

SPECTRUM PHARMACEUTICALS INC

Form 10-Q

August 09, 2013

[Table of Contents](#)

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 June 30, 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)

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

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)	89052 (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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 August 5, 2013, 63,307,719 shares of the registrant's common stock were outstanding.

Table of Contents

SPECTRUM PHARMACEUTICALS, INC.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2013

INDEX

	Page
PART I	
<u>FINANCIAL INFORMATION</u>	
ITEM 1. <u>FINANCIAL STATEMENTS (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012</u>	3
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2013 and 2012</u>	4
<u>Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended June 30, 2013 and 2012</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	33
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	42
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	42
PART II	
<u>OTHER INFORMATION</u>	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	43
ITEM 1A. <u>RISK FACTORS</u>	44
ITEM 6. <u>EXHIBITS</u>	45
<u>SIGNATURES</u>	46

Item 2 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)

	June 30, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and equivalents	\$ 121,103	\$ 139,698
Marketable securities	3,312	3,310
Accounts receivable, net of allowance for doubtful accounts of \$239 and \$228, respectively	52,379	92,169
Inventories, net	15,312	14,478
Prepaid expenses and other current assets	7,149	2,745
Tax asset	13,785	12,473
Total current assets	213,040	264,873
Property and equipment, net	2,004	2,548
Intangible assets, net	203,017	202,311
Goodwill	28,940	28,973
Other assets	13,568	7,569
TOTAL ASSETS	\$ 460,569	\$ 506,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and other accrued obligations	\$ 85,249	\$ 95,297
Accrued compensation and related expenses	4,363	4,835
Deferred revenue	2,000	12,300
Deferred development costs	3,251	856
Accrued drug development costs	12,896	15,109
Total current liabilities	107,759	128,397
Deferred revenue and other credits less current portion	3,680	2,937
Deferred development costs, less current portion	15,400	11,377
Deferred payment contingency		2,287
Other long-term obligations	6,130	1,430
Revolving line of credit	50,000	75,000
Total liabilities	182,969	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 June 30, 2013 and December 31, 2012, respectively	123	123

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

(aggregate liquidation value of \$240)

Common stock, \$0.001 par value; 175,000,000 shares authorized; 60,284,571 and 60,026,675 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively

	60	60
Additional paid-in capital	468,653	463,710
Accumulated other comprehensive gain	1,050	273
Accumulated deficit	(192,286)	(179,320)

Total stockholders' equity	277,600	284,846
----------------------------	---------	---------

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 460,569	\$ 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Product sales, net	\$ 32,213	\$ 65,627	\$ 61,559	\$ 122,411
License and contract revenue	1,019	3,075	10,340	6,150
 Total revenues	 \$ 33,232	 \$ 68,702	 \$ 71,899	 \$ 128,561
Operating costs and expenses:				
Cost of product sales (excludes amortization of purchased intangible assets)	7,268	11,574	14,050	20,247
Selling, general and administrative	22,629	23,347	44,976	41,609
Research and development	10,501	9,583	22,482	18,474
Amortization and impairment of purchased intangibles	3,372	1,636	5,740	2,566
 Total operating costs and expenses	 43,770	 46,140	 87,248	 82,896
 (Loss) income from operations	 (10,538)	 22,562	 (15,349)	 45,665
Other income (expense), net	(163)	(1,507)	(1,481)	(1,369)
 (Loss) income before income taxes	 (10,701)	 21,055	 (16,830)	 44,296
Benefit (provision) for income taxes	524	(2,985)	3,864	20,316
 Net (loss) income	 \$ (10,177)	 \$ 18,070	 \$ (12,966)	 \$ 64,612
 Net (loss) income per share:				
Basic	\$ (0.17)	\$ 0.31	\$ (0.22)	\$ 1.10
 Diluted	 \$ (0.17)	 \$ 0.29	 \$ (0.22)	 \$ 1.01
 Weighted average shares outstanding:				
Basic	58,977,295	58,763,700	58,995,735	58,617,530
 Diluted	 58,977,295	 63,387,003	 58,995,735	 63,666,546

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

SPECTRUM PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Comprehensive (Loss) Income

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net (loss) income	\$ (10,177)	\$ 18,070	\$ (12,966)	\$ 64,612
Other comprehensive (loss) income, net of tax:				
Unrealized gain (loss) on securities	99	(369)	967	(301)
Foreign currency translation adjustment	57	3	171	3
Income tax	(37)		(361)	
Other comprehensive income (loss), net	119	(366)	777	(298)
Total comprehensive (loss) income	\$ (10,058)	\$ 17,704	\$ (12,189)	\$ 64,314

See accompanying notes to condensed consolidated financial statements.

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

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash Flows From Operating Activities:		
Net (loss) income	\$ (12,966)	\$ 64,612
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of deferred revenue	(10,300)	(6,150)
Depreciation and amortization	6,618	4,043
Stock-based compensation	5,671	6,097
Deferred income tax benefit	(6,039)	(31,493)
Provision (recovery) for bad debt	44	(31)
Provision for inventory obsolescence	1,041	437
Change in fair value of Allos deferred development costs and deferred payment contingency	(2,869)	
Impairment of intangible assets	1,023	
Foreign currency remeasurement loss	654	1,354
Excess tax benefits from share-based compensation		(2,181)
Changes in operating assets and liabilities:		
Accounts receivable, net	39,746	(33,105)
Inventories, net	(1,875)	2,639
Prepaid expenses and other assets	(5,691)	(950)
Accounts payable and other accrued obligations	(9,671)	36,409
Accrued compensation and related expenses	(472)	1,717
Accrued drug development costs	(2,213)	932
Deferred revenue and other credits	743	619
 Net cash provided by operating activities	 3,444	 44,949
Cash Flows From Investing Activities:		
Sales and maturities of marketable securities		57,797
Purchases of marketable securities		(11,944)
Acquisition of Melphalan license	(3,000)	
Purchases of property and equipment	(127)	(302)
Purchases of available for sale securities		(622)
Acquisition of ZEVALIN Rights		(25,435)
 Net cash (used in) provided by investing activities	 (3,127)	 19,494
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock from stock option exercises	1,137	2,523
Proceeds from contributions to ESPP	197	372
Payments to acquire treasury stock	(1,652)	(317)
Repurchase of shares to satisfy minimum tax withholding for restricted stock vesting	(410)	(326)
Proceeds from Munidpharma collaboration amendment	7,000	
Proceeds from revolving line of credit	100,000	
Repayment of revolving line of credit	(125,000)	
Repayment of capital leases		(9)

