

SPECTRUM PHARMACEUTICALS INC

Form 10-Q

May 09, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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

For the transition period from _____ to _____

Commission File Number: 001-35006

SPECTRUM PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

93-0979187
(I.R.S. Employer
Identification No.)

11500 South Eastern Avenue, Suite 240
Henderson, Nevada 89052
(Address of principal executive offices) (Zip Code)

(702) 835-6300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 29, 2013, 60,026,805 shares of the registrant's common stock were outstanding.

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Item 3 through 5 of Part II have been omitted because they are not applicable with respect to the current reporting period.

Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1. Financial Statements****SPECTRUM PHARMACEUTICALS, INC.****Condensed Consolidated Balance Sheets**

(In thousands, except share data)

(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and equivalents	\$ 160,073	\$ 139,698
Marketable securities	3,310	3,310
Accounts receivable, net of allowance for doubtful accounts of \$251 and \$228, respectively	39,432	92,169
Inventories, net	16,618	14,478
Prepaid expenses and other current assets	3,126	2,745
Tax asset	16,476	12,473
Total current assets	239,035	264,873
Property and equipment, net	2,227	2,548
Intangible assets, net	206,593	202,311
Goodwill	28,904	28,973
Other assets	9,369	7,569
TOTAL ASSETS	\$ 486,128	\$ 506,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and other accrued obligations	\$ 82,653	\$ 95,297
Accrued compensation and related expenses	3,720	4,835
Deferred revenue	3,000	12,300
Deferred development costs	803	856
Accrued drug development costs	13,277	15,109
Total current liabilities	103,453	128,397
Deferred revenue and other credits less current portion	3,456	2,937
Deferred development costs, less current portion	11,337	11,377
Deferred payment contingency	2,374	2,287
Other long-term obligations	6,130	1,430
Revolving line of credit	75,000	75,000
Total liabilities	201,750	221,428
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized:		
Series B junior participating preferred stock, \$0.001 par value; 1,500,000 shares authorized; no shares issued and outstanding		
Series E convertible voting preferred stock \$0.001 par value and \$10,000 stated value; 2,000 shares authorized; 20 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	123	123

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(aggregate liquidation value of \$240)		
Common stock, \$0.001 par value 175,000,000 shares authorized; 60,007,752 and 60,026,675 issued and outstanding at March 31, 2013 and December 31, 2012, respectively	60	60
Additional paid-in capital	465,373	463,710
Accumulated other comprehensive gain	931	273
Accumulated deficit	(182,109)	(179,320)
 Total stockholders' equity	 284,378	 284,846
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 486,128	\$ 506,274

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**SPECTRUM PHARMACEUTICALS, INC.****Condensed Consolidated Statements of Operations**

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Product sales, net	\$ 29,346	\$ 56,784
License and contract revenue	9,321	3,075
Total revenues	38,667	59,859
Operating costs and expenses:		
Cost of product sales (excludes amortization of purchased intangible assets)	6,782	8,673
Selling, general and administrative	22,347	18,262
Research and development	11,981	8,891
Amortization of purchased intangible assets	2,368	930
Total operating costs and expenses	43,478	36,756
(Loss) income from operations	(4,811)	23,103
Other (expense) income, net	(1,318)	138
(Loss) income before provision for income taxes	(6,129)	23,241
Benefit for income taxes	3,340	23,301
Net (loss) income	\$ (2,789)	\$ 46,542
Net (loss) income per share:		
Basic	\$ (0.05)	\$ 0.80
Diluted	\$ (0.05)	\$ 0.71
Weighted average shares outstanding:		
Basic	59,181,380	58,464,059
Diluted	59,181,380	65,258,510

See accompanying notes to unaudited condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Comprehensive (Loss) Income

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net (loss) income	\$ (2,789)	\$ 46,542
Other comprehensive income, net of tax:		
Unrealized gain on securities	868	68
Foreign currency translation adjustments	114	
Income tax	(324)	
Other comprehensive income, net	658	68
Total comprehensive (loss) income	\$ (2,131)	\$ 46,610

Table of Contents**SPECTRUM PHARMACEUTICALS, INC.****Condensed Consolidated Statements of Cash Flows**

(In thousands)

(Unaudited)

	March 31,	
	2013	2012
Cash Flows From Operating Activities:		
Net (loss) income	\$ (2,789)	\$ 46,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred revenue	(9,321)	(3,075)
Depreciation and amortization	3,269	1,668
Stock-based compensation	2,747	3,015
Deferred income tax benefit	(5,312)	(23,368)
Provision for bad debt	23	58
Provision for inventory obsolescence	634	88
Change in fair value of Allos deferred development costs and deferred payment contingency	(6)	
Foreign currency remeasurement loss	959	
Changes in operating assets and liabilities:		
Accounts receivable, net	52,735	(3,735)
Inventories, net	(2,774)	1,815
Prepaid expenses and other assets	(827)	(574)
Accounts payable and other accrued obligations	(15,267)	1,847
Accrued compensation and related expenses	(1,115)	1,233
Accrued drug development costs	(1,832)	1,078
Deferred revenue and other credits	519	314
Net cash provided by operating activities	21,643	26,906
Cash Flows From Investing Activities:		
Maturities of marketable securities		6,121
Purchases of marketable securities		(4,551)
Purchases of property and equipment	(44)	(92)
Purchases of available for sale securities		(622)
Net cash (used in) provided by investing activities	(44)	856
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock from stock option exercises	952	1,054
Payments to acquire treasury stock	(1,652)	(317)
Repurchase of shares to satisfy minimum tax withholding for restricted stock vesting	(384)	(319)
Proceeds from revolving line of credit	75,000	
Repayment of revolving line of credit	(75,000)	
Repayment of capital leases		(9)
Net cash (used in) provided by financing activities	(1,084)	409
Effect of exchange rates on cash	(140)	
Net increase in cash and cash equivalents	20,375	28,171
Cash and cash equivalents beginning of period	139,698	121,202

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Cash and cash equivalents end of period	\$ 160,073	\$ 149,373
Supplemental Disclosure of Cash Flow Information:		
Melphalan license included in intangible assets, accounts payable and other long term obligations	\$ 7,700	\$
Retirement of treasury shares	\$ 1,652	\$

See accompanying notes to condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Business and Basis of Presentation

Business

Spectrum Pharmaceuticals, Inc. (Spectrum , the Company , we , our , or us) is a biotechnology company with fully integrated commercial and development operations, with a primary focus in oncology and hematology. Our strategy is comprised of acquiring, developing and commercializing a broad and diverse pipeline of late-stage clinical and commercial products. We currently market three oncology drugs - FUSILEV® (levoleucovorin) for injection in the U.S., ZEVALIN® (ibritumomab tiuxetan) injection for intravenous use, for which we have worldwide rights and FOLOTYN® a folate analogue metabolic inhibitor designed to accumulate preferentially in cancer cells. We also have a diversified pipeline of product candidates in advanced-stage Phase 2 and Phase 3 studies. We have assembled an integrated in-house scientific team, including formulation development, clinical development, medical research, regulatory affairs, biostatistics and data management, and have established a commercial infrastructure for the marketing of our drug products. We also leverage the expertise of our worldwide partners to assist in the execution of our strategy.

