increases for the President and CEO are determined by the Committee based upon the Committee s assessment of performance, with input from the Board, and after consultation with Pearl Meyer. The Committee determined that the CEO s base salary would be increased in 2017, and the Committee recommended to the full Board, which approved base salary increases for the remaining NEOs, all as set forth in the table below:

| Named Executive Officer | Effective Date 2017 | Base Salary Before Increase | Base Salary After Increase | Percentage Increase |
|---|---|---|---|---|
| Charles E. Sykes | 01/01 | $ 722,400 | $ 740,500 | 2.5% |
| James T. Holder | 05/26 | $ 361,259 | $ 370,290 | 2.5% |
| David L. Pearson | 05/26 | $ 331,257 | $ 339,538 | 2.5% |

**Performance-Based Annual Cash Incentive Compensation**

The annual cash incentive component of the total direct compensation paid to our executive leadership team is designed to:

Reward achievement of pre-determined annual corporate (and sometimes individual) performance goals;

Reward current performance by basing payment on the achievement of quantifiable performance measures that reflect contributions to the success of our business; and

Encourage actions by the executives that contribute directly to our operating and financial results.

In fiscal year 2017, the annual cash incentive opportunity for the President and CEO and all other executive officers was determined based solely upon the achievement of pre-determined corporate financial goals.

At the beginning of the year, the Committee set minimum, target and maximum levels for the portion of the cash incentive component of total direct compensation that is determined by reference to corporate financial performance. Threshold performance represents the minimum performance that still warrants incentive recognition for that particular goal, and maximum performance represents the highest level likely to be attained. The Committee s policy is that no annual performance-based cash incentive compensation determined by reference to corporate financial performance is paid to any executive of the Company if our financial results do not exceed the threshold determined for that year.

At the beginning of each year, the Committee also sets the award percentage tied to salary for the President and CEO and recommends an award percentage for each of the

other members of the executive leadership team that they will receive if the performance goals are met. The Committee s goal in setting the target award levels is to create a compensation program such that the potential incentive awards, when combined with each officer s base salary, will provide a fully competitive total cash compensation opportunity, with the portion of compensation at risk (i.e., the target award level) being reflective of the level of that officer s accountability for contributing to the Company s bottom line financial results, and the degree of influence that officer has over results. In setting these percentages, the Committee considers these factors as well as data from the market assessment provided by Pearl Meyer.

For 2017, the Committee met with management and reviewed the Company s operating plan for 2017 to establish the target financial goals of the Company on which the annual performance-based cash incentive compensation awards would be based. Except for Messrs. Zingale and Blanchard, the performance measure selected for the 2017 short-term incentive plan was Plan Adjusted Operating Income, which was the measure utilized in prior years. In the second and third quarters of 2017, management determined that there were unusual actions that should be taken to rationalize capacity in the U.S. market. The decision to act on these initiatives resulted in the Company taking impairment charges approximating a total of $5 million over those two quarters. These actions, while determined by the Board to be in the best interest of the Company, would have resulted in 2017 Plan Adjusted Operating Income falling below the threshold levels, set by the Committee earlier in the year to qualify for the earning by management of any short-term incentive compensation. Although the Committee believes that mid-year adjustments to the calculation of eligibility and/or amount of any short-term incentive compensation should occur only in extraordinary circumstances, the Committee does believe that in such circumstances, adjustments may need to be made to ensure that rewards are aligned with the right business decisions and are not influenced by potential short-term gain or impact on bonuses. Accordingly, in October 2017, the Committee re-evaluated the previously established short term incentive compensation goals in light of the business changes approved by the Board during the second and third quarters of 2017. The Committee, with the assistance of Pearl Meyer, determined that it would not alter the 2017 short-term financial targets themselves, but would adjust the items included and excluded from the calculation of those targets to align the short-term incentive compensation calculation to the Company s non-GAAP reporting of financial results. The Committee recommended to the Board, and the Board agreed to use Adjusted Operating Income instead of Plan Adjusted Operating Income as the method for determining if the 2017 short-term financial targets are met.

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## COMPENSATION DISCUSSION AND ANALYSIS

Adjusted Operating Income is the Non-GAAP measure utilized by the Company in reporting operational results, which is then tracked to the financial results on a GAAP basis. The Committee determined that an alignment of the calculation of short-term incentive compensation with the public reporting of operational results provides greater shareholder transparency into the determination of management incentive compensation, and also better aligns such incentive compensation with business

decisions that are in the best interest of the Company. The change also brought achievement of the short-term incentive threshold financial targets within reach for management in 2017, encouraging the implementation of the capacity rationalization goals of the Company. A comparison of Plan Adjusted Operating Income and Adjusted Operating Income is set forth in the chart below.

| **Plan Adjusted Operating Income = GAAP Operating Income less :** | **Adjusted Operating Income = GAAP Operating Income Adjusted for :** |
|---|---|
| depreciation and amortization related to write ups in connection with acquisitions; | depreciation and amortization related to write ups in connection with acquisitions; |
| costs to obtain synergies in connection with acquisitions; | costs to obtain synergies in connection with acquisitions; |
| transaction costs associated with entity acquisitions and dispositions; | transaction and integration costs associated with an acquisition; and |
| restructuring and impairment charges related to the acquisitions and dispositions referenced in above; and | restructuring costs, costs associated with exit or disposal activities, net gain or loss on sale of facilities, impairment charges and the release of cumulative translation adjustment (CTA) due to liquidation of a legal entity. |
| any effects (positive or negative) from foreign currency exchange rate fluctuations. | |

After consideration of the two options set forth above, the Committee believes that Adjusted Operating Income, as defined, is generally an effective and appropriate measure of the Company s operating performance on an annual basis to use in its evaluation of executive incentive compensation, especially as it completely aligns the calculation of incentive compensation to the reporting of financial results. The short-term incentive performance target for 2017, after the change, was Adjusted Operating Income of $133.3 million. The Company s actual Adjusted Operating Income for 2017 was $117.8 million. This performance result yielded a short- term incentive payout equal to 71% of the targeted payout for each participant.

Based on discussions with management and Pearl Meyer, the Committee determined that the unique responsibilities of Mr. Zingale over EMEA operations, US brick and mortar call center service delivery ( US B&M ) and communications, technology and international ( CTI ) major market client accounts, warranted that components of his short-term incentive compensation be based upon pre-determined EMEA and US Adjusted Operating Income goals as well as major market client accounts revenue. Accordingly, the Committee recommended, and the Board approved short-term cash incentive goals for Mr. Zingale of which 40% were based upon Plan Adjusted Operating Income targets, 20% of which were based upon EMEA Adjusted Operating Income targets, 20% which were

based upon US B&M Adjusted Operating Income and 20% of which were based upon CTI major market client revenue targets. The 40% of Mr. Zingale s short-term incentive compensation based upon Plan Adjusted Operating Income targets was earned at 88.4% of the goal resulting in a payout of 71.0% of target (as was the case for all the other NEOs). The 20% of Mr. Zingale s short-term incentive compensation based upon EMEA Adjusted Operating Income was earned at 104.4% of the goal resulting in a payout of 111.0% of target. The 20% of Mr. Zingale s short-term incentive compensation based upon US B&M Adjusted Operating Income was earned at 44.4% of the goal resulting in no payout. Finally, the 20% of Mr. Zingale s short-term incentive compensation based upon CTI major market client revenue goals was earned at 86.9% of the goal resulting in a payout of 67.25% of target.

Similarly, based on discussions with management and Pearl Meyer, the Committee determined that the unique responsibilities of Mr. Blanchard for the financial, healthcare and products verticals (FHP), warranted that components of his short-term incentive compensation be based upon pre-determined FHP revenue and U.S. Adjusted Operating Income goals. Accordingly, the Committee recommended, and the Board approved short-term cash incentive goals for Mr. Blanchard of which 40% were based upon Plan Adjusted Operating Income targets, 40% of which were based upon FHP US service delivery

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Adjusted Operating Income goals and 20% FHP revenue targets. These three financial targets were achieved at 88.4%, 67.1% and 101.6% respectively, but since Mr.

Blanchard was not employed by the Company at year end, no amounts were paid to him related to goal achievement.

The Company s 2017 annual incentive plan compensation is summarized in the table below:

| Named Executive Officer | Salary | Threshold Award Percentage(1) | Target Award Percentage(1) | Maximum Award Percentage(1) | Target Annual Incentive Award | 2017 Annual Cash Incentive Award | 2017 Award Percentage(1) |
|---|---|---|---|---|---|---|---|
| Charles E. Sykes | $ 732,845 | 55% | 110% | 165% | $806,129 | $572,352 | 78% |
| John Chapman | $ 426,005 | 35% | 70% | 105% | $298,203 | $211,724 | 50% |
| Lawrence R. Zingale | $ 464,006 | 35% | 70% | 105% | $324,804 | $208,037 | 45% |
| James T. Holder | $ 366,462 | 25% | 50% | 75% | $ 183,231 | $130,094 | 35% |
| David L. Pearson | $ 336,037 | 25% | 50% | 75% | $ 168,018 | $119,293 | 35% |
| Andrew J. Blanchard | $ 292,707(2) | 35% | 70% | 105% | $288,328 | (2) | N/A(2) |

(1) *As a percentage of the respective NEO s salary.*

(2) *Mr. Blanchard resigned from the Company on August 8, 2017. His salary in 2017 through the date of his departure was $292,707. Mr. Blanchard was not eligible for a cash incentive bonus as he was not employed at year end. Mr. Blanchard received $422,194 in separation pay, $30,011 in COBRA reimbursement, $15,675 in relocation expense allowance and $438,729 as additional separation pay tied to potential bonuses which were contractually committed. The two separation pay amounts are payable in 26 bi-weekly installments following his departure.*

**Discretionary Bonuses**

The Committee believes that discretionary bonuses should be a rare occurrence because such bonuses do not support our philosophy of aligning the long-term interests of our executive officers with those of our shareholders. Consistent with its usual practices, the Committee did not award any discretionary bonuses to any of the NEOs for 2017 performance.

**Performance-Based, Long-Term Equity Incentive Compensation**

The performance-based, long-term equity incentive compensation component of total direct compensation for our executive officers is designed to encourage them to focus on long-term Company performance and provides an

opportunity for executive officers and certain designated key employees to increase their ownership stake in the Company. The Committee utilizes a combination of time-based restricted stock (or restricted stock units for executives and key employees in foreign countries who would incur unfavorable tax consequences due to local tax laws if they were to receive restricted stock), performance-based restricted stock (or restricted stock units) and time-based SARs. The Committee believes these components of performance-based, long-term equity incentive compensation directly align the interests of its shareholders by requiring achievement of both long-term operating results that are the drivers of long-term value

creation and actual increases in the Company s stock price. For 2017, the grant mix for the NEOs was as follows:

The performance-based restricted stock award is earned based on cumulative performance over a 3-year performance period. The time-based restricted stock award and SARs vest ratably over a 3-year period (i.e., 1/3 of the award vests at the end of the first year of the period, 1/3 vests at the end of the second year of the period and 1/3 vests at the end of the third year of the period).

The Committee s goal in setting target long-term equity incentive award levels is to create a complete compensation program, such that the potential annual cash and long-term equity incentive awards, when combined with each officer s base salary, will provide a fully competitive total compensation opportunity, with a significant portion of at risk compensation. In setting award percentages (which are tied to salary), the Committee considers the level of each executive officer s accountability for contributing to bottom line financial results, and the degree of influence that the executive officer has over results, as well as data from the market assessment provided by Pearl Meyer.

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## COMPENSATION DISCUSSION AND ANALYSIS

With respect to the performance-based restricted stock, the Committee meets with management each year to review the proposed operating plan for the upcoming year, and in conjunction with the Board s approval of its operating plan, together with growth goals for the succeeding two years, sets the financial targets for the next three-year performance cycle. The Committee first utilized this method for determining long-term incentive compensation on a three-year performance cycle for the performance cycle beginning January 1, 2005 and has continued utilizing this method for the three-year performance cycles since, including the performance cycle beginning in 2017. For the three year measurement periods beginning in 2015 and 2016, the Committee used Plan Adjusted Operating Income to determine the level of attainment of the financial goals. In October, 2017, when the Committee re-evaluated the calculation methodology of short-term incentive compensation, the Committee also determined that alignment of the calculation of long-term equity incentive compensation with the Company s Non-GAAP financial reporting methodology was also appropriate. Accordingly, in the third quarter of 2017, the Committee recommended, and the Board approved changing the methodology of calculating the attainment of the 2017 2019 long-term incentive performance cycle

from Plan Adjusted Operating Income to Adjusted Operating Income. The measure used in the three-year performance cycles beginning in 2015 and 2016 were not changed, as the Committee determined that the Company was too far into each of those performance cycles and that, as opposed to short-term incentive compensation, a change was not warranted by the capacity rationalization business developments in 2017.

The performance-based restricted stock awards are paid out at 50% of target payout for attaining 95% of the target performance measure (the threshold performance goal) and at 200% of the target payout for attaining 110% of the target performance measure (the maximum performance goal), with straight-line interpolation between threshold and target and between target and maximum. Below is a discussion of the specific design elements of each performance-based restricted stock grant that was either awarded in or has a payout potential in the years covered by this proxy statement. The amount each NEO received as performance-based long-term equity incentive compensation for each of the three-year measurement periods beginning in 2015, 2016 and 2017 is reported in the Stock Awards column of the Summary Compensation table on page 33 of this proxy statement.

### 2017 - 2019 Performance Cycle

In 2017, the Committee set the 2017 2019 performance cycle LTIP awards as a percentage of the base salary of each NEO as follows:

| Named Executive Officer | Performance Stock Award Percentage Target | Restricted Stock Award Percentage | SAR Award Percentage |
|---|---|---|---|
| Charles E. Sykes | 200% | 80% | 120% |
| John Chapman | 100% | 40% | 60% |

| | | | |
|---|---|---|---|
| Lawrence R. Zingale | 100% | 40% | 60% |
| James T. Holder | 50% | 20% | 30% |
| David L. Pearson | 50% | 20% | 30% |
| Andrew J. Blanchard | 100% | 40% | 60% |

The SARs were granted in fiscal 2017, and will have value based on the value of the shares of the Company s common stock over the three-year vesting period for the SARs.

The three-year, cumulative performance measures that will be used by the Committee for calculating award values for performance stock awards granted for the 2017 2019 performance period are:

| Performance Measure | Weighting | Threshold Performance | Target Performance | Maximum Performance |
|---|---|---|---|---|
| Plan Adjusted Operating Income | 2/3 | $ 399,300,000 | $ 420,300,000 | $ 462,300,000 |
| Revenue | 1/3 | $ 4,706,600,000 | $ 4,954,300,000 | $ 5,449,700,000 |

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The 2017 2019 performance cycle LTIP target award values for the performance stock awards, and the number of shares underlying SARs are as follows:

| Named Executive Officer | Performance Stock Value at Target | Number of Shares of Performance Stock Awarded at Target | Restricted Stock Value[1] | Number of Shares of Restricted Stock Awarded | Number of Shares Underlying SARs[2] |
|---|---|---|---|---|---|
| Charles E. Sykes | $ 1,444,800 | 52,461 | $ 577,920 | 20,984 | 142,813 |
| John Chapman | $ 426,120 | 15,472 | $ 170,448 | 6,189 | 42,120 |
| Lawrence R. Zingale | $ 464,216 | 16,856 | $ 185,686 | 6,742 | 45,886 |
| James T. Holder | $ 180,630 | 6,558 | $ 72,252 | 2,623 | 17,854 |
| David L. Pearson | $ 165,629 | 6,014 | $ 66,251 | 2,405 | 16,371 |
| Andrew J. Blanchard | $ 411 ,897 | 14,956 | $ 164,759 | 5,982 | 40,714 |

(1) *The value of the restricted stock award is calculated by multiplying the market price of the Company s common stock on the grant date by the number of shares awarded to the NEO. The grant date value of the restricted stock granted to our NEOs is included in the amount set forth under Stock Awards on the Summary Compensation Table later in this proxy statement. The restricted stock award vests ratably over a three-year period, with 1/3 of the award vesting after fiscal 2017, 1/3 of the award vesting after fiscal 2018 and 1/3 of the award vesting after fiscal 2019.*

(2) *The SARs vest ratably over a three-year period, with 1/3 of the award vesting after fiscal 2017, 1/3 of the award vesting after fiscal 2018, and 1/3 of the award vesting after fiscal 2019. Upon exercise, the NEO is entitled to a payout equal to the value of the SARs in shares of the Company s common stock. The SARs were granted on April 21, 2017 with an exercise price of $29.36. The actual grant date value of the SARs granted to our NEOs is set forth under Option Awards on the Summary Compensation Table later in this proxy statement. The actual number of shares underlying the SARs cannot be determined until such time as the SARs vest and are exercised and the spread between the fair value on the date of exercise and the base price is known.*

## 2016 - 2018 Performance Cycle

In 2016, the Committee set the 2016 2018 performance cycle LTIP awards as a percentage of the base salary of each NEO as follows:

| Named Executive Officer | Performance Stock Award Percentage | Restricted Stock Award Percentage | SAR Award Percentage |
|---|---|---|---|

| | Target | | |
|---|---|---|---|
| Charles E. Sykes | 200% | 80% | 120% |
| John Chapman | 75% | 30% | 45% |
| Lawrence R. Zingale | 100% | 40% | 60% |
| James T. Holder | 50% | 20% | 30% |
| David L. Pearson | 50% | 20% | 30% |
| Andrew J. Blanchard | 100% | 40% | 60% |

The SARs were granted in fiscal 2016, and will have value based on the value of the shares of the Company s common stock over the three-year vesting period for the SARs.

The three-year, cumulative performance measures that will be used by the Committee for calculating award values for performance stock awards granted for the 2016 2018 performance period are:

| Performance Measure | Weighting | Threshold Performance | Target Performance | Maximum Performance |
|---|---|---|---|---|
| Plan Adjusted Operating Income | 2/3 | $ 377,200,000 | $ 397,100,000 | $ 436,800,000 |
| Revenue | 1/3 | $ 4,420,200,000 | $ 4,652,800,000 | $ 5,118,100,000 |

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## COMPENSATION DISCUSSION AND ANALYSIS

The 2016 2018 performance cycle LTIP target award values for the performance stock awards, and the number of shares underlying SARs are as follows:

| Named Executive Officer | Performance Stock Value at Target | Number of Shares of Performance Stock Awarded at Target | Restricted Stock Value[1] | Number of Shares of Restricted Stock Awarded | Number of Shares Underlying SARs[2] |
|---|---|---|---|---|---|
| Charles E. Sykes | $ 1,400,000 | 46,174 | $ 560,000 | 18,469 | 109,375 |
| John Chapman | $ 301,500 | 9,944 | $ 120,600 | 3,977 | 23,554 |
| Lawrence R. Zingale | $ 424,360 | 13,996 | $ 169,744 | 5,598 | 33,153 |
| James T. Holder | $ 175,029 | 5,773 | $ 70,011 | 2,309 | 13,674 |
| David L. Pearson | $ 160,514 | 5,294 | $ 64,187 | 2,117 | 12,538 |
| Andrew J. Blanchard | $ 399,125 | 13,164 | $ 159,650 | 5,265 | 31,181 |

(1) *The value of the restricted stock award is calculated by multiplying the market price of the Company s common stock on the grant date by the number of shares awarded to the NEO. The grant date value of the restricted stock granted to our NEOs is included in the amount set forth under Stock Awards on the Summary Compensation Table later in this proxy statement. The restricted stock award vests ratably over a three-year period, with 1/3 of the award vesting after fiscal 2016, 1/3 of the award vesting after fiscal 2017 and 1/3 of the award vesting after fiscal 2018.*

(2) *The SARs vest ratably over a three-year period, with 1/3 of the award vesting after fiscal 2016, 1/3 of the award vesting after fiscal 2017, and 1/3 of the award vesting after fiscal 2018. Upon exercise, the NEO is entitled to a payout equal to the value of the SARs in shares of the Company s common stock. The SARs were granted on April 04, 2016 with an exercise price of $30.32. The actual grant date value of the SARs granted to our NEOs is set forth under Option Awards on the Summary Compensation Table later in this proxy statement. The actual number of shares underlying the SARs cannot be determined until such time as the SARs vest and are exercised and the spread between the fair value on the date of exercise and the base price is known.*

### 2015 - 2017 Performance Cycle

The Committee set the 2015 2017 performance cycle LTIP awards as a percentage of the base salary of each NEO as follows:

| Named Executive Officer | Performance Stock Award Percentage Target | Restricted Stock Award Percentage | SAR Award Percentage |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Charles E. Sykes | 200% | 80% | 120% |
| John Chapman | 75% | 30% | 45% |
| Lawrence R. Zingale | 100% | 40% | 60% |
| James T. Holder | 50% | 20% | 30% |
| David L. Pearson | 50% | 20% | 30% |
| Andrew J. Blanchard | 100% | 40% | 60% |

The shares of restricted stock and SARs were granted in fiscal 2015, and will have value based on the value of the shares of the Company s common stock over the three-year vesting period for the restricted stock and SARs.

The three-year, cumulative performance measures that were used by the Committee for calculating award values for performance stock awards granted for the 2015 2017 performance period were:

| Performance Measure | Weighting | Threshold Performance | Target Performance | Maximum Performance |
|---|---|---|---|---|
| Plan Adjusted Operating Income | 2/3 | $ 298,355,000 | $ 314,058,000 | $ 345,464,000 |
| Revenue | 1/3 | $ 3,877,383,000 | $ 4,081,456,000 | $ 4,489,602,000 |

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The 2015 2017 performance cycle LTIP target award values for the performance stock awards, and the number of shares underlying SARs are as follows:

| Named Executive Officer | Performance Stock Value at Target | Number of Shares of Performance Stock Awarded at Target | Restricted Stock Value[1] | Number of Shares of Restricted Stock Awarded | Number of Shares Underlying SARs[2] |
|---|---|---|---|---|---|
| Charles E. Sykes | $ 1,290,000 | 51,476 | $ 516,000 | 20,590 | 94,736 |
| John Chapman | $ 273,750 | 10,924 | $ 109,500 | 4,369 | 20,104 |
| Lawrence R. Zingale | $ 412,000 | 16,441 | $ 164,800 | 6,576 | 30,257 |
| James T. Holder | $ 162,364 | 6,479 | $ 64,946 | 2,591 | 11,923 |
| David L. Pearson | $ 152,850 | 6,100 | $ 161,140 | 2,439 | 11,224 |
| Andrew J. Blanchard | $ 387,500 | 15,463 | $ 155,000 | 6,185 | 28,457 |

(1) *The value of the restricted stock award is calculated by multiplying the market price of the Company s common stock on the grant data by the number of shares awarded to the NEO. The grant data value of the restricted stock granted to our NEOs is included in the amount set forth under Stock Awards on the Summary Compensation Table later In this proxy statement. The restricted stock award vests ratably over a three-year period, with 1/3 of the award vesting after fiscal 2015, 1/3 of the award vesting after fiscal 2016 and 1/3 of the award vesting after fiscal 2017.*

(2) *The SARs vest ratably over a three-year period, with 1/3 of the award vesting after fiscal 2015, 1/3 of the award vesting after fiscal 2016, and 1/3 of the award vesting after fiscal 2017. Upon exercise, the NEO is entitled to a payout equal to the value of the SARs in shares of the Company s common stock. The SARs were granted on April 3, 2015, with an exercise price of $25.06. The actual grant date value of the SARs granted to our NEOs is set forth under Option Awards on the Summary Compensation Table later in this proxy statement. The actual number of shares underlying the SARs cannot be determined until such time as the SARs vest and are exercised and the spread between the fair value on the date of exercise and the base price is known. Unexercised SARs expire 10 years after the grant date.*

The Company s cumulative revenue for the 2015 2017 performance period was $4.332 billion, which exceeded the threshold performance requirement for a payout under the terms of the award for the 2015 2017 performance period and resulted in an equity payout of 161.5% of the target for this portion of the Long-Term Incentive Plan.

The Company s cumulative Plan Adjusted Operating Income for the 2015 2017 performance period was $340.2 million, and resulted in an equity payout of 183.2%, the target for this portion of the Long-Term Incentive Plan.

The Outstanding Equity Awards At Fiscal Year-End table later in this proxy statement shows the number of shares underlying outstanding SARs granted between 2009 and 2017 and held by each NEO, which have exercise prices between $15.25 and $30.32, based on the market price of the Company s common stock on the grant date.

**Executive Deferred Compensation**

The Company s non-qualified Deferred Compensation Plan (the Deferred Compensation Plan ) was adopted by the Board effective December 17, 1998. It was last amended and restated on August 15, 2017 effective as of January 1, 2018. Participation in the Deferred Compensation Plan is limited to a select group of key management employees and employees who are expected to receive an annualized base salary that exceeds the amount taken into account for purposes of determining highly compensated employees as defined by the Internal Revenue Code. The Deferred Compensation Plan provides participants with the ability to defer between 1% and 80% of their compensation (between 1% and 100% prior to June 30, 2016, the effective date of the first amendment) until the participant s retirement, termination, disability or death, or a change in control of the Company, as defined in the Deferred Compensation Plan. Using the Company s common stock, the Company matches 50% of the amounts deferred by participants on a quarterly basis up to a total of $12,000 per year for the president, chief executive officer and executive vice presidents, $7,500 per year for senior vice

presidents, global vice presidents and vice presidents, and, effective January 1, 2017, $5,000 per year for all other participants (there was no match for other participants prior to January 1, 2017, the effective date of the second amendment).

A participant in the Deferred Compensation Plan forfeits any undistributed matching contributions if the participant is terminated for cause as defined in the Deferred Compensation Plan or the participant enters into a business or employment which the Company s CEO determines to be in violation of any non-compete agreement between the participant and the Company. Matching contributions and the associated earnings vest over a seven-year service period. Participants that terminate their employment (for reasons other than death, disability or retirement) less than seven years after the date they begin making contributions to the Deferred Compensation Plan risk forfeiture of all or a portion of the

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## COMPENSATION DISCUSSION AND ANALYSIS

Company s matching contributions and earnings, as outlined below:

| Years of Participation in the Deferred Compensation Plan Prior to Termination | Effect of Termination on Matching Contribution and Earnings |
|---|---|
| Less than 3 | Forfeited |
| 3 or more, but less than 5 | Forfeits 67% |
| 5 or more, but less than 7 | Forfeits 33% |
| 7 or more | Retains 100% |

Vesting will be accelerated in the event of the participant s death or disability, retirement (defined as separation from service after age 65) or a change in control of the Company. In the event of a distribution of benefits as a result of a change in control, the Company will increase the benefits by an amount sufficient to offset the income tax obligations created by the distribution of benefits.

Compensation deferred by a participant while participating in the Deferred Compensation Plan is deferred until such participant s retirement, termination, disability or death, or a change in control of the Company, and in such event is paid out to the participant or his beneficiary.

Distributions of a participant s deferred compensation and Company common stock contributed as matching contributions are made (or in the case of an election to receive annual installment distributions, the installments commence) as soon as administratively feasible six months after retirement or termination of employment, unless the participant dies or becomes disabled while still an employee, in which case both distributions are made on the first day of the second month following the death or disability.

A participant also may elect to receive all of a portion of the deferred amounts while still employed by the Company, so long as the distributions do not commence until January 31 of the third year after such election is made.

Under current tax law, a participant does not recognize income with respect to deferred compensation until it is paid to him. Upon payment, the participant will recognize ordinary income in an amount equal to the sum of the cash and the fair market value of the shares of stock received, and the Company will be entitled to a deduction equal to the income recognized by the participant.

### Other Elements of the Compensation Program

**Stock Ownership Guidelines**

The Board has adopted stock ownership guidelines for the NEOs and other members of the senior management team, which vary by position from 150% to 400% of base salary. These guidelines, which allow the executives five (5) years beginning on August 1, 2013 to acquire the required amount of stock, were originally adopted in 2006 and updated in 2013 and again in 2015. The Committee reviews the stock ownership of the Company s executive officers on an annual basis to ensure that the executive officers are aware of where each stands in relation to the established guidelines. For purposes of the guidelines, stock ownership includes fully vested stock options, directly held common stock and fully vested matching shares under the Company s Executive Deferred Compensation Plan. There are no additional stock holding period requirements for shares acquired upon exercise of SARs or upon the vesting of performance-based restricted stock.

**Clawback and Anti-Hedging Policies**

The Board has not yet adopted a specific clawback policy beyond the requirements already created by various provisions of Sarbanes-Oxley. However, the Board intends to adopt a fully compliant clawback policy as soon as practicable following the issuance of final rules and regulations by the SEC in enacting the requirements of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act. The Board has adopted an anti-hedging

policy and has included negative discretion language in all equity incentive agreements beginning in 2017 allowing the Compensation Committee of the Board to reduce or eliminate unvested equity grants for executive wrong doing.

**Change-in-Control Provisions**

We have change-in-control provisions in the employment agreements with Messrs. Sykes, Chapman and Zingale. We also have change-in-control provisions in all of the equity incentive agreements with all of our executives and key employees. The change-in-control provision in the employment agreement with Mr. Sykes is a modified double-trigger arrangement which permits him to terminate his agreement for good reason, the definition of which includes a change-in-control. The change-in-control provisions in the three other employment agreements are double-trigger arrangements, meaning that payments are only made if there is a change-in-control of the Company and the executive officer s employment is terminated without cause, or the executive officer terminates employment for good reason, as such terms are defined in their respective employment agreements. All of our employment agreements with the NEOs, and the other executive officers, contain severance agreements ranging from one to three years of compensation and benefits in the event of termination by the Company other than for cause. These agreements are discussed in greater detail beginning on

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page 45 under the heading Employment Agreements. We believe that providing these agreements helps increase our ability to attract, retain and motivate highly qualified management personnel and encourage their continued dedication without distraction from concerns over job security relating, among other things, to a change-in-control of the Company.

