SPECTRUM PHARMACEUTICALS INC
Form 10-Q
May 12, 2014
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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, 2014

¨ **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)

Delaware	**93-0979187**
(State or other jurisdiction of incorporation or organization)	**(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 x No ¨

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of April 28, 2014, 65,582,245 shares of the registrant s common stock were outstanding.

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SPECTRUM PHARMACEUTICALS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE THREE MONTHS ENDED MARCH 31, 2014

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Item 2 through 5 of Part II have been omitted because they are not applicable with respect to the current reporting period.

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PART I: FINANCIAL INFORMATION

SPECTRUM PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value amounts)

(Unaudited)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 117,734	$ 156,306
Marketable securities	3,472	3,471
Accounts receivable, net of allowance for doubtful accounts of $136 and $206, respectively	54,007	49,483
Other receivables	8,186	7,539
Inventories	12,919	13,519
Prepaid expenses and other current assets	17,697	3,213
Deferred tax assets	1,661	1,659
Total current assets	215,676	235,190
Property and equipment, net	1,597	1,535
Intangible assets, net	225,591	231,352
Goodwill	18,496	18,501
Other assets	13,621	12,577
Total assets	$ 474,981	$ 499,155
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 71,414	$ 79,837
Accrued payroll and related expenses	4,408	6,872
Deferred revenue	458	156
Drug development liability	3,119	3,119
Total current liabilities	79,399	89,984
Drug development liability, less current portion	14,387	14,623
Acquisition-related contingent obligations	9,053	8,329
Deferred tax liability	8,241	7,168
Other long-term liabilities	5,423	5,965
Convertible senior notes	92,627	91,480
Total liabilities	209,130	217,549

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, 2014 and December 31, 2013, respectively (convertible into 40,000 shares of common stock, with aggregate liquidation value of $240)	123	123
Common stock, $0.001 par value; 175,000,000 shares authorized; 65,649,620 and 64,104,173 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	65	64
Additional paid-in capital	529,745	518,144
Accumulated other comprehensive income	1,178	894
Accumulated deficit	(265,260)	(237,619)
Total stockholders equity	265,851	281,606
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 474,981	$ 499,155

See accompanying notes to these unaudited condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2014	**2013**
Revenues:		
Product sales, net	$ 40,096	$ 29,346
License fees and service revenue	28	9,321
Total revenues	$ 40,124	$ 38,667
Operating costs and expenses:		
Cost of product sales (excludes amortization of purchased intangible assets)	6,278	6,782
Selling, general and administrative	23,403	22,014
Research and development	29,497	11,883
Amortization and impairment of intangible assets	5,360	4,445
Total operating costs and expenses	64,538	45,124
Loss from operations	(24,414)	(6,457)
Other expense:		
Interest expense	(2,067)	(421)
Change in fair value of contingent consideration related to acquisition	(724)	
Other expense	(358)	(897)
Total other expense	(3,149)	(1,318)
Loss before income taxes	(27,563)	(7,775)
(Provision) benefit for income taxes	(78)	2,340
Net loss	$ (27,641)	$ (5,435)
Net loss per share:		
Basic	$ (0.44)	$ (0.09)
Diluted	$ (0.44)	$ (0.09)
Weighted average shares outstanding:		

Basic	63,447,309	59,181,380
Diluted	63,447,309	59,181,380

See accompanying notes to these unaudited condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2014	**2013**
Net loss	$ (27,641)	$ (5,435)
Other comprehensive loss, net of tax:		
Unrealized gain on available-for-sale securities	314	868
Income tax on unrealized gain on available-for-sale securities	(118)	(324)
Foreign currency translation adjustments	88	114
Other comprehensive income	284	658
Total comprehensive loss	$ (27,357)	$ (4,777)