Basis of Presentation

We have prepared the accompanying unaudited condensed consolidated financial statements, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim reporting. We have condensed or omitted certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) pursuant to such rules and regulations. On April 1, 2012, Spectrum acquired the licensing rights to market ZEVALIN (the ZEVALIN Rights) outside of the U.S. On September 5, 2012, Spectrum acquired Allos Therapeutics, Inc. (Allos). Commencing April 1, 2012 and September 5, 2012, respectively, our financial statements include the assets, liabilities, operating results and cash flows of the ZEVALIN Rights and Allos.

The condensed consolidated financial statements include our accounts and our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The unaudited condensed consolidated financial statements reflect all adjustments, which are normal and recurring, that are, in the opinion of management, necessary to fairly state the financial position as of March 31, 2013 and the results of operations and cash flows for the related interim periods ended March 31, 2013 and 2012. The results of operations and trends for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 or for any other periods. The unaudited financial statements included in this quarterly report should be read in conjunction with our audited financial statements for the year ended December 31, 2012, included in the Annual Report on Form 10-K filed with the SEC.

Significant Accounting Policies

The accounting policies followed by us and other information are contained in the notes to the Company s audited consolidated financial statements for the year ended December 31, 2012 included in our Annual Report on Form 10-K filed on February 28, 2013 with the SEC. We have not changed our significant accounting policies as of March 31, 2013. You should read this Quarterly Report on Form 10-Q in connection with the information contained in our Annual Report on Form 10-K filed on February 28, 2013.

Variable Interest Entity

Our Canadian affiliate, Spectrum Pharma Canada, is owned 50% by us and was organized in Quebec, Canada in January 2008. We fund 100% of the expenditures and, as a result, we are the party with the controlling financial interest. We are the primary beneficiary of Spectrum Pharma Canada, which is determined to be a variable interest entity. As a result of this characterization, it is consolidated in our financial statements as though it is a wholly-owned subsidiary. We have eliminated all significant intercompany balances and transactions among the consolidated entities from the condensed consolidated financial statements.

Segment and Geographic Information

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We operate in one reportable segment: acquiring, developing and commercializing prescription drug products. We evaluate all revenues by product in the aggregate given the similarity of product, production processes, customers, distribution methods and regulatory environment. Accordingly, we report the accompanying condensed consolidated financial statements in the aggregate, including all of our activities in one reportable segment.

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Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent obligations in the financial statements and accompanying notes. The estimation process requires assumptions to be made about future events and conditions, and as such, is inherently subjective and uncertain. Actual results could differ materially from our estimates.

On an ongoing basis, we evaluate our estimates, including those related to deferred revenue recognition periods, inventories, the impairment of investments, the impairment of goodwill and long-lived assets, contingencies, accrued clinical trial expenses, stock-based compensation, and ongoing litigation, among other estimates. We base our estimates on historical experience and on other assumptions that management believes are reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities when these values are not readily apparent from other sources.

Revenue Recognition

Revenue from product sales is recognized upon shipment of product when title and risk of loss have transferred to the customer. We sell our products to wholesalers and distributors of oncology products and directly to the end user, directly or through Global Purchasing Organizations or GPOs (e.g., certain hospitals or hospital systems and clinics with whom we have entered into a direct purchase agreement). Our wholesalers and distributors purchase our products and sell the products directly to end users, which include, but are not limited to, hospitals, clinics, medical facilities, managed care facilities and private oncology based practices. Revenue from product sales is recognized upon shipment of product when title and risk of loss have transferred to the customer, and the following additional criteria are met:

- (i) the price is substantially fixed and determinable;
 - (ii) our customer has economic substance apart from that provided by us;
 - (iii) our customer's obligation to pay us is not contingent on resale of the product;
 - (iv) we do not have significant obligations for future performance to directly bring about the resale of our product; and
 - (v) we have a reasonable basis to estimate future returns.
- Generally, revenue is recognized when all four of the following criteria are met:

- (i) persuasive evidence that an arrangement exists;
- (ii) delivery of the products has occurred, or services have been rendered;
- (iii) the selling price is both fixed and determinable; and
- (iv) collectability is reasonably assured.

We calculate a provision for estimated product returns, sales discounts, rebates, chargebacks and distribution and data fees are established as a reduction of gross product sales at the time such revenues are recognized. Thus, revenue is recorded, net of such estimated provisions. We state

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the related accounts receivable at net realizable value, with any allowance for doubtful accounts charged to general operating expenses. If revenue from sales is not reasonably determinable due to provisions for estimates, promotional adjustments, price adjustments, returns or any other potential adjustments, we defer the revenue and recognize revenue when the estimates are reasonably determinable, even if the monies for the gross sales have been received.

We utilize a third-party logistics company to store and distribute FUSILEV. The same third party logistics company also stores and ships in the U.S. ZEVALIN kits containing the CD20 MAB.

During 2009, we changed the supply and distribution model for ZEVALIN in the U.S. Previously, we sold ZEVALIN kits containing the CD20 MAB to radiopharmacies, who in turn ordered the radioactive isotope (Y-90 or In-111) separately and radiolabeled (or attached) the radioactive isotope to the CD20 MAB. The radiopharmacy then sold the end user product to the consumer. Under the current model in the U.S. we do not sell the ZEVALIN kits containing the CD20 MAB to the radiopharmacies, but instead contract with them, as a fee-for-service, to radiolabel the individual components of the CD20 MAB to the radioactive isotope, and then, also under a fee-for-service arrangement, have them distribute the end use product to the end user; the clinics, hospitals or other medical settings. In this regard, we now sell the CD20 MAB together with the radioactive isotope in the U.S. as the end user product. In November 2011, we received FDA approval to remove the bioscan and starting in January 2012 we are no longer supplying the imaging kit (In-111) in the U.S. which was formerly used for bioscan.