**Perquisites and Other Personal Benefits**

The Company provides its NEOs with perquisites and other personal benefits that the Company and the Committee believe are reasonable and consistent with its overall

compensation program to better enable the Company to attract and retain superior employees for key positions. These amounts represent mainly Company matches to the Deferred Compensation Plan, excess group term life insurance premiums and additional compensation paid to the NEOs related to the cost of executive physicals and other health and welfare benefits. The NEOs are also permitted to fly in business class when traveling overseas on business and are permitted to attend sporting events utilizing Company paid tickets that are not otherwise utilized in connection with business development. The Committee periodically reviews the levels of perquisites and other personal benefits provided to NEOs.

## Mitigating Compensation Risks

Although the responsibility for oversight of enterprise risk management lies with the full Board, the Committee annually reviews and conducts an assessment of the risks associated with the Company s compensation policies and practices. Based on its assessment conducted in 2015, the Committee determined that the Company s compensation policies and practices are not reasonably likely to have a material adverse effect on the Company. In reaching that conclusion, the Committee evaluated each of the following key elements of the Company s compensation plans and practices for its executive officers:

- Performance and pay horizons are appropriate and not overweight in short-term incentives;
- The relationship between the incremental achievement levels and corresponding payouts in the Company s incentive plans are appropriate and have caps on payouts;
- The incentive plans employ a reasonable mix of performance metrics and are not concentrated on a single metric;

Criteria for payments are closely aligned with our strategic goals and shareholder interests;

Payout curves are reasonable and do not contain steep cliffs that might encourage unreasonable short-term business decisions to achieve payment thresholds; and

Equity compensation plans for executive officers consist of a balanced mix of performance-based restricted stock awards, time-based SARs, and time-based restricted stock awards.

## Tax and Accounting Implications

**Deductibility of Executive Compensation.** As part of its role, the Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that the Company may not deduct compensation of more than $1,000,000 per year that is paid to certain individuals. As a result of the Tax Cuts and Jobs Act signed into law on December 22, 2017, the Company believes that compensation paid under its current management incentive plans will not be fully deductible for federal income tax purposes. While the impact of tax reform on deductibility of executive compensation is not expected to be significant in the near term, it is anticipated that in future years a material amount of executive compensation

may be considered non-deductible for tax purposes. Accordingly, the Committee will continue to examine the Company s executive compensation program structure to ensure the proper balance between competitive compensation and deductibility.

**Nonqualified Deferred Compensation.** The Company believes its agreements containing deferred compensation components comply with the final regulations issued in connection with the American Jobs Creation Act of 2004 and the tax rules applicable to non-qualified deferred compensation arrangements. A more detailed discussion of the Company s nonqualified deferred compensation arrangements is provided on page 40 under the heading Executive Deferred Compensation.

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COMPENSATION COMMITTEE REPORT

## COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

THE COMPENSATION COMMITTEE

Paul L. Whiting, Chairman

Lt. Gen. Michael P. DeLong (Ret.)

Carlos E. Evans

William D. Muir, Jr.

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## EXECUTIVE COMPENSATION

### Summary Compensation Table

The table below summarizes the total compensation paid to, or earned by, each of the named executive officers for the fiscal years ending December 31, 2017, December 31, 2016 and December 31, 2015. The Company has entered into employment agreements with each of the named executive officers which are summarized under the section entitled Employment Agreements below. When setting the total compensation for each of the named executive officers, the Committee considers all of the executive s current compensation, including equity and non-equity based compensation.

The named executive officers did not receive payments which would be characterized as Bonus payments for the fiscal years ended December 31, 2017, December 31, 2016 or December 31, 2015. Amounts listed under column (g), Non-Equity Incentive Plan Compensation were paid in accordance with parameters determined by the Committee on March 14, 2017, March 15, 2016 and March 17, 2015, respectively, and were paid in March 2018, March 2017 and March 2016, respectively.

| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
|---|---|---|---|---|---|---|---|---|---|
| **Name and Principal Position** | **Year** | **Salary ($)** | **Bonus ($)** | **Stock Awards ($)[1]** | **Option Awards ($)[1]** | **Non-Equity Incentive Plan Compensation ($)[2]** | **Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)** | **All Other Compensation ($)[3]** | **Total ($)** |
| **Charles E. Sykes** | 2017 | 732,845 | | 2,022,699 | 866,880 | 572,352 | | 45,061 | 4,239,837 |
| President and Chief | 2016 | 712,927 | | 1,959,976 | 840,000 | 599,928 | | 48,554 | 4,161,385 |
| Executive Officer | 2015 | 682,507 | | 1,805,974 | 773,993 | 934,694 | | 46,696 | 4,243,864 |
| **John Chapman** | 2017 | 426,005 | | 596,566 | 255,672 | 211,724 | | 37,359 | 1,527,326 |
| Executive Vice President & Chief Financial | 2016 | 401,290 | | 422,085 | 180,895 | 214,891 | | 36,083 | 1,255,244 |
| Officer | 2015 | 377,152 | | 383,242 | 164,250 | 328,688 | | 78,830 | 1,332,162 |
| **Lawrence R. Zingale** | 2017 | 464,006 | | 649,884 | 278,529 | 208,037 | | 42,797 | 1,643,253 |
| Executive Vice President and | 2016 | 432,198 | | 594,090 | 254,615 | 270,583 | | 43,981 | 1,595,467 |
| General Manager | 2015 | 430,704 | | 576,806 | 247,200 | 370,459 | | 41,535 | 1,666,704 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **James T. Holder** Executive Vice President, General Counsel and Corporate Secretary | 2017 | 366,462 | 252,849 | 108,376 | 130,094 | 43,179 | 900,960 |
| | 2016 | 356,520 | 245,046 | 105,016 | 136,369 | 36,298 | 879,249 |
| | 2015 | 343,066 | 227,294 | 97,411 | 213,558 | 34,160 | 915,489 |
| **David L. Pearson** Executive Vice President and Chief Information Officer | 2017 | 336,037 | 231,856 | 99,372 | 119,293 | 48,277 | 834,835 |
| | 2016 | 326,914 | 224,702 | 96,292 | 125,044 | 43,162 | 816,114 |
| | 2015 | 320,983 | 213,987 | 91,708 | 199,812 | 43,000 | 869,490 |
| **Andrew J. Blanchard**[4] Executive Vice President and General Manager | 2017 | 292,707 | 576,630 | 247,135 | 438,729 | 498,431 | 2,053,632 |
| | 2016 | 406,499 | 558,767 | 239,470 | 224,616 | 33,436 | 1,462,788 |
| | 2015 | 405,091 | 542,499 | 232,494 | 370,582 | 30,879 | 1,581,545 |

*(1) The amounts shown in column (e) and (f) represent awards pursuant to long-term incentive bonus programs (restricted stock and stock appreciation rights, respectively) established by the Compensation Committee. The amounts are based on the aggregate grant date fair value of the awards, with the value of the performance-based awards in column (e) based on the probable outcome of the performance conditions as of the grant date, in accordance with FASB ASC Topic 718, Compensation Stock Compensation (formerly FAS 123(R)). See Notes 1 and 24 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 1, 2018, for a discussion of the relevant assumptions used in calculating the grant date fair value in accordance with FASB ASC Topic 718. The maximum fair values of the awards made in 2017 at the grant date, assuming achievement of the highest level of performance, are as follows: Mr. Sykes $3,467,475; Mr. Chapman $1,022,668; Mr. Zingale $1,114,095; Mr. Holder $433,471; Mr. Pearson $397,476; and Mr. Blanchard $988,522.*

*(2) The amounts in column (g) reflect the cash awards to the named individuals pursuant to annual performance-based incentive programs established by the Committee and discussed in more detail on page 23 under the heading Performance-Based Annual Cash Incentive Compensation. The amount shown for Mr. Blanchard in 2017 reflects an incentive plan payment negotiated as part of his severance agreement.*

*(3) The amounts shown in column (i) reflect for each named executive officer:*

*matching contributions allocated by the Company to each of the named executive officers pursuant to the Executive Deferred Compensation Plan described in more detail on page 29 under the heading Executive Deferred Compensation;*

*reimbursement for premiums attributable to increased coverage for vision, dental and group medical insurance benefits and the cost of premiums for term life and disability insurance benefits;*

*the Company s matching contribution to the Sykes Enterprises, Incorporated Employees 401(k) Savings Plan and Trust;*

*severance payment payable to Mr. Blanchard partially in 2017 and partially in 2018;*

*allowance for Mr. Blanchard to relocate upon termination of his employment; and*

*tax gross up to Mr. Blanchard related to his relocation allowance.*

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## EXECUTIVE COMPENSATION

| Name | EDC Matching Contr. ($) | Insurance Premiums ($) | Company Contributions to Retirement and 401(k) Plans ($) | Severance Payments/Accruals ($) | Relocation Expenses ($) | Tax Reimbursements ($) | Total All Other Compensation ($) |
|---|---|---|---|---|---|---|---|
| Charles E. Sykes | 11,995 | 27,666 | 5,400 | | | | 45,061 |
| John Chapman | 11,940 | 25,419 | | | | | 37,359 |
| Lawrence R. Zingale | 11,971 | 30,826 | | | | | 42,797 |
| James T. Holder | 11,944 | 25,835 | 5,400 | | | | 43,179 |
| David L. Pearson | 11,940 | 30,937 | 5,400 | | | | 48,277 |
| Andrew J. Blanchard | 11,995 | 14,064 | 4,492 | 452,205 | 11,398 | 4,277 | 498,431 |

(4) *As of August 8, 2017, Mr. Blanchard is no longer employed by the Company*

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EXECUTIVE COMPENSATION

## Grants of Plan-Based Awards

The following table provides information about equity and non-equity awards granted to the named executives in 2017, including (i) the grant date, (ii) the estimated future payouts under the non-equity incentive plan awards, (iii) the estimated future payouts under equity incentive plan awards, which consist of shares of restricted stock, (iv) all other stock awards, which consist of shares of the Company s stock contributed as matching contributions under the Executive Deferred Compensation Plan, (v) all other option awards, which consist of Stock Appreciation Rights and the base price of those Stock Appreciation Rights, and (vi) the fair value of the equity awards on the date of grant.

| | | | Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1] | | | Estimated Future Payouts Under Equity Incentive Plan Awards[2] | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (a) | | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) | (l) |
| Name | | Grant Date | Threshold ($) | Target ($) | Maximum ($) | Threshold (#) | Target (#) | Maximum (#) | All Other Stock Awards: Number of Shares of Stock or Units (#) | All Other Option Awards: Number of Securities Underlying Options (#) | Exercise or Base Price of Option Awards ($/Sh) | Grant Date Fair Value of Stock and Option Awards ($) |
| Charles E. Sykes | | 03/31 | | | | | | | | | | |
| | 2016 | | 2015 | 2016 | 2015 | | | | | | | |
| Gains (losses) from cash-flow hedges: | | | | | | | | | | | | |
| Foreign exchange contracts | Net product sales | | $71.0 | $92.9 | $221.0 | $253.6 | | | | | | |
| Treasury rate lock agreements | Interest (expense) | | (1.3) | (1.1) | (3.9) | (2.9) | | | | | | |
| Interest rate swap agreements | Interest (expense) | | (0.3) | (0.4) | (1.1) | (1.1) | | | | | | |
| | Income tax provision | | 0.6 | 0.5 | 1.9 | 1.5 | | | | | | |
| Gains (losses) from available-for-sale marketable securities: | | | | | | | | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Realized income (loss) on sales of marketable securities | Interest and investment income, net | (30.7 ) | (10.9 ) | (71.2 ) | (11.6 ) |
| | Income tax provision | 10.9 | 3.9 | 25.0 | 4.1 |
| Total reclassification, net of tax | | $50.2 | $84.9 | $171.7 | $243.6 |

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

6. Financial Instruments and Fair Value Measurement

The tables below present information about assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 and the valuation techniques we utilized to determine such fair value.

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Our level 1 assets consist of marketable equity securities. Our level 1 liability relates to our publicly traded Contingent Value Rights (CVRs). See Note 18 of Notes to Consolidated Financial Statements included in our 2015 Annual Report on Form 10-K for a description of the CVRs.
- Level 2 inputs utilize observable quoted prices for similar assets and liabilities in active markets and observable quoted prices for identical or similar assets in markets that are not very active. Our level 2 assets consist primarily of U.S. Treasury securities, U.S. government-sponsored agency mortgage-backed (MBS) securities, global corporate debt securities, asset backed securities, foreign currency forward contracts, purchased foreign currency options and interest rate swap contracts. Our level 2 liabilities relate to written foreign currency options, foreign currency forward contracts and interest rate swap contracts.
- Level 3 inputs utilize unobservable inputs and include valuations of assets or liabilities for which there is little, if any, market activity. We do not have any level 3 assets. Our level 3 liabilities consist of contingent consideration related to undeveloped product rights and technology platforms resulting from the acquisitions of Gloucester Pharmaceuticals, Inc. (Gloucester), Nogra Pharma Limited (Nogra), Avila Therapeutics, Inc. (Avila) and Quanticel.

Our contingent consideration obligations are recorded at their estimated fair values and we revalue these obligations each reporting period until the related contingencies are resolved. The fair value measurements are estimated using probability-weighted discounted cash flow approaches that are based on significant unobservable inputs related to product candidates acquired in business combinations and are reviewed quarterly. These inputs include, as applicable, estimated probabilities and timing of achieving specified development and regulatory milestones, estimated annual sales and the discount rate used to calculate the present value of estimated future payments. Significant changes which increase or decrease the probabilities of achieving the related development and regulatory events, shorten or lengthen the time required to achieve such events, or increase or decrease estimated annual sales would result in corresponding increases or decreases in the fair values of these obligations. Changes in the fair value of contingent consideration obligations are recognized in Acquisition related charges and restructuring, net in the Consolidated Statements of Operations. The fair value of our contingent consideration as of September 30, 2016 and December 31, 2015 was calculated using the following significant unobservable inputs:

| Inputs | Ranges (weighted average) utilized as of: | |
|---|---|---|
| | September 30, 2016 | December 31, 2015 |
| Discount rate | 0.8% to 12.0% (8.6%) | 0.8% to 12.0% (8.8%) |
| Probability of payment | 0% to 95% (42%) | 0% to 95% (53%) |
| Projected year of payment for development and regulatory milestones | 2016 to 2029 (2019) | 2016 to 2029 (2019) |
| Projected year of payment for sales-based milestones and other amounts calculated as a percentage of annual sales | 2019 to 2033 (2024) | 2019 to 2033 (2024) |

The maximum remaining potential payments related to the contingent consideration from the acquisitions of Gloucester, Avila and Quanticel are estimated to be $120.0 million, $475.0 million and $363.4 million respectively, and $1.865 billion plus other amounts calculated as a percentage of annual sales pursuant to the license agreement with Nogra.

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

| | Balance at September 30, 2016 | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Available-for-sale securities | $ 1,346.0 | $ 1,002.3 | $ 343.7 | $ — |
| Forward currency contracts | 217.9 | — | 217.9 | — |
| Purchased currency options | 45.3 | — | 45.3 | — |
| Total assets | $ 1,609.2 | $ 1,002.3 | $ 606.9 | $ — |
| Liabilities: | | | | |
| Contingent value rights | $ (45.0) | $ (45.0) | $ — | $ — |
| Interest rate swaps | (43.1) | — | (43.1) | — |
| Written currency options | (44.0) | — | (44.0) | — |
| Other acquisition related contingent consideration | (1,480.1) | — | — | (1,480.1) |
| Total liabilities | $ (1,612.2) | $ (45.0) | $ (87.1) | $ (1,480.1) |

| | Balance at December 31, 2015 | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Available-for-sale securities | $ 1,671.6 | $ 1,235.9 | $ 435.7 | $ — |
| Forward currency contracts | 606.0 | — | 606.0 | — |
| Purchased currency options | 46.7 | — | 46.7 | — |
| Interest rate swaps | 52.5 | — | 52.5 | — |
| Total assets | $ 2,376.8 | $ 1,235.9 | $ 1,140.9 | $ — |
| Liabilities: | | | | |
| Contingent value rights | $ (51.9) | $ (51.9) | $ — | $ — |
| Written currency options | (19.1) | — | (19.1) | — |
| Other acquisition related contingent consideration | (1,521.5) | — | — | (1,521.5) |
| Total liabilities | $ (1,592.5) | $ (51.9) | $ (19.1) | $ (1,521.5) |

There were no security transfers between levels 1 and 2 during the three- and nine-month periods ended September 30, 2016 and 2015. The following table represents a roll-forward of the fair value of level 3 instruments:

| | Three-Month Periods Ended September 30, | | Nine-Month Periods Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Liabilities: | | | | |
| Balance at beginning of period | $ (1,469.5) | $ (1,315.0) | $ (1,521.5) | $ (1,279.0) |

| | | | | |
|---|---|---|---|---|
| Amounts acquired or issued, including measurement period adjustments | 10.7 | — | 10.7 | — |
| Net change in fair value | (41.1) | (13.5) | (19.1) | (49.5) |
| Settlements, including transfers to Accrued expenses and other current liabilities | 19.8 | — | 49.8 | — |
| Transfers in and/or out of level 3 | — | — | — | — |
| Balance at end of period | $(1,480.1) | $(1,328.5) | $(1,480.1) | $(1,328.5) |

The roll-forward of the fair value of level 3 instruments above includes an $81.1 million decrease in the fair value of contingent consideration from the acquisition of Avila that was recorded in the second quarter of 2016 as a result of adjustments made to the probability and timing of future potential milestone payments. An adjustment was also made to the technology platform asset obtained in the acquisition of Avila based on probability-weighted future cash flows, which resulted in an $83.1 million reduction

in the fair value of the technology platform asset during the second quarter of 2016 (see Note 10). The fair value of level 3 liabilities also decreased by $49.8 million due to Quanticel milestones of $30.0 million in the second quarter of 2016 and $19.8 million in the third quarter of 2016 that were achieved and transferred to Accrued expenses and other current liabilities. Lastly, a $10.7 million measurement period adjustment was recorded during the third quarter of 2016 related to the valuation of contingent consideration associated with the 2015 acquisition of Quanticel (see Note 3). These decreases were partly offset by accretion of the fair value of our contingent consideration due to the passage of time and increased estimated probabilities of achieving certain milestones. Changes to the fair value of contingent consideration are recorded on the Consolidated Statements of Operations as Acquisition related charges and restructuring, net.

7. Derivative Instruments and Hedging Activities

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

Foreign Currency Risk Management

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

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

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

We manage a portfolio of foreign currency forward contracts to protect against changes in anticipated foreign currency cash flows resulting from changes in foreign currency exchange rates, primarily associated with non-functional currency denominated revenues and expenses of foreign subsidiaries. The foreign currency forward hedging contracts outstanding at September 30, 2016 and December 31, 2015 had settlement dates within 51 months and 36 months, respectively. The spot rate components of these foreign currency forward contracts are designated as cash flow hedges and, to the extent effective, any unrealized gains or losses are reported in other comprehensive income (OCI) and reclassified to operations in the same periods during which the underlying hedged transactions affect earnings. If a hedging relationship is terminated with respect to a foreign currency forward contract, accumulated gains or losses associated with the contract remain in OCI until the hedged forecasted transaction occurs

and are reclassified to operations in the same periods during which the underlying hedged transactions affect earnings. Any ineffectiveness on these foreign currency forward contracts is reported on the Consolidated Statements of Operations in Other income (expense), net. The forward point components of these foreign currency forward contracts are not designated as cash flow hedges and all fair value adjustments of forward point amounts are recorded to Other income (expense), net. Foreign currency forward contracts entered into to hedge forecasted revenue and expenses were as follows at September 30, 2016 and December 31, 2015:

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

| Foreign Currency | Notional Amount | |
|---|---|---|
| | September 30, 2016 | December 31, 2015 |
| Australian Dollar | $53.3 | $45.1 |
| British Pound | 188.2 | 289.3 |
| Canadian Dollar | 164.8 | 135.9 |
| Euro | 1,936.9 | 2,934.3 |
| Japanese Yen | 719.8 | 510.4 |
| Swedish Krona | 3.0 | — |
| Total | $3,066.0 | $3,915.0 |

We consider the impact of our own and the counterparties' credit risk on the fair value of the contracts as well as the ability of each party to execute its obligations under the contract on an ongoing basis. As of September 30, 2016, credit risk did not materially change the fair value of our foreign currency forward contracts.

We also manage a portfolio of foreign currency contracts to reduce exposures to foreign currency fluctuations of certain recognized assets and liabilities denominated in foreign currencies and, from time to time, we enter into foreign currency contracts to manage exposure related to translation of foreign earnings. These foreign currency forward contracts have not been designated as hedges and, accordingly, any changes in their fair value are recognized on the Consolidated Statements of Operations in Other income (expense), net in the current period. The aggregate notional amount of the foreign currency forward non-designated hedging contracts outstanding at September 30, 2016 and December 31, 2015 were $833.5 million and $920.0 million, respectively.

Foreign Currency Option Contracts: From time to time, we may hedge a portion of our future foreign currency exposure by utilizing a strategy that involves both a purchased local currency put option and a written local currency call option that are accounted for as hedges of future sales denominated in that local currency. Specifically, we sell (or write) a local currency call option and purchase a local currency put option with the same expiration dates and local currency notional amounts but with different strike prices. This combination of transactions is generally referred to as a "collar." The expiration dates and notional amounts correspond to the amount and timing of forecasted foreign currency sales. The foreign currency option contracts outstanding at September 30, 2016 and December 31, 2015 had settlement dates within 51 months and 36 months, respectively. If the U.S. Dollar weakens relative to the currency of the hedged anticipated sales, the purchased put option value reduces to zero and we benefit from the increase in the U.S. Dollar equivalent value of our anticipated foreign currency cash flows; however, this benefit would be capped at the strike level of the written call, which forms the upper end of the collar. The premium collected from the sale of the call option is equal to the premium paid for the purchased put option, resulting in a net zero cost for each collar.

Outstanding foreign currency option contracts entered into to hedge forecasted revenue were as follows at September 30, 2016 and December 31, 2015:

| | Notional Amount[1] | |
|---|---|---|
| | September 30, 2016 | December 31, 2015 |
| Foreign currency option contracts designated as hedging activity: | | |
| Purchased Put | $1,016.6 | $ 641.5 |
| Written Call | $1,126.9 | $ 690.0 |

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

Interest Rate Risk Management

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

During 2014, we entered into forward starting swaps that were designated as cash flow hedges to hedge against changes in interest rates that could impact an anticipated issuance of debt in 2015. During 2015, we entered into additional forward starting swaps and treasury rate locks. Forward starting swaps and treasury rate locks with a combined aggregate notional amount of $2.900

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billion were settled upon the issuance of debt in August 2015, when the net fair value of the forward starting swaps and treasury rate locks in accumulated OCI was in a loss position of $21.6 million. The net loss will be recognized as interest expense over the life of the associated senior notes. At September 30, 2016 and December 31, 2015, we had outstanding forward starting swaps with effective dates in 2017 and 2018 and maturing in ten years that were designated as cash flow hedges with notional amounts as shown in the table below:

| | Notional Amount | |
|---|---|---|
| | September 30, 2016 | December 31, 2015 |
| Forward starting interest rate swap contracts: | | |
| Forward starting swaps with effective dates in 2017 | $500.0 | $ 200.0 |
| Forward starting swaps with effective dates in 2018 | $500.0 | $ — |

Interest Rate Swap Contracts: From time to time we hedge the fair value of certain debt obligations through the use of interest rate swap contracts. The interest rate swap contracts are designated hedges of the fair value changes in the notes attributable to changes in interest rates. Since the specific terms and notional amount of the swap are intended to match those of the debt being hedged, it is assumed to be a highly effective hedge and all changes in fair value of the swap are recorded on the Consolidated Balance Sheets with no net impact recorded in income. Any net interest payments made or received on interest rate swap contracts are recognized as interest expense. If a hedging relationship is terminated for an interest rate swap contract, accumulated gains or losses associated with the contract are measured and recorded as a reduction or increase of current and future interest expense associated with the previously hedged debt obligations.

We had entered into swap contracts that were designated as hedges of certain of our fixed rate notes and also terminated the hedging relationship by settling certain of those swap contracts during 2016 and 2015. In July 2016, we terminated the hedging relationship on all of our then outstanding swap contracts, amounting to $3.600 billion notional amount, by settling such swap contracts. The settlement of swap contracts resulted in the receipt of net proceeds of $195.6 million and $7.7 million during the nine-month periods ended September 30, 2016 and 2015, respectively, which are accounted for as a reduction of current and future interest expense associated with these notes. See Note 11 for additional details related to reductions of current and future interest expense.

The following tables summarize the fair value and presentation in the Consolidated Balance Sheets for derivative instruments as of September 30, 2016 and December 31, 2015:

| | | September 30, 2016 Fair Value | |
|---|---|---|---|
| Instrument | Balance Sheet Location | Asset Derivatives | Liability Derivatives |
| Derivatives designated as hedging instruments: | | | |
| Foreign exchange contracts[1] | Other current assets | $244.6 | $ 40.3 |
| | Other non-current assets | 53.1 | 30.4 |
| | Accrued expenses and other current liabilities | 1.4 | 5.7 |
| | Other non-current liabilities | 40.1 | 64.8 |
| Interest rate swap agreements | Other non-current liabilities | 0.1 | 44.1 |
| Derivatives not designated as hedging instruments: | | | |
| Foreign exchange contracts[1] | Other current assets | 30.8 | 6.5 |
| | Accrued expenses and other current liabilities | 0.9 | 4.0 |

| | | | |
|---|---|---|---|
| Interest rate swap agreements | Other current assets | 0.6 | 0.6 |
| | Other non-current assets | 5.2 | 4.3 |
| Total | | $376.8 | $ 200.7 |

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

| Instrument | Balance Sheet Location | December 31, 2015 Fair Value Asset Derivatives | Liability Derivatives |
|---|---|---|---|
| Derivatives designated as hedging instruments: | | | |
| Foreign exchange contracts[1] | Other current assets | $356.2 | $ 18.0 |
| | Other non-current assets | 287.8 | 28.0 |
| Interest rate swap agreements | Other current assets | 30.7 | — |
| | Other non-current assets | 26.1 | 4.7 |
| | Other non-current liabilities | 0.2 | 0.9 |
| Derivatives not designated as hedging instruments: | | | |
| Foreign exchange contracts[1] | Other current assets | 46.0 | 5.9 |
| | Accrued expenses and other current liabilities | 2.9 | 7.4 |
| Interest rate swap agreements | Other current assets | 2.4 | 2.3 |
| | Other non-current assets | 2.4 | 1.4 |
| Total | | $754.7 | $ 68.6 |

[1] Derivative instruments in this category are subject to master netting arrangements and are presented on a net basis in the Consolidated Balance Sheets in accordance with ASC 210-20.

The following tables summarize the effect of derivative instruments designated as cash-flow hedging instruments on the Consolidated Statements of Operations for the three-month periods ended September 30, 2016 and 2015:

| | Three-Month Period Ended September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | (Effective Portion) | | | (Ineffective Portion and Amount Excluded From Effectiveness Testing) | | |
| Instrument | Amount of Gain/(Loss) Recognized in OCI on Derivative | Location of Gain/(Loss) Reclassified from Accumulated OCI into Income | Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income | Location of Gain/(Loss) Recognized in Income on Derivative | Amount of Gain/(Loss) Recognized in Income on Derivative | |
| Foreign exchange contracts | $ (55.2 ) | Net product sales | $ 71.0 | Other income (expense), net | $ 0.2 | 2 |
| Treasury rate lock agreements | $ — | Interest (expense) | $ (1.3 ) | Other income (expense), net | $ — | |
| Interest rate swap agreements | $ 1.8 | Interest (expense) | $ (0.3 ) | Other income (expense), net | $ — | |

[1] Net gains of $206.4 million are expected to be reclassified from Accumulated OCI into income in the next 12 months.

[2] The amount of net gains recognized in income represents $0.3 million of gains related to the ineffective portion of the hedging relationships and $0.1 million in losses related to amounts excluded from the assessment of hedge effectiveness (fair value adjustments of forward point amounts).

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

| | Three-Month Period Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | (Effective Portion) | | | (Ineffective Portion and Amount Excluded From Effectiveness Testing) | | |
| Instrument | Amount of Gain/(Loss) Recognized in OCI on Derivative | Location of Gain/(Loss) Reclassified from Accumulated OCI into Income | Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income | Location of Gain/(Loss) Recognized in Income on Derivative | Amount of Gain/(Loss) Recognized in Income on Derivative | |
| Foreign exchange contracts | $ 10.8 | Net product sales | $ 92.9 | Other income (expense), net | $ 14.8 | 1 |
| Treasury rate lock agreements | $ (27.9 ) | Interest (expense) | $ (1.1 ) | Other income (expense), net | $ (0.2 ) | 2 |
| Interest rate swap agreements | $ (50.0 ) | Interest (expense) | $ (0.4 ) | Other income (expense), net | $ 0.3 | 2 |

[1] The amount of net gains recognized in income represents $14.7 million of gains related to amounts excluded from the assessment of hedge effectiveness (fair value adjustments of forward point amounts) and $0.1 million in gains related to the ineffective portion of the hedging relationships.
[2] The amount of net gain (loss) recognized in income relates to the ineffective portion of the hedging relationships.