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

Excess tax benefits from share-based compensation		2,181
Net cash (used in) provided by financing activities	(18,728)	4,424
Effect of exchange rates on cash	(184)	85
Net (decrease) increase in cash and cash equivalents	(18,595)	68,952
Cash and cash equivalents beginning of period	139,698	121,202
Cash and cash equivalents end of period	\$ 121,103	\$ 190,154
Supplemental Disclosure of Cash Flow Information:		
Melphalan license included in intangible assets and other long term obligations	\$ 4,700	\$
Inventory liability assumed in acquisition	\$	\$ 580
Retirement of treasury shares	\$ 1,652	\$

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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 June 30, 2013 and the results of operations and cash flows for the related interim periods ended June 30, 2013 and 2012. The results of operations and trends for the six months ended June 30, 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 June 30, 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

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

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.

Table of Contents

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 Group 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

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

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 the bioscan.

Beginning in the second quarter of 2013, we terminated our transition services agreement with Bayer Pharma AG and transitioned to a sales distribution model in Europe. Sales of ZEVALIN to certain new customers will be recognized on a cash basis until collectability is reasonably assured.

Table of Contents

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: 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. Commencing in the second quarter of 2013, we refined our methodology to estimate rebate claims remaining in channel inventory which resulted in a \$1.0 million increase in the Medicaid rebate accrual at June 30, 2013 and corresponding increase to net loss for the three and six months ended June 30, 2013. 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 and 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.

Table of Contents

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 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.

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

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.

Table of Contents

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

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.

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.

On May 29, 2013, we amended our agreement with Mundipharma (see Notes 6 and 10).

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. We recorded an impairment loss of \$1.0 million during the three and six months ended June 30, 2013 related to the amendment of the Mundipharma agreement in May 2013. There were no other impairment losses recorded during the quarters ended June 30, 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 June 30, 2013, we determined there were no variable interest entities required to be consolidated other than our Canadian affiliate, Spectrum Pharma Canada.

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

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.

Table of Contents

Foreign Currency Translation

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 (loss) 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.

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 June 30, 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 six months ended June 30, 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.

Table of Contents

(in thousands, except share and per share data)	Net Loss	Weighted-Average Shares Outstanding (Denominator)	Loss Per Share
Three Months Ended June 30, 2013			
Basic and diluted loss per share:	\$ (10,177)	58,977,295	\$ (0.17)

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:

	June 30, 2013
Preferred shares	40,000
Options	2,412,230
Incremental shares assumed issued on exercise of in the money warrants	115,249
Unvested restricted stock	1,102,654
	3,670,133

(in thousands, except share and per share data)	Net Income	Weighted-Average Shares Outstanding (Denominator)	Earnings Per Share
Three Months Ended June 30, 2012			
Basic earnings per share:	\$ 18,070	58,763,700	\$ 0.31
Diluted earnings per share:			
Dilutive preferred shares		40,000	
Dilutive options		4,069,118	
Incremental shares assumed issued on exercise of in the money warrants		251,578	
Unvested restricted stock		262,607	
Diluted earnings per share	\$ 18,070	63,387,003	\$ 0.29
Potentially dilutive securities not included above since they were antidilutive:			
Antidilutive options excluded from the calculation		301,708	

(in thousands, except share and per share data)	Net Income	Weighted-Average Shares Outstanding (Denominator)	Earnings Per Share
Six Months Ended June 30, 2013			
Basic earnings per share:	\$ (12,966)	58,995,735	\$ (0.22)

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:

	June 30, 2013
Preferred shares	40,000
Options	3,211,911
Incremental shares assumed issued on exercise of in the money warrants	173,031
Unvested restricted stock	1,102,654
	4,527,596

Table of Contents

(in thousands, except share and per share data)	Net Income	Weighted-Average Shares Outstanding (Denominator)	Earnings Per Share
Six Months Ended June 30, 2012			
Basic earnings per share:	\$ 64,612	58,617,530	\$ 1.10
Diluted earnings per share:			
Dilutive preferred shares		40,000	
Dilutive options		4,483,596	
Incremental shares assumed issued on exercise of in the money warrants		269,403	
Unvested restricted stock		256,017	
Diluted earnings per share	\$ 64,612	63,666,546	\$ 1.01
Potentially dilutive securities not included above since they were antidilutive:			
Antidilutive options excluded from the calculation		155,750	

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. There were no corresponding expenses for the three months ended June 30, 2013.

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

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
-------------------------------------	---	----------

Table of Contents

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 and six months ended June 30, 2012. 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 and six months ended June 30, 2012 assume the Allos acquisition had occurred on January 1, 2012 (\$ in 000's):

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Total revenues	\$ 82,174	\$ 153,367
Income from operations	\$ 19,758	\$ 30,860
Net income	\$ 13,259	\$ 47,364
Basic net income per share	\$ 0.23	\$ 0.81
Diluted net income per share	\$ 0.21	\$ 0.74

3. Cash, Equivalents and Marketable Securities

As of June 30, 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 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.

Table of Contents

Cash, equivalents and marketable securities, including long term bank certificates of deposits, and investments totaled \$127.9 million and \$145.5 million as of June 30, 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
June 30, 2013							
Cash and equivalents	\$ 121,103	\$	\$	\$ 121,103	\$ 121,103	\$	\$
Bank CDs (including restricted certificate of deposit of \$250)	252			252		252	
Money market currency funds	3,060			3,060		3,060	
Other securities (included in other assets)	1,747	1,702		3,449			3,449
Total investments	\$ 126,162	\$ 1,702	\$	\$ 127,864	\$ 121,103	\$ 3,312	\$ 3,449
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 June 30, 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.