See accompanying notes to these unaudited condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2014	**2013**
Cash Flows From Operating Activities:		
Net loss	$ (27,641)	$ (5,435)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred service revenue		(9,321)
Depreciation and amortization	5,980	5,346
Stock-based compensation	2,571	2,747
Accretion of debt discount to interest expense on 2018 Convertible Notes	1,147	
Amortization of debt deferred financing costs to interest expense on 2018 Convertible Notes	131	
Bad debt (recovery) expense	(70)	23
Unrealized foreign currency loss	(364)	959
Research and development expense for stock issued to TopoTarget in connection with milestone achievement	7,790	
Change in fair value of contingent consideration related to acquisitions	724	
Change in fair value of Allos deferred development costs and deferred payment contingency		(6)
Changes in operating assets and liabilities:		
Accounts receivable	(4,454)	52,735
Other receivables	(647)	
Inventories	600	(2,140)
Prepaid expenses and other current assets	(14,484)	(827)
Deferred tax assets	(2)	(5,312)
Other assets	(861)	
Accounts payable and other accrued obligations	(8,424)	(14,600)
Accrued payroll and related expenses	(2,464)	(1,115)
Drug development liability	(236)	(1,930)
Deferred revenue	302	
Deferred tax liability	955	
Other long-term liabilities	(542)	519
Net cash (used in) provided by operating activities	(39,989)	21,643
Cash Flows From Investing Activities:		
Purchases of property and equipment	(320)	(44)

Net cash used in investing activities	(320)	(44)
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	1,241	952
Payments to acquire treasury stock		(1,652)
Repurchase of restricted stock to satisfy employee tax withholdings at vesting		(384)
Proceeds from revolving line of credit		75,000
Repayment of revolving line of credit		(75,000)
Net cash provided by (used in) financing activities	1,241	(1,084)
Effect of exchange rates on cash	496	(140)
Net (decrease) increase in cash and cash equivalents	(38,572)	20,375
Cash and cash equivalents beginning of period	156,306	139,698
Cash and cash equivalents end of period	$ 117,734	$ 160,073
Supplemental disclosure of cash flow information:		
C-E MELPHALAN license included in intangible assets and other long term obligations	$	$ 7,700
Retirement of treasury shares	$	$ 1,652

See accompanying notes to these unaudited condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

Notes to Condensed Consolidated Financial Statements

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION, AND OPERATING SEGMENT

(a) Description of Business

Spectrum Pharmaceuticals, Inc. and its wholly-owned subsidiaries (Spectrum , the Company , we , our , or us), is a biotechnology company with fully integrated commercial and drug development operations, with a primary focus in oncology and hematology. Our strategy is comprised of acquiring, developing, and marketing a diverse pipeline of late-stage clinical and commercial products.

We currently market four drugs for the following indications:

- FUSILEV® injection for patients in the U.S. with advanced metastatic colorectal cancer and to counteract certain effects of methotrexate therapy;
- ZEVALIN® injection for patients in the U.S. and various international markets with follicular non-Hodgkin s lymphoma;
- FOLOTYN® injection for patients in the U.S. with relapsed or refractory peripheral T-cell lymphoma; and
- MARQIBO® injection for patients in the U.S. with Philadelphia chromosome negative acute lymphoblastic leukemia.

We also have ongoing indication expansion studies with several of our marketed products, and a diversified pipeline of product candidates in advanced-stage Phase 2 and Phase 3 studies. Our integrated in-house scientific team, includes formulation development and medical research, as well as expertise in regulatory and clinical affairs, biostatistics, and data management. In the U.S., we have full commercial operations for the sales and marketing of our drug products, and leverage the expertise of our worldwide partners to assist us with international sales and product development.

(b) Basis of Presentation

Interim Financial Statements

The interim financial data as of March 31, 2014 and 2013 is unaudited and is not necessarily indicative of the results for a full year. In the opinion of our management, the interim data includes normal and recurring adjustments necessary for a fair presentation of our financial results for the three months ended March 31, 2014 and 2013. Certain

information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted pursuant to U.S. Securities and Exchange Commission (SEC) rules and regulations relating to interim financial statements. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 12, 2014.

Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements include the financial position, results of operations, and cash flows of Spectrum and its subsidiaries, all of which are wholly-owned (except for SPC, as discussed below). All inter-company accounts and transactions among the consolidated entities have been eliminated in consolidation.

Variable Interest Entity

We own fifty-percent of Spectrum Pharma Canada (SPC), organized in Quebec, Canada in January 2008. SPC is a variable interest entity as defined under applicable GAAP. Certain of our drug clinical studies are conducted through this entity, and we are obligated to fund all of its costs and have the sole rights to any revenue derived from its operations. Since we carry the full risks and rewards of this entity, we meet the applicable GAAP criteria as its primary beneficiary . Accordingly, SPC s balance sheets and statements of operations are included in our Condensed Consolidated Financial Statements as if it were a wholly-owned subsidiary for all periods presented.

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SPECTRUM PHARMACEUTICALS, INC.

Notes to Condensed Consolidated Financial Statements

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

(c) Operating Segment

We operate in one reportable operating segment that is focused exclusively on developing and commercializing oncology and hematology drug products. For the three months ended March 31, 2014 and 2013, all of our revenue and related expenses were solely attributable to these activities. Substantially all of our long-lived assets are located in the U.S.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires our management to make informed estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, our management evaluates its estimates, including those related to (i) gross-to-net revenue adjustments; (ii) the collectability of customer accounts; (iii) whether the cost of inventories can be recovered; (iv) the fair value of goodwill and intangible assets; (v) the realization of tax assets and estimates of tax liabilities; (vi) the likelihood of payment and value of contingent liabilities; (vii) the fair value of investments; (viii) assumptions used in reporting stock-based compensation; and (ix) the potential outcome of ongoing or threatened litigation.

Such estimates are based on our management s professional judgment which takes into account our Company s experience and all available facts. Nonetheless, actual results may materially differ from management s estimates. In our judgment, the accounting policies, estimates, and assumptions described below have the greatest potential to significantly impact the accompanying Condensed Consolidated Financial Statements:

(i) Revenue Recognition

(a) Product Sales: We sell our products to wholesalers and distributors. Our wholesalers and distributors in turn sell the products directly to end-users, such as clinics, hospitals, and private oncology-based practices. Revenue from product sales is recognized when title and risk of loss have transferred to our customer, and the following additional criteria are met:

(1) appropriate evidence of a binding arrangement exists with our customer;

(2) price is substantially fixed and determinable;

(3) collection from our customer is reasonably assured;

(4) our customer s obligation to pay us is not contingent on resale of the product;

(5) we do not have significant obligations for future performance to directly bring about the resale of our product; and

(6) we have a reasonable basis to estimate returns.

Our gross revenue is reduced by our gross-to-net (GTN) estimates, resulting in our reported Product sales, net in the accompanying Condensed Consolidated Statements of Operations. We defer revenue recognition in full if/when these estimates are not reasonably determinable at the time of sale.

Our GTN estimates reduce revenue in the same period that the related sale is recorded and include the following major categories:

Product Returns Allowances: Our FUSILEV and MARQIBO customers are typically permitted to return products within six months of its expiration date, subject to certain restocking fees and preauthorization requirements. We estimate potential returns, based on several factors, including historical rates of return, customer and end-user ordering patterns, inventory held by distributors, and sell through data of distributor sales to end users. In general, returned product is not resold.

Government Chargebacks: Our products are subject to certain pricing limits under federal government programs. Qualifying entities purchase products through our distributors at the discounted price. Our distributors charge the difference between the list price and discounted price back to us, for which there may be significant lag time. Due to estimates inherent in determining the amount and volume of government chargebacks we will incur, the actual amount of government chargeback claims may be materially different from our estimates.

Discounts: Discounts for prompt payment are estimated based on the customer s payment history and our current expectations for timing of customer payment.

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(Unaudited)

Rebates: Rebates are estimated based on the customer s actual purchase level during the quarterly or annual rebate purchase period, and the corresponding contractual rebate tier we expect the customer to achieve.