The following tables summarize the effect of derivative instruments designated as cash-flow hedging instruments on the Consolidated Statements of Operations for the nine-month periods ended September 30, 2016 and 2015:

| | Nine-Month Period Ended September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | (Effective Portion) | | | (Ineffective Portion and Amount Excluded From Effectiveness Testing) | | |
| Instrument | Amount of Gain/(Loss) Recognized in OCI on Derivative[1] | Location of Gain/(Loss) Reclassified from Accumulated OCI into Income | Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income | Location of Gain/(Loss) Recognized in Income on Derivative | Amount of Gain/(Loss) Recognized in Income on Derivative | |
| Foreign exchange contracts | $ (197.2 ) | Net product sales | $ 221.0 | Other income (expense), net | $ 23.1 | 2 |

| | | | | | |
|---|---|---|---|---|---|
| Treasury rate lock agreements | $ — | Interest (expense) | $ (3.9) | Other income (expense), net | $ — |
| Interest rate swap agreements | $ (46.5) | Interest (expense) | $ (1.1) | Other income (expense), net | $ — |

[1] Net gains of $206.4 million are expected to be reclassified from Accumulated OCI into income in the next 12 months.

[2] The amount of net gains recognized in income represents $21.0 million of gains related to amounts excluded from the assessment of hedge effectiveness (fair value adjustments of forward point amounts) and $2.1 million in gains related to the ineffective portion of the hedging relationships.

| | Nine-Month Period Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | (Effective Portion) | | | (Ineffective Portion and Amount Excluded From Effectiveness Testing) | | |
| Instrument | Amount of Gain/(Loss) Recognized in OCI on Derivative | Location of Gain/(Loss) Reclassified from Accumulated OCI into Income | Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income | Location of Gain/(Loss) Recognized in Income on Derivative | Amount of Gain/(Loss) Recognized in Income on Derivative | |
| Foreign exchange contracts | $ 298.7 | Net product sales | $ 253.6 | Other income (expense), net | $ 32.2 | 1 |
| Treasury rate lock agreements | $ (27.9) | Interest (expense) | $ (2.9) | Other income (expense), net | $ (0.2) | 2 |
| Interest rate swap agreements | $ 6.2 | Interest (expense) | $ (1.1) | Other income (expense), net | $ 0.3 | 2 |

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

[1] The amount of net gains recognized in income represents $35.5 million of gains related to amounts excluded from the assessment of hedge effectiveness (fair value adjustments of forward point amounts) and $3.3 million in losses related to the ineffective portion of the hedging relationships.
[2] The amount of net gain (loss) recognized in income relates to the ineffective portion of the hedging relationships.

The following table summarizes the effect of derivative instruments designated as fair value hedging instruments on the Consolidated Statements of Operations for the three- and nine-month periods ended September 30, 2016 and 2015:

| | | Amount of Gain Recognized in Income on Derivative | | | |
|---|---|---|---|---|---|
| | | Three-Month Periods Ended September 30, | | Nine-Month Periods Ended September 30, | |
| Instrument | Location of Gain Recognized in Income on Derivative | 2016 | 2015 | 2016 | 2015 |
| Interest rate swap agreements | Interest (expense) | $9.4 | $16.2 | $35.7 | $45.5 |

The following table summarizes the effect of derivative instruments not designated as hedging instruments on the Consolidated Statements of Operations for the three- and nine-month periods ended September 30, 2016 and 2015:

| | | Amount of Gain (Loss) Recognized in Income on Derivative | | | |
|---|---|---|---|---|---|
| | | Three-Month Periods Ended September 30, | | Nine-Month Periods Ended September 30, | |
| Instrument | Location of Gain (Loss) Recognized in Income on Derivative | 2016 | 2015 | 2016 | 2015 |
| Foreign exchange contracts | Other income (expense), net | $(11.9) | $14.4 | $(39.1) | $69.3 |
| Put options on our common stock | Other income (expense), net | $— | $(18.8) | $7.6 | $(9.9 ) |

The impact of gains and losses on foreign exchange contracts not designated as hedging instruments related to changes in the fair value of assets and liabilities denominated in foreign currencies are generally offset by net foreign exchange gains and losses, which are also included on the Consolidated Statements of Operations in Other income (expense), net for all periods presented. When we enter into foreign exchange contracts not designated as hedging instruments to mitigate the impact of exchange rate volatility in the translation of foreign earnings, gains and losses will generally be offset by fluctuations in the U.S. Dollar translated amounts of each Income Statement account in current and/or future periods.

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

8. Cash, Cash Equivalents and Marketable Securities Available-for-Sale

Money market funds of $1.771 billion and $1.413 billion at September 30, 2016 and December 31, 2015, respectively, were recorded at cost, which approximates fair value and are included in Cash and cash equivalents.

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and estimated fair value of available-for-sale securities by major security type and class of security at September 30, 2016 and December 31, 2015 were as follows:

| September 30, 2016 | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Estimated Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities | $ 112.7 | $ 0.1 | $ (0.1) | $ 112.7 |
| U.S. government-sponsored agency securities | 3.5 | — | — | 3.5 |
| U.S. government-sponsored agency MBS | 28.4 | 0.1 | (0.1) | 28.4 |
| Corporate debt - global | 171.5 | 0.8 | — | 172.3 |
| Asset backed securities | 26.7 | 0.1 | — | 26.8 |
| Marketable equity securities | 870.9 | 293.7 | (162.3) | 1,002.3 |
| Total available-for-sale marketable securities | $ 1,213.7 | $ 294.8 | $ (162.5) | $ 1,346.0 |

| December 31, 2015 | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Estimated Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities | $ 153.0 | $ — | $ (0.4) | $ 152.6 |
| U.S. government-sponsored agency MBS | 29.8 | 0.1 | (0.4) | 29.5 |
| Corporate debt - global | 219.7 | — | (1.6) | 218.1 |
| Asset backed securities | 35.6 | — | (0.1) | 35.5 |
| Marketable equity securities | 811.5 | 468.1 | (43.7) | 1,235.9 |
| Total available-for-sale marketable securities | $ 1,249.6 | $ 468.2 | $ (46.2) | $ 1,671.6 |

U.S. government-sponsored agency securities include general unsecured obligations either issued directly by or guaranteed by U.S. government sponsored enterprises. U.S. government-sponsored agency MBS include mortgage-backed securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. Corporate debt-global includes obligations issued by investment-grade corporations, including some issues that have been guaranteed by governments and government agencies. Asset backed securities consist of triple-A rated securities with cash flows collateralized by credit card receivables and auto loans. Marketable equity securities consist of investments in publicly traded equity securities. The decrease in net unrealized gains in marketable equity securities during the nine-month period ended September 30, 2016 primarily reflects the decrease in market value for certain equity investments subsequent to December 31, 2015.

Duration periods of available-for-sale debt securities at September 30, 2016 were as follows:

| | Amortized Cost | Fair Value |
|---|---|---|
| Duration of one year or less | $ 60.8 | $61.0 |
| Duration of one through three years | 270.4 | 271.0 |
| Duration of three through five years | 11.6 | 11.7 |
| Total | $ 342.8 | $343.7 |

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

9. Inventory

Inventories as of September 30, 2016 and December 31, 2015 are summarized by major category as follows:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Raw materials | $ 270.3 | $ 201.3 |
| Work in process | 103.8 | 120.0 |
| Finished goods | 133.8 | 122.1 |
| Total | $ 507.9 | $ 443.4 |

10. Intangible Assets and Goodwill

Intangible Assets: Our finite-lived intangible assets primarily consist of developed product rights and technology obtained from the Pharmion Corp. (Pharmion), Gloucester, Abraxis BioScience, Inc. (Abraxis), Avila and Quanticel acquisitions. The remaining weighted-average amortization period for finite-lived intangible assets not fully amortized is approximately 9.4 years. Our indefinite lived intangible assets consist of acquired IPR&D product rights from the Receptos, Nogra and Gloucester acquisitions.

Intangible assets outstanding as of September 30, 2016 and December 31, 2015 are summarized as follows:

| September 30, 2016 | Gross Carrying Value | Accumulated Amortization | Intangible Assets, Net |
|---|---|---|---|
| Amortizable intangible assets: | | | |
| Acquired developed product rights | $3,405.9 | $ (1,632.3) | $1,773.6 |
| Technology | 482.6 | (282.5) | 200.1 |
| Licenses | 66.9 | (25.5) | 41.4 |
| Other | 43.4 | (30.2) | 13.2 |
| | 3,998.8 | (1,970.5) | 2,028.3 |
| Non-amortized intangible assets: | | | |
| Acquired IPR&D product rights | 8,470.6 | — | 8,470.6 |
| Total intangible assets | $12,469.4 | $ (1,970.5) | $10,498.9 |

| December 31, 2015 | Gross Carrying Value | Accumulated Amortization | Intangible Assets, Net |
|---|---|---|---|
| Amortizable intangible assets: | | | |
| Acquired developed product rights | $3,405.9 | $ (1,448.3) | $1,957.6 |
| Technology | 565.7 | (197.1) | 368.6 |
| Licenses | 66.7 | (22.3) | 44.4 |
| Other | 44.0 | (27.1) | 16.9 |
| | 4,082.3 | (1,694.8) | 2,387.5 |
| Non-amortized intangible assets: | | | |
| Acquired IPR&D product rights | 8,470.6 | — | 8,470.6 |
| Total intangible assets | $12,552.9 | $ (1,694.8) | $10,858.1 |

The gross carrying value of intangible assets decreased during the nine-month period ended September 30, 2016 primarily due to an $83.1 million impairment charge included in Amortization of acquired intangible assets, to write down the technology platform asset obtained in the acquisition of Avila. The impairment charge was due to revised estimates of the probability-weighted forecasted future cash flows expected to be produced from the technology platform compared to prior estimates. An adjustment was also made to the probability and timing of future potential milestone payments, which resulted in an $81.1 million reduction in the fair value of our contingent consideration payable to the former shareholders of Avila (see Note 6).

Amortization expense related to intangible assets was $88.7 million and $65.0 million for the three-month periods ended September 30, 2016 and 2015, respectively and $358.7 million and $195.0 million for the nine-month periods ended September 30, 2016 and 2015, respectively. The amortization expense for the nine-month period ended September 30, 2016 includes the impairment charge related to the Avila technology platform. The amortization expense increase for the three-month period ended September

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

30, 2016 primarily related to the amortization of the technology platform received in the October 2015 acquisition of Quanticel and a reduction in the estimated useful lives of intangible assets related to the acquisition of Gloucester following the grant to Fresenius Kabi USA, LLC of a non-exclusive, royalty-free sublicense to manufacture and market a generic version of romidepsin for injection as of February 1, 2018. See Note 18 of Notes to Consolidated Financial Statements in our 2015 Annual Report on Form 10-K for additional details related to the sublicense to manufacture and market a generic version of romidepsin. The amortization expense increase for the nine-month period ended September 30, 2016 primarily related to the impairment of the technology platform noted above as well as the factors that were noted for the three month period. Assuming no changes in the gross carrying amount of intangible assets, the future annual amortization expense, including the 2016 impairment charge, related to intangible assets is expected to be approximately $447.3 million in 2016, $354.4 million in 2017, $252.4 million in 2018, $155.5 million in 2019, and $154.2 million in 2020.

Goodwill: At September 30, 2016, our goodwill related to the 2015 acquisitions of Receptos and Quanticel, the 2014 acquisition of Nogra, the 2012 acquisition of Avila, the 2010 acquisitions of Abraxis and Gloucester, the 2008 acquisition of Pharmion and the 2004 acquisition of Penn T Limited.

The carrying value of goodwill decreased by $13.2 million to $4.866 billion as of September 30, 2016 compared to December 31, 2015 due to a $10.7 million measurement period adjustment related to the acquisition of Quanticel and $2.5 million related to the sale of our LifebankUSA business (see Note 3).

11. Debt

Short-Term Borrowings and Current Portion of Long-Term Debt: We had no outstanding short-term borrowing as of September 30, 2016 or December 31, 2015. The current portion of long-term debt outstanding as of September 30, 2016 and December 31, 2015 includes:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| 1.900% senior notes due 2017 | $ 501.0 | $ — |

Long-Term Debt: Summarized below are the carrying values of our senior notes at September 30, 2016 and December 31, 2015:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| 1.900% senior notes due 2017 | $— | $499.9 |
| 2.125% senior notes due 2018 | 997.6 | 996.7 |
| 2.300% senior notes due 2018 | 402.2 | 400.2 |
| 2.250% senior notes due 2019 | 510.3 | 502.6 |
| 2.875% senior notes due 2020 | 1,492.3 | 1,490.9 |
| 3.950% senior notes due 2020 | 519.7 | 504.9 |
| 3.250% senior notes due 2022 | 1,055.9 | 1,010.5 |
| 3.550% senior notes due 2022 | 993.2 | 992.4 |
| 4.000% senior notes due 2023 | 745.2 | 706.0 |
| 3.625% senior notes due 2024 | 1,001.1 | 994.9 |
| 3.875% senior notes due 2025 | 2,483.8 | 2,461.8 |
| 5.700% senior notes due 2040 | 247.2 | 247.2 |
| 5.250% senior notes due 2043 | 392.9 | 392.8 |
| 4.625% senior notes due 2044 | 986.8 | 986.6 |

| | | |
|---|---|---|
| 5.000% senior notes due 2045 | 1,974.3 | 1,974.0 |
| Total long-term debt | $13,802.5 | $14,161.4 |

At September 30, 2016, the fair value of our outstanding Senior Notes was $15.207 billion and represented a Level 2 measurement within the fair value measurement hierarchy.

From time to time, we have used treasury rate locks and forward starting interest rate swap contracts to hedge against changes in interest rates in anticipation of issuing fixed-rate notes. As of September 30, 2016, a balance of $62.6 million in losses remained

in accumulated OCI related to the settlement of these derivative instruments and will be recognized as interest expense over the life of the notes.

At December 31, 2015, we were party to pay-floating, receive-fixed interest rate swap contracts designated as fair value hedges of fixed-rate notes as described in Note 7. Our swap contracts outstanding at December 31, 2015 effectively converted the hedged portion of our fixed-rate notes to floating rates. From time to time we terminate the hedging relationship on certain of our swap contracts by settling the contracts or by entering into offsetting contracts. Any net proceeds received or paid in these settlements are accounted for as a reduction or increase of current and future interest expense associated with the previously hedged notes. As of September 30, 2016 and December 31, 2015 we had balances of $182.5 million and $33.1 million, respectively, of unamortized gains recorded as a component of our debt as a result of past swap contract settlements. See Note 7 for additional details related to interest rate swap contract activity.

Commercial Paper: In April 2016, our Board of Directors authorized an increase in the maximum amount of commercial paper issuable to $2.000 billion. As of September 30, 2016 and December 31, 2015, we had available capacity to issue up to $2.000 billion and $1.750 billion of Commercial Paper, respectively, and there were no borrowings under the program.

Senior Unsecured Credit Facility: We maintain a senior unsecured revolving credit facility (Credit Facility) that provides revolving credit in the aggregate amount of $2.000 billion which was increased from $1.750 billion in April 2016. In April 2016, the term of the Credit Facility was also extended from April 17, 2020 to April 17, 2021. Amounts may be borrowed in U.S. Dollars for general corporate purposes. The Credit Facility currently serves as backup liquidity for our Commercial Paper borrowings. At September 30, 2016 and December 31, 2015 there was no outstanding borrowing against the Credit Facility. The Credit Facility contains affirmative and negative covenants, including certain customary financial covenants. We were in compliance with all financial covenants as of September 30, 2016.

## 12. Share-Based Compensation

We have a stockholder-approved stock incentive plan, the 2008 Stock Incentive Plan (Amended and Restated as of April 15, 2015, as amended effective June 15, 2016) (Plan) that provides for the granting of options, restricted stock units (RSUs), performance stock units (PSUs) and other share-based awards to our employees, officers and non-employee directors. The Management Compensation and Development Committee of the Board of Directors (Compensation Committee) may determine the type, amount and terms, including vesting, of any awards made under the Plan.

On June 15, 2016, our stockholders approved an amendment of the Plan, which included the following key modifications: adoption of an aggregate share reserve of 265,263,282 shares of Common Stock, which includes 17,500,000 new shares of Common Stock; a limitation on the aggregate equity compensation that may be provided to non-employee members of the Board of Directors; and an amendment that includes clarifying changes to employee award provisions regarding vesting acceleration on a change in control or certain employment terminations events and the applicability of the five percent limitation on such awards. The term of the plan is through April 15, 2025.

The following table summarizes the components of share-based compensation expense in the Consolidated Statements of Operations for the three- and nine-month periods ended September 30, 2016 and 2015:

| | Three-Month Periods Ended | Nine-Month Periods Ended |
|---|---|---|

| | September 30, | | September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Cost of goods sold (excluding amortization of acquired intangible assets) | $7.4 | $8.5 | $25.0 | $23.3 |
| Research and development | 63.0 | 65.2 | 189.1 | 185.0 |
| Selling, general and administrative | 77.3 | 76.2 | 237.6 | 218.1 |
| Total share-based compensation expense | 147.7 | 149.9 | 451.7 | 426.4 |
| Tax benefit related to share-based compensation expense | 40.6 | 42.8 | 124.7 | 124.0 |
| Reduction in income | $107.1 | $107.1 | $327.0 | $302.4 |

The following table summarizes the activity for stock options, RSUs and PSUs for the nine-month period ended September 30, 2016 (in millions unless otherwise noted):

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| | Stock Options | Restricted Stock Units | Performance-Based Restricted Stock Units (in thousands) |
|---|---|---|---|
| Outstanding at December 31, 2015 | 75.7 | 7.7 | 334 |
| Changes during the Year: | | | |
| Granted | 8.3 | 1.4 | 203 |
| Exercised / Released | (6.6) | (2.7) | (72) |
| Forfeited | (1.9) | (0.3) | (29) |
| Outstanding at September 30, 2016 | 75.5 | 6.1 | 436 |

Total compensation cost related to unvested awards not yet recognized and the weighted-average periods over which the awards are expected to be recognized at September 30, 2016 were as follows (dollars in millions):

| | Stock Options | Restricted Stock Units | Performance-Based Restricted Stock Units |
|---|---|---|---|
| Unrecognized compensation cost | $605.3 | $287.4 | $26.9 |
| Expected weighted-average period in years of compensation cost to be recognized | 2.0 | 1.4 | 1.8 |

13. Income Taxes

We regularly evaluate the likelihood of the realization of our deferred tax assets and reduce the carrying amount of those deferred tax assets by a valuation allowance to the extent we believe a portion will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carryforward periods available to us for tax reporting purposes and other relevant factors. Significant judgment is required in making this assessment.

Our tax returns are under routine examination in many taxing jurisdictions. The scope of these examinations includes, but is not limited to, the review of our taxable presence in a jurisdiction, our deduction of certain items, our claims for research and development credits, our compliance with transfer pricing rules and regulations and the inclusion or exclusion of amounts from our tax returns as filed. Our U.S. federal income tax returns have been audited by the Internal Revenue Service (IRS) through the year ended December 31, 2008. Tax returns for the years ended December 31, 2009, 2010 and 2011 are currently under examination by the IRS. We are also subject to audits by various state and foreign taxing authorities, including most U.S. states and countries where we have operations.

We regularly reevaluate our tax positions and the associated interest and penalties, if applicable, resulting from audits of federal, state and foreign income tax filings, as well as changes in tax law (including regulations, administrative pronouncements, judicial precedents, etc.) that would reduce the technical merits of the position to below more likely than not. We believe that our accruals for tax liabilities are adequate for all open years. Many factors are considered in making these evaluations, including past history, recent interpretations of tax law and the specifics of each matter. Because tax regulations are subject to interpretation and tax litigation is inherently uncertain, these evaluations can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. We apply a variety of methodologies in making these estimates and assumptions, which include studies performed by

independent economists, advice from industry and subject matter experts, evaluation of public actions taken by the IRS and other taxing authorities, as well as our industry experience. These evaluations are based on estimates and assumptions that have been deemed reasonable by management. However, if management's estimates are not representative of actual outcomes, our results of operations could be materially impacted.

Unrecognized tax benefits, generally represented by liabilities on the Consolidated Balance Sheets and all subject to tax examinations, arise when the estimated benefit recorded in the financial statements differs from the amounts taken or expected to be taken in a tax return because of the uncertainties described above. These unrecognized tax benefits relate primarily to issues common among multinational corporations. Virtually all of these unrecognized tax benefits, if recognized, would impact the effective income tax rate. We account for interest and potential penalties related to uncertain tax positions as part of our provision for income taxes. For the nine-month period ended September 30, 2016 gross unrecognized tax benefits increased by $45.9 million, primarily from an increase in unrecognized tax benefits related to current year operations of $53.2 million and accrued interest of $4.1 million, partially offset by a decrease in unrecognized tax benefits related to settlements of tax positions taken in prior years

of $11.4 million. The liability for unrecognized tax benefits is expected to increase in the next 12 months relating to operations occurring in that period. Any settlements of examinations with taxing authorities or statute of limitations expirations would likely result in a decrease in our liability for unrecognized tax benefits and a corresponding increase in taxes paid or payable and/or a decrease in income tax expense. It is reasonably possible that the amount of the liability for unrecognized tax benefits could change by a significant amount during the next twelve-month period as a result of settlements or statute of limitations expirations. Finalizing examinations with the relevant taxing authorities can include formal administrative and legal proceedings and, as a result, it is difficult to estimate the timing and range of possible change related to the Company's unrecognized tax benefits. An estimate of the range of possible change cannot be made until issues are further developed or examinations close. Our estimates of tax benefits and potential tax benefits may not be representative of actual outcomes and variation from such estimates could materially affect our consolidated financial statements in the period of settlement or when the statutes of limitations expire.

14. Collaboration Agreements

We enter into collaborative arrangements for the research and development, license, manufacture and/or commercialization of products and/or product candidates. In addition, we also acquire products, product candidates and research and development technology rights and establish research and development collaborations with third parties to enhance our strategic position within our industry by strengthening and diversifying our research and development capabilities, product pipeline and marketed product base. These arrangements may include non-refundable, upfront payments, payments for options to acquire rights to products and product candidates and other rights, as well as potential development, regulatory and commercial performance milestone payments, cost sharing arrangements, royalty payments, profit sharing and equity investments. These arrangements could include obligations for us to make equity investments in the event of an initial public offering of equity by our partners. The activities under these collaboration agreements are performed with no guarantee of either technological or commercial success. Although we do not consider any individual alliance to be material, certain of the more notable alliances are described below. See Note 17 of Notes to Consolidated Financial Statements included in our 2015 Annual Report on Form 10-K for a description of certain other collaboration agreements entered into prior to January 1, 2016. The following is a brief description of significant developments in the relationships between Celgene and our collaboration partners during the nine months ended September 30, 2016:

Agios Pharmaceuticals, Inc. (Agios): During 2010, we entered into a discovery and development collaboration and license agreement with Agios (2010 Collaboration Agreement) that focused on cancer metabolism targets and the discovery, development and commercialization of associated therapeutics. We had an exclusive option to license any potential products that resulted from the Agios cancer metabolism research platform through the end of phase I clinical trials.

With respect to each product that we chose to license, Agios could receive up to approximately $120.0 million upon achievement of certain milestones and other payments plus royalties on worldwide sales, and Agios may also participate in the development and commercialization of certain products in the United States.

In June 2014, we exercised our option to license enasidenib (AG-221) from Agios on an exclusive worldwide basis, with Agios retaining the right to conduct a portion of commercialization activities for AG-221 in the United States. AG-221 is currently in a phase I/II study in patients that present an isocitrate dehydrogenase-2 (IDH2) mutation with advanced hematologic malignancies, including acute myeloid leukemia (AML).

In January 2015, we exercised our option to an exclusive license from Agios to AG-120, an orally available, selective inhibitor of the mutated isocitrate dehydrogenase-1 (IDH1) protein for the treatment of patients with cancers that

harbor an IDH1 mutation, outside the United States, with Agios retaining the right to conduct development and commercialization within the United States. In May 2016, we agreed to return to Agios the AG-120 lead development candidate. As a result, Agios obtained global rights to AG-120 and the IDH1 program. Neither Agios nor Celgene will have any continuing financial obligation, including royalties or milestone payments, to the other concerning AG-120 or the IDH1 program.

In April 2015, we and Agios entered into a new joint worldwide development and profit share collaboration for AG-881. AG-881 is a small molecule that has shown in preclinical studies to fully penetrate the blood brain barrier and inhibit IDH1 and IDH2 mutant cancer cells. Under the terms of the AG-881 collaboration, Agios received an initial payment of $10.0 million and is eligible to receive contingent payments of up to $70.0 million based on the attainment of specified regulatory goals. The upfront payment to Agios was accounted for as $9.0 million of upfront research and development collaboration expense and $1.0 million of prepaid manufacturing rights recorded on the balance sheet. We and Agios will jointly collaborate on the worldwide development program for AG-881, sharing development costs equally. The two companies will share profits equally, with Celgene recording commercial sales worldwide. Agios will lead commercialization in the U.S. with both companies sharing equally in field-based commercial

activities, and we will lead commercialization ex-U.S. with Agios providing one third of field-based commercial activities in the major European Union (EU) markets.

In May 2016, we and one of our subsidiaries entered into a new global collaboration agreement with Agios (2016 Collaboration Agreement), focused on the research and development of immunotherapies against certain metabolic targets that exert their antitumor efficacy primarily via the immune system. In addition to new programs identified under the 2016 Collaboration Agreement, we and Agios have also agreed that all future development and commercialization of two programs that were conducted under the 2010 Collaboration Agreement will now be governed by the 2016 Collaboration Agreement.

During the term of the 2016 Collaboration Agreement, Agios plans to conduct research programs focused on discovering compounds that are active against metabolic targets in the immuno-oncology (IO) field. The initial four-year term will expire in May 2020. We may extend the term for up to two additional one-year terms or in specified cases, up to four additional years.

Under the 2016 Collaboration Agreement, Agios has granted us exclusive options to obtain development and commercialization rights for each program that we have designated for further development. We may exercise each such option beginning on the designation of a development candidate for such program (or on the designation of such program as a continuation program) and ending on the earlier of the end of a specified period after Agios has furnished us with specified information for such program, or January 1, 2030. Programs that have applications in the inflammation or autoimmune (I&I) field that may result from the 2016 Collaboration Agreement will also be subject to the exclusive options described above.

Agios will retain rights to any program that we do not designate for further development or as to which we do not exercise our option.

Under the terms of the 2016 Collaboration Agreement, following our exercise of an option with respect to a program, we and Agios (and, if applicable, one of its affiliates) will enter into either a co-development and co-commercialization agreement if such program is in the IO field, typically with a 50/50 profit and cost share, or a license agreement if such program is in the I&I field.

Under the terms of the 2016 Collaboration Agreement, we made an initial upfront payment to Agios in the amount of $200.0 million for the initial four-year term. We have specified rights to extend the term by paying a per-year extension fee. We will pay Agios a designation fee for each program that we designate for further development and for each continuation program. For each program as to which we exercise our option to develop and commercialize, subject to antitrust clearance, we will pay Agios an option exercise fee of at least $30.0 million for any designated development program and for any continuation programs, plus up to $169.0 million (or up to $209.0 million for one program designated by Celgene which will have a profit and cost share of 65 percent for Celgene and 35 percent for Agios) in clinical and regulatory milestone payments (and in the case of licensed programs in the I&I field, up to $386.0 million in clinical, regulatory and commercial milestone payments, as well as double-digit tiered royalties on any net sales). Agios will remain responsible for the initial phase I dose escalation study for each program under the 2016 Collaboration Agreement, including associated costs.

bluebird bio, Inc. (bluebird): In June 2015, we amended and restated the March 2013 collaboration agreement with bluebird. The amended and restated collaboration will focus on the discovery, development and commercialization of novel disease-altering gene therapy product candidates targeting BCMA. BCMA is a cell surface protein that is expressed in normal plasma cells and in most multiple myeloma cells, but is absent from other normal tissues. The

collaboration applies gene therapy technology to modify a patient's own T-cells, known as chimeric antigen receptor (CAR) T-cells, to target and destroy cancer cells that express BCMA. We have an option to license any anti-BCMA products resulting from the collaboration after the completion of a phase I clinical study by bluebird.

Under the amended and restated collaboration agreement we made an additional $25.0 million payment for bluebird to develop the lead anti-BCMA product candidate (bb2121) through a phase I clinical study and to develop next-generation anti-BCMA product candidates. The payment was recorded as prepaid research and development on the balance sheet and is being recognized as expense as development work is performed. Upon exercising our option to license a product and achievement of certain milestones, we may be obligated to pay up to $230.0 million per licensed product in aggregate potential option fees and clinical and regulatory milestone payments. bluebird also has the option to participate in the development and commercialization of any licensed products resulting from the collaboration through a 50/50 co-development and profit share in the United States in exchange for a reduction of milestone payments. Royalties would also be paid to bluebird in regions where there is no profit share, including in the United States, if bluebird declines to exercise their co-development and profit sharing rights. In February 2016, we exercised our option to license bb2121 and made a corresponding $10.0 million license payment to bluebird.