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 the fair value of our

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

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.

Table of Contents

The fair value of the other long-term liability was classified as Level 3 and 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 June 30, 2013 are classified in the table below in one of the three categories of the fair value hierarchy described below:

	Fair Value Measurements (\$ in 000 s)			
	Level 1	Level 2	Level 3	Total
June 30, 2013				
Assets:				
Cash and equivalents	\$ 121,103	\$	\$	\$ 121,103
Bank CDs (including restricted certificate of deposit of \$250)		252		252
Money market currency funds		3,060		3,060
Cash and equivalents, and marketable securities and investments	121,103	3,312		124,415
Deferred compensation investments, including life insurance cash surrender value		4,311		4,311
Other securities	3,449			3,449
	\$ 124,552	\$ 7,623	\$	\$ 132,175
Liabilities:				
Deferred executive compensation liability		3,206		3,206
Deferred development costs			18,651	18,651
Melphalan license contingent consideration			4,700	4,700
Contingent value right				
	\$	\$ 3,206	\$ 23,351	\$ 26,557

Table of Contents

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	6,418
Deferred payment contingency	(2,287)
Balance at June 30, 2013	\$ 23,351

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 June 30, 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 \$572,000 for the six months ended June 30, 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 \$244,000 and \$0 for the six months ended June 30, 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 \$118,000 for the six months ended June 30, 2013.

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

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:

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.

Table of Contents

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 Agreement also includes certain customary representations and warranties, affirmative covenants and events of default, which are set forth in more detail in the Credit Agreement.

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 June 30, 2013, \$50 million was outstanding on the Credit Facility and there was \$25 million available to borrow. At June 30, 2013, we were in compliance with all financial covenants. In July 2013, we repaid \$25 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.

Amendment to Credit Agreement

On July 16, 2013, we entered into an amendment to the Credit Agreement dated as of September 5, 2012 with Bank of America, N.A., in its capacity as administrative agent for the lenders and other parties signatory thereto, to, among other things, permit the acquisition of Talon Therapeutics, Inc., reduce the maximum aggregate borrowing amount under the revolving line of credit to \$50 million, and to revise the interest rate on borrowings under the revolving line of credit.

6. Intangible Assets and Goodwill

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

	June 30, 2013					Weighted Average Amortization Period (years)
	Gross Amount	Accumulated Amortization	Foreign Currency Translation	Impairment	Net Amount	
ZEVALIN intangibles US	\$ 41,900	\$ (21,595)	\$	\$	\$ 20,305	5.5
ZEVALIN intangibles Ex. US	23,490	(3,604)	(663)		19,223	8.8
FUSILEV intangibles	16,778	(3,966)			12,812	6.5
FOLOTYN license with Mundipharma	27,900	(2,300)		(1,023)	24,577	9.3
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	\$ (31,465)	\$ (663)	(1,023)	\$ 203,017	

On May 29, 2013 the Company and Mundipharma entered into an amendment to their collaboration agreement in order to modify the scope of the Mundipharma licensed territories and the respective development obligations of the parties. 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 the Company's associated royalty and milestone rights constituted a change in the contractual provisions under which the Company measured its original acquired intangible asset (FOLOTYN license) with Mundipharma. The Company determined that an impairment of the Mundipharma intangible asset of \$1.0 million resulted from the amendment and is recorded in the amortization and impairment of purchased intangibles in the accompanying statement of operations.

During the six months ended June 30, 2013, ZEVALIN and FOLOTYN intangible amortization of \$3.3 million and \$1.4 million, respectively, is included in amortization of purchased intangibles. In addition, during the six months ended June 30, 2013, \$986,000 is included in cost of product sales related to FUSILEV milestones.

Table of Contents**Goodwill**

Goodwill includes the following:

	June 30, 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	(70)	(37)
	\$ 28,940	\$ 28,973

7. Inventories

Inventories, net of allowances consisted of the following:

	June 30, 2013	December 31, 2012
	(\$ in 000 s)	
Raw materials	\$ 1,580	\$ 887
Work-in-process	4,150	7,302
Finished goods	9,582	6,289
	\$ 15,312	\$ 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:

	June 30, 2013	December 31, 2012
	(\$ in 000 s)	
Trade payables	\$ 32,972	\$ 34,352
Allowance for rebates	20,683	11,023
Accrued product royalty	9,292	12,275
Allowance for returns	2,650	5,056
Accrued data and distribution fees	4,459	8,449
Accrued GPO administrative fees	2,672	2,650
Inventory management fee	1,690	3,050
Accrued income taxes		470
Allowance for chargebacks	9,372	15,153
Other accrued obligations	1,459	2,819

\$ 85,249	\$ 95,297
-----------	-----------

9. Income Taxes

On an interim basis, we estimate that the anticipated annual effective tax rate for the provision for income taxes would be 19.6%. 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 the 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 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.

Table of Contents

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 continue to be 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 agreed 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 retained 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.

On May 29, 2013 the Company and Mundipharma entered into an amendment to amend and restate the Collaboration Agreement, referred to as the Amended Collaboration Agreement in order to modify the scope of the licensed territory and the respective development obligations of the parties. As a result of the Amended Collaboration Agreement, Europe and Turkey were excluded from Mundipharma's commercialization territory, and royalty and milestone rates were modified. In addition, the Company received \$7.0 million from Mundipharma. All other terms and conditions remained unchanged from the original collaboration agreement.

Pursuant to the Amended Collaboration Agreement, we may receive potential regulatory milestone payments of up to \$16 million and commercial progress- and sales-dependent milestone payments of up to \$107 million. All of these 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 will also receive tiered double digit royalties based on net sales of FOLOTYN within Mundipharma's licensed territories consistent with the terms of the original Collaboration Agreement.