Medicaid Rebates: Our products are subject to state government-managed Medicaid programs whereby discounts and rebates are provided to participating state governments. Our calculations related to these rebate accruals require estimates, including estimates of customer mix, to determine which of our sales will be subject to rebates and the amount of such rebates. Our estimates are based on historical claims and forecasting techniques, as supplemented by management s judgment for many factors, including changes in sales trends and product pricing. Due to estimates and assumptions inherent in determining the amount of our product sales that will be subject to Medicaid rebates, and the time lag in us receiving these rebate notices (generally several months after the sale is made), the actual amount of these claims may be materially different from our estimates. As a result, adjustments affecting revenue may be prospectively recorded and reported over several periods after we reported the initial sale.

Distribution and Data Fees: Distribution and data fees are paid to authorized wholesalers and specialty distributors of our products (except U.S. sales of ZEVALIN). These fees are based on a percentage of such estimated net sales and are for various services, including: contract administration, inventory management, product sales reporting by customer, and product returns processing.

(b) License Fees: We recognize revenue for our licensing of intellectual property to third parties, based on the terms of each contractual agreement. In general, this results in periodic revenue recognition as the licensee has sales for which we are entitled to a royalty, or in certain instances we may receive a lump-sum payment from licensees, in which case, revenue is fully recognized in that period.

(c) Service Revenue: We receive fees under certain arrangements for our research and development services. These services are generally performed in connection with a collaboration agreement with another pharmaceutical company. Payment may be triggered by the successful completion of a phase of development, results from a clinical trial, and/or regulatory approval events. We recognize revenue when the corresponding milestone is achieved, or the revenue is otherwise earned through our on-going activities.

(ii) Cash and Equivalents

Our cash and equivalents consist of bank deposits and highly liquid investments with original maturities of three months or less from the original purchase date.

(iii) Marketable Securities

Our marketable securities consist of our holdings in mutual funds and bank certificates of deposit. These are classified as available-for-sale, with any unrealized change in value reflected in unrealized gain (loss) on securities on the

accompanying Condensed Consolidated Statements of Comprehensive Loss. Realized gains and losses on available-for-sale securities are included in other expense on the accompanying Condensed Consolidated Statements of Operations.

(iv) Accounts Receivable

Our accounts receivable do not bear interest. The allowance for doubtful accounts is management s best estimate of the amount of probable credit losses in existing accounts receivable. Account balances are charged off against the allowance after appropriate collection efforts are exhausted.

(v) Inventories

We value inventory at the lower of the actual cost to purchase or manufacture the inventory, or the market value for such inventory (i.e., its net realizable value). Cost is determined on the first-in, first-out method (FIFO). We regularly review inventory quantities in process and on hand, and when appropriate, record a provision for obsolete and excess inventory to reduce it to its net realizable value.

(vi) Property and Equipment

Our property and equipment is stated at cost and depreciated on a straight-line basis over its estimated useful lives. In the case of leasehold improvements, depreciation is over the shorter of the estimated useful life or remaining term of the lease. We evaluate the recoverability of long-lived assets (which includes property and equipment) whenever events or changes in circumstances in our business indicate that the asset s carrying amount may not be recoverable through on-going operations.

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SPECTRUM PHARMACEUTICALS, INC.

Notes to Condensed Consolidated Financial Statements

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

(vii) Goodwill and Intangible Assets

Our goodwill represents the excess of our business acquisition cost over the estimated fair value of the net assets acquired in the corresponding transactions. Goodwill has an indefinite useful life and is not amortized, but is instead tested for impairment on an annual basis, unless there are interim impairment indicators requiring earlier testing. We perform our annual evaluation as of October 1 each year.

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

(a) a significant decrease in the market value of an asset;

(b) a significant adverse change in the extent or manner in which an asset is used; or

(c) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset.

(viii) Stock-Based Compensation

We recognize stock-based compensation expense for employees and directors over the equity award vesting period, based on its fair value at the date of grant. The fair value of equity awards that are expected to vest is amortized on a straight-line basis over the requisite service period. Stock-based compensation expense recognized is net of an estimated forfeiture rate, which is updated as appropriate.