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We have the ability to terminate the collaboration at our discretion upon 90 days written notice to bluebird. If a product is optioned, the parties will enter into a pre-negotiated license agreement and potentially a co-development agreement should bluebird exercise its option to participate in the development and commercialization in the United States. The license agreement, if not terminated sooner, would expire upon the expiration of all applicable royalty terms under the agreement with respect to the particular product, and the co-development agreement, if not terminated sooner, would expire when the product is no longer being developed or commercialized in the United States. Upon the expiration of a particular license agreement, we will have a fully paid-up, royalty-free license to use bluebird intellectual property to manufacture, market, use and sell such licensed product.

Juno Therapeutics, Inc. (Juno): In June 2015, we announced a collaboration and investment agreement with Juno for the development and commercialization of immunotherapies for cancer and autoimmune diseases. The collaboration and investment agreement became effective on July 31, 2015. Under the terms of the agreement, we have the option to be the commercialization partner for Juno’s oncology and cell therapy auto-immune product candidates, including Juno’s CD19 and CD22 directed CAR T-cell product candidates. For Juno-originated programs co-developed under the collaboration, (a) Juno will be responsible for research and development in North America and will retain commercialization rights in those territories, (b) we will be responsible for development and commercialization in the rest of the world, and will pay Juno a royalty on sales in those territories, and (c) we have certain co-promotion options for global profit sharing arrangements under which the parties will share worldwide expenses and profits equally, except in China.

Juno will have the option to enter into co-development and co-commercialization arrangements on certain Celgene-originated development candidates that target T-cells. For any such Celgene-originated programs co-developed under the collaboration, (a) the parties will share global costs and profits, with 70 percent allocated to us and 30 percent allocated to Juno, and (b) we will lead global development and commercialization, subject to a Juno co-promote option in the United States and certain EU territories.

Upon closing, we made a $1.000 billion payment to Juno and received 9.1 million shares of Juno common stock, amounting to approximately 9 percent of Juno's outstanding common stock. The value of our investment in Juno common stock of $424.9 million was recorded as an available-for sale marketable security based on the market price of the stock on the date of closing and the remaining portion of the $1.000 billion payment, which consists of both a $150.0 million upfront payment and a $425.1 million premium paid on our equity investment, was recorded to research and development expense.

The collaboration agreement has an initial term of ten years. If the parties enter into any pre-negotiated license or co-commercialization agreement during the initial term, the collaboration agreement will continue until all such license and co-commercialization agreements have expired. The collaboration agreement may be terminated at our discretion upon 120 days’ prior written notice to Juno and by either party upon material breach of the other party, subject to cure periods.

In April 2016, we exercised our option to develop and commercialize Juno’s CD19 program outside North America and China and entered into a pre-negotiated license agreement with Juno with respect to such program by making a $50.0 million payment for such license.

Acetylon Pharmaceuticals, Inc. (Acetylon): In May 2016, our collaboration and option agreement with Acetylon expired. As a result, we do not have an exclusive right to acquire Acetylon or any right to receive any research and development services from Acetylon or have any obligation to pay any milestone payment under that agreement. We have retained our equity interest in Acetylon.

Jounce Therapeutics, Inc. (Jounce): In July 2016, we entered into a collaboration agreement with Jounce for the development and commercialization of immunotherapies for cancer, including Jounce's lead product candidate, JTX-2011, targeting ICOS (the Inducible T cell CO-Stimulator), up to four early stage programs to be selected from a defined pool of B cell, T regulatory cell and tumor-associated macrophage targets emerging from Jounce's research platform, and a Jounce checkpoint immuno-oncology program. Under the terms of the collaboration agreement we made an initial upfront payment to Jounce in the amount of $237.6 million for the initial four year term. Jounce is also eligible to receive regulatory, development, and net sales milestone payments.

We have the right to opt into the collaboration programs at defined stages of development. Following opt-in, the parties will share U.S. profits and losses on the collaboration programs as follows: (a) Jounce will retain a 60 percent U.S. profit share of JTX-2011, with 40 percent allocated to us; (b) Jounce will retain a 25 percent U.S. profit share on the first additional program, with 75 percent allocated to us; and (c) the parties will equally share U.S. profits on up to three additional programs. Also, following opt-in to each of the foregoing programs, we will receive exclusive ex-U.S. commercialization rights with respect to such program, Jounce will be eligible to receive tiered royalties on sales outside the United States, and development costs will be shared by the parties in a

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manner that is commensurate with their respective product rights under such program. The parties will equally share global profits from the checkpoint program.

The collaboration agreement has an initial term of 4 years, which may be extended up to three additional years. If the parties enter into any pre-negotiated license or co-commercialization agreement during the initial term, the collaboration agreement will continue until all such license and co-commercialization agreements have expired. The collaboration agreement may be terminated at our discretion upon 120 days prior written notice to Jounce and by either party upon material breach of the other party, subject to cure periods.

Other Potential Future Milestone Payments: In addition to the collaboration arrangements described above, we entered into a collaborative arrangement during 2016 that includes the potential for a future milestone payment of $85.0 million related to the attainment of a specified regulatory milestone. Our obligation to fund this effort is contingent upon our continued involvement in the program and/or the lack of any adverse events which could cause the discontinuance of the program.

A financial summary of certain period activity related to our collaboration agreements is presented below[1,2]:

| | | Three-Month Periods Ended September 30, Research and Development Expense | | | | |
|---|---|---|---|---|---|---|
| | | Upfront Fees | Milestones | Extension/Termination of Agreements | Amortization of Prepaid Research and Development | Equity Investments Made During Period |
| Agios | 2016 | $— | $— | $— | $0.3 | $— |
| bluebird | 2016 | — | — | — | 2.1 | — |
| | 2015 | — | — | — | 2.1 | — |
| Jounce | 2016 | 237.6 | — | — | — | 23.6 |
| Juno[3] | 2016 | — | — | — | — | — |
| | 2015 | 575.1 | — | — | — | 424.9 |
| Nurix | 2016 | — | — | — | — | — |
| | 2015 | 149.8 | — | — | — | 17.0 |
| Other Collaboration Arrangements | 2016 | 86.0 | — | 8.8 | 10.4 | 15.0 |
| | 2015 | 26.9 | — | 10.0 | 6.8 | — |

| | | Nine-Month Periods Ended September 30, Research and Development Expense | | | | |
|---|---|---|---|---|---|---|
| | | Upfront Fees | Milestones | Extension/Termination of Agreements | Amortization of Prepaid Research and Development | Equity Investments Made During Period |
| Agios | 2016 | $200.0 | $25.0 | $— | $0.5 | $— |
| | 2015 | 9.0 | — | — | — | — |
| AstraZeneca | 2016 | — | — | — | — | — |
| | 2015 | 450.0 | — | — | — | — |
| bluebird | 2016 | 10.0 | — | — | 6.3 | — |
| | 2015 | — | — | — | 2.8 | — |
| Jounce | 2016 | 237.6 | — | — | — | 23.6 |
| Juno[3] | 2016 | 50.0 | — | — | — | 41.0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | 575.1 | — | — | — | 424.9 |
| Lycera | 2016 | — | — | — | — | — |
| | 2015 | 69.5 | — | — | — | 10.0 |
| Nurix | 2016 | — | — | — | — | — |
| | 2015 | 149.8 | — | — | — | 17.0 |
| Other Collaboration Arrangements | 2016 | 190.0 | 50.5 | 8.8 | 15.8 | 52.0 |
| | 2015 | 86.9 | 8.0 | 18.1 | 18.9 | 50.0 |

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A financial summary of the period-end balances related to our collaboration agreements is presented below:

| | Balances as of: | Intangible Asset Balance | Equity Investment Balance | Percentage of Outstanding Equity |
|---|---|---|---|---|
| Acceleron | September 30, 2016 | $— | $195.9 | 14% |
| | December 31, 2015 | — | 224.9 | 14% |
| Agios | September 30, 2016 | 0.5 | 276.9 | 13% |
| | December 31, 2015 | 1.0 | 340.4 | 13% |
| bluebird | September 30, 2016 | 13.9 | N/A | N/A |
| | December 31, 2015 | 20.2 | N/A | N/A |
| Jounce | September 30, 2016 | — | 23.6 | 11% |
| | December 31, 2015 | — | N/A | N/A |
| Juno | September 30, 2016 | — | 308.4 | 10% |
| | December 31, 2015 | — | 401.8 | 9% |
| Lycera | September 30, 2016 | 3.0 | 10.0 | 8% |
| | December 31, 2015 | 3.0 | 10.0 | 8% |
| Nurix | September 30, 2016 | 0.2 | 17.0 | 11% |
| | December 31, 2015 | 0.2 | 17.0 | 11% |
| Other Collaboration Arrangements | September 30, 2016 | 32.3 | 210.1 | N/A |
| | December 31, 2015 | 48.2 | 335.0 | N/A |

1 Activity and balances are presented specifically for notable new collaborations and for those collaborations which we have described in detail in our 2015 Annual Report on Form 10-K if there has been new significant activity during the periods presented. Amounts related to collaborations that are not specifically presented are included in the aggregate as Other Collaboration Arrangements.

2 In addition to the expenses noted in the tables above, we may also incur expenses for collaboration agreement related activities that are managed or funded by us.

3 Our equity investment in Juno made in the first quarter of 2016 was transacted at a price per share that exceeded the market value of Juno's publicly traded common stock on the transaction closing date, resulting in an expense for the premium of $6.0 million that was recorded in the Consolidated Statements of Operations as Other income (expense), net in the first quarter of 2016.

15. Commitments and Contingencies

Collaboration Arrangements and Purchased Compounds: We have entered into certain research and development collaboration agreements with third parties that include the funding of certain development, manufacturing and commercialization efforts with the potential for future milestone and royalty payments upon the achievement of pre-established developmental, regulatory and/or commercial targets. In September 2016, we acquired compounds as part of our purchase of EngMab in a transaction that included potential future development, regulatory and commercial milestones. Our obligation to fund these efforts/milestones is contingent upon our continued involvement in the programs and/or the lack of any adverse events which could cause the discontinuance of the programs. Due to the nature of these arrangements, the future potential payments are inherently uncertain, and accordingly no amounts have been recorded for the potential future achievement of these targets in our accompanying Consolidated Balance Sheets at September 30, 2016 and December 31, 2015. See Note 3 for additional details related to our purchase of EngMab and Note 14 for additional details related to collaboration arrangements.

Contingencies: We believe we maintain insurance coverage adequate for our current needs. Our 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. We review the effects of such laws and regulations on our operations and modify our operations as appropriate. We believe we are in substantial compliance with all applicable environmental laws and regulations.

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We have ongoing customs, duties and VAT examinations in various countries that have yet to be settled. Based on our knowledge of the claims and facts and circumstances to date, none of these matters, individually or in the aggregate, are deemed to be material to our financial condition.

16. Legal Proceedings

Like many companies in our industry, we have from time to time received inquiries and subpoenas and other types of information requests from government authorities and others and we have been subject to claims and other actions related to our business activities. While the ultimate outcome of investigations, inquiries, information requests and legal proceedings is difficult to predict, adverse resolutions or settlements of those matters may result in, among other things, modification of our business practices, product recalls, costs and significant payments, which may have a material adverse effect on our results of operations, cash flows or financial condition.

Pending patent proceedings include challenges to the scope, validity and/or enforceability of our patents relating to certain of our products, uses of products or processes. Further, we are subject to claims of third parties that we infringe their patents covering products or processes. Although we believe we have substantial defenses to these challenges and claims, there can be no assurance as to the outcome of these matters and an adverse decision in these proceedings could result in one or more of the following: (i) a loss of patent protection, which could lead to a significant reduction of sales that could materially affect future results of operations, (ii) our inability to continue to engage in certain activities, and (iii) significant liabilities, including payment of damages, royalties and/or license fees to any such third party.

Among the principal matters pending are the following:

Patent Related Proceedings:

REVLIMID®: In 2012, our European patent EP 1 667 682 (the ’682 patent) relating to certain polymorphic forms of lenalidomide expiring in 2024 was opposed in a proceeding before the European Patent Office (EPO) by Generics (UK) Ltd. and Teva Pharmaceutical Industries Ltd. On July 21, 2015, the EPO determined, based primarily on procedural grounds, that the ’682 patent was not valid. Celgene appealed the EPO ruling to the EPO Board of Appeal, which stays any revocation of the patent until the appeal is finally adjudicated. No appeal hearing date has been set. We do not anticipate a decision from the EPO Board of Appeal for several years and intend to vigorously defend all of our intellectual property rights.

In 2010, Celgene’s European patent EP 1 505 973 (the ’973 patent) relating to certain uses of lenalidomide expiring in 2023 was opposed in a proceeding before the EPO by Synthon B.V. and an anonymous party. On February 25, 2013, the EPO determined that the ’973 patent was not valid. Celgene appealed the EPO ruling to the EPO Board of Appeal, which stays any revocation of the patent until the appeal is finally adjudicated. No appeal hearing date has been set. We do not anticipate a decision from the EPO Board of Appeal for several years and intend to vigorously defend all of our intellectual property rights.

We believe that our patent portfolio for lenalidomide in Europe, including the composition of matter patent which expires in 2022, is strong and defensible. Although we believe that we will prevail in the EPO proceedings, in the event these patents are found not to be valid, we expect that we will still have patent protection in the EU for lenalidomide through at least 2022.

We received a Notice Letter dated September 9, 2016 from Dr. Reddy's Laboratories (DRL) notifying us of DRL's ANDA which contains Paragraph IV certifications against U.S. Patent Nos. 7,456,800, 7,855,217, 7,968,569, 8,530,498, 8,648,095, 9,101,621, and 9,101,622 that are listed in the Orange Book for REVLIMID®. DRL is seeking to manufacture and market a generic version of 2.5mg, 5mg, 10mg, 15mg, 20mg, and 25mg REVLIMID® (lenalidomide) capsules.

On October 20, 2016, we filed an infringement action against DRL in the United States District Court for the District of New Jersey. As a result of the filing of our action, the FDA cannot grant final approval of DRL's ANDA until the earlier of (i) a final decision that each of the patents is invalid, unenforceable, and/or not infringed; or (ii) March 9, 2019. DRL has not yet responded to the complaint.

POMALYST®: In 2015, our European patent EP 2 105 135 (the '135 patent) relating to certain pharmaceutical compositions for treating cancer expiring in 2023 was opposed in a proceeding before the European Patent Office (EPO) by Generics (UK) Ltd., Accord Healthcare Ltd., Hexal AG, IPS Intellectual Property Services, Synthon B.V., and Actavis Group PTC EHF. A hearing at the EPO is scheduled for December 19 and 20, 2016. We do not anticipate a formal decision from the EPO until early 2017. Regulatory Exclusivity for POMALYST® will expire in Europe in 2023. We have applied for Supplementary Protection Certificates

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(SPC's) in each member state in Europe, which if granted, will extend the patent term of the '135 patent by five years. The patent will then expire in 2028 in each member state that grants the SPC assuming the '135 patent is deemed to be valid in the EPO proceeding.

THALOMID® (thalidomide): We received a Notice Letter dated December 18, 2014 from Lannett Holdings, Inc. (Lannett) notifying us of Lannett's Abbreviated New Drug Application (ANDA) which contains Paragraph IV certifications against U.S. Patent Nos. 5,629,327; 6,045,501; 6,315,720; 6,561,976; 6,561,977; 6,755,784; 6,869,399; 6,908,432; 7,141,018; 7,230,012; 7,435,745; 7,874,984; 7,959,566; 8,204,763; 8,315,886; 8,589,188; and 8,626,531 that are listed in the Orange Book for THALOMID® (thalidomide). Lannett is seeking to market a generic version of 50mg, 100mg, 150mg and 200mg of THALOMID® capsules.

On January 30, 2015, we filed an infringement action against Lannett in the United States District Court for the District of New Jersey. As a result of the filing of our action, the U.S. Food and Drug Administration (FDA) cannot grant final approval of Lannett's ANDA until the earlier of (i) a final decision that each of the patents is invalid, unenforceable, and/or not infringed; or (ii) June 22, 2017. On March 27, 2015, Lannett filed a motion to dismiss our complaint for lack of personal jurisdiction and we filed a response to the motion on April 20, 2015. A hearing was held on July 27, 2015 and the Court decided to administratively terminate the motion to dismiss in order to allow us to conduct jurisdictional discovery. On November 17, 2015, Lannett withdrew its motion to dismiss.

On December 8, 2015, Lannett filed an answer and counterclaims asserting that the patents-in-suit are invalid, unenforceable, and/or not infringed and on January 19, 2016 we filed a reply to Lannett's counterclaims. On April 18, 2016, Lannett amended its answer to narrow the scope of its unenforceability counterclaims and we filed an amended reply on May 5, 2016. Fact discovery is currently set to close on April 6, 2017. Markman briefing is currently scheduled to be completed on February 21, 2017. The Court has not yet set dates for a Markman hearing, close of expert discovery, or trial.

ABRAXANE® (paclitaxel protein-bound particles for injectable suspension) (albumin bound): We received a Notice Letter dated February 23, 2016 from Actavis LLC (Actavis) notifying us of Actavis's ANDA which contains Paragraph IV certifications against U.S. Patent Nos. 7,820,788; 7,923,536; 8,138,229; and 8,853,260 that are listed in the Orange Book for ABRAXANE®. Actavis is seeking to manufacture and market a generic version of ABRAXANE® (paclitaxel protein-bound particles for injectable suspension) (albumin bound) 100 mg/vial.

On April 6, 2016, we filed an infringement action against Actavis in the United States District Court for the District of New Jersey. As a result of the filing of our action, the FDA cannot grant final approval of Actavis's ANDA until the earlier of (i) a final decision that each of the patents is invalid, unenforceable, and/or not infringed; or (ii) August 24, 2018. On May 3, 2016, Actavis filed an answer and counterclaims asserting that the patents-in-suit are invalid and/or not infringed. On June 10, 2016 we filed a reply to Actavis's counterclaims. Fact discovery is currently set to close on May 15, 2017. Markman briefing is currently scheduled to be completed on April 4, 2017. Expert discovery is currently set to close on November 17, 2017. The Court has not yet set dates for a Markman hearing or trial.

Proceedings involving the USPTO:

Under the America Invents Act (AIA), any person may seek to challenge an issued patent by petitioning the United States Patent and Trademark Office (USPTO) to institute a post grant review. On April 23, 2015, we were informed that Coalition for Affordable Drugs VI LLC filed petitions for Inter Partes Review (IPRs) challenging the validity of Celgene's patents U.S. 6,045,501 and U.S. 6,315,720 covering certain aspects of our REMS program. On October 27, 2015, the USPTO Patent Trial and Appeal Board (PTAB) instituted IPR proceedings relating to these patents. An oral

hearing was held on July 21, 2016; the decisions, rendered on October 26, 2016, held that the ’501 and ’720 patents are invalid, primarily due to obviousness in view of certain publications.

An appeal of the final written decisions of the PTAB can be made to the United States Court of Appeals for the Federal Circuit. The notice of appeal must be filed within 63 days of the decision, unless we choose to move for a rehearing at the PTAB, in which case the notice of appeal is due within 63 days of the PTAB’s action on any rehearing request. The ’501 and ’720 patents remain valid and enforceable pending any rehearing and/or appeal. We retain other patents covering certain aspects of our REMS program, as well as other patents that cover our products that use our REMS system. We are evaluating the decisions, and we intend to continue to vigorously defend our intellectual property rights.

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

Other Proceedings:

In 2009, we received a Civil Investigative Demand (CID) from the U.S. Federal Trade Commission (FTC) seeking documents and other information relating to requests by manufacturers of generic drugs to purchase our patented REVLIMID® and THALOMID® brand drugs in order for the FTC to evaluate whether there may be reason to believe that we have engaged in unfair methods of competition. In 2010, the State of Connecticut issued a subpoena referring to the same issues raised by the 2009 CID. Also in 2010, we received a second CID from the FTC relating to this matter. We continue to cooperate with the FTC and State of Connecticut investigations.

On April 3, 2014, Mylan Pharmaceuticals Inc. (Mylan) filed a lawsuit against us in the United States District Court for the District of New Jersey alleging that we violated various federal and state antitrust and unfair competition laws by allegedly refusing to sell samples of our THALOMID® and REVLIMID® brand drugs so that Mylan can conduct the bioequivalence testing necessary for ANDAs to be submitted to the FDA for approval to market generic versions of these products. Mylan is seeking injunctive relief, damages and declaratory judgment. We filed a motion to dismiss Mylan’s complaint on May 25, 2014. Mylan filed its opposition to our motion to dismiss on June 16, 2014. The Federal Trade Commission filed amicus curiae brief in opposition to our motion to dismiss on June 17, 2014. On December 22, 2014, the court granted Celgene’s motion to dismiss (i) Mylan’s claims based on Section 1 of the Sherman Act (without prejudice), and (ii) Mylan's related claims arising under the New Jersey Antitrust Act. The court denied our motion to dismiss the rest of the claims which primarily relate to Section 2 of the Sherman Act. On January 6, 2015 we filed a motion to certify for interlocutory appeal the order denying our motion to dismiss with respect to the claims relating to Section 2 of the Sherman Act, which appeal was denied by the United State Court of Appeals for the Third Circuit on March 5, 2015. On January 20, 2015, we filed an answer to Mylan’s complaint. Fact discovery closed on April 8, 2016 and expert discovery closed on October 24, 2016. No trial date has been set. We intend to vigorously defend against Mylan’s claims.

A civil qui tam action brought by a former Celgene employee is pending in the U.S. District Court for the Central District of California (the Brown Action). The complaint was unsealed in February 2014 when the United States Department of Justice (DOJ) declined to intervene in the action, reserving its right to intervene in the action at a later time. The complaint alleges off-label marketing and improper payments to physicians in connection with sales of THALOMID® and REVLIMID® and is brought on behalf of the federal and various state governments under the federal false claims act and similar state laws. On April 25, 2014, we filed a motion to dismiss the complaint, which was denied except with respect to certain state claims. The complaint in the Brown Action seeks, among other things, treble damages, civil penalties and attorneys’ fees and costs. We filed our answer to the complaint in August 2014. Fact discovery closed in September 2015 and expert discovery closed on June 30, 2016.

The relator (the person who brought the lawsuit on behalf of the government) submitted an expert report that, based on certain theories, purported to calculate damages and penalties. On July 25, 2016, we filed a motion to strike the relator’s expert report, and on August 23, 2016, the Magistrate Judge granted our motion striking substantial portions of the report, which will significantly reduce the expert’s calculation of damages and penalties. This decision is currently being appealed by the relator to the District Court judge.

The parties filed a Joint Stipulation regarding Defendant Celgene's Motion for Summary Judgment Or, In the Alternative, Partial Summary Judgment on August 29, 2016. That motion is still awaiting a decision. No trial date has been set. While we believe that the relator's claims and requested damages are unsubstantiated, we are unable at this time to predict the outcome of this matter or the ultimate legal and financial liability, if any, and cannot reasonably estimate the possible loss or range of loss, if any. We intend to vigorously defend against the claims in this action.

In February 2014, we received a letter purportedly on behalf of a stockholder demanding access to certain books and records of the Company for the purpose of investigating matters pertaining to the Brown Action. The Company complied with the demand, as modified through negotiation with counsel for the purported stockholder. In July 2014, we received a letter purportedly on behalf of two stockholders (one of which was referenced in the February 2014 letter) that demands, primarily on the basis of the allegations in the Brown Action, that our board of directors take action on the Company's behalf to correct alleged deficiencies in the Company's internal controls and to recover from current and past directors and officers damages those stockholders allege to have resulted from breaches of fiduciary duties related to the matters alleged in the Brown Action (the Demand). Our Board formed a Demand Investigation Committee, and with the assistance of independent counsel retained by it, the Demand Investigation Committee considered the issues raised in the stockholders' letter. In October 2015, the Demand Investigation Committee reported to the Board of Directors, and the Board of Directors accepted the Committee's recommendation, that the Company take no action at this time, legal or otherwise, in response to the stockholders' demands. In November 2015, we received another letter purportedly on behalf of the same two stockholders that demands access to certain books and records of the Company for the purpose of

CELGENE CORPORATION AND SUBSIDIARIES
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investigating whether the Demand was wrongfully refused, the independence, good faith and due care of the Demand Investigation Committee, and whether the Demand Investigation Committee conducted a reasonable investigation of the Demand. On February 22, 2016, the Company produced additional documents pursuant to the November 2015 letter.

In November 2014, we received another letter purportedly on behalf of a stockholder demanding access to certain books and records of the Company for the purpose of investigating matters pertaining to the Brown Action. The Company complied with the demand, as modified through negotiation with counsel for the purported stockholder, and in November 2015 the stockholder filed a complaint in Delaware Chancery Court asserting derivative claims on behalf of the Company against eight current, and four former members of the Board of Directors. The complaint alleges, largely on the basis of allegations in the Brown Action, that the defendant directors breached their fiduciary duties by allowing the Company to engage in unlawful activity in its marketing of THALOMID® and REVLIMID®, and seeks from the defendant directors unspecified damages, including Celgene’s costs of defending against government and civil investigations and lawsuits and alleged reputational harm, and disgorgement of compensation paid to the defendant directors. On January 22, 2016, the Company filed a motion to dismiss the complaint on the basis that prior to filing the complaint asserting derivative claims the plaintiff was required under Delaware law and failed to demand that our board of directors take action on the Company’s behalf. On April 5, 2016, the Company filed a motion to dismiss the amended complaint. Briefing on the motion to dismiss was completed on August 10, 2016. Oral argument on the motion to dismiss is scheduled to be heard on December 9, 2016.

On June 7, 2013, Children's Medical Center Corporation (CMCC) filed a lawsuit against us in the Superior Court of the Commonwealth of Massachusetts alleging that our obligation to pay a 1% royalty on REVLIMID® net sales revenue and a 2.5% royalty on POMALYST®/IMNOVID® net sales revenue under a license agreement entered into in December 2002 extended beyond February 28, 2013 and that our failure to make royalty payments to CMCC subsequent to February 28, 2013 breached the license agreement. CMCC is seeking unspecified damages and a declaration that the license agreement remains in full force and effect. In July 2013, we removed these proceedings to the United States District Court for the District of Massachusetts. On August 5, 2013, we filed an answer to CMCC’s complaint and a counterclaim for declaratory judgment that our obligations to pay royalties have expired. On August 26, 2013, CMCC filed an answer to our counterclaim.

On July 8, 2014, CR Rev Holdings, LLC (CR Rev) filed a complaint against Celgene in the same action. CR Rev alleges that CMCC sold and assigned a substantial portion of the royalty payments owed by Celgene on the sale of REVLIMID® to CR Rev. CR Rev has alleged causes of action with respect to REVLIMID® identical to those alleged by CMCC, and seeks unspecified damages and a declaration that the license agreement is still in effect.

Discovery in this matter has been completed. On August 4, 2015, plaintiffs filed a motion for summary judgment on certain claims, including breach of contract, declaratory judgment and, with respect to Celgene’s counterclaims, patent misuse. Oral argument on the motion was held on October 21, 2015.

On February 23, 2016, the Magistrate Judge recommended to the Court to allow royalties on sales of REVLIMID® during the period from March 1, 2013 through May 11, 2016, and to deny the remainder of plaintiffs’ motion, including seeking royalties on sales of POMALYST®/IMNOVID®. On March 8, 2016, we filed objections to the Report and Recommendation. On September 30, 2016, the District Court judge issued an order adopting in part and modifying in part the Magistrate Judge’s Report and Recommendation. In particular, the District Court judge’s order permits Celgene to proceed at trial with its patent misuse defense to the plaintiffs’ claims. No trial date has been set by the court. We intend to vigorously defend against CMCC's and CR Rev's claims.

During the nine-month period ended September 30, 2016, we accrued $130.0 million related to this matter, including $30.0 million accrued during the three-month period ended September 30, 2016, as a probable and reasonably estimable loss contingency. There is a reasonable possibility that the ultimate loss incurred may be in excess of the accrued amount. We will monitor this matter for developments that would affect the likelihood of a loss and the accrued amount thereof and will adjust the accrued amount as appropriate. Any loss in excess of the accrued amount cannot be reasonably estimated at this time and may be affected by, among other things: (i) resolution of disputed facts and claims at trial, and (ii) future court rulings from the District Court or on appeal.

On November 7, 2014, the International Union of Bricklayers and Allied Craft Workers Local 1 Health Fund (IUB) filed a putative class action lawsuit against us in the United States District Court for the District of New Jersey alleging that we violated various state antitrust, consumer protection, and unfair competition laws by (a) allegedly securing an exclusive supply contract with Seratec S.A.R.L. so that Barr Laboratories (Barr) allegedly could not secure its own supply of thalidomide active pharmaceutical ingredient; (b) allegedly refusing to sell samples of our THALOMID® and REVLIMID® brand drugs to Mylan Pharmaceuticals, Lannett Company, and Dr. Reddy's Laboratories so that those companies can conduct the bioequivalence testing necessary for ANDAs to

be submitted to the FDA for approval to market generic versions of these products; and (c) allegedly bringing unjustified patent infringement lawsuits against Barr and Natco Pharma Limited in order to allegedly delay those companies from obtaining approval for proposed generic versions of THALOMID® and REVLIMID®. IUB, on behalf of itself and a putative class of third party payers, is seeking injunctive relief and damages. On February 3, 2015, we filed a motion to dismiss IUB's complaint. On March 3, 2015, the City of Providence ("Providence") filed a similar putative class action making similar allegations. Both IUB and Providence, on behalf of themselves and a putative class of third party payers, are seeking injunctive relief and damages. Providence agreed that the decision in the motion to dismiss IUB's complaint would apply to the identical claims in Providence's complaint. A supplemental motion to dismiss Providence's state law claims was filed on April 20, 2015. On October 30, 2015, the court denied our motion to dismiss on all grounds.