The Company also entered into 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 Amended Collaboration Agreement together as the Amended Mundipharma Agreements.

As part of the original Collaboration Agreement, we were 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 Company recorded the fair value of the related deferred development cost obligation of \$12.3 as of September 5, 2012, using the discounted cash flow method of the income approach.

In connection with the Amended Collaboration Agreement, the Company determined that the entire \$7.0 million development payment from Mundipharma is allocable as arrangement consideration related to the research and development services obligation described above, resulting in an aggregate development cost liability of \$18.7 million at June 30, 2013. The development cost liability includes assumptions about 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 for our projected clinical trial enrollment and patient treatment-related follow up time periods through approximately 2031. As with the Company's previous accounting for the development cost liability, the Company will reevaluate the

measurement of this liability at each subsequent reporting date and record the change in measurement to research and development expense.

Table of Contents

Under the original Collaboration Agreement, Mundipharma was initially responsible for 40% of the joint development costs incurred by the parties, which increased 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 was 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 did not meet or exceed \$15.0 million by December 31, 2019, then the Company was obligated to pay Mundipharma the difference between \$15.0 million and the amount of the development cost differential as of December 31, 2019. The Company recorded the joint development cost reimbursements received from 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 development for the three and six months ended June 30, 2013 included \$268,000 and \$589,000, respectively, related to the 40% joint development cost reimbursement under the original Collaboration Agreement.

The Amended Collaboration Agreement eliminated the development cost differential computation requirement. Prospectively, the Company and Mundipharma will bear their own development costs. The Amended Collaboration Agreement required Spectrum to compute the remaining development cost differential amount which was \$12,099 as of May 31, 2013. The Company determined that the remaining development cost differential liability pursuant to the Amended Collaboration Agreement was \$18.7 million which is included in the Company's balance sheet at June 30, 2013. As a result of the amendment, Spectrum reevaluated the fair value measurement of the related contingent payment obligation and determined that its fair value was zero, as no remaining contingent obligation remained at May 29, 2013. Therefore, the Company recorded the difference between the carrying value and the new fair value of the related contingent payment obligation of \$2.4 million at May 29, 2013 to research and development expense in the accompanying statement of operations.

As of June 30, 2013, accounts receivable related to the Mundipharma Agreements totaled \$24,000. As of June 30, 2013 and December 31, 2012, deferred amounts related to the Mundipharma Agreements consisted of (\$ in 000 s):

	June 30, 2013	December 31, 2012
Deferred development cost liability	\$ 3,251	\$ 856
Deferred development cost liability, less current portion	15,400	11,377
Deferred payment contingency		2,287
	\$ 18,651	\$ 14,520

11. Commitments and Contingencies**Facility Lease**

We sublease our principal executive office in Henderson, Nevada under a non cancelable operating lease expiring April 30, 2014. We also lease our research and development facility in Irvine, California under a non cancelable operating lease expiring June 30, 2016. Each lease agreement contains certain scheduled rent increases which are accounted for on a straight-line basis.

As part of our Irvine facility lease renewal in 2009, the landlord agreed to contribute up to approximately \$1.5 million toward the cost of tenant improvements. The tenant improvements were completed in 2010 at an aggregate cost of approximately \$1.4 million, of which, \$451,000 is being financed. This landlord contribution is being amortized on a straight-line basis over the term of the lease as a reduction to rent expense. We also lease small administrative offices in Colorado, New Jersey, Westlake Village (California), Tokyo, Japan and Mumbai, India.

Licensing Agreements

We are developing almost all of our drug candidates pursuant to license agreements that provide us with rights in certain territories, among other things, to develop, sublicense, manufacture and sell the drugs. We are generally required to use commercially reasonable efforts to develop the drugs, and are generally responsible for all development, patent filing and maintenance, sales and marketing and liability insurance costs, and are generally contingently obligated to make milestone payments to the licensors if we successfully reach development and regulatory milestones.

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

specified in the license agreements. In addition, we are obligated to pay royalties and, in some cases, milestone payments based on net sales, if any, after marketing approval is obtained from regulatory authorities.

Table of Contents

The potential contingent development and regulatory milestone obligations under all of our licensing agreements are generally tied to progress through the various regulatory authorities' approval process, which approval significantly depends on positive clinical trial results. The following items are typical of such milestone events: conclusion of Phase 2 or commencement of Phase 3 clinical trials; filing of new drug applications in each of the United States, Europe and Japan; and approvals from each of the regulatory agencies in those jurisdictions.

ZEVALIN licensing and development in the United States

In December 2008, we acquired rights to commercialize and develop ZEVALIN in the United States as the result of a transaction with Cell Therapeutics, Inc. (CTI). Pursuant to the transfer of the ZEVALIN assets from CTI to a joint venture, RIT Oncology LLC (RIT), in December 2008, RIT assumed certain agreements with various third parties related to ZEVALIN intellectual property. These currently effective agreements relate to the manufacture, use and sale of ZEVALIN in the United States and include (i) a license from Biogen, Idec, Inc. (Biogen) (ii) a license-back to Biogen for limited uses including fulfillment of a supply obligation to CTI, (iii) a sublicense from Biogen to certain ZEVALIN patents held by Genentech, Inc., (iv) a sublicense from Biogen to certain ZEVALIN patents held by GlaxoSmithKline and Glaxo Group Limited, and (v) a sublicense from Biogen to certain ZEVALIN patents held by Corixa Corporation, Coulter Pharmaceutical, Inc., The Regents of the University of Michigan and GlaxoSmithKline.

In accordance with the terms of such agreements, RIT is required to meet specified payment obligations including a commercial milestone payment to Corixa Corporation of \$5.0 million based on ZEVALIN sales in the United States, which has not been met as of June 30, 2013, as well as U.S. net sales-based royalties of low to mid-single digits to Genentech, Inc. and mid-single digits to Corixa Corporation. Such agreements generally continue until the last to expire of the licensed patents unless earlier terminated in accordance with the terms of the agreement for bankruptcy or material breaches that remain uncured. The patents that are subject to the agreements expire between 2014 and 2019.