We use the Black-Scholes option pricing model to determine the fair value of stock option grants with service conditions for vesting and the Monte Carlo valuation model to value certain equity awards with market conditions and service conditions for vesting. These models require the use of highly subjective assumptions, including the probability of the achievement of market capitalization thresholds.

(ix) Foreign Currency Translation

We translate the assets and liabilities of our foreign subsidiaries stated in local functional currencies to U.S. 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 loss in the Condensed Consolidated Balance Sheets.

We record foreign currency transactions at the exchange rate prevailing at the date of the transaction with resultant gains and losses included in other income (expense), net within the Condensed Consolidated Statements of Operations. Foreign currency transaction gains and losses have not been significant for any period presented.

(x) Basic and Diluted Net (Loss) Income per Share

We calculate basic and diluted net (loss) income per share using the weighted average number of common shares outstanding during the periods presented. In periods of a net loss, 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 only dilutive stock options, warrants, and other common stock equivalents outstanding during the period.

(xi) Income Taxes

Deferred tax assets and liabilities are recorded based on the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the financial statements, as well as operating losses and tax credit carry forwards using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain.

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Notes to Condensed Consolidated Financial Statements

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

We have recorded a valuation allowance to reduce our deferred tax assets, because we believe that, based upon a weighting of positive and negative factors, it is more likely than not that these deferred tax assets will not be realized. If/when we determine that our deferred tax assets are realizable, an adjustment to the corresponding valuation allowance would increase our net income in the period that such determination was made.

In the event that we are assessed interest and/or penalties from taxing authorities, such amounts would be included in income tax expense within the Condensed Consolidated Statements of Operations and Comprehensive Loss in the period the notice was received.

(xii) Research and Development Costs

Our research and development costs are expensed as incurred.

(xiii) Fair Value Measurements

We determine measurement-date fair value based on the proceeds that would be received through the sale an asset, or that we would pay to settle or transfer a liability, in an orderly transaction between market participants. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. 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 publicly accessible at the measurement date.

Level 2: Observable prices that are based on inputs not quoted on active markets, but that are corroborated by market data. These inputs may include quoted prices for similar assets or liabilities or quoted market prices in markets that are not active to the general public.

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.

Cash and equivalents within our accompanying Condensed Consolidated Balance Sheets include certificates of deposit and money market funds that are valued utilizing Level 2 inputs. Marketable securities consist of publicly-traded equity instruments that are valued utilizing Level 1 inputs.

The fair value of our drug development liability within our accompanying Condensed Consolidated Balance Sheets was estimated using the discounted income approach model. The unobservable inputs (i.e., Level 3 inputs) in this valuation model that have the most significant effect on these liabilities include (i) estimates of research and

development personnel costs needed to perform the research and development services, (ii) estimates of expected cash outflows to third parties for services and supplies over the expected period that the services will be performed, and (iii) an appropriate discount rate for these expenditures. These inputs are reviewed for reasonableness by management on at least on a quarterly basis.

Acquisition-related contingent obligations within our accompanying Condensed Consolidated Balance Sheets represent future amounts we may be required to pay in conjunction with various business combinations. See *Note 9(a)* for a discussion of contingent value rights granted as part of our acquisition of Talon, and *Note 9(b)* for the fair value of the liability associated with FDA approval of C-E MELPHALAN. These liabilities are valued using Level 3 inputs and include probabilities and assumptions related to the timing and likelihood of achievement of regulatory and sales milestones.

3. BALANCE SHEET ACCOUNT DETAIL

(a) Cash and Equivalents and Marketable Securities

As of March 31, 2014 and December 31, 2013, our holdings included within cash and equivalents and marketable securities were at major financial institutions.