Product Returns Allowances

Customers are typically permitted to return products within thirty days after shipment, if incorrectly shipped or not ordered, and six months after the expiration of product dating for FUSILEV, subject to certain restocking fees and preauthorization requirements, as applicable. The returned product is destroyed if it is damaged, quality is compromised or past its expiration date. In general, returned product is not resold. As of each balance sheet date, we estimate potential returns, based on several factors, including:

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inventory held by distributors, sell through data of distributor sales to end users, customer and end-user ordering and re-ordering patterns, aging of accounts receivables, rates of returns for directly substitutable products and pharmaceutical products for the treatment of therapeutic areas similar to indications served by our products, shelf life of our products, historical rates of actual returns and based on experience of our management with selling similar oncology products. We record an allowance for future returns by reducing product sales and crediting a reserve for returns to increase other accrued obligations at the time of the product sales. No returns reserve is recorded for ZEVALIN since in the U.S. we invoice our end user customers and recognize revenues only when a patient is treated with ZEVALIN and for Ex. U.S. we invoice upon delivery. FOLOTYN returns are limited to defective product or product that was shipped in error.

Government Chargebacks

Our products are subject to certain programs with federal government qualified entities whereby pricing on products is discounted below distributor list price to participating entities. These entities purchase products through distributors at the discounted price, and the distributors charge the difference between their acquisition cost and the discounted price back to us. We account for chargebacks by reducing revenue and establishing an accrual in an amount equal to our estimate of chargeback claims at the time of product sale. We also evaluate the adequacy of previously recorded chargebacks based on data regarding specific entities claims activity over time to adjust current period chargebacks for these same distributors. Due to estimates and assumptions inherent in determining the amount of government chargebacks, the time lag to receive information from distributors, the actual amount of claims for chargebacks may be materially different from our estimates, at which time we would adjust our reserves accordingly.

Discounts

Discounts (generally prompt payment discounts) are accrued at the end of every reporting period based on the gross sales made to customers during the period and based on their terms of trade for a product. We generally review the terms of the contracts, specifically price and discount structures, and payment terms between the customer and us to estimate the discount accrual.

Rebates

Customer rebates are estimated at every period end, based on direct purchases, depending on whether any rebates have been offered based on definitive contractual agreements. The rebates are recognized when products are purchased and a periodic credit is given.

Medicaid Rebates

Our products are subject to state government-managed Medicaid programs whereby discounts and rebates are provided to participating state governments. We record estimated rebates payable under governmental programs, including Medicaid, as a reduction of revenue in the same period the related sale is recorded. Our calculations related to these rebate accruals require estimates, including estimates of customer mix primarily based on a combination of market and clinical research, to determine which sales will be subject to rebates and the amount of such rebates. Our estimate of utilization is based on historical claims and supplemented by management's judgment with respect to many factors, including changes in sales trends, an evaluation of current laws and regulations and product pricing. We update our estimates and assumptions each period and record any necessary adjustments to our reserves. Additionally, there is a time lag between the date we determine the estimated liability and when we actually pay the liability. Although allowances and accruals are recorded at the time of product sale, certain rebates are typically paid out, on average, up to six months or longer after the sale.

Distribution and Data Fees

Distribution and data fees are paid to authorized wholesalers and specialty distributors of FUSILEV and FOLOTYN as a percentage of WAC for products sold which is a reduction of revenue in the same period the related sale is recorded. The services provided include contract administration, inventory management, product sales reporting by customer, returns for clinics and hospitals. We accrue distribution and data fees based on a percentage of FUSILEV and FOLOTYN revenues that are set and governed by distribution agreements.

Accounts Receivable

We also state the related accounts receivable at net realizable value, with any allowance for doubtful accounts charged to general operating expenses. If revenue from sales is not reasonably determinable due to provisions for estimates, promotional adjustments, price adjustments, returns or any other potential adjustments, we defer the revenue and recognize revenue when the estimates are reasonably determinable, even if the monies for the gross sales have been received.

Milestone Payments

Milestone payments under collaborative arrangements are triggered either by the results of our research and development efforts or by specified sales results by a third-party collaborator. Milestones related to our development-based activities may include initiation of various phases of clinical trials, successful completion of a phase of development or results from a clinical trial, acceptance of a

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New Drug Application by the FDA or an equivalent filing with an equivalent regulatory agency in another territory, or regulatory approval by the FDA or by an equivalent regulatory agency in another territory. Due to the uncertainty involved in meeting these development-based milestones, the development-based milestones are considered to be substantial (i.e. not just achieved through passage of time) at the inception of the collaboration agreement. In addition, the amounts of the payments assigned thereto are considered to be commensurate with the enhancement of the value of the delivered intellectual property as a result of our performance. Our involvement is necessary to the achievement of development-based milestones. We would account for development-based milestones as revenue upon achievement of the substantive milestone events. Milestones related to sales-based activities may be triggered upon events such as the first commercial sale of a product or when sales first achieve a defined level. These sales-based milestones would be achieved after the completion of our development activities. We would account for the sales-based milestones in the same manner as royalties, with revenue recognized upon achievement of the milestone. In addition, upon the achievement of either development-based or sales-based milestone events, we have no future performance obligations related to any milestone payments.

License Fees

We recognize license fees based on the facts and circumstances of each contractual agreement. In general, we recognize income upon the signing of a contractual agreement that grants rights to products or technology to a third party if we have no further obligation to provide products or services to the third party after entering into the contract.

Research and Development

Research and development expenses include salaries and benefits, clinical trial and related manufacturing costs, contract and other outside service fees, and facilities and overhead costs related to our research and development efforts. Research and development expenses also consist of costs incurred for proprietary and collaborative research and development and include activities such as product registries and investigator-sponsored trials. Research and development costs are expensed as incurred. In certain instances, we enter into agreements with third parties for research and development activities, where we may prepay fees for services at the initiation of the contract. We record such prepayment as a prepaid asset and charge research and development expense over the period of time the contracted research and development services are performed. Other types of arrangements with third parties may be fixed fee or fee for service, and may include monthly payments or payments upon the completion of milestones or receipt of deliverables.