Asset Purchase Agreement between CTI and Biogen, ZEVALIN U.S.

In connection with the joint venture arrangement with CTI, we entered into an amendment to the original asset purchase agreement between CTI and Biogen, referred to as the CTI/Biogen Agreement, modifying future milestone payments. Pursuant to the terms of the agreement, as amended, (i) upon the achievement of the specified FDA approval milestone, which was achieved in 2009, RIT (as successor to CTI) paid Biogen an additional amount of \$5.5 million, (ii) RIT may be required to make an additional \$10.0 million milestone payment upon the achievement of an additional FDA approval milestone, and (iii) RIT is required to make yearly royalty payments determined as a mid-single to mid-teen digits percentage of yearly net sales for the preceding year, increasing with the passage of time, with specific rates subject to confidential treatment pursuant to an order by the SEC. The agreement has an indefinite term and is no longer subject to termination; provided, however, that the royalty obligations automatically terminate upon the latest to occur of expiration of the subject patents, the sale by a third party of a biosimilar product in the U.S. or December 31, 2015. CTI's rights and obligations, including its payment obligations to Biogen for royalties on net sales of ZEVALIN and an additional regulatory milestone payment, under both the CTI/Biogen Agreement and the amendment were assigned to and assumed by RIT in connection with the closing of the joint venture transaction.

Supply Agreement between Biogen and CTI, ZEVALIN U.S.

In connection with the joint venture arrangement with CTI, we entered into an amendment to the original supply agreement between Biogen and CTI, referred to as the CTI/Biogen Supply Agreement, modifying certain of the pricing and manufacturing technology transfer terms contained in the CTI/Biogen Supply Agreement and also providing that the term of the agreement may be shortened in some instances in the event of a mid-term manufacturing technology transfer. There are no milestone or royalty payments required pursuant to this agreement. The term of the agreement is until the manufacturing technology transfer is complete. Either party may generally terminate this agreement due to a bankruptcy of the other party or due to such other party's material noncompliance with the agreement or certain other related agreements. CTI's rights and obligations, including its payment obligations to Biogen, under both the CTI/Biogen Supply Agreement and the amendment were assigned to and assumed by RIT in connection with the closing of the joint venture transaction.

License and Asset Purchase Agreement with Bayer Pharma, ZEVALIN Ex U.S.

On April 1, 2012, through a subsidiary, Spectrum Pharmaceuticals Cayman, L.P., we completed the acquisition of licensing rights to market ZEVALIN outside of the U.S., referred to as the ZEVALIN Ex-US Rights, from Bayer Pharma AG, or Bayer. Pursuant to the terms of the agreement, Spectrum acquired all rights including marketing, selling, intellectual property and access to existing inventory of ZEVALIN from Bayer. We currently market ZEVALIN in the U.S. and this agreement expands our commercial efforts to the rest of the world. ZEVALIN is currently approved in more than 40 countries outside the U.S. for the treatment of B-cell non-Hodgkin lymphoma, including countries in Europe, Latin America and Asia. In consideration for the rights granted under the

Table of Contents

agreement, concurrent with the closing, Spectrum paid Bayer a one-time fee of Euro 19 million or approximately USD \$25.4 million, and will pay Bayer royalties based on a mid-teen digits percentage of net sales of the licensed products in all territories worldwide except the U.S., with specific rates subject to confidential treatment pursuant to an order by the SEC. Under the agreement, we also acquired access to existing inventory of ZEVALIN and concurrent with the closing, entered into certain ancillary agreements including but not limited to a transition services agreement to transition the business. Unless earlier terminated, the term of the agreement continues until the expiration of our royalty payment obligations which, in turn, run until the last-to-expire patent covering the sale of a licensed product in the relevant country or fifteen (15) years from the date of first commercial sale of the licensed product in such country, whichever is longer. This agreement may be terminated in the event of a material default, which is defined to include: (i) our failure to timely pay royalty payments under this agreement or payments under certain related agreements; (ii) our insolvency; and (iii) our breach and the resulting termination of an Amended and Restated License Agreement between Biogen and Bayer, dated as of January 16, 2012.

Amended and Restated License Agreement with Merck & Cie AG, FUSILEV.

In May 2006, we amended and restated a license agreement with Merck & Cie AG, a Swiss corporation, which we assumed in connection with the acquisition of the assets of Targent. Pursuant to the license agreement with Merck & Cie, we obtained the exclusive license to use regulatory filings related to FUSILEV and a non-exclusive license under certain patents and know-how related to FUSILEV to develop, make, and have made, use, sell and have sold FUSILEV in the field of oncology in North America. In addition, we have the right of first opportunity to negotiate an exclusive license to manufacture, have manufactured, use and sell FUSILEV products outside the field of oncology in North America. Also, under the terms of the license agreement, we paid Merck & Cie \$100,000 for the achievement of FDA approval of an injectable form of FUSILEV. Merck & Cie is also eligible to receive a \$200,000 payment upon achievement of FDA approval of an oral form of FUSILEV, in addition to royalties in the mid-single digits based on a percentage of net sales. The term of the license agreement is determined on a product-by-product and country-by-country basis until royalties are no longer owed under the license agreement. The license agreement expires in its entirety after the date that we no longer owe any royalties to Merck & Cie. We have the unilateral right to terminate the license agreement, in its entirety or on a product-by-product or country-by-country basis, at any time for any reason and either party may terminate the license agreement due to material breach of the terms of the license agreement by or insolvency of the other party.

Asset Purchase Agreement with Targent, Inc., FUSILEV

In March 2006, we entered into an Asset Purchase Agreement with Targent, Inc. ("Targent"). As part of the consideration for the purchase of certain 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. In connection with the achievement of the FDA approval milestone in April 2011, we issued an aggregate of 733,715 shares of common stock to certain of Targent's stockholders, as directed by Targent. We capitalized \$6.3 million associated with this milestone as intangible assets during 2011 which is being amortized over the estimated useful life of 8.7 years.