Our investment policy requires that investments in marketable securities be in only highly-rated instruments, which are primarily U.S. treasury bills or U.S. treasury-backed securities, with limitations on investing in securities of any single issuer. We maintain cash balances in excess of federally insured limits with reputable financial institutions. To a limited degree, the Federal Deposit Insurance Corporation (FDIC) and other third parties insure these investments. However, these investments are not 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 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.

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SPECTRUM PHARMACEUTICALS, INC.

Notes to Condensed Consolidated Financial Statements

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

The carrying amount of our money market funds, bank certificate of deposits (Bank CDs), and mutual funds approximates their fair value (utilizing Level 2 inputs see *Note 2(xiii)*) because of our ability to immediately convert these instruments into cash with minimal expected change in value.

The following is a summary of our cash and equivalents and marketable securities :

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated fair Value	Cash and equivalents	Marketable Securities Current	Marketable Securities Long Term
March 31, 2014							
Bank deposits	$ 29,803	$	$	$ 29,803	$ 29,803	$	$
Money market funds	87,931			87,931	87,931		
Bank CDs	411			411		411	
Mutual funds	3,061			3,061		3,061	
Total cash and equivalents and marketable securities	$ 121,206	$	$	$ 121,206	$ 117,734	$ 3,472	$
December 31, 2013							
Bank deposits	$ 55,911	$	$	$ 55,911	$ 55,911	$	$
Money market funds	100,395			100,395	100,395		
Bank CDs	410			410		410	
Mutual funds	3,061			3,061		3,061	
Total cash and equivalents and marketable securities	$ 159,777	$	$	$ 159,777	$ 156,306	$ 3,471	$

As of March 31, 2014, none of these securities had been in a continuous unrealized loss position longer than one year.

(b) Property and Equipment

Property and equipment, net consist of the following:

	March 31, 2014	December 31, 2013
Computers and software	$ 5,466	$ 5,154
Lab equipment	1,063	1,063
Office furniture and equipment	1,575	1,575
Leasehold improvements	2,813	2,813
Property and equipment, at cost	10,917	10,605
(Less): accumulated depreciation and amortization	(9,320)	(9,070)
Property and equipment, net	$ 1,597	$ 1,535

Depreciation expense (included within operating costs and expenses in the accompanying Condensed Consolidated Statement of Operations) for the periods ended March 31, 2014 and 2013, was $0.3 million and $0.4 million, respectively.

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SPECTRUM PHARMACEUTICALS, INC.

Notes to Condensed Consolidated Financial Statements

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

(c) Inventories

Inventories consist of the following:

	March 31, 2014	December 31, 2013
Raw materials	$ 1,709	$ 1,794
Work-in-process	2,633	3,312
Finished goods	8,577	8,413
	$ 12,919	$ 13,519

(d) Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	March 31, 2014	December 31, 2013
Prepaid expenses	$ 4,106	$ 3,213
Deposit	13,591	
	$ 17,697	$ 3,213

(e) Other receivables

Other receivables consist of the amounts we expect to be refunded from taxing authorities for our income taxes paid, relating to fiscal year 2012.

(f) Intangible Assets and Goodwill

Intangible assets, net consist of the following:

	March 31, 2014						
	Historical Cost	Accumulated Amortization	Foreign Currency Translation	Impairment	Net Amount	Full Amortization Period (years)	Remaining Amortization Period (years)
MARQIBO IPR&D	$ 17,600	$	$	$	$ 17,600	n/a	n/a
C-E MELPHALAN IPR&D	7,700				7,700	n/a	n/a
MARQIBO distribution rights	26,900	(1,736)			25,164	11	10.0
FOLOTYN distribution rights	118,400	(12,947)			105,453	13	11.2
ZEVALIN distribution rights U.S.	41,900	(24,386)			17,514	10	4.8
ZEVALIN distribution rights Ex-U.S.	23,490	(6,095)	636		18,031	8	5.9
FUSILEV distribution rights	16,778	(5,183)			11,595	11	8.0
FOLOTYN out-license*	27,900	(4,343)		(1,023)	22,534	10	8.3
Total intangible assets	$ 280,668	$ (54,690)	$ 636	$ (1,023)	$ 225,591		

* On May 29, 2013, we amended our collaboration agreement with Mundipharma in order to modify the scope of their licensed territories and the respective development obligations. As a result of the amendment, Europe and Turkey were excluded from Mundipharma s commercialization territory, and royalty and milestone rates were modified. The modification of our associated royalty and milestone rights constituted a change in the contractual provisions under which we measured our original acquired intangible asset (i.e., FOLOTYN rights). We determined that an impairment of the FOLOTYN out-license rights to Mundipharma of $1.0 million resulted from this amendment.