As of each balance sheet date, we review purchase commitments and accrue drug development expenses based on factors such as estimates of work performed, patient enrollment, completion of patient studies and other events. We maintain regular communication with our vendors, including our clinical sites, and gauge the reasonableness of estimates provided. However, actual clinical trial costs may differ materially from estimated clinical trial costs and are adjusted for in the period in which they become known.

Goodwill and Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of the net assets of the acquired businesses. Goodwill has an indefinite useful life and is not amortized, but instead tested for impairment annually unless there are interim impairment indicators. We perform our annual evaluation as of October 1 each year.

Intangible assets are reviewed for impairment when facts or circumstances suggest that the carrying value of these assets may not be recoverable. Our policy is to identify and record impairment losses, if necessary, on intangible product rights when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. It is our policy to expense costs as incurred in connection with the renewal or extension of its intangible assets.

We acquired 50% of the rights in RIT in December 2008 and the remaining 50% in March 2009. The purchase price for the acquisition of ZEVALIN rights was allocated to identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date which is being amortized over its useful life of 10 years. Such a valuation requires significant estimates and assumptions including but not limited to: determining the timing and expected costs to complete the in-process projects, projecting regulatory approvals, estimating future cash flows from product sales resulting from in-process projects, and developing appropriate discount rates and probability rates by project. We believe the fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions.

Identifiable intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives, ranging from 1 to 10 years.

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We acquired all of the oncology drug assets of Targent in April 2006. As part of the consideration for the purchase of these assets, we agreed to pay milestone payments to Targent upon the achievement of certain regulatory events as well as for certain sales levels for FUSILEV within a calendar year. During 2011, we capitalized \$16.8 million associated with the achievement of these milestones which are being amortized to cost of product sales sold on a straight-line basis over the estimated useful life of 8.7 years.

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On April 1, 2012, we acquired the licensing rights to market ZEVALIN outside of the U.S. (ZEVALIN Rights) from Bayer Pharma AG or Bayer. The process for estimating the fair values of these identifiable intangible assets involved the use of significant estimates and assumptions, including estimating future cash flows and developing appropriate discount rates. These identified intangible assets are being amortized over the estimated useful life of 10 years.

We acquired Allos on September 5, 2012, and recorded intangible assets related to license and distribution rights and in-process research and development. The license and distribution rights are amortized over the expected patent life of 10 years. The fair value of the acquired in-process research and development and license and distribution agreement intangible assets was estimated using the income approach. The income approach uses valuation techniques to convert future amounts to a single present amount (discounted). Our measurement is based on the value indicated by current market expectations about those future amounts. The fair value considered our estimates of future incremental earnings that may be achieved by the intangible assets.

With respect to the acquisition we believe the fair values assigned to the assets acquired and liabilities assumed were based upon reasonable assumptions. Our allocation of the purchase price was largely dependent on discounted cash flow analyses of projects and products of Allos. We cannot provide assurance that the underlying assumptions used to forecast the cash flows or the timely and successful completion of such projects will materialize as we estimated. For these reasons, among others, our actual results may vary significantly from the estimated results.

On March 8, 2013, we acquired the global development and commercialization rights to Captisol-enabled®, propylene glycol-free (PG-free) melphalan and capitalized \$7.7 million associated with the in process research and development.

We evaluate the recoverability of indefinite and definite intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. Such circumstances could include, but are not limited to the following:

- (i) a significant decrease in the market value of an asset;
- (ii) a significant adverse change in the extent or manner in which an asset is used; or
- (iii) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset.

We measure the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds its fair value. No impairment loss was recorded during the quarters ended March 31, 2013 or 2012.

Acquisitions and Collaborations

For all in-licensed products, we perform an analysis to determine whether we hold a variable interest or interests that give us a controlling financial interest in a variable interest entity. On the basis of our interpretations and conclusions, we determine whether the acquisition falls under the purview of variable interest entity accounting and if so, consider the necessity to consolidate the acquisition. As of March 31, 2013, we determined there were no variable interest entities required to be consolidated other than our Canadian affiliate, Spectrum Pharma Canada.

We also perform an analysis to determine if the inputs and/or processes acquired in an acquisition qualify as a business. On the basis of our interpretations and conclusions, we determine if the in-licensed products qualify as a business and whether to account for such products as a business combination or an asset acquisition. The accounting for acquisitions requires extensive use of estimates and judgments to measure the fair value of the identifiable tangible and intangible assets acquired, including in-process research and development, and liabilities assumed. Additionally, we must determine whether an acquired entity is considered to be a business or a set of net assets, because the excess of the purchase price over the fair value of net assets acquired can only be recognized as goodwill in a business combination. The excess of the purchase price over the fair value of the net assets acquired can only be recognized as goodwill in a business combination.

Foreign Currency Translation

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We translate the assets and liabilities of our foreign subsidiaries stated in local functional currencies to US dollars at the rates of exchange in effect at the end of the period. Revenues and expenses are translated using rates of exchange in effect during the period. Gains and losses from the translation of financial statements denominated in foreign currencies are included as a separate component of accumulated other comprehensive income in the statement of comprehensive income (loss).

We record foreign currency transactions at the exchange rate prevailing at the date of the transaction with resultant gains and losses being included in results of operations. Foreign currency transaction gains and losses have not been significant for any period presented.

Table of Contents**Comprehensive Income (Loss)**

Comprehensive income (loss) is calculated in accordance with authoritative guidance which requires the disclosure of all components of comprehensive income, including net income (loss) and changes in equity during a period from transactions and other events and circumstances generated from non-owner sources. Our accumulated other comprehensive income (loss) at March 31, 2013 and 2012, respectively consisted primarily of foreign currency translation adjustments and net unrealized gains/losses on investments in marketable securities as of that date.

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board (the FASB) issued an accounting standards update that requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amounts are required to be reclassified in their entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This guidance became effective for reporting periods beginning after December 15, 2012, with early adoption permitted. We adopted the provisions of the guidance in the first quarter of 2013 and had no significant reclassifications out of accumulated other comprehensive income to net loss during the first quarter of 2013.