In addition, in connection with the achievement of the first sales milestone of \$40 million in May 2011 we issued 577,367 shares of common stock to certain of Targent's stockholders (which was equivalent value to approximately \$5 million in cash), as directed by Targent. In September 2011, we achieved the second and final sales milestone of \$100 million and paid \$5 million in cash for an aggregate with the first sales milestone of \$10.0 million. We capitalized the \$10.0 million associated with these milestones as intangible assets. These intangible assets are being amortized over the estimated useful life of 8.6 years. As of December 2011, we have met all of the contractual milestones related to FUSILEV.

License Agreement with Sloan-Kettering Institute, SRI International and Southern Research Institute, FOLOTYN

In December 2002, Allos entered into the FOLOTYN License Agreement with Sloan-Kettering Institute for Cancer Research, SRI International and Southern Research Institute. As a result of Allos becoming our wholly owned subsidiary effective September 5, 2012, on a consolidated basis we are bound by the FOLOTYN License Agreement under which we obtained exclusive worldwide rights to a portfolio of patents and patent applications related to FOLOTYN and its uses. Under the terms of the FOLOTYN License Agreement, we are required to fund all development programs and will have sole responsibility for all commercialization activities. In addition, we pay the licensors royalties based on worldwide graduated annual levels of net sales of FOLOTYN, net of actual rebates, chargebacks and returns, or distributor sales, which may be different than our net product revenue recognized in accordance with U.S. generally accepted accounting principles, or GAAP, or sublicense revenues arising from sublicensing the product, if and when such sales or sublicenses occur. For purposes of the FOLOTYN License Agreement, annual worldwide sales consists of our distributor sales and annual net sales of FOLOTYN in the Mundipharma Territories, as reported to us under the Mundipharma Collaboration

Table of Contents

Agreement, if and when such sales occur in the Mundipharma Territories. Royalties are 8% of annual worldwide sales up to \$150.0 million; 9% of annual worldwide sales of \$150.0 million through \$300.0 million; and 11% of annual worldwide sales in excess of \$300.0 million. For the six months ended June 30, 2013, our royalties were 8% of our net distributor sales. As of June 30, 2013, accrued royalties were \$1.2 million and are included in accounts payable and accrued obligations on the consolidated balance sheet.

License Agreement with Cydex Pharmaceuticals, Inc., Captisol-enabled, Propyleneglycol-free Melphalan

See Note 2 above.

Exclusive Development and Commercialization Collaboration Agreement with Allergan, apaziquone

In October 2008, we signed an exclusive development and commercialization collaboration agreement with Allergan for apaziquone. Pursuant to the terms of the agreement, Allergan paid us an up-front non-refundable \$41.5 million at closing and is obligated to make additional payments based on the achievement of certain development, regulatory and commercialization milestones. Under the terms of the original agreement, we were entitled to payment of \$57.5 million and \$245 million upon achievement of certain regulatory and commercialization milestones, respectively, of which \$1.5 million has been achieved following completion of enrollment in clinical trials, per the terms of the license, development, supply and distribution agreement. Also, Allergan agreed to pay us tiered royalties starting in the mid-teens based on a percentage of net sales of apaziquone outside of the U.S. and Asia, which specific rates are subject to confidential treatment pursuant to an order by the SEC.

On January 29, 2013, we entered into a second amendment to the license, development, supply and distribution agreement with Allergan to amend the agreement and reacquire the rights originally licensed to Allergan in the U.S. Europe and other territories in exchange for a tiered single digit royalty on certain products containing Apaziquone, and relieved Allergan of its obligations for development, commercialization and other activities. As a result of the second amendment to the agreement with Allergan, Allergan has no remaining obligations to the Company and Spectrum has no remaining performance obligations to Allergan. However, the Company is obligated to pay Allergan a tiered single-digit royalty not to exceed mid-single digits based upon the net sales, when and if earned, of certain products containing Apaziquone in specified territories. Additionally, the Company is obligated to pay any royalties or other payments due to licensors of the Licensed Intellectual Property (as defined in the agreement) as well as to provide indemnification of Allergan for claims arising from the manufacture, development or commercialization of pharmaceutical products containing Apaziquone by the Company. We recognized \$8.3 million, the remaining balance of deferred revenue related to this agreement, during the three months ended March 31, 2013 and six months ended June 30, 2013.

Collaboration Agreement with Nippon Kayaku Co. LTD., apaziquone

In November 2009, we entered into a collaboration agreement with Nippon Kayaku Co., LTD. (Nippon Kayaku) for the development and commercialization of apaziquone in Asia, except North and South Korea (the Nippon Kayaku Territory). In addition, Nippon Kayaku received exclusive rights to apaziquone for the treatment of non muscle invasive bladder cancer in Asia (other than North and South Korea), including Japan and China. Nippon Kayaku will conduct apaziquone clinical trials in the Nippon Kayaku Territory pursuant to a development plan. Further, Nippon Kayaku will be responsible for all expenses relating to the development and commercialization of apaziquone in the Nippon Kayaku Territory.

Pursuant to the terms of this agreement, Nippon Kayaku paid Spectrum an upfront fee of \$15 million and is obligated to make additional payments based on the achievement of certain development, regulatory and commercialization milestones. Under the terms of the agreement, we are entitled to payment of \$10 million and \$126 million upon achievement of certain regulatory and commercialization milestones, respectively. Also, Nippon Kayaku has agreed to pay Spectrum royalties based on a percentage of net sales of the subject products in the defined territory in the mid-teen digits, which specific royalty rates are subject to confidential treatment pursuant to an order by the SEC. The agreement will remain in effect, on a country-by-country basis, until the expiration of the obligation of Nippon Kayaku to pay royalties on sales of the subject products in such country. Nippon Kayaku may terminate the agreement at its election upon nine months notice to Spectrum. Additionally, either party may terminate the agreement for an uncured material breach by the other party.

