

SPECTRUM PHARMACEUTICALS INC

Form 10-Q

November 06, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

(State or other jurisdiction of incorporation or organization)

93-0979187

(I.R.S. Employer Identification No.)

11500 South Eastern Avenue, Suite 240

Henderson, Nevada

(Address of principal executive offices)

(702) 835-6300

(Registrant's telephone number, including area code)

89052

(Zip 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 October 31, 2015, 67,339,944 shares of the registrant's common stock were outstanding.

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 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015
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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

ITEM 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SPECTRUM PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value amounts)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 136,527	\$ 129,942
Marketable securities	245	3,306
Accounts receivable, net of allowance for doubtful accounts of \$131 and \$120, respectively	48,150	70,758
Other receivables	13,495	5,489
Inventories	7,071	9,200
Prepaid expenses	3,963	3,774
Deferred tax assets	82	—
Total current assets	209,533	222,469
Property and equipment, net of accumulated depreciation	1,079	1,405
Intangible assets, net of accumulated amortization	201,184	230,100
Goodwill	18,023	18,195
Other assets	17,842	17,864
Total assets	\$ 447,661	\$ 490,033
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 79,264	\$ 84,994
Accrued payroll and benefits	7,140	8,444
Deferred revenue	9,990	9,959
Drug development liability	573	1,141
Acquisition-related contingent obligations	5,373	4,901
Total current liabilities	102,340	109,439
Drug development liability, less current portion	13,827	14,644
Deferred revenue, less current portion	407	—
Acquisition-related contingent obligations, less current portion	2,534	2,441
Deferred tax liability	6,659	6,569
Other long-term liabilities	6,963	6,088
Convertible senior notes	100,192	96,298
Total liabilities	232,922	235,479
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 September 30, 2015 and December 31, 2014, respectively (convertible into 40,000 shares of common stock, with aggregate liquidation value of \$240)	123	123

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Common stock, \$0.001 par value; 175,000,000 shares authorized; 67,314,580 and 65,969,699 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	66	66
Additional paid-in capital	548,232	538,553
Accumulated other comprehensive loss	(3,712	) (850
Accumulated deficit	(329,970	) (283,338
Total stockholders' equity	214,739	254,554
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$447,661	\$490,033

See accompanying notes to these unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Revenues:				
Product sales, net	\$28,457	\$47,916	\$102,014	\$134,867
License fees and service revenue	170	74	10,212	102
Total revenues	\$28,627	\$47,990	\$112,226	\$134,969
Operating costs and expenses:				
Cost of product sales (excludes amortization of intangible assets)	8,447	6,530	21,508	18,964
Selling, general and administrative	19,411	24,125	65,297	72,927
Research and development	9,924	14,420	35,333	55,252
Amortization and impairment of intangible assets	6,919	7,042	27,857	17,763
Total operating costs and expenses	44,701	52,117	149,995	164,906
Loss from operations	(16,074	) (4,127	) (37,769	) (29,937
Other expenses:				
Interest expense, net	(2,274	) (2,361	) (6,760	) (6,404
Change in fair value of contingent consideration related to acquisitions	81	(181	) (565	) (1,910
Other expense, net	(535	) (1,393	) (1,501	) (2,238
Total other expenses	(2,728	) (3,935	) (8,826	) (10,552
Loss before income taxes	(18,802	) (8,062	) (46,595	) (40,489
Benefit (provision) for income taxes	78	(3,477	) (37	) (2,254
Net loss	\$(18,724	) \$(11,539	) \$(46,632	) \$(42,743
Net loss per share:				
Basic and diluted	\$(0.28	) \$(0.18	) \$(0.71	) \$(0.66
Weighted average shares outstanding:				
Basic and diluted	65,855,727	64,765,072	65,457,060	64,369,466

See accompanying notes to these unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net loss	\$(18,724	) \$(11,539	) \$(46,632	) \$(42,743
Other comprehensive (loss) income, net of income tax:				
Unrealized (loss) gain on available-for-sale securities	(3,934	) 706	(949	) 1,364
Adjustment for realized loss on available-for-sale securities, and included in net income	—	(2,217	) —	(2,217
Foreign currency translation adjustments	387	897	(1,913	) 1,080
Other comprehensive (loss) income	(3,547	) (614	) (2,862	) 227
Total comprehensive loss	\$(22,271	) \$(12,153	) \$(49,494	) \$(42,516

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)

	Nine Months Ended September 30,	
	2015	2014
Cash Flows From Operating Activities:		
Net loss	\$(46,632	) \$(42,743
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	21,235	18,692
Stock-based compensation	8,490	8,589
Accretion of debt discount, recorded to interest expense on 2018 Convertible Notes (Note 11)	3,895	3,556
Amortization of deferred financing costs, recorded to interest expense on 2018 Convertible Notes (Note 11)	493	443
Bad debt (recovery) expense	11	(46
Impairment of intangible assets (Note 3(f))	7,160	—
Unrealized foreign currency exchange loss	435	4,469
Research and development expense recognized for the value of stock issued in connection with BELEODAQ in-license milestone achievement (Note 13(b)(x))	—	7,790
Change in fair value of contingent consideration related to Talon and EVOMELA acquisitions (Note 9)	565	1,910
Changes in operating assets and liabilities:		
Accounts receivable, net	22,537	(10,556
Other receivables	(8,008	) (1,809
Inventories	2,127	3,576
Prepaid expenses	(133	) (1,292
Deferred tax assets	(147	) 1,521
Intangible assets, net	—	(25,000
Other assets	(1,398	) (13,803
Accounts payable and other accrued obligations	(5,638	) 21,964
Accrued payroll and benefits	(1,286	) (9
Drug development liability	(1,385	) (1,340
Deferred revenue	359	9,803
Deferred tax liability	89	(179
Other long-term liabilities	874	(179
Net cash provided by (used in) operating activities	3,643	(14,643
Cash Flows From Investing Activities:		
Proceeds from sale of available-for-sale securities	3,061	4,093
Purchases of property and equipment	(212	) (808
Net cash provided by investing activities	2,849	3,285
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	1,482	1,460
Proceeds from sale of stock under employee stock purchase plan	335	348
Purchase and retirement of restricted stock to satisfy employee tax liability at vesting	(629	) (684
Net cash provided by financing activities	1,188	1,124
Effect of exchange rates on cash and equivalents	(1,095) (1,838

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Net increase (decrease) in cash and cash equivalents	6,585	(12,072)
Cash and cash equivalents—beginning of period	129,942	156,306
Cash and cash equivalents—end of period	\$ 136,527	\$ 144,234
Supplemental disclosure of cash flow information:		
Out-license proceeds for MARQIBO, ZEVALIN, and EVOMELA in China territory (Note 10) included in other assets	\$ —	\$ 9,959
In-license payment for BELEODAQ (Note 13(b)(x))	\$ —	\$ 25,000
Cash paid for income taxes	\$ 332	\$ 329
Cash paid for interest	\$ 1,650	\$ 1,588
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 share, 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. (“Spectrum”, the “Company”, “we”, “our”, or “us”) is a biotechnology company, with a primary focus on oncology and hematology. Our strategy is comprised of the (i) commercialization of cancer therapeutics through our U.S. direct sales force and our international licensees and distributors, (ii) completion of clinical studies for new indications of our marketed products, and (iii) acquisition, development, and marketing of a broad and diverse pipeline of late-stage clinical and commercial drug compounds.

We currently market five intravenous drug products for cancer treatment:

- FUSILEV® injection for patients with advanced metastatic colorectal cancer and to counteract certain effects of methotrexate therapy;

~~Z~~EVALIN