In July 2012, the FASB issued an accounting standards update that gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. This guidance became effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We adopted the provisions of the guidance in the first quarter of 2013. The adoption did not have a material impact on our consolidated financial statements.

New Accounting Standards Not Yet Adopted

In March 2013, the FASB issued an accounting standards update that provides guidance on the accounting for the cumulative translation adjustment (the CTA) upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. Under this guidance, an entity should recognize the CTA in earnings based on meeting certain criteria, including when it ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity or upon a sale or transfer that results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets resides. This guidance will be effective for fiscal years beginning on or after December 15, 2013, which will be our fiscal year 2014, with early adoption permitted. We currently do not expect the adoption of the guidance will have a material impact on our consolidated financial statements.

Basic and Diluted Earnings (Loss) per Share

We calculate basic and diluted net income (loss) per share using the weighted average number of common shares outstanding during the periods presented, and adjust the amount of net income (loss) used in this calculation for preferred stock dividends (if any) declared during the period. In periods of a net loss position, basic and diluted loss per share are the same. For the diluted earnings per share calculation, we adjust the weighted average number of common shares outstanding to include dilutive stock options, warrants and other common stock equivalents outstanding during the period.

	Net Loss	Weighted-Average Shares Outstanding (Denominator)	Loss Per Share
(in thousands, except share and per share data)			
Three Months Ended March 31, 2013			
Basic and diluted loss per share:	\$ (2,789)	59,181,380	\$ (0.05)

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The following table sets forth the number of shares excluded from the computation of diluted earnings per share, as their inclusion would be anti-dilutive:

	March 31, 2013
Preferred shares	40,000
Options	3,921,997
Incremental shares assumed issued on exercise of in the money warrants	215,859
Unvested restrictive stock	935,654
	5,113,510

	Net Income	Weighted- Average Shares Outstanding (Denominator)	Earnings Per Share
(in thousands, except share and per share data)			
Three Months Ended March 31, 2012			
Basic earnings per share:	\$ 46,542	58,464,059	\$ 0.80
Diluted earnings per share:			
Dilutive preferred shares		40,000	
Dilutive options		5,993,345	
Incremental shares assumed issued on exercise of in the money warrants		284,437	
Unvested restricted stock		476,669	
Diluted earnings per share	\$ 46,542	65,258,510	\$ 0.71
Potentially dilutive securities not included above since they were antidilutive:			
Antidilutive options excluded from the calculation		45,000	

2. Acquisitions**Acquisition of Rights to Captisol-Enabled® Melphalan**

On March 8, 2013, we completed the acquisition of exclusive global development and commercialization rights to Captisol-enabled®, propylene glycol-free melphalan from CyDex Pharmaceuticals, Inc. a wholly-owned subsidiary of Ligand Pharmaceuticals Incorporated (Ligand). The Captisol-enabled melphalan product candidate is currently in a pivotal trial being conducted by Ligand for use as a conditioning treatment prior to autologous stem cell transplant for patients with multiple myeloma. Pursuant to the license agreement, Spectrum assumed the responsibility for the ongoing clinical and regulatory development of the program going forward. Under the agreement, Ligand received a license fee of \$3.0 million on April 1, 2013 and is eligible to receive milestone payments upon achievement of certain regulatory and net sales thresholds, as well as royalties upon successful commercialization based on a percentage of net sales of the licensed products in all territories.

We accounted for the acquisition of the rights as a business combination using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the purchase date and be recorded on the balance sheet regardless of the likelihood of success of the related product or technology. The process for estimating the fair values of identifiable intangible assets involves the use of significant estimates and assumptions, including estimating future cash flows and developing appropriate discount rates. Transaction costs are not included as a component of consideration transferred and were expensed as incurred. The related transaction costs expensed for the three months ended March 31, 2013 were approximately \$15,000.

Consideration Transferred

The acquisition-date fair value of the consideration transferred consisted of the following items (\$ in 000 s):

Cash consideration	\$ 3,000
Liability assumed contingent consideration	4,700
Total purchase consideration	\$ 7,700

Table of Contents**Fair Value Estimate of Asset Acquired and Liability Assumed**

The total purchase consideration is allocated to the acquisition of the net tangible and intangible assets based on their estimated fair values as of the closing date. The allocation of the total purchase price to the net assets acquired is as follows (\$ in 000 s):

In-process research and development Captisol-enabled®, propylene glycol-free melphalan rights	\$ 7,700
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Acquired in-process research and development (IPR&D) is an intangible asset classified as an indefinite-lived asset until the completion or abandonment of the associated R&D effort, and will be amortized over an estimated useful life to be determined at the date the project is completed. Intangible IPR&D is not amortized during the period that it is considered indefinite-lived but rather tested for impairment.

We estimated the fair value of the in-process research and development using the income approach. The income approach uses valuation techniques to convert future amounts to a single present amount (discounted). Our measurement is based on the value indicated by current market expectations about those future amounts. The fair value estimate took into account our estimates of future incremental earnings that may be achieved upon regulatory approval, promotion and distribution associated with the rights, and included estimated cash flows of approximately 10 years and a discount rate of approximately 25%.

The fair value of the contingent consideration liability assumed was determined using the probability of success and the discounted cash flow method of the income approach assuming the U.S. Food and Drug Administration, or FDA, approval of Captisol-enabled® melphalan is will occur on or about December 31, 2015. Upon receipt of regulatory approval, Spectrum will be obligated to make a milestone payment to Ligand.

We do not consider the acquisition of the global development and commercialization rights to Captisol-enabled®, propylene glycol-free melphalan to be a material business combination and, therefore, have not disclosed the pro forma results of operations as required for material business combinations.