Celgene filed its Answer to the IUB and Providence complaints on January 11, 2016. The completion of fact discovery and expert discovery is scheduled for August 1, 2017 and December 15, 2017, respectively. No trial date has been set. We intend to vigorously defend against IUB's claims.

In December 2015, we received a subpoena from the U.S. Attorney's Office for the District of Massachusetts requesting documents related to our support of 501(c)(3) organizations that provide financial assistance to patients. We are cooperating with this request.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

This report contains forward-looking statements that reflect the current views of our management with respect to future events, results of operations, economic performance and/or financial condition. Any statements contained in this report that are not statements of historical fact may be deemed forward-looking statements. Forward-looking statements generally are identified by the words "expects," "anticipates," "believes," "intends," "estimates," "aims," "plans," "could," "will," "will continue," "seeks," "should," "predicts," "potential," "outlook," "guidance," "target," "forecast," "proba the negative of such terms and similar expressions. Forward-looking statements are based on current plans, estimates, assumptions and projections, which are subject to change and may be affected by risks and uncertainties, most of which are difficult to predict and are generally beyond our control. Forward-looking statements speak only as of the date they are made and we undertake no obligation to update any forward-looking statement in light of new information or future events, although we intend to continue to meet our ongoing disclosure obligations under the U.S. securities laws and other applicable laws. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements and therefore you should not place too much reliance on them. These factors include, among others, those described in the sections "Forward-Looking Statements" and "Risk Factors" contained in our 2015 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC) and in this report and our other public reports filed with the SEC. If these or other risks and uncertainties materialize, or if the assumptions underlying any of the forward-looking statements prove incorrect, our actual performance and future actions may be materially different from those expressed in, or implied by, such forward-looking statements. We can offer no assurance that our estimates or expectations will prove accurate or that we will be able to achieve our strategic and operational goals.

Executive Summary

Celgene Corporation, together with its subsidiaries (collectively "we," "our," "us," "Celgene" or the "Company"), is an integrated global biopharmaceutical company engaged primarily in the discovery, development and commercialization of innovative therapies for the treatment of cancer and inflammatory diseases through next-generation solutions in protein homeostasis, immuno-oncology, epigenetics, immunology and neuro-inflammation. Celgene Corporation was incorporated in the State of Delaware in 1986.

Our primary commercial stage products include REVLIMID®, POMALYST®/IMNOVID®, OTEZLA®, ABRAXANE®, VIDAZA®, azacitidine for injection (generic version of VIDAZA®), THALOMID® (sold as THALOMID® or Thalidomide Celgene™ outside of the U.S.), and ISTODAX®. In addition, we earn revenue through licensing arrangements.

We continue to invest substantially in research and development in support of multiple ongoing proprietary clinical development programs which support our existing products and pipeline of new drug candidates. Our clinical trial activity includes trials across the disease areas of hematology, oncology, and inflammation and immunology. REVLIMID® is in several phase III trials covering a range of hematological malignancies that include multiple myeloma, lymphomas, chronic lymphocytic leukemia (CLL) and myelodysplastic syndromes (MDS). POMALYST®/IMNOVID® was approved in the United States and the European Union (EU) for indications in multiple myeloma based on phase II and phase III trial results, respectively, and an additional phase III trial is underway with POMALYST®/IMNOVID® in relapsed and refractory multiple myeloma. In solid tumors, ABRAXANE® is currently in various stages of investigation for breast, pancreatic and non-small cell lung cancers. In inflammation and immunology, OTEZLA® is being evaluated in phase III trials for Behçet's disease and expanded indications in psoriatic arthritis and plaque psoriasis. We also have a growing number of potential products in phase III trials across multiple diseases. In the inflammation and immunology therapeutic area, we have phase III trials

underway for ozanimod in ulcerative colitis (UC) and relapsing multiple sclerosis (RMS) and for GED-0301 in Crohn's disease. In hematology, phase III trials are underway for CC-486 in MDS and acute myeloid leukemia (AML), for AG-221 in AML and for luspatercept in MDS and beta-thalassemia.

Beyond our phase III programs, we have access to a growing early-to-mid-stage pipeline of novel potential therapies to address significant unmet medical needs that consists of new drug candidates and cell therapies developed in-house, licensed from other companies or able to be optioned from collaboration partners. We believe that continued use of our primary commercial stage products, participation in research and development collaboration arrangements, depth of our product pipeline, regulatory approvals of new products and expanded use of existing products will provide the catalysts for future growth.

In September 2016, we acquired all of the outstanding shares of EngMab AG (EngMab), a privately held biotechnology company focused on T-cell bi-specific antibodies. EngMab's lead molecule, EM901 is a preclinical T-cell bi-specific antibody targeting B-cell maturation antigen (BCMA). The acquisition also included another early stage program.

The consideration included an initial payment of 606.9 million Swiss Francs (CHF) (approximately $625.3 million), contingent development and regulatory milestones of up to CHF 150.0 million (approximately $154.7 million) and contingent commercial milestones of up to CHF 2.250 billion (approximately $2.320 billion) based on cumulative sales levels of between $1.000 billion and $40.000 billion. The acquisition of EngMab did not include any significant processes and thus, for accounting purposes, we have concluded that the acquired assets did not meet the definition of a business. The initial payment was allocated primarily to the EM901 molecule and another early stage program, resulting in a $623.3 million research and development asset acquisition expense and $2.0 million of net working capital acquired.

The diseases that our primary commercial stage products are approved to treat are described below for the major markets of the United States, the European Union and Japan. Approvals in other international markets are indicated in the aggregate for the disease indication that most closely represents the majority of the other international approvals.

REVLIMID® (lenalidomide): REVLIMID® is an oral immunomodulatory drug marketed in the United States and many international markets for the following uses:

| Disease | Geographic Approvals |
|---|---|
| Multiple myeloma (MM) | |
| Multiple myeloma in combination with dexamethasone, in patients who have received at least one prior therapy | - United States<br>- European Union<br>- Japan<br>- Other international markets |
| Multiple myeloma in combination with dexamethasone for newly diagnosed patients | - United States<br>- Japan<br>- Other international markets |
| Adult patients with previously untreated multiple myeloma who are not eligible for transplant | - European Union |
| Myelodysplastic syndromes (MDS) | |
| Transfusion-dependent anemia due to low- or intermediate-1-risk MDS associated with a deletion 5q abnormality with or without additional cytogenetic abnormalities | - United States<br>- Other international markets |
| Transfusion-dependent anemia due to low- or intermediate-1-risk MDS in patients with isolated deletion 5q cytogenetic abnormality when other options are insufficient or inadequate | - European Union |
| MDS with a deletion 5q cytogenetic abnormality. The efficacy or safety of REVLIMID® for International Prognostic Scoring System (IPSS) intermediate-2 or high risk MDS has not been established. | - Japan |
| Mantle cell lymphoma (MCL) in patients whose disease has relapsed or progressed after two prior therapies, one of which included bortezomib | - United States<br>- European Union (July 2016) |

ABRAXANE® (paclitaxel albumin-bound particles for injectable suspension): ABRAXANE® is a solvent-free chemotherapy product which was developed using our proprietary nab® technology platform. This protein-bound chemotherapy agent combines paclitaxel with albumin. ABRAXANE® is approved for the following uses:

| Disease | Geographic Approvals |
|---|---|
| Breast Cancer | |
| Metastatic breast cancer, after failure of combination chemotherapy for metastatic disease or relapse within six months of adjuvant chemotherapy. Prior therapy should have included an anthracycline unless clinically contraindicated. | - United States<br>- Other international markets |
| Metastatic breast cancer in adult patients who have failed first-line treatment for metastatic disease for whom standard, anthracycline containing therapy is not indicated | - European Union |
| Breast cancer | - Japan |
| Non-Small Cell Lung Cancer (NSCLC) | |
| Locally advanced or metastatic NSCLC, as first-line treatment in combination with carboplatin, in patients who are not candidates for curative surgery or radiation therapy | - United States<br>- European Union<br>- Other international markets |
| NSCLC | - Japan |
| Pancreatic Cancer | |
| Metastatic adenocarcinoma of the pancreas, a form of pancreatic cancer, as first line treatment in combination with gemcitabine | - United States<br>- European Union<br>- Other international markets |
| Unresectable pancreatic cancer | - Japan |
| Gastric Cancer | - Japan |

POMALYST®/IMNOVID® (pomalidomide)[1]: POMALYST®/IMNOVID® is a proprietary, distinct, small molecule that is administered orally and modulates the immune system and other biologically important targets. POMALYST®/IMNOVID® is approved for the following uses:

| Disease | Geographic Approvals |
|---|---|
| Multiple myeloma, in combination with dexamethasone, for patients who have received at least two prior therapies, including lenalidomide and a proteasome inhibitor and have demonstrated disease progression on or within 60 days of completion of the last therapy | - United States |
| Relapsed and refractory multiple myeloma, in combination with dexamethasone, for adult patients who have received at least two prior therapies including both lenalidomide and bortezomib and have demonstrated disease progression on the last therapy | - European Union |
| Relapsed and refractory multiple myeloma for patients who have received REVLIMID or bortezomib | - Japan |

[1] We received regulatory approval for pomalidomide under the trade name POMALYST® in the United States and Japan and under the trade name IMNOVID® in the European Union.

OTEZLA® (apremilast): OTEZLA® is an oral small-molecule inhibitor of phosphodiesterase 4 (PDE4) specific for cyclic adenosine monophosphate (cAMP). PDE4 inhibition results in increased intracellular cAMP levels. OTEZLA® is approved for the following uses:

| Disease | Geographic Approvals |
|---|---|
| Psoriatic arthritis | |
| Adult patients with active psoriatic arthritis | - United States |
| Adult patients with active psoriatic arthritis who have had an inadequate response or who have been intolerant to a prior DMARD therapy | - European Union |
| Psoriasis | |
| Patients with moderate to severe plaque psoriasis who are candidates for phototherapy or systemic therapy | - United States<br>- Other international markets |
| Adult patients with moderate to severe chronic plaque psoriasis who failed to respond to or who have a contraindication to, or are intolerant to other systemic therapy including cyclosporine, methotrexate or psoralen and ultraviolet-A light | - European Union |

VIDAZA® (azacitidine for injection): VIDAZA® is a pyrimidine nucleoside analog that has been shown to reverse the effects of DNA hypermethylation and promote subsequent gene re-expression. VIDAZA® is a Category 1 recommended treatment for patients with intermediate-2 and high-risk MDS, according to the National Comprehensive Cancer Network. The U.S. regulatory exclusivity for VIDAZA® expired in May 2011. After the launch of a generic version of VIDAZA® in the United States by a competitor in September 2013, we experienced a significant reduction in our U.S. sales of VIDAZA®. In 2013, we contracted with Sandoz AG (Sandoz) to sell a generic version of VIDAZA® in the United States, which we supply, and we recognize net product sales from our sales to Sandoz. Regulatory exclusivity for VIDAZA® is expected to continue in Europe through 2019. VIDAZA® is marketed in the United States and many international markets for the following uses:

| Disease | Geographic Approvals |
|---|---|
| Myelodysplastic syndromes (MDS) | |
| All French-American-British (FAB) subtypes | - United States<br>- European Union |
| Intermediate-2 and high-risk MDS | - Other international markets |
| MDS | - Japan |
| Chronic myelomonocytic leukemia with 10% to 29% marrow blasts without myeloproliferative disorder | - European Union<br>- Other international markets |
| Acute myeloid leukemia (AML) with 20% to 30% blasts and multi-lineage dysplasia | - European Union<br>- Other international markets |
| Acute myeloid leukemia with >30% bone marrow blasts according to the WHO classification in patients aged 65 years or older who are not eligible for haematopoietic stem cell transplantation | - European Union |

THALOMID® (thalidomide): THALOMID®, sold as THALOMID® or Thalidomide Celgene™ outside of the United States, is administered orally for the following uses:

| Disease | Geographic Approvals |
|---|---|
| Multiple myeloma | |
| Newly diagnosed multiple myeloma, in combination with dexamethasone<br>Thalomid in combination with dexamethasone is indicated for induction therapy prior to high dose chemotherapy with autologous stem cell rescue, for the treatment of patients with untreated multiple myeloma | - United States<br>- Other international markets |
| Multiple myeloma after failure of standard therapies (relapsed or refractory) | - Other international markets |
| Thalidomide Celgene™ in combination with melphalan and prednisone as a first line treatment for patients with untreated multiple myeloma who are aged sixty-five years of age or older or ineligible for high dose chemotherapy | - European Union<br>- Other international markets |
| Erythema nodosum leprosum | |
| Cutaneous manifestations of moderate to severe erythema nodosum leprosum (ENL), an inflammatory complication of leprosy | - United States<br>- Other international markets |
| Maintenance therapy for prevention and suppression of the cutaneous manifestation of ENL recurrence | - United States<br>- Other international markets |

ISTODAX® (romidepsin): ISTODAX® is administered by intravenous infusion for the treatment of patients with the diseases as indicated below and has received orphan drug designation for the treatment of non-Hodgkin's T-cell lymphomas, including CTCL and PTCL.

| Disease | Geographic Approvals |
|---|---|
| Cutaneous T-cell lymphoma (CTCL) in patients who have received at least one prior systemic therapy | - United States<br>- Other international markets |
| Peripheral T-cell lymphoma (PTCL) in patients who have received at least one prior therapy | - United States<br>- Other international markets |

The following table summarizes total revenue and earnings for the three-month periods ended September 30, 2016 and 2015 (dollar amounts in millions, except per share data):

| | Three-Month Periods Ended September 30, | | Increase | Percent Change |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| Total revenue | $2,982.8 | $2,334.1 | $648.7 | 27.8 % |
| Net income (loss) | $171.4 | $(34.1) | $205.5 | N/A |
| Diluted earnings (loss) per share | $0.21 | $(0.04) | $0.25 | N/A |

Total revenue increased by $648.7 million in the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, primarily due to the continued growth in sales of REVLIMID®, POMALYST®/IMNOVID® and OTEZLA®. The $205.5 million increase in net income and $0.25 increase in diluted

earnings per share in the current three-month period were primarily due to a higher level of net product sales, a $425.5 million decrease in research and development collaboration related expenses and a $201.2 million decrease in acquisition-related charges and restructuring, net, partly offset by a $623.3 million research and development asset acquisition expense in the 2016 three-month period associated with the purchase of EngMab, and an increase in selling, general and administrative expenses of $147.7 million due to a $72.0 million increase in expenses for donations to independent non-profit patient assistance organizations in the United States as well as a $30.0 million increase in litigation-related loss contingency accrual expense.

The following table summarizes total revenue and earnings for the nine-month periods ended September 30, 2016 and 2015 (dollar amounts in millions, except per share data):

| | Nine-Month Periods Ended September 30, | | Increase | Percent Change |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| Total revenue | $8,248.7 | $6,692.7 | $1,556.0 | 23.2 % |
| Net income | $1,570.3 | $1,041.0 | $529.3 | 50.8 % |
| Diluted earnings per share | $1.95 | $1.26 | $0.69 | 54.8 % |

Total revenue increased by $1.556 billion in the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, primarily due to the continued growth in sales of REVLIMID®, POMALYST®/IMNOVID® and OTEZLA®. The $529.3 million increase in net income and $0.69 increase in diluted earnings per share in the current nine-month period were primarily due to a higher level of net product sales and a $190.6 million decrease in acquisition related charges and restructuring, net, partly offset by a $414.9 million increase in research and development expenses primarily due to a $623.3 million research and development asset acquisition expense associated with the purchase of EngMab, an increase in selling, general and administrative expenses of $276.8 million primarily due to a $130.0 million litigation-related loss contingency accrual expense, and a $187.0 million increase in interest expense due to the issuance of $8.000 billion of senior notes in August 2015.

Results of Operations

Three-Month Periods Ended September 30, 2016 and 2015

Total Revenue: Total revenue and related percentages for the three-month periods ended September 30, 2016 and 2015 were as follows (dollar amounts in millions):

| | Three-Month Periods Ended September 30, | | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| Net product sales: | | | | |
| REVLIMID® | $1,891.1 | $1,453.5 | $ 437.6 | 30.1 % |
| POMALYST®/IMNOVID® | 341.1 | 256.5 | 84.6 | 33.0 % |
| OTEZLA® | 274.6 | 138.7 | 135.9 | 98.0 % |
| ABRAXANE® | 233.3 | 229.9 | 3.4 | 1.5 % |
| VIDAZA® | 154.7 | 147.6 | 7.1 | 4.8 % |
| azacitidine for injection | 15.3 | 21.3 | (6.0) | (28.2)% |
| THALOMID® | 38.3 | 45.1 | (6.8) | (15.1)% |
| ISTODAX® | 19.4 | 17.3 | 2.1 | 12.1 % |
| Other | 0.8 | 2.7 | (1.9) | (70.4)% |
| Total net product sales | $2,968.6 | $2,312.6 | $ 656.0 | 28.4 % |
| Other revenue | 14.2 | 21.5 | (7.3) | (34.0)% |
| Total revenue | $2,982.8 | $2,334.1 | $ 648.7 | 27.8 % |

Total revenue increased by $648.7 million, or 27.8%, to $2.983 billion for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, reflecting increases of $402.5 million, or 28.5%, in the United States and $246.2 million, or 26.7%, in international markets.

Net Product Sales: Total net product sales for the three-month period ended September 30, 2016 increased by $656.0 million, or 28.4%, to $2.969 billion compared to the three-month period ended September 30, 2015. The increase was comprised of net volume increases of $568.7 million and net price increases of $104.1 million, offset in part by a $16.8 million unfavorable foreign exchange impact, including the impact of foreign exchange hedging activity.

REVLIMID® net sales increased by $437.6 million, or 30.1%, to $1.891 billion for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, primarily due to increased unit sales in both U.S. and international markets and price increases in the U.S. market. Increases in market penetration and treatment duration of patients using REVLIMID® in multiple myeloma contributed to the increase in U.S. unit sales. The growth in international markets resulted

from volume increases, primarily driven by increased duration of use and market share gains. Launch activities in the U.S. and EU for the Newly Diagnosed Multiple Myeloma indication, which was approved in both the U.S. and the EU in February 2015, commenced in 2015.

POMALYST®/IMNOVID® net sales increased by $84.6 million, or 33.0%, to $341.1 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, reflecting net sales of $203.3 million in the United States and $137.8 million in international markets. Increases in treatment duration contributed to the increase in U.S. and international net sales of POMALYST®/IMNOVID®. Achieving reimbursement in additional countries, notably in Japan, also continues to contribute to the growth of POMALYST®/IMNOVID® net sales in international markets.

OTEZLA® net sales increased by $135.9 million to $274.6 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015 reflecting net sales of $244.5 million in the United States and $30.1 million in international markets. OTEZLA® was approved by the U.S. Food and Drug Administration (FDA) in March 2014 for the treatment of adult patients with active psoriatic arthritis and in September 2014 for the treatment of patients with moderate to severe plaque psoriasis who are candidates for phototherapy or systemic therapy. OTEZLA® was approved for plaque psoriasis and psoriatic arthritis in the European Union in January 2015.

ABRAXANE® net sales increased by $3.4 million, or 1.5%, to $233.3 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015. U.S. sales decreased 0.8 percent to $144.0 million and international sales increased 5.4 percent to $89.3 million. The decrease in sales in the U.S. was due to volume decreases that were offset by an increase in price, while in international markets, volume increases were slightly offset by price decreases. The quarterly activity reflects customer buying patterns and increased competition in breast cancer and lung cancer from new market entrants.

VIDAZA® net sales increased by $7.1 million, or 4.8%, to $154.7 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, primarily due to a $9.3 million increase in international markets resulting from increased unit sales which was partly offset by price decreases.

Azacitidine for injection net sales decreased by $6.0 million, or 28.2%, to $15.3 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, primarily due to price decreases which were partially offset by an increase in unit volumes.

THALOMID® net sales decreased by $6.8 million, or 15.1%, to $38.3 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, primarily resulting from lower unit volumes in the U.S.

ISTODAX® net sales increased by $2.1 million, or 12.1%, to $19.4 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, due to increases in both price and unit volume.

Other Revenue: Other revenue decreased by $7.3 million to $14.2 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015 primarily due to a $5.7 million decrease in royalty revenue from Novartis Pharma AG (Novartis) based upon its sales of both RITALIN® and FOCALIN XR®, both of which have been negatively impacted by generic competition in certain markets, a trend we expect to accelerate throughout the remainder of 2016.

Gross to Net Sales Accruals: We record gross to net sales accruals for sales returns and allowances, sales discounts, government rebates, chargebacks and distributor service fees.

REVLIMID®, POMALYST® and THALOMID® are distributed in the United States primarily through contracted pharmacies under the REVLIMID® Risk Evaluation and Mitigation Strategy (REMS), POMALYST REMS™ and THALOMID REMS™ programs, respectively. These are proprietary risk-management distribution programs tailored specifically to provide for the safe and appropriate distribution and use of REVLIMID®, POMALYST® and THALOMID®. Internationally, REVLIMID®, THALOMID®/Thalidomide Celgene™ and IMNOVID® are distributed under mandatory risk-management distribution programs tailored to meet local authorities' specifications to provide for the product's safe and appropriate distribution and use. These programs may vary by country and, depending upon the country and the design of the risk-management program, the product may be sold through hospitals or retail pharmacies. VIDAZA®, ABRAXANE®, ISTODAX® and OTEZLA® are distributed through the more traditional pharmaceutical industry supply chain and are not subject to the same risk-management distribution programs as REVLIMID®, POMALYST®/IMNOVID® and THALOMID®/Thalidomide Celgene™.

We base our sales returns allowance on estimated on-hand retail/hospital inventories, measured end-customer demand as reported by third-party sources, actual returns history and other factors, such as the trend experience for lots where product is still being returned or inventory centralization and rationalization initiatives conducted by major pharmacy chains, as applicable. If the historical data we use to calculate these estimates do not properly reflect future returns, then a change in the allowance would be made in the period in which such a determination is made and revenues in that period could be materially affected. Under this methodology, we track actual returns by individual production lots. Returns on closed lots, that is, lots no longer eligible for return credits, are analyzed to determine historical returns experience. Returns on open lots, that is, lots still eligible for return credits, are monitored and compared with historical return trend rates. Any changes from the historical trend rates are considered in determining the current sales return allowance. As noted above, REVLIMID®, POMALYST®/IMNOVID® and THALOMID®/Thalidomide Celgene™ are distributed primarily through hospitals and contracted pharmacies, which are typically subject to tighter controls of inventory quantities within the supply channel and, thus, resulting in lower returns activity.

Sales discount accruals are based on payment terms extended to customers.

Government rebate accruals are based on estimated payments due to governmental agencies for purchases made by third parties under various governmental programs. U.S. Medicaid rebate accruals are generally based on historical payment data and estimates of future Medicaid beneficiary utilization applied to the Medicaid unit rebate formula established by the Center for Medicaid and Medicare Services. The Medicaid rebate percentage was increased and extended to Medicaid Managed Care Organizations in March 2010. The accrual of the rebates associated with Medicaid Managed Care Organizations is calculated based on estimated historical patient data related to Medicaid Managed Care Organizations. We also analyze actual billings received from the states to further support the accrual rates. Subsequent to implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the 2010 U.S. Health Care Reform Law), certain states have not completed their Medicaid Managed Care Organization billing for the years of 2010 through 2015. Our accruals for these Medicaid Managed Care Organization rebates had been at elevated levels given the delays in the receipt of complete invoices from certain states. Due to the receipt of more complete claims data during 2013, 2014 and 2015, the accruals for certain states were reduced from these elevated levels as a result of both payments being applied to the accrual during 2013, 2014 and 2015 and changes in estimate of the ultimate obligation during the fourth quarters of 2013, 2014 and 2015. We will continue to adjust the rebate accruals as more information becomes available and to reflect actual claims experience. Manufacturers of pharmaceutical products are responsible for 50% of the patient's cost of branded prescription drugs related to the Medicare Part D Coverage Gap. In order to estimate the cost to us of this coverage gap responsibility, we analyze data for eligible Medicare Part D patients against data for eligible Medicare Part D patients treated with our products as well as the historical invoices. This expense is recognized throughout the year as costs are incurred. In certain international markets government-sponsored programs require rebates to be paid based on program specific rules and, accordingly, the rebate accruals are determined primarily on estimated eligible sales.

Rebates or administrative fees are offered to certain wholesale customers, group purchasing organizations and end-user customers, consistent with pharmaceutical industry practices. Settlement of rebates and fees may generally occur from one to 15 months from the date of sale. We record a provision for rebates at the time of sale based on contracted rates and historical redemption rates. Assumptions used to establish the provision include level of wholesaler inventories, contract sales volumes and average contract pricing. We regularly review the information related to these estimates and adjust the provision accordingly.

Chargeback 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 service fee accruals are based on contractual fees to be paid to the wholesale distributor for services provided. TRICARE is a health care program of the U.S. Department of Defense Military Health System that provides civilian

health benefits for military personnel, military retirees and their dependents. TRICARE rebate accruals are included in chargeback accruals and are based on estimated Department of Defense eligible sales multiplied by the TRICARE rebate formula.

See Critical Accounting Estimates and Significant Accounting Policies in our 2015 Annual Report on Form 10-K for further discussion of gross to net sales accruals.

Gross to net sales accruals and the balance in the related allowance accounts for the three-month periods ended September 30, 2016 and 2015 were as follows (in millions):

| | Sales Returns | Discounts | Government Rebates | Chargebacks and Distributor Service Fees | Total |
|---|---|---|---|---|---|
| Balance at June 30, 2016 | $ 14.4 | $ 14.6 | $ 326.8 | $ 165.8 | $521.6 |
| Allowances for sales during prior periods | (0.7) | — | 3.1 | (7.0) | (4.6) |
| Allowances for sales during 2016 | 2.8 | 40.3 | 164.1 | 191.1 | 398.3 |
| Credits/deductions issued for prior year sales | (1.7) | — | (67.6) | — | (69.3) |
| Credits/deductions issued for sales during 2016 | (1.2) | (39.8) | (83.9) | (184.1) | (309.0) |
| Balance at September 30, 2016 | $ 13.6 | $ 15.1 | $ 342.5 | $ 165.8 | $537.0 |
| | | | | | |
| Balance at June 30, 2015 | $ 12.3 | $ 12.4 | $ 169.6 | $ 119.7 | $314.0 |
| Allowances for sales during prior periods | — | — | 9.2 | — | 9.2 |
| Allowances for sales during 2015 | 2.7 | 30.5 | 89.5 | 125.3 | 248.0 |
| Credits/deductions issued for prior year sales | (1.2) | — | (3.5) | (0.1) | (4.8) |
| Credits/deductions issued for sales during 2015 | (1.8) | (31.4) | (57.9) | (127.6) | (218.7) |
| Balance at September 30, 2015 | $ 12.0 | $ 11.5 | $ 206.9 | $ 117.3 | $347.7 |

A comparison of provisions for allowances for sales within each of the four categories noted above for the three-month periods ended September 30, 2016 and 2015 follows:

Provisions for sales returns decreased by $0.6 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015.

Discount provisions increased by $9.8 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, primarily due to increased sales volumes. The $9.8 million increase primarily related to increases in the United States, with increases of $5.8 million of cash discounts related to REVLIMID® and $2.9 million related to OTEZLA®.

Government rebates provisions increased by $68.5 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, primarily due to increases of $47.1 million in government rebates in the U.S. market and $21.4 million in international government rebates. The $47.1 million increase in the U.S. market was primarily due to higher sales volumes and increased rebate rates, with $29.5 million due to an increase in Medicaid rebates (primarily in the managed care channel) and $17.3 million due to an increase in expense related to Medicare Part D Coverage Gap. The $21.4 million increase in international government rebates was primarily driven by higher sales volumes for our primary products in Europe as well as increased rebate rates.

Chargebacks and distributor service fees provisions increased by $58.8 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015. Chargebacks increased by approximately $47.5 million and distributor service fees increased by approximately $11.3 million. The chargeback increases were primarily due to higher sales volumes and a greater portion of sales qualifying for chargeback rebates, including a $7.5 million increase related to the TRICARE program driven by higher sales volume and increased rebate rates. The distributor service fee increase was primarily due to higher sales volumes of OTEZLA®, which accounted for $9.3 million of the increase in distributor service fees.

Operating Costs and Expenses: Operating costs, expenses and related percentages for the three-month periods ended September 30, 2016 and 2015 were as follows (dollar amounts in millions):

| | Three-Month Periods Ended September 30, | | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| Cost of goods sold (excluding amortization of acquired intangible assets) | $107.7 | $109.9 | $ (2.2) | (2.0)% |
| Percent of net product sales | 3.6% | 4.8% | | |
| Research and development | $1,653.5 | $1,304.5 | $ 349.0 | 26.8% |
| Percent of total revenue | 55.4% | 55.9% | | |
| Selling, general and administrative | $698.0 | $550.3 | $ 147.7 | 26.8% |
| Percent of total revenue | 23.4% | 23.6% | | |
| Amortization of acquired intangible assets | $87.1 | $63.6 | $ 23.5 | 36.9% |
| Acquisition related charges and restructuring, net | $25.0 | $226.2 | $ (201.2) | (88.9)% |

Cost of Goods Sold (excluding amortization of acquired intangible assets): Cost of goods sold (excluding amortization of acquired intangible assets) decreased by $2.2 million to $107.7 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015. As a percent of net product sales, cost of goods sold (excluding amortization of acquired intangible assets) decreased to 3.6% for the three-month period ended September 30, 2016 compared to 4.8% for the three-month period ended September 30, 2015. The decrease in both the amount of cost of goods sold and as a percent of net product sales was primarily due to OTEZLA®, REVLIMID® and POMALYST®, which have lower cost, making up a higher percentage of net product sales, while sales of ABRAXANE®, VIDAZA® and azacitidine for injection, which have a lower gross margin, made up a lower percentage of net product sales.