Our license agreement with Nippon Kayaku provides for payments to us upon the achievement of development milestones, such as the completion of clinical trials or regulatory submissions, approvals by health authorities, and commercial launches of drug candidates. Given the challenges inherent in developing and obtaining approval for drug products and in achieving commercial launches, there was substantial uncertainty whether any such milestones would be achieved at the time of execution of such license agreement. In addition, we continue to evaluate whether the development milestones, none of which have been achieved to date, meet the remaining criteria to be considered substantive. As a result of our analysis, we consider our development milestones under the Nippon Kayaku license agreement to be substantive and, accordingly, we expect to recognize as revenue future payments received from such milestones only if and as each milestone is achieved.

Licensing and Collaboration Agreement with TopoTarget, belinostat

In February 2010, we entered into a licensing and collaboration agreement with TopoTarget, for the development and commercialization of belinostat, pursuant to which we agreed to collaboration for the development and commercialization of

Table of Contents

belinostat. The agreement provides that we have the exclusive right to make, develop and commercialize belinostat in North America and India, with an option for China. The agreement also grants TopoTarget a co-promote option if and only if we do not maintain a minimum number (subject to adjustment for certain events outside of our control) of field personnel (as defined in the agreement) for a certain number of years post-approval of the PTCL indication.

Under the terms of the agreement, all development, including studies, will be conducted under a joint development plan and in accordance with a mutually agreed upon target product profile provided that we have final decision-making authority for all developmental activities in North America and India (and China upon exercise of the option for China) and TopoTarget has final decision-making authority for all developmental activities in all other jurisdictions. We have agreed to assume all responsibility for and future costs of the ongoing registrational PTCL trial. We and TopoTarget will conduct future planned clinical trials pursuant to the joint development plan, of which we will fund 70% of the development costs and TopoTarget will fund 30% of the development costs. We and TopoTarget will each pay 50% of the costs for chemical, pharmaceutical and other process development related to the manufacturing of the product that are incurred with a mutually agreed upon budget in the joint development plan. TopoTarget is responsible for supplying us with both clinical and commercial product.

Pursuant to the terms of this agreement, Spectrum paid TopoTarget an upfront fee of \$30 million. In addition, on the successful achievement of certain development, regulatory and sales milestones, none of which have been achieved to date, Spectrum is obligated to issue one million (1,000,000) shares of its common stock (subject to certain resale conditions) and pay TopoTarget up to \$313 million. Also, Spectrum will pay TopoTarget royalties in the mid-teen digits based on net sales of the subject product in the defined territory, which specific royalty rates are subject to confidential treatment pursuant to an order by the SEC. None of such royalties have been earned or paid since inception of the agreement.

The agreement will continue until the expiration of the last royalty payment period in the last country in the defined territory with certain provisions surviving, unless earlier terminated in accordance with its terms. Spectrum may terminate the agreement at its election upon one hundred eighty (180) days notice to TopoTarget. Generally, Spectrum may also terminate immediately upon a prohibition on the use of the subject product or clinical hold by the FDA. TopoTarget may also terminate immediately in the event of a challenge (without TopoTarget's consent) by Spectrum of the patents that cover the product. Either party may terminate the agreement upon a bankruptcy by the other party, or in the event of an uncured material breach by the other party.

Co-Development and Commercialization Agreement with Hanmi Pharmaceutical Company, SPI-2012

In late January 2012, we entered into a co-development and commercialization agreement with Hanmi Pharmaceutical Company, (Hanmi), for SPI-2012, formerly known as LAPSCOVERY, a drug for the treatment of chemotherapy induced neutropenia based on Hanmi's proprietary LAPSCOVERY Technology. In consideration for the rights granted to us under the co-development and commercialization agreement with Hanmi, we paid Hanmi a fee which is included in research and development expense in the accompanying condensed consolidated financial statements because the technology has not yet achieved regulatory approval. We expect to initiate Phase 2 trials in collaboration with Hanmi in 2013. Under the terms of the agreement, we will share the costs and expenses of the study although we will have primary responsibility for them. If SPI-2012 is ultimately commercialized by us, we will have worldwide rights except for Korea, China and Japan upon payment of fees and milestone payments related to further development, regulatory approvals and sales targets.

Service Agreements

In connection with the research and development of our drug products, we have entered into contracts with numerous third party service providers, such as radio-pharmacies, distributors, clinical trial centers, clinical research organizations, data monitoring centers, and with drug formulation, development and testing laboratories. The financial terms of these agreements are varied and generally obligate us to pay in stages, depending on achievement of certain events specified in the agreements, such as contract execution, reservation of service or production capacity, actual performance of service, or the successful accrual and dosing of patients.

At each period end, we accrue for all costs of goods and services received, with such accruals based on factors such as estimates of work performed, patient enrollment, completion of patient studies and other events. We are in a position to accelerate, slow-down or discontinue any or all of the projects that we are working on at any given point in time. Should we decide to discontinue and/or slow-down the work on any project, the associated costs for those projects would be limited to the extent of the work completed. Generally, we are able to terminate these contracts due to the discontinuance of the related project(s) and thus avoid paying for the services that have not yet been rendered and our future purchase obligations would reduce accordingly.

Supply Agreements

Edgar Filing: SPECTRUM PHARMACEUTICALS INC - Form 10-Q

In connection with our acquisition of ZEVALIN, RIT assumed a supply agreement with Biogen Idec Inc., or Biogen, to manufacture ZEVALIN for sale in the U.S. pursuant to which we would purchase from Biogen, and Biogen would provide to us, kits to make ZEVALIN doses for sale to end-users in the U.S. at a cost plus manufacturing price. In connection with our acquisition of Captisol-enabled melphalan, we entered into a supply agreement with Ligand pursuant to which, subject to certain exceptions, we agreed to purchase our requirements of Captisol from Ligand.