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SPECTRUM PHARMACEUTICALS, INC.

Notes to Condensed Consolidated Financial Statements

(all tabular amounts presented in thousands, except per share, per unit, and number of years)

(Unaudited)

		December 31, 2013				
		Historical Cost	Accumulated Amortization	Foreign Currency Translation	Impairment	Net Amount
MARQIBO IPR&D		$ 17,600	$	$	$	$ 17,600
C-E MELPHALAN IPR&D		7,700				7,700
MARQIBO distribution rights		26,900	(1,107)			25,793
FOLOTYN distribution rights		118,400	(10,587)			107,813
ZEVALIN distribution rights	U.S.	41,900	(23,455)			18,445
ZEVALIN distribution rights	Ex-U.S.	23,490	(5,343)	682		18,829
FUSILEV distribution rights		16,778	(4,821)			11,957
FOLOTYN out-license		27,900	(3,662)		(1,023)	23,215
Total intangible assets		$ 280,668	$ (48,975)	$ 682	$ (1,023)	$ 231,352

Intangible asset amortization expense recognized in the three months ended March 31, 2014 and 2013 was $5.7 million and $4.8 million, respectively. Estimated intangible asset amortization expense (excluding incremental amortization from the reclassification of IPR&D to developed technology) for the remainder of 2014 and the five succeeding fiscal years and thereafter is as follows:

Years Ending December 31	
Remainder of 2014	$ 17,175
2015	22,900
2016	22,900
2017	22,900
2018	22,745
2019	19,180
2020 and thereafter	72,491
	$ 200,291

Goodwill is comprised of the following (by source):

	March 31, 2014	December 31, 2013
Acquisition of Talon	10,526	10,526
Acquisition of ZEVALIN distribution rights	2,525	2,525
Acquisition of Allos	5,346	5,346
Foreign exchange translation effects	99	104
	$ 18,496	$ 18,501

(g) Other assets

Other assets are comprised of the following:

	March 31, 2014	December 31, 2013
Investments in equity securities	$ 3,907	$ 3,593
Supplies	696	
Deposits	292	190
Debt issuance cost	3,301	3,432
Executive officer life insurance cash surrender value	5,425	5,362
	$ 13,621	$ 12,577

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(Unaudited)

(h) Accounts payable and other accrued liabilities

Accounts payable and other accrued liabilities are comprised of the following:

	March 31, 2014	December 31, 2013
Trade payables	$ 8,824	$ 12,796
Accrued rebates	31,257	28,893
Accrued product royalty	4,781	9,498
Allowance for returns	2,800	2,900
Accrued data and distribution fees	2,990	2,430
Accrued GPO administrative fees	2,480	2,327
Inventory management fee	790	616
Allowance for chargebacks	4,247	5,074
Accrued research and development expenses	6,151	6,433
Accrued selling, general and administrative expenses	7,094	8,870
	$ 71,414	$ 79,837

Amounts presented within accounts payable and other accrued liabilities in the accompanying Condensed Consolidated Balance Sheets specifically for GTN estimates (see *Note 2(i)*) are as follows:

Description	Rebates and Chargebacks	Data and Distribution, GPO Fees, and Inventory Management Fees	Prompt Pay Discount	Returns
Balance as of December 31, 2012	$ 26,176	$ 14,149	$ 1,451	$ 5,056
Add: provisions (recovery)	63,609	19,067	183	(2,034)
Less: credits or actual allowances	(55,818)	(27,843)		