Research and Development: Research and development expenses increased by $349.0 million to $1.654 billion for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015. The increase was primarily due to a $623.3 million research and development asset acquisition expense associated with the purchase of EngMab as well as increases in activity in support of our early- to mid-stage product pipeline, partially offset by decreases in expenses related to collaboration arrangements. See Note 3 of Notes to Unaudited Consolidated Financial Statements contained elsewhere in this report for additional details related to our purchase of EngMab.

The following table provides a breakdown of research and development expenses (in millions):

| | Three-Month Periods Ended September 30, | | Increase (Decrease) |
|---|---|---|---|
| | 2016 | 2015 | |
| Human pharmaceutical clinical programs | $282.4 | $263.7 | $ 18.7 |
| Other pharmaceutical programs | 201.2 | 170.9 | 30.3 |
| Drug discovery and development | 195.0 | 94.4 | 100.6 |
| Collaboration arrangements | 345.2 | 770.7 | (425.5) |
| Research and development asset acquisition expenses | 623.3 | — | 623.3 |
| Cellular therapy | 6.4 | 4.8 | 1.6 |
| Total | $1,653.5 | $1,304.5 | $ 349.0 |

The following table presents significant developments in our phase III clinical trials and regulatory approval requests that occurred during the three-month period ended September 30, 2016, as well as developments that are expected to occur if the future occurrence is material and reasonably certain:

Regulatory approval requests in major markets:

| Product | Disease Indication | Major Market | Regulatory Agency | Date of Submission or Filing |
|---|---|---|---|---|
| REVLIMID® | Newly diagnosed multiple myeloma maintenance after receiving an autologous stem-cell transplant | U.S. | FDA | Q3 2016 (filed) |
| ISTODAX® | Peripheral T-cell lymphoma | Japan | PMDA[1] | Q3 2016 (submitted) |
| enasidenib (AG-221) | Relapsed or refractory acute myeloid leukemia with isocitrate dehydrogenase-2 (IDH2) mutation | U.S. | FDA | Q4 2016 (expected submission) |

[1] Pharmaceuticals and Medical Devices Agency

Regulatory agency actions:

| Product | Disease Indication | Major Market | Regulatory Agency | Action |
|---|---|---|---|---|
| REVLIMID® | Relapsed or refractory mantle cell lymphoma | EU | EC | Approval |

Selling, General and Administrative: Selling, general and administrative expenses increased by $147.7 million to $698.0 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015. The increase was primarily due to a $72.0 million increase in expenses for donations to independent non-profit patient assistance organizations in the United States as well as a $30.0 million increase in litigation-related loss contingency accrual expense.

Amortization of Acquired Intangible Assets: Amortization of intangible assets acquired as a result of business combinations is summarized below for the three-month periods ended September 30, 2016 and 2015 (in millions):

| | Three-Month Periods Ended September 30, | |
|---|---|---|
| Acquisitions | 2016 | 2015 |
| Abraxis | $37.9 | $38.0 |
| Avila | 7.2 | 11.8 |
| Gloucester | 22.9 | 12.8 |
| Pharmion | 1.0 | 1.0 |
| Quanticel | 18.1 | — |
| Total amortization | $87.1 | $63.6 |

The increase in amortization expense primarily related to amortization of intangible assets acquired in the October 2015 acquisition of Quanticel, and a reduction in the estimated useful lives of intangible assets obtained in the acquisition of Gloucester following the grant to Fresenius Kabi USA, LLC of a non-exclusive, royalty-free sublicense to manufacture and market a generic version of romidepsin for injection as of February 1, 2018. See Note 18 of Notes to Consolidated Financial Statements in our 2015 Annual Report on Form 10-K for additional details related to the sublicense to manufacture and market a generic version of romidepsin. These increases were partly offset by lower amortization expense related to the technology platform obtained in the Avila acquisition due to an impairment of the platform in the second quarter of 2016.

Acquisition Related Charges and Restructuring, net: Acquisition related charges and restructuring, net were a net expense of $25.0 million and $226.2 million for the three-month periods ended September 30, 2016 and 2015, respectively. The $201.2 million decrease in the net expense for the current year three-month period compared to the prior year three-month period was primarily due to a $231.6 million reduction in costs related to the acquisition of Receptos which occurred in August 2015, partly offset by a $13.5 million decrease in the benefit recorded for adjustments to contingent consideration issued as part of the acquisition of

Avila, and a $13.3 million increase in expense in the current year period related to increases in our contingent liabilities associated with the acquisition of Quanticel which occurred in October 2015.

Interest and Investment Income, net: Interest and investment income, net decreased by $1.3 million to $7.3 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015 primarily due to lower investment balances compared to the prior year.

Interest (Expense): Interest (expense) increased by $39.3 million to $127.8 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015 primarily due to interest expense associated with the issuance of $8.000 billion of senior notes in August 2015.

Other Income (Expense), Net: Other income (expense), net and fluctuations in the components of Other income (expense), net is summarized below for the three-month periods ended September 30, 2016 and 2015 (in millions):

| | Three-Month Periods Ended September 30, | | |
|---|---|---|---|
| | 2016 | 2015 | Change |
| Foreign exchange gains (losses), including foreign exchange derivative instruments not designated as hedging instruments | $(0.4) | $(3.2) | $2.8 |
| Fair value adjustments of forward point amounts | (0.1) | 14.7 | (14.8) |
| (Loss) from sale of put options | — | (18.8) | 18.8 |
| Impairment charges | (45.5) | (21.5) | (24.0) |
| Milestones received | — | 12.0 | (12.0) |
| Other | 11.8 | (2.8) | 14.6 |
| Total Other income (expense), net | $(34.2) | $(19.6) | $(14.6) |

Other income (expense), net was a net expense of $34.2 million and $19.6 million for the three-month periods ended September 30, 2016 and 2015, respectively. The $14.6 million increase in expense was primarily due to increased impairment charges recorded in the 2016 period related to certain equity investments and an unfavorable change in spreads between forward and spot rates related to foreign exchange contracts, partly offset by a 2015 loss on Celgene puts sold.

Income Tax Provision: The income tax provision increased by $71.2 million to $85.4 million for the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, primarily as a result of an increase in income before taxes, partially offset by a decrease in the effective tax rate. The estimated full year 2016 underlying effective tax rate of 16.8% reflects the impact of our global business footprint. The decrease in the estimated full year underlying effective tax rate from the third quarter of 2015 reflects a projected decrease in tax expense related to an impairment charge and reduction in the fair value of contingent consideration, both associated with our Avila acquisition, and a nonrecurring unfavorable tax impact of certain prior year payments made to collaboration partners. The effective tax rate for the third quarter of 2016 was increased from 16.8% to 33.3% primarily as a result of the impact of the increase in the estimated full year 2016 underlying effective tax rate from the second quarter applied to cumulative income before taxes. The increase in the estimated full year 2016 underlying effective tax rate from the second quarter primarily resulted from a nondeductible research and development expense incurred in our acquisition of EngMab. The income tax provision for the three-month period ended September 30, 2015 included an estimated full year 2015 underlying effective tax rate of 19.3% (which subsequently increased to 20.0% when the actual 2015 full year results were achieved). The effective tax rate for the third quarter of 2015 was increased from a tax benefit of 19.3% to a tax expense of 71.4% primarily as a result of the impact of the increase in the estimated full year 2015 underlying effective tax rate from the second quarter applied to cumulative income before

taxes.

Nine-Month Periods Ended September 30, 2016 and 2015

Total Revenue: Total revenue and related percentages for the nine-month periods ended September 30, 2016 and 2015 were as follows (dollar amounts in millions):

| | Nine-Month Periods Ended September 30, | | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| Net product sales: | | | | |
| REVLIMID® | $5,165.5 | $4,240.4 | $925.1 | 21.8 % |
| POMALYST®/IMNOVID® | 932.8 | 689.5 | 243.3 | 35.3 % |
| OTEZLA® | 712.1 | 288.7 | 423.4 | 146.7 % |
| ABRAXANE® | 707.3 | 697.5 | 9.8 | 1.4 % |
| VIDAZA® | 455.5 | 443.3 | 12.2 | 2.8 % |
| azacitidine for injection | 55.5 | 64.2 | (8.7) | (13.6)% |
| THALOMID® | 117.0 | 139.9 | (22.9) | (16.4)% |
| ISTODAX® | 58.6 | 51.7 | 6.9 | 13.3 % |
| Other | 3.5 | 6.7 | (3.2) | (47.8)% |
| Total net product sales | $8,207.8 | $6,621.9 | $1,585.9 | 23.9 % |
| Other revenue | 40.9 | 70.8 | (29.9) | (42.2)% |
| Total revenue | $8,248.7 | $6,692.7 | $1,556.0 | 23.2 % |

Total revenue increased by $1.556 billion, or 23.2%, to $8.249 billion for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, reflecting increases of $1.073 billion, or 26.6%, in the United States and $482.9 million, or 18.2%, in international markets.

Net Product Sales: Total net product sales for the nine-month period ended September 30, 2016 increased by $1.586 billion, or 23.9%, to $8.208 billion compared to the nine-month period ended September 30, 2015. The increase was comprised of net volume increases of $1.326 billion and net price increases of $323.1 million, offset in part by a $62.9 million unfavorable foreign exchange impact, including the impact of foreign exchange hedging activity.

REVLIMID® net sales increased by $925.1 million, or 21.8%, to $5.166 billion for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, primarily due to increased unit sales in both U.S. and international markets and price increases in the U.S. market. Increases in market penetration and treatment duration of patients using REVLIMID® in multiple myeloma contributed to the increase in U.S. unit sales. The growth in international markets resulted from volume increases, primarily driven by increased duration of use and market share gains. Launch activities in the U.S. and EU for the Newly Diagnosed Multiple Myeloma indication, which was approved in both the U.S. and the EU in February 2015, commenced in 2015.

POMALYST®/IMNOVID® net sales increased by $243.3 million, or 35.3%, to $932.8 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, reflecting net sales of $558.9 million in the United States and $373.9 million in international markets. Increases in market share and treatment duration contributed to the increase in U.S. and international net sales of POMALYST®/IMNOVID®. Achieving reimbursement in additional countries, notably in Japan, also continues to contribute to the growth of POMALYST®/IMNOVID® net sales in international markets.

OTEZLA® net sales increased by $423.4 million to $712.1 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015 reflecting net sales of $636.1 million in the United States and $76.0 million in international markets. OTEZLA® was approved by the FDA in March 2014 for the

treatment of adult patients with active psoriatic arthritis and in September 2014 for the treatment of patients with moderate to severe plaque psoriasis who are candidates for phototherapy or systemic therapy. OTEZLA® was approved for plaque psoriasis and psoriatic arthritis in the European Union in January 2015.

ABRAXANE® net sales increased by $9.8 million, or 1.4%, to $707.3 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015. U.S. sales of $462.5 million and international sales of $244.8 million decreased 2.4 percent and increased 9.6 percent, respectively. The increase in international sales was primarily due to

increased unit sales, which was partially offset by price decreases. The decrease in U.S. sales was due to volume decreases reflecting the increased competition in breast cancer and lung cancer from new market entrants.

VIDAZA® net sales increased by $12.2 million, or 2.8%, to $455.5 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, primarily due to a $18.8 million increase in international markets resulting from increased unit sales which was partly offset by price decreases in both international and U.S. markets.

Azacitidine for injection net sales decreased by $8.7 million, or 13.6%, to $55.5 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, primarily due to price decreases partially offset by an increase in unit volumes.

THALOMID® net sales decreased by $22.9 million, or 16.4%, to $117.0 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, primarily resulting from lower unit volumes in the U.S.

ISTODAX® net sales increased by $6.9 million, or 13.3%, to $58.6 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, due to an increase in unit volume as well as price increases.

Other Revenue: Other revenue decreased by $29.9 million to $40.9 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015 primarily due to a $25.1 million decrease in royalty revenue from Novartis based upon its sales of both RITALIN® and FOCALIN XR®, both of which have been negatively impacted by generic competition in certain markets, a trend we expect to accelerate throughout the remainder of 2016.

Gross to Net Sales Accruals: Gross to net sales accruals and the balance in the related allowance accounts for the nine-month periods ended September 30, 2016 and 2015 were as follows (in millions):

| | Sales Returns | Discounts | Government Rebates | Chargebacks and Distributor Service Fees | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2015 | $ 17.4 | $ 12.2 | $ 225.1 | $ 141.7 | $396.4 |
| Allowances for sales during prior periods | (5.1) | — | 17.0 | (12.7) | (0.8) |
| Allowances for sales during 2016 | 9.0 | 112.1 | 482.7 | 547.8 | 1,151.6 |
| Credits/deductions issued for prior year sales | (4.6) | (10.5) | (157.2) | (56.4) | (228.7) |
| Credits/deductions issued for sales during 2016 | (3.1) | (98.7) | (225.1) | (454.6) | (781.5) |
| Balance at September 30, 2016 | $ 13.6 | $ 15.1 | $ 342.5 | $ 165.8 | $537.0 |
| | | | | | |
| Balance at December 31, 2014 | $ 10.2 | $ 11.5 | $ 138.5 | $ 94.4 | $254.6 |
| Allowances for sales during prior periods | 1.1 | — | 1.8 | (3.1) | (0.2) |
| Allowances for sales during 2015 | 7.5 | 84.0 | 294.5 | 381.5 | 767.5 |
| Credits/deductions issued for prior year sales | (3.9) | (8.2) | (70.5) | (50.6) | (133.2) |
| Credits/deductions issued for sales during 2015 | (2.9) | (75.8) | (157.4) | (304.9) | (541.0) |
| Balance at September 30, 2015 | $ 12.0 | $ 11.5 | $ 206.9 | $ 117.3 | $347.7 |

A comparison of provisions for allowances for sales within each of the four categories noted above for the nine-month periods ended September 30, 2016 and 2015 follows:

Provisions for sales returns decreased by $4.7 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, primarily due to a $5.0 million reduction in the ABRAXANE® returns reserve allowance related to inventory levels held by certain distributors at the end of 2015 which was sold to end customers during the first quarter of 2016, a $1.9 million decrease in the ISTODAX® returns reserve primarily due to an increase in the return reserve recorded in the third quarter of 2015, and a $1.8 million decrease in the REVLIMID® returns reserve allowance primarily due to an allowance that was recorded in the first half of 2015. These reductions were partially offset by a $2.2 million increase in the returns allowance related to OTEZLA® in the second quarter of 2016 primarily related to anticipated returns of product that have reached their expiration dates and a $1.1 million increase in the POMALYST® returns activity.

Discount provisions increased by $28.1 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, primarily due to increased sales volumes. The $28.1 million increase consisted of a $27.7 million increase in the United States, which included increases of $15.4 million of cash discounts related to REVLIMID®, $9.6 million related to OTEZLA® and $3.2 million related to POMALYST®.

Government rebates provisions increased by $203.4 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, primarily due to a $102.7 million increase in international government rebates. The increase in international government rebates was primarily driven by higher sales volumes for our primary products in Europe and increased international rebate rates as well as an adjustment of our accrual to reflect higher rebate rates for IMNOVID® in France. The increase in the allowance for sales of IMNOVID® in France during prior periods was $15.1 million and the increase for sales of IMNOVID® in the current year due to higher rebate rates in France was $17.7 million. The $100.7 million increase in the U.S. market was primarily due to higher sales volumes and increased rebate rates, with $69.4 million due to an increase in Medicaid rebates (primarily in the managed care channel) and $31.3 million due to an increase in expense related to Medicare Part D Coverage Gap.

Chargebacks and distributor service fees provisions increased by $156.7 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015. Chargebacks increased by approximately $102.0 million and distributor service fees increased by approximately $54.7 million. The chargeback increases were primarily due to higher sales volumes, including an $8.3 million increase related to the TRICARE program driven by higher sales volume and increased rebate rates. The distributor service fee increase was primarily attributable to OTEZLA®, which accounted for $45.6 million of the increase in distributor service fees.

Operating Costs and Expenses: Operating costs, expenses and related percentages for the nine-month periods ended September 30, 2016 and 2015 were as follows (dollar amounts in millions):

| | Nine-Month Periods Ended September 30, | | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| Cost of goods sold (excluding amortization of acquired intangible assets) | $324.5 | $314.7 | $ 9.8 | 3.1 % |
| Percent of net product sales | 4.0 % | 4.8 % | | |
| Research and development | $3,335.4 | $2,920.5 | $ 414.9 | 14.2 % |
| Percent of total revenue | 40.4 % | 43.6 % | | |
| Selling, general and administrative | $1,973.1 | $1,696.3 | $ 276.8 | 16.3 % |
| Percent of total revenue | 23.9 % | 25.3 % | | |
| Amortization of acquired intangible assets | $353.7 | $190.9 | $ 162.8 | 85.3 % |
| Acquisition related charges and restructuring, net | $25.3 | $215.9 | $ (190.6 ) | (88.3)% |

Cost of Goods Sold (excluding amortization of acquired intangible assets): Cost of goods sold (excluding amortization of acquired intangible assets) increased by $9.8 million to $324.5 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015. The increase was primarily due to the higher level of net product sales. As a percent of net product sales, cost of goods sold (excluding amortization of acquired intangible assets) decreased to 4.0% for the nine-month period ended September 30, 2016 compared to 4.8% for the nine-month period ended September 30, 2015, primarily due to OTEZLA® and POMALYST®, which have lower cost, making up a higher percentage of net product sales, while sales of ABRAXANE®, VIDAZA® and azacitidine for injection, which have a lower gross margin, made up a lower percentage of net product sales.

Research and Development: Research and development expenses increased by $414.9 million to $3.335 billion for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015. The

increase was primarily due to a $623.3 million research and development asset acquisition expense associated with the purchase of EngMab as well as increases in activity in support of our early- to mid-stage product pipeline, partially offset by decreases in expenses related to collaboration arrangements. See Note 3 of Notes to Unaudited Consolidated Financial Statements contained elsewhere in this report for additional details related to our purchase of EngMab.

The following table provides a breakdown of research and development expenses (in millions):

| | Nine-Month Periods Ended September 30, | | Increase (Decrease) |
|---|---|---|---|
| | 2016 | 2015 | |
| Human pharmaceutical clinical programs | $838.9 | $716.3 | $ 122.6 |
| Other pharmaceutical programs | 575.7 | 518.9 | 56.8 |
| Drug discovery and development | 486.2 | 279.2 | 207.0 |
| Collaboration arrangements | 794.5 | 1,388.1 | (593.6) |
| Research and development asset acquisition expenses | 623.3 | — | 623.3 |
| Cellular therapy | 16.8 | 18.0 | (1.2) |
| Total | $3,335.4 | $2,920.5 | $ 414.9 |

Selling, General and Administrative: Selling, general and administrative expenses increased by $276.8 million to $1.973 billion for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015. The increase was primarily due to a $130.0 million litigation-related loss contingency accrual expense, a $62.8 million increase in selling and marketing activities as well as a $37.0 million increase in expenses for donations to independent non-profit patient assistance organizations in the United States.

Amortization of Acquired Intangible Assets: Amortization of intangible assets acquired as a result of business combinations is summarized below for the nine-month periods ended September 30, 2016 and 2015 (in millions):

| | Nine-Month Periods Ended September 30, | |
|---|---|---|
| Acquisitions | 2016 | 2015 |
| Abraxis | $113.8 | $113.9 |
| Avila | 113.9 | 35.4 |
| Gloucester | 68.6 | 38.6 |
| Pharmion | 3.0 | 3.0 |
| Quanticel | 54.4 | — |
| Total amortization | $353.7 | $190.9 |

The increase in amortization expense primarily related to an $83.1 million impairment charge related to the technology platform obtained in the Avila acquisition, amortization of intangible assets acquired in the October 2015 acquisition of Quanticel, and a reduction in the estimated useful lives of intangible assets obtained in the acquisition of Gloucester following the grant to Fresenius Kabi USA, LLC of a non-exclusive, royalty-free sublicense to manufacture and market a generic version of romidepsin for injection as of February 1, 2018. See Note 18 of Notes to Consolidated Financial Statements in our 2015 Annual Report on Form 10-K for additional details related to the sublicense to manufacture and market a generic version of romidepsin.

Acquisition Related Charges and Restructuring, net: Acquisition related charges and restructuring, net were a net expense of $25.3 million and $215.9 million for the nine-month periods ended September 30, 2016 and 2015, respectively. The $190.6 million decrease in the net expense for the current year nine-month period compared to the prior year nine-month period was primarily due to a $231.5 million reduction in costs related to the acquisition of Receptos which occurred in August 2015 and a $52.9 million increase in the benefit recorded for adjustments to contingent consideration issued as part of the acquisition of Avila. The nine-month period ended September 30, 2016 included an $81.1 million decrease in the fair value of such contingent consideration as a result of adjustments made to the estimates of probability and timing of future potential milestone payments payable to the former shareholders of Avila. These benefits were partly offset by a $59.7 million reduction in benefit recorded for fair value adjustments to

our liability related to publicly traded CVRs that were issued as part of the acquisition of Abraxis, an $11.5 million increase in restructuring charges in the current year period related to our relocation of certain operations into our two Summit, NJ locations as well as costs associated with certain headcount reductions, and a $16.2 million increase in expense related to our contingent liabilities for the Quanticel acquisition.

Interest and Investment Income, net: Interest and investment income, net decreased by $5.1 million to $21.3 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015 primarily due to lower investment balances compared to the prior year.

Interest (Expense): Interest (expense) increased by $187.0 million to $373.0 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015 primarily due to interest expense associated with the issuance of $8.000 billion of senior notes in August 2015.

Other Income (Expense), Net: Other income (expense), net and fluctuations in the components of Other income (expense), net is summarized below for the nine-month periods ended September 30, 2016 and 2015 (in millions):

| | Nine-Month Periods Ended September 30, | | |
|---|---|---|---|
| | 2016 | 2015 | Change |
| Foreign exchange gains (losses), including foreign exchange derivative instruments not designated as hedging instruments | $3.9 | $(4.7) | $8.6 |
| Premium paid on equity investment | (6.0) | — | (6.0) |
| Fair value adjustments of forward point amounts | 21.0 | 35.5 | (14.5) |
| Gain (loss) from sale of put options | 7.6 | (9.9) | 17.5 |
| Impairment charges | (92.8) | (27.3) | (65.5) |
| Gain on sale of LifebankUSA business | 37.5 | — | 37.5 |
| Gain on sale of equity investment in Flexus Biosciences, Inc. | 7.1 | 85.9 | (78.8) |
| Milestones received | — | 12.0 | (12.0) |
| Other | 10.2 | (8.3) | 18.5 |
| Total Other income (expense), net | $(11.5) | $83.2 | $(94.7) |

Other income (expense), net was a net expense of $11.5 million and a net benefit of $83.2 million for the nine-month periods ended September 30, 2016 and 2015, respectively. The $94.7 million increase in expense was primarily due to a gain on the sale of our equity investment in Flexus that was recorded in 2015, increased impairment charges recorded in the 2016 period related to certain equity investments, an unfavorable change in spreads between forward and spot rates related to foreign exchange contracts and a premium paid on an equity investment, partly offset by a gain on the sale of our LifebankUSA business, a gain on Celgene puts sold, and currency fluctuations.

Income Tax Provision: The income tax provision increased by $66.2 million to $303.2 million for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, primarily as a result of an increase in income before taxes, partially offset by a decrease in the effective tax rate. The estimated full year 2016 underlying effective tax rate of 16.8% reflects the impact of our global business footprint. The decrease in the estimated full year underlying effective tax rate from the third quarter of 2015 reflects a projected decrease in tax expense related to an impairment charge and reduction in the fair value of contingent consideration, both associated with our Avila acquisition, and a nonrecurring unfavorable tax impact of certain prior year payments made to collaboration partners. The effective tax rate for the nine-month period ending September 30, 2016 was reduced by 0.6 percentage points primarily as a result of a decrease in unrecognized tax benefits related to settlements of tax positions taken in prior years. The income tax provision for the nine-month period ended September 30, 2015 included an estimated full year 2015 underlying effective tax rate of 19.3% (which subsequently increased to 20.0% when the actual 2015 full year results were achieved). The effective tax rate for the nine-month period ended September 30, 2015 was reduced by 0.7 percentage points primarily as a result of certain tax benefits related to our 2014 income tax returns being more favorable than originally estimated.

Liquidity and Capital Resources

The following table summarizes the components of our financial condition (in millions):

| | September 30, 2016 | December 31, 2015 | Increase (Decrease) |
|---|---|---|---|
| Financial assets: | | | |
| Cash and cash equivalents | $5,522.6 | $4,880.3 | $ 642.3 |
| Marketable securities available for sale | 1,346.0 | 1,671.6 | (325.6) |
| Total financial assets | $6,868.6 | $6,551.9 | $ 316.7 |
| Debt: | | | |
| Short-term borrowings and current portion of long-term debt | $501.0 | $— | $ 501.0 |
| Long-term debt, net of discount | 13,802.5 | 14,161.4 | (358.9) |
| Total debt | $14,303.5 | $14,161.4 | $ 142.1 |
| | | | |
| Working capital[1] | $6,988.3 | $7,492.6 | $ (504.3) |

[1] Includes Cash and cash equivalents, Marketable securities available for sale, Accounts receivable, net of allowances, Inventory and Other current assets, less Short-term borrowings and current portion of long-term debt, Accounts payable, Accrued expenses and other current liabilities, and the current portion of Income taxes payable.

We rely primarily on positive cash flows from operating activities, proceeds from sales of available-for-sale marketable securities and borrowings in the form of long-term notes payable and short-term commercial paper to provide for our liquidity requirements. We expect continued growth in our expenditures, particularly those related to research and development, clinical trials, commercialization of new products, international expansion and capital investments. However, we anticipate that existing cash and cash equivalent balances, marketable securities available for sale, cash generated from operations and existing sources of and access to financing are adequate to fund our operating needs, capital expenditures, debt service requirements and our plans to purchase our stock and pursue strategic business initiatives for the foreseeable future.

Many of our operations are conducted outside the United States and significant portions of our cash, cash equivalents and short-term investments are held internationally. As of September 30, 2016, we held approximately $4.908 billion of these short-term funds in foreign tax jurisdictions. The amount of funds held in U.S. tax jurisdictions can fluctuate due to the timing of receipts and payments in the ordinary course of business, including intercompany transactions, as well as for other reasons, such as repurchases of our common stock, internal reorganizations, business-development activities and debt issuances. As part of our ongoing liquidity assessments, we regularly monitor the mix of domestic and international cash flows (both inflows and outflows). Repatriation of overseas funds can result in additional U.S. federal, state and local income tax payments. We record U.S. deferred tax liabilities for certain unremitted earnings, but when amounts earned overseas are expected to be permanently reinvested outside of the United States, no accrual for U.S. taxes is provided. Approximately $900.0 million of our foreign earnings, included in the $4.908 billion of short-term funds in foreign tax jurisdictions, may not be required for use in offshore operations and may be available for use in the United States. These earnings are not treated as permanently reinvested and accordingly, our deferred tax liabilities as of September 30, 2016 and December 31, 2015 included $316.5 million for the estimated U.S. federal and state income taxes that may be incurred should these earnings be repatriated. The remaining foreign earnings are unremitted and expected to be permanently reinvested outside the United States. We do not rely on these earnings as a source of funds for our domestic business as we expect to have sufficient current cash resources combined with future cash flows in the United States to fund our U.S. operational and strategic needs.

Share Repurchase Program: In June 2016, our Board of Directors approved an increase of $3.000 billion to our authorized share repurchase program, bringing the total amount authorized since April 2009 to an aggregate of up to

$20.500 billion of our common stock of which we have approximately $4.865 billion remaining for future share repurchases as of September 30, 2016. During the three-month period ended September 30, 2016 we used $320.1 million for purchases of our common stock, measured on a settlement date basis.

Components of Working Capital

Cash, Cash Equivalents and Marketable Securities Available for Sale: We invest our excess cash primarily in money market funds, U.S. Treasury securities, U.S. government-sponsored agency mortgage-backed securities, global corporate debt securities and asset backed securities. All liquid investments with maturities of three months or less from the date of purchase are classified as cash equivalents and all investments with maturities of greater than three months from the date of purchase are classified as marketable securities available for sale. The $316.7 million increase in cash, cash equivalents and marketable securities available

for sale at September 30, 2016 compared to December 31, 2015 was primarily due to $2.633 billion of net cash from operating activities, partially offset by $2.026 billion of payments under our share repurchase program and $361.0 million of net unrealized holding losses on marketable securities available for sale.

Accounts Receivable, Net: Accounts receivable, net increased by $165.4 million to $1.586 billion at September 30, 2016 compared to December 31, 2015. Sales made outside the United States typically have payment terms that are greater than 60 days, thereby extending collection periods beyond those in the United States. We expect our accounts receivable balance to grow as our international sales continue to expand.

We continue to monitor economic conditions, including the volatility associated with international economies, the sovereign debt crisis in certain European countries and associated impacts on the financial markets and our business. Our current business model in these markets is typically to sell our products directly to principally government owned or controlled hospitals, which in turn directly deliver critical care to patients. Our products are used to treat life-threatening diseases and we believe this business model enables timely delivery and adequate supply of products. Many of the outstanding receivable balances are related to government-funded hospitals and we believe the receivable balances are ultimately collectible. Similarly, we believe that future sales to these customers will continue to be collectible.