Allos Acquisition

Spectrum acquired Allos Therapeutics, Inc. on September 5, 2012 as discussed further in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed on February 27, 2013. The results of operations of the Allos acquisition are included in the accompanying condensed consolidated statements of operations for the three months ended March 31, 2013. The pro forma results of operations are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisition occurred at the beginning of the years presented or the results which may occur in the future. The following unaudited pro forma results of operations for the three months ended March 31, 2012 assume the Allos acquisition had occurred on January 1, 2012 (\$ in 000 s):

	Three Months Ended March 31, 2012 (Unaudited)
Total revenues	\$ 71,193
Income from operations	\$ 11,102
Net income	\$ 34,105
Basic net income per share	\$ 0.58
Diluted net income per share	\$ 0.52

3. Cash, Equivalents and Marketable Securities

As of March 31, 2013, we held substantially all of our cash, equivalents and marketable securities at major financial institutions, which must invest our funds in accordance with our investment policy with the principal objectives of such policy being preservation of capital, fulfillment of liquidity needs and above market returns commensurate with preservation of capital. Our investment policy also requires that investments in marketable securities be in only highly rated instruments, which are primarily US treasury bills or US treasury backed securities, with limitations on investing in securities of any single issuer. We maintain cash balances in excess of federally insured limits in reputable financial institutions. To a limited degree, the Federal Deposit Insurance Corporation and third parties insure these investments. However, these investments are not

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insured against the possibility of a complete loss of earnings or principal and are inherently subject to the credit risk related to the continued credit worthiness of the underlying issuer and general

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credit market risks. We manage such risks on our portfolio by investing in highly liquid, highly rated instruments and limit investing in long-term maturity instruments.

Cash, equivalents and marketable securities, including long term bank certificates of deposits, and investments totaled \$167.0 million and \$145.5 million as of March 31, 2013 and December 31, 2012, respectively. Long term bank certificates of deposit include a \$250,000 restricted certificate of deposit that collateralizes tenant improvement obligations to the lessor of our principal offices. The following is a summary of such investments (in 000 s):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated fair Value	Cash	Marketable Security Current	Long Term
March 31, 2013							
Cash and equivalents	\$ 160,073	\$	\$	\$ 160,073	\$ 160,073	\$	\$
Bank CDs (including restricted certificate of deposit of \$250)	496			496		496	
Money market currency funds	2,814			2,814		2,814	
Other securities (included in other assets)	1,747	1,601		3,348			3,348
Total investments	\$ 165,130	\$ 1,601	\$	\$ 166,731	\$ 160,073	\$ 3,310	\$ 3,348
December 31, 2012							
Cash and equivalents	\$ 139,698	\$	\$	\$ 139,698	\$ 139,698	\$	\$
Bank CDs (including restricted certificate of deposit of \$250)	987			987		987	
Money market currency funds	2,323			2,323		2,323	
Other securities (included in other assets)	1,747	733		2,480			2,480
Total investments	\$ 144,755	\$ 733	\$	\$ 145,488	\$ 139,698	\$ 3,310	\$ 2,480

As of March 31, 2013, none of the securities had been in a continuous unrealized loss position longer than one year.

4. Fair Value Measurements

We measure fair value based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include the following:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data. These inputs include quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in the assessment of fair value. Cash equivalents consist of certificates of deposit and are valued at cost, which approximates fair value due to the short-term maturities of these instruments. Marketable securities consist of certificates of deposit, US Government Treasury bills, US treasury-backed securities and corporate deposits, which are stated at fair value as it approximates carrying value due to the short term maturities of these instruments.

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The fair value of the deferred development cost liability and the deferred payment contingency was valued using the discounted cash flow method of the income approach. The unobservable inputs in the valuation models that have the most significant effect on

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the fair value of our deferred development cost liability and deferred payment contingency are the determination of the present value factors for future cash flows. The assumptions included internal estimates of research and development personnel needed to perform the research and development services; and estimates of expected cash outflows to third parties for services and supplies over the expected period that the services will be performed, approximately through 2022 for the research and development obligations. We determined the present value factor to be a weighted-average cost of capital of approximately 11.0% in 2013 and 2012.

The fair value of the other long-term liability was valued using the probability of success and the discounted cash flow method of the income approach assuming the FDA approval of Captisol-enabled[®] melphalan will occur on or about December 31, 2015.

A majority of our financial assets have been classified as Level 2. These assets have been initially valued at the transaction price and subsequently valued utilizing third party pricing services. The pricing services use many observable market inputs to determine value, including reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers, current spot rates and other industry and economic events. We validate the prices provided by our third party pricing services by understanding the models used, obtaining market values from other pricing sources, analyzing pricing data in certain instances and confirming those securities trade in active markets.

We did not elect the fair value option, as allowed, to account for financial assets and liabilities that were not previously carried at fair value. Therefore, material financial assets and liabilities that are not carried at fair value, such as trade accounts receivable and payable, are reported at their historical carrying values.

The fair value of the deferred development costs and deferred payment contingency are measured at the end of each reporting period using Level 3 inputs. The significant unobservable assumptions we use include the determination of present value factors for future cash flows.

The carrying values of our cash and cash equivalents, marketable securities, other securities and common stock warrants, carried at fair value as of March 31, 2013 are classified in the table below in one of the three categories of the fair value hierarchy described below:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
March 31, 2013				
Assets:				
Cash and equivalents	\$ 160,073	\$	\$	\$ 160,073
Bank CDs (including restricted certificate of deposit of \$250)		497		497
Money market currency funds		2,814		2,814
Cash and equivalents, and marketable securities and investments	160,073	3,311		163,384
Deferred compensation investments, including life insurance cash surrender value		3,358		3,358
Other securities	3,348			3,348
	\$ 163,421	\$ 6,669	\$	\$ 170,090
Liabilities:				
Deferred executive compensation liability		2,926		2,926
Deferred development costs			12,140	12,140
Deferred payment contingency			2,374	2,374
Other long term liability			4,700	4,700
Contingent value right				
	\$	\$ 2,926	\$ 19,214	\$ 22,140

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The following summarizes the activity of Level 3 inputs measured on a recurring basis:

	Fair Value Measurements of 1 Unobservable Inputs (Level 3)	
	(\$ in 000 s)	
Balance at December 31, 2011	\$	
Transfers in / (out) of Level 3		
Deferred development costs		12,233
Deferred payment contingency		2,287
Contingent right value		
Balance at December 31, 2012		14,520
Transfers in / (out) of Level 3:		
Other long term liabilities		4,700
Deferred development costs		(93)
Deferred payment contingency		87
Balance at March 31, 2013	\$	19,214

5. Revolving Line of Credit

In connection with the Allos Acquisition, we entered into a credit agreement on September 5, 2012, or Credit Agreement, with Bank of America, N.A. as the administrative agent and Wells Fargo Bank, N.A. as an initial lender. The Credit Agreement provides us with a committed \$75 million revolving line of credit facility, or Credit Facility. We may increase the Credit Facility up to \$125 million, subject to meeting certain customary conditions and obtaining commitments for such increase from the lenders. The Credit Facility expires on September 5, 2014.