The credit and economic conditions within Spain, Italy, Portugal and Greece, as well as increasing sales levels in those countries have in the past resulted in, and may continue to result in, an increase in the average length of time it takes to collect accounts receivable. Our total net receivables in Spain, Italy and Portugal are composed almost entirely of amounts receivable from government-owned or controlled hospitals and the public sector and amounted to $224.6 million at September 30, 2016 compared to $187.8 million at December 31, 2015. Approximately $33.2 million of the $224.6 million receivable balance at September 30, 2016 was greater than one year past due. Our exposure to the sovereign debt crisis in Greece is limited, as we do not have a material amount of receivables in Greece. We maintain timely and direct communication with hospital customers in Spain, Italy and Portugal regarding both the current and past due receivable balances. We continue to receive payments from these countries and closely monitor the plans for payment at the regional government level. Payments from customers in these countries are not received on regular intervals and several months could elapse between significant payments. We also regularly request and receive positive confirmation of the validity of our receivables from most of the regional governmental authorities.

In determining the appropriate allowance for doubtful accounts for Spain, Italy and Portugal, we considered the balance of past due receivables related to sales made to government-owned or supported customers. We regularly monitor developments in Europe to assess whether the level of risk of default for any customers has increased and note the ongoing efforts by the European Union, European Monetary Union and International Monetary Fund to support countries with large public deficits and outstanding debt balances. We also monitor the efforts of individual countries to support their regions with large public deficits and outstanding debt balances. We have not experienced significant losses or write-offs with respect to the collection of our accounts receivable in these countries as a result of their economic difficulties and we do not expect to have write-offs or adjustments to accounts receivable that would have a material adverse impact on our financial position or results of operations.

Inventory: Inventory balances increased by $64.5 million to $507.9 million at September 30, 2016 compared to December 31, 2015. The increase was primarily due to an increase in ABRAXANE® raw materials.

Other Current Assets: Other current assets decreased by $371.9 million to $612.8 million at September 30, 2016 compared to December 31, 2015 primarily due to a $180.4 million decrease in the fair value of derivative instruments recorded as Other current assets, a $143.0 million decrease in prepaid taxes and a $35.2 million decrease in other prepaid accounts.

Commercial Paper: We have a commercial paper program (Program) under which we issue unsecured commercial paper notes (Commercial Paper) on a private placement basis, the proceeds of which are used for general corporate purposes. In April 2016 our Board of Directors authorized an increase in the maximum amount of commercial paper issuable to $2.000 billion. As of September 30, 2016, we had available capacity to issue up to $2.000 billion of Commercial Paper and there were no borrowings under the Program. The maturities of the Commercial Paper may vary, but may not exceed 270 days from the date of issue. The Commercial Paper is sold under customary terms to a dealer or in the commercial paper market and is issued at a discount from par or, alternatively, is sold at par and bears varying interest rates on a fixed or floating basis. Borrowings under the Program, if any, are accounted for as short-term borrowings.

Senior Unsecured Credit Facility: We maintain a senior unsecured revolving credit facility (Credit Facility) that provides revolving credit in the aggregate amount of $2.000 billion which was increased from $1.750 billion in April 2016. In April 2016, the term of the Credit Facility was also extended from April 17, 2020 to April 17, 2021. Amounts may be borrowed in U.S. Dollars for

general corporate purposes. The Credit Facility currently serves as backup liquidity for our Commercial Paper borrowings. At September 30, 2016 there was no outstanding borrowing against the Credit Facility.

The Credit Facility and the Revolving Credit Agreement contain affirmative and negative covenants, including certain customary financial covenants. We were in compliance with all financial covenants as of September 30, 2016.

Accounts Payable, Accrued Expenses and Other Current Liabilities: Accounts payable, accrued expenses and other current liabilities increased by $194.0 million to $2.083 billion at September 30, 2016 compared to December 31, 2015. The increase was primarily due to increases of $137.7 million for sales adjustment accruals, $130.0 million for a litigation-related loss contingency accrual, $37.2 million for clinical trial and research and development expense accruals and $11.2 million of net other increases. These increases were partially offset by decreases of $69.9 million for accrued interest expense and $52.2 million related to collaboration agreement accruals.

Income Taxes Payable (Current and Non-Current): Income taxes payable increased by $29.9 million to $373.9 million at September 30, 2016 compared to December 31, 2015, primarily from the current provision for income taxes of $560.0 million and net deferred intercompany credits of $24.5 million, offset by income tax payments of $345.1 million, tax benefits of share-based compensation of $128.5 million and a decrease in refundable income taxes of $81.8 million.

Analysis of Cash Flows

Cash flows from operating, investing and financing activities for the nine-month periods ended September 30, 2016 and 2015 were as follows (in millions):

| | Nine-Month Periods Ended September 30, | | |
|---|---|---|---|
| | 2016 | 2015 | Change |
| Net cash provided by operating activities | $2,633.4 | $1,425.8 | $1,207.6 |
| Net cash (used in) investing activities | $(298.0) | $(5,897.8) | $5,599.8 |
| Net cash (used in) provided by financing activities | $(1,698.2) | $6,397.4 | $(8,095.6) |

Operating Activities: Net cash provided by operating activities increased by $1.208 billion to $2.633 billion for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015. The increase in net cash provided by operating activities was primarily attributable to an increase in net income of $529.3 million in 2016 compared to 2015 and a $696.7 million net increase in adjustments to reconcile net income to net cash provided by operating activities for items such as derivative activities, impairment charges, changes in deferred income taxes and amortization expenses compared to 2015. Derivative activities during the nine-month period ended September 30, 2016 included cash receipts of $195.6 million related to the settlement of interest rate swap contracts that had been designated as fair value hedges of certain of our fixed rate notes. See Note 7 for additional details related to interest rate swap contracts.

Investing Activities: Net cash used in investing activities for the nine-month period ended September 30, 2016 amounted to $298.0 million compared to net cash used in investing activity of $5.898 billion for the nine-month period ended September 30, 2015. The decrease in net cash used in investing activities was primarily due to the purchase of Receptos in 2015, resulting in a cash usage of $7.579 billion during the nine-month period in 2015, partially offset by a decrease in cash provided by net purchases and sales of marketable securities available for sale. Net purchases of marketable securities available for sale during 2016 amounted to a net cash usage of $18.4 million during 2016 compared to net cash proceeds of $1.962 billion from net sales of marketable securities available for sale during 2015.

Financing Activities: Net cash used in financing activities amounted to $1.698 billion for the nine-month period ended September 30, 2016, compared to net cash provided by financing activities of $6.397 billion for the nine-month period ended September 30, 2015. The $8.096 billion decrease in net cash provided by financing activities was primarily attributable to the 2015 issuance of long-term debt which provided $7.913 billion.

Contractual Obligations

For a discussion of our contractual obligations, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2015 Annual Report on Form 10-K. There have not been any material changes to such contractual

obligations or potential milestone payments since December 31, 2015 aside from those disclosed in Note 3 and Note 14 of Notes to Unaudited Consolidated Financial Statements included elsewhere in this report.

Critical Accounting Estimates and Significant Accounting Policies

A critical accounting policy is one that is both important to the portrayal of our financial condition and results of operation and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting estimates are disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2015 Annual Report on Form 10-K. There have not been any material changes to such critical accounting estimates since December 31, 2015.

Item 3. 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 September 30, 2016, our market risk sensitive instruments consisted of marketable securities available for sale, our long-term debt and certain derivative contracts.

Marketable Securities Available for Sale: At September 30, 2016, our marketable securities available for sale consisted of U.S. Treasury securities, U.S. government-sponsored agency securities, U.S. government-sponsored agency mortgage-backed (MBS) securities, global corporate debt securities, asset backed securities and marketable equity securities. U.S. government-sponsored agency securities include general unsecured obligations either issued directly by or guaranteed by U.S. government sponsored enterprises. U.S. government-sponsored agency MBS include mortgage backed securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. Corporate debt – global includes obligations issued by investment-grade corporations including some issues that have been guaranteed by governments and government agencies. Asset backed securities consist of triple-A rated securities with cash flows collateralized by credit card receivables and auto loans.

Our marketable securities available for sale are primarily equity investments in the publicly traded common stock of companies, including common stock of companies with whom we have entered into collaboration agreements. In addition, we invest in debt securities that are carried at fair value, held for an unspecified period of time and are intended for use in meeting our ongoing liquidity needs. Unrealized gains and losses on available-for-sale securities, which are deemed to be temporary, are reported as a separate component of stockholders' equity, net of tax. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization, along with realized gains and losses and other than temporary impairment charges related to debt securities, is included in Interest and investment income, net. Realized gains and losses and other than temporary impairment charges related to equity securities are included in Other income (expense), net.

As of September 30, 2016, 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 (dollar amounts in millions):

| | Duration Less Than 1 Year | 1 to 3 Years | 3 to 5 Years | Total |
|---|---|---|---|---|
| Principal amount | $60.5 | $268.8 | $11.3 | $340.6 |
| Fair value | $61.0 | $271.0 | $11.7 | $343.7 |
| Weighted average interest rate | 1.1 % | 1.2 % | 1.9 % | 1.2 % |

Short-Term Borrowings and Current Portion of Long-Term Debt: We had no outstanding short-term borrowing as of September 30, 2016 or December 31, 2015. The current portion of long-term debt outstanding at September 30, 2016 and December 31, 2015 includes:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| 1.900% senior notes due 2017 | $ 501.0 | $ — |

Long-Term Debt: Our outstanding senior notes with maturity dates in excess of one year after September 30, 2016 have an aggregate principal amount of $13.750 billion with varying maturity dates and interest rates. The principal amounts and carrying values of these senior notes as of September 30, 2016 are summarized below (in millions):

| | Principal Amount | Carrying Value |
|---|---|---|
| 2.125% senior notes due 2018 | $1,000.0 | $997.6 |
| 2.300% senior notes due 2018 | 400.0 | 402.2 |
| 2.250% senior notes due 2019 | 500.0 | 510.3 |
| 2.875% senior notes due 2020 | 1,500.0 | 1,492.3 |
| 3.950% senior notes due 2020 | 500.0 | 519.7 |
| 3.250% senior notes due 2022 | 1,000.0 | 1,055.9 |
| 3.550% senior notes due 2022 | 1,000.0 | 993.2 |
| 4.000% senior notes due 2023 | 700.0 | 745.2 |
| 3.625% senior notes due 2024 | 1,000.0 | 1,001.1 |
| 3.875% senior notes due 2025 | 2,500.0 | 2,483.8 |
| 5.700% senior notes due 2040 | 250.0 | 247.2 |
| 5.250% senior notes due 2043 | 400.0 | 392.9 |
| 4.625% senior notes due 2044 | 1,000.0 | 986.8 |
| 5.000% senior notes due 2045 | 2,000.0 | 1,974.3 |
| Total long-term debt | $13,750.0 | $13,802.5 |

At September 30, 2016, the fair value of our senior notes outstanding was $15.207 billion.

MARKET RISK MANAGEMENT

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

Foreign Currency Risk Management

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

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

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

currencies.

We manage a portfolio of foreign currency forward contracts to protect against changes in anticipated foreign currency cash flows resulting from changes in foreign currency exchange rates, primarily associated with non-functional currency denominated revenues and expenses of foreign subsidiaries. The foreign currency forward hedging contracts outstanding at September 30, 2016 and December 31, 2015 had settlement dates within 51 months and 36 months, respectively. The spot rate components of these foreign currency forward contracts are designated as cash flow hedges and, to the extent effective, any unrealized gains or losses are reported in other comprehensive income (OCI) and reclassified to operations in the same periods during which the underlying

hedged transactions affect earnings. If a hedging relationship is terminated with respect to a foreign currency forward contract, accumulated gains or losses associated with the contract remain in OCI until the hedged forecasted transaction occurs and are reclassified to operations in the same periods during which the underlying hedged transactions affect earnings. Any ineffectiveness on these foreign currency forward contracts is reported on the Consolidated Statements of Operations in Other income (expense), net. The forward point components of these foreign currency forward contracts are not designated as cash flow hedges and all fair value adjustments of forward point amounts are recorded to Other income (expense), net. Foreign currency forward contracts entered into to hedge forecasted revenue and expenses were as follows at September 30, 2016 and December 31, 2015 (in millions):

| | Notional Amount | |
|---|---|---|
| Foreign Currency | September 30, 2016 | December 31, 2015 |
| Australian Dollar | $53.3 | $45.1 |
| British Pound | 188.2 | 289.3 |
| Canadian Dollar | 164.8 | 135.9 |
| Euro | 1,936.9 | 2,934.3 |
| Japanese Yen | 719.8 | 510.4 |
| Swedish Krona | 3.0 | — |
| Total | $3,066.0 | $3,915.0 |

We consider the impact of our own and the counterparties' credit risk on the fair value of the contracts as well as the ability of each party to execute its obligations under the contract on an ongoing basis. As of September 30, 2016, credit risk did not materially change the fair value of our foreign currency forward contracts.

We also manage a portfolio of foreign currency contracts to reduce exposures to foreign currency fluctuations of certain recognized assets and liabilities denominated in foreign currencies and, from time to time, we enter into foreign currency contracts to manage exposure related to translation of foreign earnings. These foreign currency forward contracts have not been designated as hedges and, accordingly, any changes in their fair value are recognized on the Consolidated Statements of Operations in Other income (expense), net in the current period. The aggregate notional amount of the foreign currency forward non-designated hedging contracts outstanding at September 30, 2016 and December 31, 2015 were $833.5 million and $920.0 million, respectively.

Although not predictive in nature, we believe a hypothetical 10% threshold reflects a reasonably possible near-term change in foreign currency rates. Assuming that the September 30, 2016 exchange rates were to change by a hypothetical 10%, the fair value of the foreign currency forward contracts would change by approximately $389.0 million. However, since the contracts either hedge specific forecasted intercompany transactions denominated in foreign currencies or relate to assets and liabilities denominated in currencies other than the entities' functional currencies, any change in the fair value of the contract would be either reported in OCI and reclassified to earnings in the same periods during which the underlying hedged transactions affect earnings or re-measured through earnings each period along with the underlying asset or liability.

Foreign Currency Option Contracts: From time to time, we may hedge a portion of our future foreign currency exposure by utilizing a strategy that involves both a purchased local currency put option and a written local currency call option that are accounted for as hedges of future sales denominated in that local currency. Specifically, we sell (or write) a local currency call option and purchase a local currency put option with the same expiration dates and local currency notional amounts but with different strike prices. This combination of transactions is generally referred to as a "collar." The expiration dates and notional amounts correspond to the amount and timing of forecasted foreign currency sales. The foreign currency option contracts outstanding at September 30, 2016 and December 31, 2015 had settlement dates within 51 months and 36 months, respectively. If the U.S. Dollar weakens relative to the currency of the hedged anticipated sales, the purchased put option value reduces to zero and we benefit from the increase in the U.S. Dollar equivalent value of our anticipated foreign currency cash flows; however, this benefit would be capped at

the strike level of the written call, which forms the upper end of the collar. The premium collected from the sale of the call option is equal to the premium paid for the purchased put option, resulting in a net zero cost for each collar. Outstanding foreign currency option contracts entered into to hedge forecasted revenue were as follows at September 30, 2016 and December 31, 2015 (in millions):

| | Notional Amount[1] | |
|---|---|---|
| | September 30, 2016 | December 31, 2015 |
| Foreign currency option contracts designated as hedging activity: | | |
| Purchased Put | $1,016.6 | $ 641.5 |
| Written Call | $1,126.9 | $ 690.0 |

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

Assuming that the September 30, 2016 exchange rates were to change by a hypothetical 10%, the fair value of the foreign currency option contracts would increase by approximately $80.3 million if the U.S. Dollar were to strengthen and decrease by approximately $82.0 million if the U.S. Dollar were to weaken. However, since the contracts hedge specific forecasted intercompany transactions denominated in foreign currencies, any change in the fair value of the contract would be reported in OCI and reclassified to earnings in the same periods during which the underlying hedged transactions affect earnings.

Interest Rate Risk Management

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

During 2014, we entered into forward starting swaps that were designated as cash flow hedges to hedge against changes in interest rates that could impact an anticipated issuance of debt in 2015. During 2015, we entered into additional forward starting swaps and treasury rate locks. Forward starting swaps and treasury rate locks with a combined aggregate notional amount of $2.900 billion were settled upon the issuance of debt in August 2015, when the net fair value of the forward starting swaps and treasury rate locks in accumulated OCI was in a loss position of $21.6 million. The net loss will be recognized as interest expense over the life of the associated senior notes. At September 30, 2016 and December 31, 2015, we had outstanding forward starting swaps with effective dates in 2017 and 2018 and maturing in ten years that were designated as cash flow hedges with notional amounts as shown in the table below (in millions):

| | Notional Amount | |
|---|---|---|
| | September 30, 2016 | December 31, 2015 |
| Forward starting interest rate swap contracts: | | |
| Forward starting swaps with effective dates in 2017 | $500.0 | $ 200.0 |
| Forward starting swaps with effective dates in 2018 | $500.0 | $ — |

A sensitivity analysis to measure potential changes in the market value of our forward starting interest rate swap contracts from a change in interest rates indicated that a one percentage point increase in interest rates at September 30, 2016 would have increased the fair value of our contracts by $88.6 million. A one percentage point decrease at September 30, 2016 would have decreased the aggregate fair value of our contracts by $100.4 million.

Interest Rate Swap Contracts: From time to time we hedge the fair value of certain debt obligations through the use of interest rate swap contracts. The interest rate swap contracts are designated hedges of the fair value changes in the notes attributable to changes in interest rates. Since the specific terms and notional amount of the swap are intended to

match those of the debt being hedged, it is assumed to be a highly effective hedge and all changes in fair value of the swap are recorded on the Consolidated Balance Sheet with no net impact recorded in income. Any net interest payments made or received on interest rate swap contracts are recognized as interest expense. If a hedging relationship is terminated for an interest rate swap contract, accumulated gains or losses associated with the contract are measured and recorded as a reduction or increase of current and future interest expense associated with the previously hedged debt obligations.

In July 2016, we terminated the hedging relationship for $3.600 billion notional amount of interest rate swaps by settling such swap contracts. The settlement of swap contracts resulted in the receipt of net proceeds of $195.6 million which will be accounted for as a reduction of current and future interest expense associated with these notes. See Note 11 for additional details related to reductions of current and future interest expense.

A sensitivity analysis to measure potential changes in the market value of our debt from a change in interest rates indicated that a one percentage point increase in interest rates at September 30, 2016 would have reduced the aggregate fair value of our senior notes by $1.115 billion. A one percentage point decrease at September 30, 2016 would have increased the aggregate fair value of our senior notes by $1.282 billion.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e), or the Exchange Act). Based upon the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management (including our Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosures.

Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information called for by this item is incorporated herein by reference to Note 16 of Notes to Unaudited Consolidated Financial Statements contained elsewhere in this report.

Item 1A. Risk Factors

The following describes major risks to our business and should be considered carefully. Any of these factors could significantly and negatively affect our business, prospects, financial condition, operating results or credit ratings, which could cause the trading prices of our equity securities to decline. The risks described below are not the only risks we may face. Additional risks and uncertainties not presently known to us, or risks that we currently consider immaterial, could also negatively affect us.

Our operating results may be subject to significant fluctuations.

Our operating results may fluctuate from quarter to quarter and year to year for a number of reasons, including the risks discussed elsewhere in this “Risk Factors” section. Events such as a delay in product development or a revenue shortfall may cause financial results for a particular period to be below our expectations. In addition, we have experienced and may continue to experience fluctuations in our quarterly operating results due to the timing of charges that we may take. We have recorded, or may be required to record, charges that include development milestone and license payments under collaboration and license agreements, amortization of acquired intangibles and other acquisition related charges, and impairment charges.

Our revenues are also subject to foreign exchange rate fluctuations due to the global nature of our operations. We recognize foreign currency gains or losses arising from our operation in the period in which we incur those gains or losses. Although we utilize foreign currency forward contracts and occasionally foreign currency put and call options to manage foreign currency risk, our efforts to reduce currency exchange losses may not be successful. As a result, currency fluctuation among our reporting currency, the U.S. Dollar, and the currencies in which we do business will affect our operating results. Our net income may also fluctuate due to the impact of charges we may be required to take with respect to foreign currency and other hedge transactions. In particular, we may incur higher than expected charges from hedge ineffectiveness or from the termination of a hedge arrangement. For more information, see Item 3. "Quantitative and Qualitative Disclosures About Market Risk."

We are dependent on the continued commercial success of our primary products, REVLIMID®, POMALYST®/IMNOVID®, ABRAXANE®, OTEZLA®, VIDAZA® and THALOMID®.

Our business is largely dependent on the commercial success of REVLIMID®, POMALYST®/IMNOVID®, ABRAXANE®, OTEZLA®, VIDAZA® and THALOMID®. REVLIMID® currently accounts for over half of our total revenue. As new products, such as POMALYST®/IMNOVID® and OTEZLA®, have obtained regulatory approval and gained market acceptance, our dependence on REVLIMID® has decreased, a trend that we expect to continue. A significant decline in REVLIMID® net revenue, in the absence of offsetting increases in revenue from our other marketed products, would have a material adverse effect on our results of operations and financial condition. The success of these products depends on acceptance by regulators, key opinion leaders, physicians, and patients as effective drugs with certain advantages over other therapies. A number of factors, as discussed in greater detail below, may adversely impact the degree of acceptance of these products, including their efficacy, safety, price and benefits over competing products, as well as the reimbursement policies of third-party payers, such as government and private insurance plans.

If unexpected adverse events are reported in connection with the use of any of these products, physician and patient acceptance of the product could deteriorate and the commercial success of such product could be adversely affected. We are required to report to the FDA or similar bodies in other countries events associated with our products relating to death or serious injury. Adverse events could result in additional regulatory controls, such as the imposition of costly post-approval clinical studies or revisions to our approved labeling which could limit the indications or patient population for a product or could even lead to the withdrawal of a product from the market. THALOMID® is known to be toxic to the human fetus and exposure to the drug during pregnancy could result in significant deformities. REVLIMID® and POMALYST®/IMNOVID® are also considered toxic to the human fetus and their respective labels contain warnings against use which could result in embryo-fetal exposure. While we have restricted distribution systems for THALOMID®, REVLIMID®, and POMALYST®/IMNOVID®, and endeavor to educate patients regarding the potential known adverse events, including pregnancy risks, we cannot ensure that all such warnings and recommendations will be complied with or that adverse events resulting from non-compliance will not occur.

Our future commercial success depends on gaining regulatory approval for products in development, and obtaining approvals for our current products for additional indications.

The testing, manufacturing and marketing of our products require regulatory approvals, including approval from the FDA and similar bodies in other countries. Certain of our pharmaceutical products, such as FOCALIN®, also require authorization by the U.S. Drug Enforcement Agency (DEA) of the U.S. Department of Justice. Our future growth would be negatively impacted if we fail to obtain timely, or at all, requisite regulatory approvals in the United States and internationally for products in development and approvals for our existing products for additional indications.

The principal risks to obtaining and maintaining regulatory approvals are as follows:

- In general, preclinical tests and clinical trials can take many years and require the expenditure of substantial resources, and the data obtained from these tests and trials may not lead to regulatory approval;
- Delays or rejections may be encountered during any stage of the regulatory process if the clinical or other data fails to demonstrate compliance with a regulatory agency's requirements for safety, efficacy and quality;
- Requirements for approval may become more stringent due to changes in regulatory agency policy or the adoption of new regulations or legislation;
- Even if a product is approved, the scope of the approval may significantly limit the indicated uses or the patient population for which the product may be marketed and may impose significant limitations in the nature of warnings, precautions and contra-indications that could materially affect the sales and profitability of the product;
- After a product is approved, the FDA or similar bodies in other countries may withdraw or modify an approval in a significant manner or request that we perform additional clinical trials or change the labeling of the product due to a number of reasons, including safety concerns, adverse events and side effects;
- Products, such as REVLIMID® and POMALYST®/IMNOVID®, that receive accelerated approval can be subject to an expedited withdrawal if post-marketing restrictions are not adhered to or are shown to be inadequate to assure safe use, or if the drug is shown to be unsafe or ineffective under its conditions of use;
- Guidelines and recommendations published by various governmental and non-governmental organizations can reduce the use of our approved products;
- Approved products, as well as their manufacturers, are subject to continuing and ongoing review by regulatory agencies, and the discovery of previously unknown problems with these products or the failure to comply with manufacturing or quality control requirements may result in restrictions on the manufacture, sale or use of a product or its withdrawal from the market; and
- Changes in regulatory agency policy or the adoption of new regulations or legislation could impose restrictions on the sale or marketing of our approved products.

If we fail to comply with laws or government regulations or policies our business could be adversely affected.

The discovery, preclinical development, clinical trials, manufacturing, risk evaluation and mitigation strategies (such as our REMS™ program), marketing and labeling of pharmaceuticals and biologics are all subject to extensive laws and government regulations and policies. In addition, individual states, acting through their attorneys general, are increasingly seeking to regulate the marketing of prescription drugs under state consumer protection and false advertising laws. If we fail to comply with the laws and regulations regarding the promotion and sale of our products, appropriate distribution of our products under our restricted distribution systems, off-label promotion and the promotion of unapproved products, government agencies may bring enforcement actions against us or private litigants may assert claims on behalf of the government against us that could inhibit our commercial capabilities and/or result in significant damage awards and penalties.

Other matters that may be the subject of governmental or regulatory action which could adversely affect our business include laws, regulations and policies governing:

- protection of the environment, privacy, healthcare reimbursement programs, and competition;

- parallel importation of prescription drugs from outside the United States at prices that are regulated by the governments of various foreign countries; and
- mandated disclosures of clinical trial or other data, such as the EMA's policy on publication of clinical data.

Sales of our products will be significantly reduced if access to and reimbursement for our products by governmental and other third-party payers are reduced or terminated.

Sales of our current and future products depend, in large part, on the conditions under which our products are paid for by health maintenance, managed care, pharmacy benefit and similar health care management organizations (HCMOs), or reimbursed by government health administration authorities, private health coverage insurers and other third-party payers.

The influence of HCMOs has increased in recent years due to the growing number of patients receiving coverage through a few large HCMOs as a result of industry consolidation. One objective of HCMOs is to contain and, where possible, reduce healthcare expenditures. HCMOs typically use formularies (lists of approved medicines available to members of a particular HCMO), clinical protocols, volume purchasing, long-term contracts and other methods to negotiate prices with pharmaceutical providers. Due to their lower cost generally, generic medicines are typically placed in preferred tiers of HCMO formularies. Additionally, many formularies include alternative and competitive products for treatment of particular medical problems. Exclusion of our products from a formulary or HCMO-implemented restrictions on the use of our products can significantly impact drug usage in the HCMO patient population, and consequently our revenues.

Generally, in Europe and other countries outside the United States, the government-sponsored healthcare system is the primary payer of patients' healthcare costs. These health care management organizations and third-party payers are increasingly challenging the prices charged for medical products and services, seeking to implement cost-containment programs, including price controls, restrictions on reimbursement and requirements for substitution of generic products. Our products continue to be subject to increasing price and reimbursement pressure due to price controls imposed by governments in many countries; increased difficulty in obtaining and maintaining satisfactory drug reimbursement rates; and the tendency of governments and private health care providers to favor generic pharmaceuticals. In addition, governmental and private third-party payers and purchasers of our products may restrict access to formularies or otherwise discourage use of our products. Limitations on patient access to our drugs, adoption of price controls and cost-containment measures could adversely affect our business. In addition, our operating results may also be affected by distributors seeking to take advantage of price differences among various markets by buying our products in low cost markets for resale in higher cost markets.

The Affordable Care Act and other legislation may affect our pricing policies and government reimbursement of our products that may adversely impact our revenues and profitability.

In the U.S. there have been and may continue to be a number of legislative and regulatory proposals and enactments related to drug pricing and reimbursement that could impact our profitability. The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in March 2010, and are referred to collectively as the Healthcare Reform Acts. Although these reforms have significantly impacted the pharmaceutical industry, the full effects of these provisions will become apparent over time as these laws are implemented and the Centers for Medicare & Medicaid Services (CMS) and other agencies issue applicable regulations or guidance as required by the Healthcare Reform Acts. Moreover, in the coming years, additional changes could be made to governmental healthcare programs that could significantly impact the profitability of our products.

The Healthcare Reform Acts, among other things, made significant changes to the Medicaid rebate program by increasing the minimum rebates that manufacturers like us are required to pay. These changes also expanded the government's 340B drug discount program by increasing the category of entities qualified to participate in the program

and benefit from its deeply discounted drug pricing. The Healthcare Reform Acts also obligate the Health Resources and Services Administration (HRSA), which administers the 340B program, to update the agreement that each manufacturer must sign to participate in the 340B program to require each manufacturer to offer the 340B price to covered entities if the manufacturer makes the drug product available to any other purchaser at any price, and to report the ceiling prices for its drugs to the government. HRSA is expected to issue the updated agreement to manufacturers for signature in 2016 or 2017. In addition, HRSA, recently issued proposed regulations regarding the calculation of the 340B ceiling price and the imposition of civil monetary penalties on manufacturers that knowingly and intentionally overcharge covered entities.