The Credit Facility bears interest, at our election, at a rate equal to the London Interbank Offer Rate, or LIBOR rate, or the base rate, plus an applicable margin (4.25% at March 31, 2013). The applicable margin is as follows:

if the consolidated leverage ratio as of the last test date is less than 0.5:1.0, 1.75% per annum (for LIBOR rate loans) or 0.75% (for base rate loans);

if the consolidated leverage ratio as of the last test date is greater than 0.5:1.0 but less than 1.0:1.0, 2.00% per annum (for LIBOR rate loans) or 1.00% (for base rate loans); and

if the consolidated leverage ratio as of the last test date is greater than 1.0:1.0, 2.25% per annum (for LIBOR rate loans) or 1.00% (for base rate loans).

The base rate is subject to a floor that is 100 basis points above the LIBOR rate. The LIBOR rate does not include a floor and, with respect to it, interest periods of 1, 2, 3 and 6 months may be selected. Related interest expense was \$243,000 for the three months ended March 31, 2013.

We incurred \$976,000 in related loan costs and fees, which were deferred and will be amortized using the effective interest method over 24 months, the term of the Credit Facility. Amortization expense included in interest expense in the accompanying condensed consolidated statements of operations was \$122,160 and \$0 for the three months ended March 31, 2013 and 2012.

An unused line fee is payable quarterly in an amount ranging from 0.375 to 0.625% of the sum of the average daily unused portion of the facilities during any quarter based upon consolidated leverage ratio as at the last test date. A customary fee is also payable to the administrative agent on an annual basis in advance. Related interest expense for the unused line fee was \$63,000 for the three months ended March 31, 2013.

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The direct and indirect domestic subsidiaries of the Company, including Allos, as a new wholly-owned subsidiary, guaranty our obligations under the Credit Facility.

The Credit Agreement includes the following quarterly financial covenants:

The Company may not permit the consolidated interest coverage ratio of the Company and its subsidiaries as of the end of any fiscal quarter to be less than 3.00 to 1.00;

The Company may not permit the consolidated leverage ratio at any time set forth below to be greater than the ratio set forth below opposite such period:

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Measurement Period Ending	Maximum Consolidated Leverage Ratio
Closing Date through September 30, 2012	2.00 to 1.00
December 31, 2012 and each fiscal quarter thereafter	1.50 to 1.00

The Company may not permit the ratio of (i) the sum of (A) unencumbered cash and cash equivalents of the Company and its subsidiaries on a consolidated basis, plus (B) net accounts receivable of the Company and its subsidiaries on a consolidated basis, to (ii) consolidated funded indebtedness as of the end of any fiscal quarter to be less than 2.00 to 1.00.

In addition, the Credit Agreement includes certain negative covenants that, subject to exceptions, limit our ability to, among other things incur additional indebtedness, engage in future mergers, consolidations, liquidations and dissolutions, sell assets, pay dividends and distributions on or repurchase capital stock, and enter into or amend other material agreements. The Credit Facility also includes certain customary representations and warranties, affirmative covenants and events of default, which are set forth in more detail in the Credit Facility.

On the closing date of September 5, 2012, we drew \$50 million on the Credit Facility and used the proceeds to pay a portion of the purchase price for Allos. At March 31, 2013, \$75 million was outstanding on the Credit Facility and there no amounts available to borrow. At March 31, 2013, we were in compliance with all financial covenants. In April 2013, we repaid \$50 million of the then outstanding balance.

Additional revolving loans may be drawn and all revolving loans may be repaid and re-borrowed from time to time in an amount not to exceed the total commitment amount. Any such loan proceeds may be used for working capital and other general corporate purposes for us or our subsidiaries.

6. Intangible Assets and Goodwill

Intangible assets consist of the following (\$ in 000 s):

		March 31, 2013			Weighted Average Amortization Period (years)	
		Gross Amount	Accumulated Amortization	Foreign Currency Translation	Net Amount	
ZEVALIN intangibles	US	\$ 41,900	\$ (20,665)	\$	\$ 21,235	5.8
ZEVALIN intangibles	Ex. US	23,490	(2,842)	(991)	19,657	9.0
FUSILEV intangibles		16,778	(3,473)		13,305	6.8
FOLOTYN license with Mundipharma		27,900	(1,604)		26,296	9.5
FOLOTYN distribution rights	US & Canada	118,400			118,400	n/a
Melphalan license with CyDex Pharmaceuticals		7,700			7,700	n/a
Total intangible assets		\$ 236,168	\$ (28,584)	\$ (991)	\$ 206,593	

During the three months ended March 31, 2013, ZEVALIN and FOLOTYN intangible amortization of \$729,000 and \$709,000, respectively, is included in amortization of purchased intangibles. In addition, during the three months ended March 31, 2013, \$493,000 is included in cost of product sales related to FUSILEV milestones.

		March 31, 2012			Weighted Average Amortization Period (years)	
		Gross Amount	Accumulated Amortization	Foreign Currency Translation	Net Amount	
ZEVALIN intangibles	US	\$ 41,900	\$ (16,945)	\$	\$ 24,955	6.8

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FUSILEV intangibles	16,778	(1,502)	15,276	7.8
Total intangible assets	\$ 58,678	\$ (18,447)	\$ 40,231	

During the three months ended March 31, 2012, ZEVALIN intangible amortization of \$930,000 is included in amortization of purchased intangibles. In addition, during the three months ended March 31, 2012, \$493,000 is included in cost of product sales related to FUSILEV Targent milestones achieved in 2011.

Table of Contents**Goodwill**

Goodwill includes the following:

	March 31, 2013	December 31, 2012
	(\$ in 000 s)	
Acquisition of Zevalin Rights	\$ 2,525	\$ 2,525
Acquisition of Allos	26,485	26,485
Foreign exchange translation effects	(106)	(37)
	\$ 28,904	\$ 28,973

7. Inventories

Inventories, net of allowances consisted of the following:

	March 31, 2013	December 31, 2012
	(\$ in 000 s)	
Raw materials	\$ 1,508	\$ 887
Work-in-process	8,870	7,302
Finished goods	6,240	6,289
	\$ 16,618	\$ 14,478

We continually review product inventories on hand, evaluating inventory levels relative to product demand, remaining shelf life, future marketing plans and other factors, and record reserves for obsolete and slow-moving inventories for amounts which we may not realize.

8. Accounts payable and accrued obligations

Accounts payable and other accrued obligations consisted of the following:

	March 31, 2013	December 31, 2012
	(\$ in 000 s)	
Trade payables	\$ 36,201	\$ 34,352
Allowance for rebates	8,574	11,023
Accrued product royalty	10,614	12,275
Allowance for returns	3,427	5,056
Accrued data and distribution fees	4,736	8,449
Accrued GPO administrative fees	2,680	2,650
Inventory management fee	1,150	3,050
Accrued income taxes		470
Allowance for chargebacks	13,408	15,153
Other accrued obligations	1,863	2,819

\$ 82,653	\$ 95,297
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9. Income Taxes

On an interim basis, we estimate that the anticipated annual effective tax rate for the provision for income taxes would be 55.9% and have recorded a quarterly income tax provision in accordance with this anticipated annual rate. The effective tax rate may be subject to fluctuations during the year as new information is obtained, which may affect the assumptions used to estimate the annual effective tax rate, including factors such as the valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, expected utilization of R&D tax credits and changes in or the interpretation of tax laws in jurisdictions where we conduct business.

Our provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not

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be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence.

Based on the weight of both positive and negative evidence, we concluded that it is more likely than not that the domestic net deferred tax assets would be realized, and therefore, we released our domestic valuation allowance during the quarter ended March 31, 2012. We released approximately \$23 million as part of the projected annual effective tax rate and released the remaining \$24 million of the domestic valuation allowance as a discrete item in the quarter ended March 31, 2012. We maintain a valuation allowance against our foreign net deferred tax assets as we continue to conclude it not more likely than not that the foreign net deferred tax assets will be realized. We also maintain a partial valuation allowance against the domestic deferred tax assets acquired in the Allos business combination due to the fact that a substantial portion of Allos' deferred tax liabilities relate to indefinite lived In Process Research & Development costs which are not considered a source of income to support the realization of Allos' deferred tax assets. Realization of the balance of Allos' deferred tax assets were primarily supported through our income projections.

We recognize excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, we follow the with-and-without approach, excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to us.

We recognize the impact of a tax position in our financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

10. Mundipharma Agreements

As the result of Allos becoming our wholly owned subsidiary effective September 5, 2012, on a consolidated basis we assumed obligations under a strategic collaboration agreement with Mundipharma, or the Mundipharma Collaboration Agreement, pursuant to which we agree to collaborate in the development of FOLOTYN according to a mutually agreed-upon development plan, as updated by the parties from time to time. Under the Mundipharma Collaboration Agreement, we retain full commercialization rights for FOLOTYN in the United States and Canada with Mundipharma having exclusive rights to commercialize FOLOTYN in all other countries in the world, or the Mundipharma territories. Pursuant to the terms of the agreement, we may receive potential regulatory milestone payments of up to \$11.5 million and commercial progress- and sales-dependent milestone payments of up to \$289.0 million. All of the remaining potential milestone payments are not deemed to be substantive for accounting purposes and will be recognized when the appropriate revenue recognition criteria have been met. We are also entitled to receive tiered double-digit royalties based on net sales of FOLOTYN within Mundipharma's licensed territories.

In connection with the Mundipharma Collaboration Agreement, on a consolidated basis, we are also bound by a separate supply agreement with Mundipharma Medical Company, an affiliate of Mundipharma, pursuant to which we have agreed to supply FOLOTYN for use in clinical trials for which Mundipharma bears operational responsibility and to support Mundipharma's commercial requirements. We refer to this as the Mundipharma Supply Agreement, and we refer to the Mundipharma Supply Agreement and the Mundipharma Collaboration Agreement together as the Mundipharma Agreements.

As part of the Mundipharma Agreements, we are obligated to perform research and development services related to jointly agreed-upon clinical development activities through approximately 2022, with cost sharing as discussed below. The related deferred development cost of \$12.3 million was recorded as its fair value as of September 5, 2012, using the discounted cash flow method of the income approach. The assumptions included internal estimates of research and development personnel needed to perform the research and development services; and estimates of expected cash outflows to third parties for services and supplies over the expected period that the services will be performed, approximately through 2022 for the research and development obligations. We will reevaluate the measurement of this liability at each subsequent reporting date. The change in measurement is recorded to research and development expense.

Under the Mundipharma Collaboration Agreement, Mundipharma is initially responsible for 40% of the joint development costs incurred by the parties, which increases to 50% upon the later of (i) the calendar quarter of the first approval of FOLOTYN in the EU for relapsed or refractory PTCL or first-line PTCL, and (ii) the first calendar quarter in which the development cost differential equals or exceeds \$15.0 million. The development cost differential is defined as the cumulative amount of joint development costs that Mundipharma would have incurred if it was responsible for 50% of the joint development costs rather than its initial 40% share. To the extent that this development cost differential does not meet or exceed \$15.0 million by December 31, 2019, then we are required to pay Mundipharma the difference between \$15.0 million and the amount of the development cost differential as of December 31, 2019. We record the joint development cost reimbursements received from

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Mundipharma as research and development in the statement of operations; and we record the full amount of our joint development costs as research and development expense. Research and

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development for the three months ended March 31, 2013 includes \$330,000 related to the 40% joint development cost reimbursement under the Mundipharma Agreements.

As of March 31, 2013, the development cost differential was \$794,000 and our contingent payment obligation related to the development cost differential was approximately \$14.2 million. As part of the purchase accounting for the acquisition of Allos, we recorded this liability at its fair value of \$2.2 million as deferred payment contingency on the consolidated balance sheet which was revalued to \$2.3 million at December 31, 2012. We will reevaluate the measurement of this liability at each subsequent reporting date. The change in measurement is recorded to research and development expense.

We will perform the research and development services under the Mundipharma Collaboration Agreement over the period required to complete the jointly agreed-upon clinical development activities, which we estimate to be approximately through 2022 based on our projected clinical trial enrollment and patient treatment-related follow up time periods, with no general right of return.

As of March 31, 2013, accounts receivable related to the Mundipharma Agreements totaled \$449,600. As of March 31, 2013 and December 31, 2012, deferred amounts related to the Mundipharma Agreements consisted of (\$ in 000 s):

	March 31, 2013	December 31, 2012
Deferred development cost liability	\$ 803	\$ 856

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