HRSA also issued proposed regulations to implement an administrative dispute resolution (ADR) process for certain disputes arising under the 340B program, including (1) claims by covered entities that they have been overcharged for covered outpatient drugs by manufacturers; and (2) claims by manufacturers, after a manufacturer has conducted an audit, that a covered entity has violated the prohibition on diversion to ineligible patients or duplicate discounts. Although the exact timing and content of final regulations is uncertain at this time, HRSA has indicated in public statements that it plans to finalize the regulations later in 2016 or in the early part of 2017. Depending on their final form, the regulations and/or the amended contract could affect our obligations under the 340B program in ways that may have an adverse impact on the pricing of our products.

We have received inquiries from HRSA regarding our compliance with the 340B program. We have cooperated fully in responding to these inquiries and believe that we have complied with applicable legal requirements. If, however, we are ultimately required to change our sales or pricing practices, there would be an adverse effect on our revenues and profitability.

Our ability to sell our products to hospitals in the United States depends in part on our relationships with group purchasing organizations.

Many existing and potential customers for our products become members of group purchasing organizations (GPOs). GPOs negotiate pricing arrangements and contracts, sometimes on an exclusive basis, with medical supply manufacturers and distributors and these negotiated prices are made available to a GPO’s affiliated hospitals and other members. If we are not one of the providers selected by a GPO, affiliated hospitals and other members may be less likely to purchase our products, and if the GPO has negotiated a strict sole source, market share compliance or bundling contract for another manufacturer’s products, we may be precluded from making sales to members of the GPO for the duration of that contractual arrangement. Our failure to enter into or renew contracts with GPOs may cause us to lose market share and could adversely affect our sales.

Our long-term success depends, in part, on intellectual property protection.

Our success depends, in part, on our ability to obtain and enforce patents, protect trade secrets, obtain licenses to technology owned by third parties and to conduct our business without infringing upon the proprietary rights of others. The patent positions of pharmaceutical and biopharmaceutical companies, including ours, can be uncertain and involve complex legal and factual questions. There can be no assurance that if claims of any of our owned or licensed patents are challenged by one or more third parties (through, for example, litigation, post grant review in the United States Patent and Trademark Office (USPTO) or European Patent Office (EPO)), a court or patent authority ruling on such challenge will ultimately determine, after all opportunities for appeal have been exhausted, that our patent claims are valid and enforceable. If a third party is found to have rights covering products or processes used by us, we could be forced to cease using such products or processes, be subject to significant liabilities to such third party and/or be required to obtain license rights from such third party. Lawsuits involving patent claims are costly and could affect our results of operations, result in significant expense and divert the attention of managerial and scientific personnel. For more information on challenges to certain of our patents and settlement of certain of these challenges, see Item 1. "Legal Proceedings".

In addition, we do not know whether any of our owned or licensed pending patent applications will result in the issuance of patents or, if patents are issued, whether they will be dominated by third-party patent rights, provide significant proprietary protection or commercial advantage or be circumvented, opposed, invalidated, rendered unenforceable or infringed by others.

Our intellectual property rights may be affected in ways that are difficult to anticipate at this time under the provisions of the America Invents Act enacted in 2011. This law represents a significant change to the US patent system.

Uncertainty exists in the application and interpretation of various aspects of the America Invents Act. For example, post grant review procedures have been implemented that potentially represent a significant threat to a company’s patent portfolio. Members of the public may seek to challenge an issued patent by petitioning the USPTO to institute a post grant review. Once instituted, the USPTO may find grounds to revoke the challenged patent or specific claims therein. For example, on April 23, 2015, a party filed a petition to institute an Inter Partes Review (IPR) challenging the validity of our patent US 6,045,501 and three petitions challenging patent US 6,315,720. On October 27, 2015, the USPTO granted all four petitions. In addition, on May 7, 2015 another IPR was filed against our compound patent US 5,635,517 for lenalidomide, set to expire in 2019. On November 15, 2015, the USPTO rejected this challenge by denying the institution of the IPR procedure. For more information with respect to IPRs, see Item 1. "Legal Proceedings". A procedure similar to the IPR has existed in Europe for many years and we have defended our European patents in certain of those proceedings. For example, the validity of our patent EP 1 667 682 is currently the subject of an opposition proceeding before the EPO. We cannot predict whether any other Celgene patents will ever become the subject of a post grant review. If a significant product patent is successfully challenged in a post grant review proceeding it may be revoked, which would have a serious negative impact

on our ability to maintain exclusivity in the market-place for our commercial products affected by such revocation and could adversely affect our future revenues and profitability.

On October 2, 2014, the EMA adopted its clinical transparency policy, "Policy on Publication of Clinical Data for Medicinal Products for Human Use" (Clinical Data Policy), which became effective on January 1, 2015. In general, under the Clinical Data Policy, clinical data is not deemed to be commercially confidential data. Therefore, there is a risk that unpublished proprietary information, including trade secrets that are incorporated into a marketing application before the EMA may be made publicly available. It is difficult to predict how any public disclosure of our trade secrets or other confidential and proprietary information made available under the Clinical Data Policy may adversely impact our patent rights and our competitive advantage in the marketplace.

Also, procedures for obtaining patents and the degree of protection against the use of a patented invention by others vary from country to country. There can be no assurance that the issuance to us in one country of a patent covering an invention will be followed by the issuance in other countries of patents covering the same invention or that any judicial interpretation of the validity, enforceability or scope of the claims in a patent issued in one country will be similar to or recognized by the judicial interpretation given to a corresponding patent issued in another country.

The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction.

We also rely upon unpatented, proprietary and trade secret technology that we seek to protect, in part, by confidentiality agreements with our collaborative partners, employees, consultants, outside scientific collaborators, sponsored researchers and other advisors. Despite precautions taken by us, there can be no assurance that these agreements provide meaningful protection, that they will not be breached, that we would have adequate remedies for any such breach or that our proprietary and trade secret technologies will not otherwise become known to others or found to be non-proprietary.

We receive confidential and proprietary information from collaborators, prospective licensees and other third parties. In addition, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies. We may be subject to claims that we or our employees, consultants or independent contractors have inadvertently or otherwise used or disclosed confidential information of these third parties or our employees' former employers. Litigation may be necessary to defend against these claims, which can result in significant costs if we are found to have improperly used the confidential or proprietary information of others. Even if we are successful in defending against these claims, litigation could result in substantial costs and diversion of personnel and resources.

Our products may face competition from lower cost generic or follow-on products.

Manufacturers of generic drugs are seeking to compete with our drugs and present a significant challenge to us. Those manufacturers may challenge the scope, validity or enforceability of our patents in court, requiring us to engage in complex, lengthy and costly litigation. If any of our owned or licensed patents are infringed or challenged, we may not be successful in enforcing or defending those intellectual property rights and, as a result, may not be able to develop or market the relevant product exclusively, which would have a material adverse effect on our sales of that product. In addition, manufacturers of innovative drugs as well as generic drug manufacturers may be able to design their products around our owned or licensed patents and compete with us using the resulting alternative technology. For more information concerning certain pending proceedings relating to our intellectual property rights and settlements of certain challenges, see Item 1. "Legal Proceedings".

Upon the expiration or loss of patent protection for a product, or upon the “at-risk” launch (despite pending patent infringement litigation against the generic product) by a manufacturer of a generic version of one of our products, we can quickly lose a significant portion of our sales of that product. In addition, if generic versions of our competitors’ branded products lose their market exclusivity, our patented products may face increased competition or pricing pressure.

Our business operates in an extremely competitive environment.

The pharmaceutical and biotechnology industries in which we operate are highly competitive and subject to rapid and significant technological change. Our present and potential competitors include major pharmaceutical and biotechnology companies, as well

as specialty pharmaceutical firms, including, but not limited to:

- Hematology and Oncology: AbbVie, Amgen, AstraZeneca, Bristol-Myers-Squibb, Eisai, Gilead, Johnson & Johnson, Merck, Novartis, Roche/Genentech, Sanofi and Takeda; and
- Inflammation and Immunology: AbbVie, Amgen, Biogen, Eisai, Eli Lilly, Johnson & Johnson, Merck, Novartis, Pfizer and UCB S.A.

Some of these companies have considerably greater financial, technical and marketing resources than we have, enabling them, among other things, to make greater research and development investments. We also experience competition in drug development from universities and other research institutions, and we compete with others in acquiring technology from these sources. The pharmaceutical industry has undergone, and is expected to continue to undergo, rapid and significant technological change and we expect competition to intensify as technical advances are made and become more widely known. The development of products or processes by our competitors with significant advantages over those that we are developing could adversely affect our future revenues and profitability.

A decline in general economic conditions would adversely affect our results of operations.

Sales of our products are dependent, in large part, on third-party payers. As a result of global credit and financial market conditions, these organizations may be unable to satisfy their reimbursement obligations or may delay payment. For information about amounts receivable from the government-owned or -controlled hospitals in Spain, Italy and Portugal, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

In addition, due to tightened global credit, there may be a disruption or delay in the performance of our third-party contractors, suppliers or collaborators. We rely on third parties for several important aspects of our business, including portions of our product manufacturing, clinical development of future collaboration products, conduct of clinical trials and supply of raw materials. If such third parties are unable to satisfy their commitments to us, our business could be adversely affected.

We may be required to modify our business practices, pay fines and significant expenses or experience other losses due to governmental investigations or other enforcement activities.

We may become subject to litigation or governmental investigations in the United States and foreign jurisdictions that may arise from the conduct of our business. Like many companies in our industry, we have from time to time received inquiries and subpoenas and other types of information requests from government authorities and we have been subject to claims and other actions related to our business activities.

While the ultimate outcomes of investigations and legal proceedings are difficult to predict, adverse resolutions or settlements of those matters could result in, among other things:

- significant damage awards, fines, penalties or other payments, and administrative remedies, such as exclusion and/or debarment from government programs, or other rulings that preclude us from operating our business in a certain manner;
- changes and additional costs to our business operations to avoid risks associated with such litigation or investigations;
- product recalls;
- reputational damage and decreased demand for our products; and
- expenditure of significant time and resources that would otherwise be available for operating our business.

For more information relating to governmental investigations and other legal proceedings and recent settlements of legal proceedings, see Item 1. "Legal Proceedings".

The development of new biopharmaceutical products involves a lengthy and complex process and we may be unable to commercialize any of the products we are currently developing.

Many of our drug candidates are in the early or mid-stages of research and development and will require the commitment of substantial financial resources, extensive research, development, preclinical testing, clinical trials, manufacturing scale-up and

regulatory approval prior to being ready for sale. This process takes many years of effort without any assurance of ultimate success. Our product development efforts with respect to a product candidate may fail for many reasons, including:

- the failure of the product candidate in preclinical or clinical studies;
- adverse patient reactions to the product candidate or indications of other safety concerns;
- insufficient clinical trial data to support the effectiveness or superiority of the product candidate;
- our inability to manufacture sufficient quantities of the product candidate for development or commercialization activities in a timely and cost-efficient manner;
- our failure to obtain, or delays in obtaining, the required regulatory approvals for the product candidate, the facilities or the process used to manufacture the product candidate;
- changes in the regulatory environment, including pricing and reimbursement, that make development of a new product or of an existing product for a new indication no longer attractive;
- the failure to obtain or maintain satisfactory drug reimbursement rates by governmental or third-party payers; and
- the development of a competitive product or therapy.

The stem cell products that we are developing through our CCT subsidiary may represent substantial departures from established treatment methods and will compete with a number of traditional products and therapies which are now, or may be in the future, manufactured and marketed by major pharmaceutical and biopharmaceutical companies. Furthermore, public attitudes may be influenced by claims that stem cell therapy is unsafe and stem cell therapy may not gain the acceptance of the public or the medical community.

If a product were to fail to be approved or if sales fail to materialize for a newly approved product, we may incur losses related to the write-down of inventory, impairment of property, plant and equipment dedicated to the product or expenses related to restructuring.

Disruptions of our manufacturing and distribution operations could significantly interrupt our production and distribution capabilities.

We have our own manufacturing facilities for many of our products and we have contracted with third parties to provide other manufacturing, finishing, and packaging services. Any of those manufacturing processes could be partially or completely disrupted by fire, contamination, natural disaster, terrorist attack or governmental action. A disruption could lead to substantial production delays and the need to establish alternative manufacturing sources for the affected products requiring additional regulatory approvals. In the interim, our finished goods inventories may be insufficient to satisfy customer orders on a timely basis. Further, our business interruption insurance may not adequately compensate us for any losses that may occur.

In all the countries where we sell our products, governmental regulations define standards for manufacturing, packaging, labeling, distributing and storing pharmaceutical products. Our failure to comply, or the failure of our contract manufacturers and distributors to comply with applicable regulations could result in sanctions being imposed on them or us, including fines, injunctions, civil penalties, disgorgement, suspension or withdrawal of approvals, license revocation, seizures or recalls of products, operating restrictions and criminal prosecutions.

We have contracted with various distributors to distribute most of our branded products. If our distributors fail to perform and we cannot secure a replacement distributor within a reasonable period of time, our revenue could be adversely affected.

The consolidation of drug wholesalers and other wholesaler actions could increase competitive and pricing pressures.

We sell our pharmaceutical products in the United States primarily through wholesale distributors and contracted pharmacies. These wholesale customers comprise a significant part of our distribution network for pharmaceutical products in the United States. This distribution network is continuing to undergo significant consolidation. As a result, a smaller number of large wholesale distributors and pharmacy chains control a significant share of the market. We expect that consolidation of drug wholesalers and

pharmacy chains will increase competitive and pricing pressures on pharmaceutical manufacturers, including us. In addition, wholesalers may apply pricing pressure through fee-for-service arrangements and their purchases may exceed customer demand, resulting in increased returns or reduced wholesaler purchases in later periods.

Risks from the improper conduct of employees, agents, contractors or collaborators could adversely affect our business or reputation.

We cannot ensure that our compliance controls, policies and procedures will in every instance protect us from acts committed by our employees, agents, contractors or collaborators that violate the laws or regulations of the jurisdictions in which we operate, including employment, anti-corruption, environmental, competition and privacy laws. Such improper actions, particularly with respect to foreign healthcare professionals and government officials, could subject us to civil or criminal investigations, monetary and injunctive penalties, adversely impact our ability to conduct business in certain markets, negatively affect our results of operations and damage our reputation.

We are subject to a variety of risks related to the conduct and expansion of our business internationally, particularly in emerging markets.

As our operations expand globally, we are subject to risks associated with conducting business in foreign markets, particularly in emerging markets. Those risks include:

- increased management, travel, infrastructure and legal compliance costs;
- longer payment and reimbursement cycles;
- difficulties in enforcing contracts and collecting accounts receivable;
- local marketing and promotional challenges;
- lack of consistency, and unexpected changes, in foreign regulatory requirements and practices;
- increased risk of governmental and regulatory scrutiny and investigations;
- increased exposure to fluctuations in currency exchange rates;
- the burdens of complying with a wide variety of foreign laws and legal standards;
- operating in locations with a higher incidence of corruption and fraudulent business practices;
- difficulties in staffing and managing foreign sales and development operations;
- import and export requirements, tariffs, taxes and other trade barriers;
- weak or no protection of intellectual property rights;
- possible enactment of laws regarding the management of and access to data and public networks and websites;
- possible future limitations on foreign-owned businesses;
- increased financial accounting and reporting burdens and complexities; and
- other factors beyond our control, including political, social and economic instability, popular uprisings, war, terrorist attacks and security concerns in general.

As we continue to expand our business into multiple international markets, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these risks could harm our international operations and reduce our sales, adversely affecting our business, results of operations, financial condition and growth prospects.

We may not realize the anticipated benefits of acquisitions and strategic initiatives.

We may face significant challenges in effectively integrating entities and businesses that we acquire and we may not realize the benefits anticipated from such acquisitions. Achieving the anticipated benefits of our acquired businesses, such as the recent acquisition of Receptos, will depend in part upon whether we can integrate our businesses in an efficient and effective manner. Our integration of acquired businesses involves a number of risks, including:

- demands on management related to the increase in our size after an acquisition;
- the diversion of management's attention from daily operations to the integration of acquired businesses and personnel;
- higher than anticipated integration costs;
- failure to achieve expected synergies and costs savings;
- difficulties in the assimilation and retention of employees;
- difficulties in the assimilation of different cultures and practices, as well as in the assimilation of broad and geographically dispersed personnel and operations; and
- difficulties in the integration of departments, systems, including accounting systems, technologies, books and records and procedures, as well as in maintaining uniform standards and controls, including internal control over financial reporting, and related procedures and policies.

In addition, we may not be able to realize the projected benefits of corporate strategic initiatives we may pursue in the future.

We may not be able to continue to attract and retain highly qualified managerial, scientific, manufacturing and commercial talent.

The success of our business depends, in large part, on our continued ability to attract and retain highly qualified managerial, scientific, medical, manufacturing, commercial and other professional personnel, and competition for these types of personnel is intense. We cannot be sure that we will be able to attract or retain skilled personnel or that the costs of doing so will not materially increase.

Risks associated with using hazardous materials in our business could subject us to significant liability.

We use certain hazardous materials in our research, development, manufacturing and other business activities. If an accident or environmental discharge occurs, or if we discover contamination caused by prior owners and operators of properties we acquire, we could be liable for remediation obligations, damages and fines that could exceed our insurance coverage and financial resources. Additionally, the cost of compliance with environmental and safety laws and regulations may increase in the future, requiring us to expend more financial resources either in compliance or in purchasing supplemental insurance coverage.

We are subject to various legal proceedings, claims and investigative demands in the ordinary course of our business, the ultimate outcome of which may result in significant expense, payments and penalties.

We and certain of our subsidiaries are involved in various legal proceedings that include patent, product liability, consumer, commercial, antitrust and other claims that arise from time to time in the ordinary course of our business. Litigation is inherently unpredictable. Although we believe we have substantial defenses in these matters, we could in the future be subject to adverse judgments, enter into settlements of claims or revise our expectations regarding the outcomes of certain matters, and such developments could have a material adverse effect on our results of operations in the period in which such judgments are received or settlements occur. For more information regarding settlement of certain legal proceedings, see Item 1. "Legal Proceedings."

Our activities relating to the sale and marketing and the pricing of our products are subject to extensive regulation under the U.S. Federal Food, Drug, and Cosmetic Act, the Medicaid Drug Rebate Program, the False Claims Act, the Foreign Corrupt Practices Act and other federal and state statutes, including those discussed elsewhere in this report, as well as anti-kickback and false claims laws, and similar laws in international jurisdictions. Like many companies in our industry, we have from time to time received inquiries and subpoenas and other types of information demands from government authorities, and been subject to claims and other actions related to our business activities brought by governmental authorities, as well as by consumers, third-party payers,

stockholders and others. There can be no assurance that existing or future proceedings will not result in significant expense, civil payments, fines or other adverse consequences. For more information relating to governmental investigations and other legal proceedings and recent settlements of legal proceedings, see Item 1. "Legal Proceedings."

Product liability claims could adversely affect our business, results of operations and financial condition.

Product liability claims could result in significant damage awards or settlements. Such claims can also be accompanied by consumer fraud claims or claims by third-party payers seeking reimbursement of the cost of our products. In addition, adverse determinations or settlements of product liability claims may result in suspension or withdrawal of a product marketing authorization or changes to our product labeling, including restrictions on therapeutic indications, inclusion of new contraindications, warnings or precautions, which would have a material adverse effect on sales of such product. We have historically purchased product liability coverage from third-party carriers for a portion of our potential liability. Such insurance has become increasingly difficult and costly to obtain. In this context and in light of the strength of our balance sheet, commencing in the second quarter of 2016, we will self-insure these risks. Product liability claims, regardless of their merits or ultimate outcome, are costly, divert management's attention, may harm our reputation and can impact the demand for our products. There can be no assurance that we will be able to recover under any existing third-party insurance policy or that such coverage will be adequate to fully cover all risks or damage awards or settlements. Additionally, if we are unable to meet our self-insurance obligations for claims that are more than we estimated or reserved for that require substantial expenditures, there could be a material adverse effect on our financial statements and results of operations.

Changes in our effective income tax rate could adversely affect our results of operations.

We are subject to income taxes in both the United States and various foreign jurisdictions and our domestic and international tax liabilities are largely dependent upon the distribution of income among these different jurisdictions. Various factors may have favorable or unfavorable effects on our effective income tax rate. These factors include interpretations of existing tax laws, the accounting for stock options and other share-based compensation, changes in tax laws and rates, future levels of research and development spending, changes in accounting standards, changes in the mix of earnings in the various tax jurisdictions in which we operate, the outcome of examinations by the U.S. Internal Revenue Service and other tax authorities, the accuracy of our estimates for unrecognized tax benefits and realization of deferred tax assets and changes in overall levels of pre-tax earnings. The impact on our income tax provision resulting from the above-mentioned factors and others could have a material impact on our results of operations.

Currency fluctuations and changes in exchange rates could adversely affect our revenue growth, increase our costs and cause our profitability to decline.

We collect and pay a substantial portion of our sales and expenditures in currencies other than the U.S. dollar. Therefore, fluctuations in foreign currency exchange rates affect our operating results. We utilize foreign currency forward contracts and occasionally foreign currency put and call options, all of which are derivative instruments, to manage foreign currency risk. We use these derivative instruments to hedge certain forecasted transactions, manage exchange rate volatility in the translation of foreign earnings and reduce exposures to foreign currency fluctuations of certain balance sheet items denominated in foreign currencies. The use of these derivative instruments is intended to mitigate a portion of the exposure of these risks with the intent to reduce our risk or cost, but generally would not fully offset any change in operating results as a consequence of fluctuations in foreign currencies. Any significant foreign exchange rate fluctuations could adversely affect our financial condition and results of operations. See Note 7 of Notes to Unaudited Consolidated Financial Statements and Item 3. “Quantitative and Qualitative Disclosures About Market Risk” contained elsewhere in this report.

We may experience an adverse market reaction if we are unable to meet our financial reporting obligations.

As we continue to expand at a rapid pace, the development of new and/or improved automated systems will remain an ongoing priority. During this expansion period, our internal control over financial reporting may not prevent or detect misstatements in our financial reporting. Such misstatements may result in litigation and/or negative publicity and possibly cause an adverse market reaction that may negatively impact our growth plans and the value of our common stock.

Impairment charges or write downs in our books and changes in accounting standards could have a significant adverse effect on our results of operations and financial condition.

New or revised accounting standards, rules and interpretations could result in changes to the recognition of income and expense that may materially and adversely affect our financial results. In addition, the value allocated to certain of our assets could be substantially impaired due to a number of factors beyond our control. Also, if any of our strategic equity investments decline in value, we may be required to write down such investments.

The price of our common stock may fluctuate significantly.

The market for our shares of common stock may fluctuate significantly. The following key factors may have an adverse impact on the market price of our common stock:

- results of our clinical trials or adverse events associated with our marketed products;
- fluctuations in our commercial and operating results;
- announcements of technical or product developments by us or our competitors;
- market conditions for pharmaceutical and biotechnology stocks in particular;
- changes in laws and governmental regulations, including changes in tax, healthcare, environmental, competition and patent laws;
- new accounting pronouncements or regulatory rulings;
- public announcements regarding medical advances in the treatment of the disease states that we are targeting;
- patent or proprietary rights developments;
- changes in pricing and third-party reimbursement policies for our products;
- the outcome of litigation involving our products, processes or intellectual property;
- the existence and outcome of governmental investigations and proceedings;
- regulatory actions that may impact our products or potential products;
- disruptions in our manufacturing processes or supply chain;
- failure of our collaboration partners to successfully develop potential drug candidates;
- competition; and
- investor reaction to announcements regarding business or product acquisitions.

In addition, a market downturn in general and/or in the biopharmaceutical sector in particular, may adversely affect the market price of our securities, which may not necessarily reflect the actual or perceived value of our Company.

Our business would be adversely affected if we are unable to service our debt obligations.

We have incurred various forms of indebtedness, including senior notes, commercial paper and a senior unsecured credit facility. Our ability to pay interest and principal amounts when due, comply with debt covenants or repurchase the senior notes if a change of control occurs, will depend upon, among other things, continued commercial success of our products and other factors that affect our future financial and operating performance, including prevailing economic conditions and financial, business and regulatory factors, many of which are beyond our control.

If we are unable to generate sufficient cash flow to service the debt service requirements under our debt instruments, we may be forced to take remedial actions such as:

- restructuring or refinancing our debt;
- seeking additional debt or equity capital;
- reducing or delaying our business activities, acquisitions, investments or capital expenditures, including research and development expenditures; or
- selling assets, businesses, products or other potential revenue streams.

Such measures might not be successful and might not enable us to service our debt obligations. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms, if at all.

A breakdown or breach of our information technology systems and cyber security efforts could subject us to liability, reputational damage or interrupt the operation of our business.

We rely upon our information technology systems and infrastructure for our business. The size and complexity of our computer systems make them potentially vulnerable to breakdown and unauthorized intrusion. We could also experience a business interruption, theft of confidential information, or reputational damage from industrial espionage attacks, malware or other cyber attacks, which may compromise our system infrastructure or lead to data leakage, either internally or at our third-party providers. Similarly, data privacy breaches by those who access our systems may pose a risk that sensitive data, including intellectual property, trade secrets or personal information belonging to us, our patients, employees, customers or other business partners, may be exposed to unauthorized persons or to the public. There can be no assurance that our efforts to protect our data and information technology systems will prevent breakdowns or breaches in our systems that could adversely affect our business and result in financial and reputational harm to us, legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties.

The illegal distribution and sale by third parties of counterfeit versions of our products or stolen products could have a negative impact on our reputation and business.

Third parties might illegally distribute and sell counterfeit or unfit versions of our products, which do not meet our rigorous manufacturing and testing standards. A patient who receives a counterfeit or unfit drug may be at risk for a number of dangerous health consequences. Our reputation and business could suffer harm as a result of counterfeit or unfit drugs sold under our brand name. In addition, thefts of inventory at warehouses, plants or while in-transit, which are not properly stored and which are sold through unauthorized channels, could adversely impact patient safety, our reputation and our business.

We have certain charter and by-law provisions that may deter a third-party from acquiring us and may impede the stockholders' ability to remove and replace our management or board of directors.

Our board of directors has the authority to issue, at any time, without further stockholder approval, up to 5.0 million shares of preferred stock and to determine the price, rights, privileges and preferences of those shares. An issuance of preferred stock could discourage a third-party from acquiring a majority of our outstanding voting stock. Additionally, our by-laws contain provisions intended to strengthen the board's position in the event of a hostile takeover attempt. These provisions could impede the stockholders' ability to remove and replace our management and/or board of directors. Furthermore, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law, which may also dissuade a potential acquirer of our common stock.

In addition to the risks relating to our common stock, holders of our CVRs are subject to additional risks.

On October 15, 2010, we acquired all of the outstanding common stock of Abraxis BioScience, Inc. (Abraxis) and in connection with our acquisition, contingent value rights (CVRs) were issued entitling each holder of a CVR to a pro

rata portion of certain milestone and net sales payments if certain specified conditions are satisfied. In addition to the risks relating to our common stock, CVR holders are subject to additional risks, including:

- an active public market for the CVRs may not continue to exist or the CVRs may trade at low volumes, both of which could have an adverse effect on the market price of the CVRs;
- if the clinical approval milestones or net sales targets specified in the CVR Agreement are not achieved within the time periods specified, no payment will be made and the CVRs will expire valueless;

- since the U.S. federal income tax treatment of the CVRs is unclear, any part of a CVR payment could be treated as ordinary income and the tax thereon may be required to be paid prior to the receipt of the CVR payment;
- any payments in respect of the CVRs are subordinated to the right of payment of certain of our other indebtedness;
- we may under certain circumstances redeem the CVRs; and
- upon expiration of our obligations under the CVR Agreement to continue to commercialize ABRAXANE® or any of the other Abraxis pipeline products, we may discontinue such efforts, which would have an adverse effect on the value of the CVRs.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

From April 2009 through September 2016, our Board of Directors approved purchases of up to $20.500 billion of our common stock, including an approved increase of $3.000 billion in June 2016. Approved amounts exclude share purchase transaction fees.

The following table presents the number of shares purchased during the three-month period ended September 30, 2016, the average price paid per share, the number of shares that were purchased and the dollar value of shares that still could have been purchased, pursuant to our repurchase authorization:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1 - July 31 | 61,928 | $110.56 | 61,928 | $5,131,342,751 |
| August 1 - August 31 | 1,257,298 | $111.82 | 1,257,298 | $4,990,756,603 |
| September 1 - September 30 | 1,179,741 | $106.72 | 1,179,741 | $4,864,855,147 |
| Total | 2,498,967 | $109.38 | 2,498,967 | |

During the three-month period ended September 30, 2016, we purchased 2.5 million shares of common stock under the share repurchase program from all sources at a cost of $273.3 million, excluding commissions. As of September 30, 2016, we had a remaining purchase authorization of $4.865 billion.

During the period covered by this report, we did not sell any of our equity shares that were not registered under the Securities Act of 1933, as amended.

Item 6. Exhibits

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|---|---|
| 31.1* | Certification by the Company's Chief Executive Officer. |
| 31.2* | Certification by the Company's Chief Financial Officer. |
| 32.1* | Certification by the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350. |
| 32.2* | Certification by the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |
| 101* | The following materials from Celgene Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows and (v) Notes to Unaudited Consolidated Financial Statements. |

* Filed herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CELGENE
CORPORATION

Date: October 27, 2016 By: /s/Peter N. Kellogg
Peter N. Kellogg
Executive Vice
President and Chief
Financial Officer
(principal financial
and accounting
officer)