Table of Contents

Employment Agreement

We have entered into an employment agreement with Dr. Rajesh C. Shrotriya, our Chairman, President and Chief Executive Officer, which expires January 2, 2014. The employment agreement automatically renews for subsequent one-year calendar terms unless either party gives written notice of such party's intent not to renew the agreement at least 90 days prior to the commencement of the new term. The employment agreement requires Dr. Shrotriya to devote his full working time and effort to our business and affairs during the term of the agreement. The employment agreement provides for a minimum annual base salary with annual increases, periodic bonuses and option grants as determined by the Compensation Committee of our Board of Directors.

Litigation

Shareholder Litigation

John Perry v. Spectrum Pharmaceuticals, Inc. et al. (Filed March 14, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00433-LDG-CWH); *Junqian Carroll v. Spectrum Pharmaceuticals, Inc. et al.* (Filed March 22, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00498-RBJ-CF); *Gary Santi v. Spectrum Pharmaceuticals, Inc. et al.* (Filed March 22, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00502-LDG-CWH); *William Skene v. Spectrum Pharmaceuticals, Inc. et al.* (Filed April 10, 2013 in United States District Court, District of Nevada; Case Number 3:2013-cv-00175-RBJ-VPC); and *Rubin v. Spectrum Pharmaceuticals, Inc. et al.* (Filed April 24, 2013 in the United States District Court, District of Nevada; Case Number 3:2013-cv-00212-RCJ-VPC). These putative class actions raise substantially identical claims and allegations against defendants Spectrum Pharmaceuticals, Inc., Dr. Rajesh C. Shrotriya, Brett L. Scott, and Joseph Kenneth Keller. The alleged class period is August 8, 2012 to March 12, 2013. The lawsuits allege a violation of Section 10(b) of the Securities Exchange Act of 1934 against all defendants and control person liability, as a violation of Section 20(b) of the Securities Exchange Act of 1934, against the individual defendants. The claims purportedly stem from the Company's March 12, 2013 press release, in which it announced that it anticipated a change in ordering patterns of FUSILEV. The complaints allege that, as a result of the March 12, 2013 press release, the Company's stock price declined. The complaints further allege that during the putative class period certain defendants made misleadingly optimistic statements about FUSILEV sales, which inflated the trading price of Company stock. The lawsuits seek relief in the form of monetary damages, costs and fees, and any other equitable or injunctive relief that the court deems appropriate. The putative class action cases have been consolidated. Plaintiffs' counsel have filed motions for the appointment of a lead plaintiff and lead plaintiff's legal counsel. The motions are briefed. Plaintiffs' counsel represent that an amended complaint will be filed following the Court's decision on lead plaintiff and lead plaintiffs' legal counsel.

Timothy Fik v. Rajesh C. Shrotriya, et al. (Filed April 11, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00624-JCM-CWH); *Christopher J. Watkins v. Rajesh C. Shrotriya, et al.* (Filed April 22, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00684-JCM-VCF); and *Stefan Muenchhagen v. Rajesh C. Shrotriya, et al.* (Filed May 28, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00942-APG-PAL). These derivative complaints are brought by the respective purported shareholders on behalf of nominal plaintiff Spectrum Pharmaceuticals, Inc. against defendants Krishan K. Arora, Gilles Gagnon, Anton Gueth, Joseph Kenneth Keller, Stuart M Krassner, Luigi Lenaz, Anthony E. Maida, Brett L. Scott and Dr. Rajesh C. Shrotriya. The Fik and Watkins lawsuits allege six counts against all defendants: breach of fiduciary duty for disseminating false and misleading information; breach of fiduciary duty for failing to properly oversee and manage the company; unjust enrichment; abuse of control; gross mismanagement; and waste of corporate assets. The Fik and Watkins lawsuits also allege a seventh count for breach of fiduciary duties for insider selling and misappropriation of information against defendants Dr. Raj Shrotriya, Brett Scott, and Anthony Maida. The Muenchhagen lawsuit alleges five counts against all defendants: breach of fiduciary duty for disseminating false and misleading information; breach of fiduciary duty for failing to properly oversee and manage the company; abuse of control; gross mismanagement; and waste of corporate assets. The Muenchhagen lawsuit also alleges two counts against defendants Dr. Raj Shrotriya, Brett Scott, and Anthony Maida for unjust enrichment and for breach of fiduciary duties for insider selling and misappropriation of information. These substantially identical complaints allege that defendants knew or should have known that the Company's statements about future FUSILEV sales were misleadingly optimistic and that these statements inflated the trading price of Company stock. The complaints allege that, as a result of the March 12, 2013 press release, the Company's stock price declined. The complaints seek compensatory damages, corporate governance reforms, restitution and disgorgement of defendants' alleged profits, and costs and fees. The Fik and Watkins cases have been consolidated and stayed. The parties have submitted a notice to consolidate and stay the Muenchhagen case.

Hardik Kakadia v. Rajesh C. Shrotriya, et al. (Filed April 23, 2013 in the Eighth Judicial District Court of the State of Nevada in and for Clark County; Case Number A-13-680643-B); and *Joel Besner v. Rajesh C. Shrotriya, et al.* (Filed May 31, 2013 in the Eighth Judicial District Court of the State of Nevada in and for Clark County; Case Number A-13-682668-C). These derivative complaints are brought by the respective purported shareholders on behalf of nominal plaintiff Spectrum Pharmaceuticals, Inc. against defendants Krishan K. Arora, Gilles Gagnon, Anton Gueth, Joseph Kenneth Keller, Stuart M Krassner, Luigi Lenaz, Anthony E. Maida, Brett L. Scott and Dr. Rajesh C. Shrotriya. The Kakadia lawsuit alleges three counts against all defendants: breach of fiduciary duty; waste of corporate assets; and unjust enrichment. The

Besner lawsuit alleges five counts against all defendants: breach

Table of Contents

of fiduciary duty for disseminating false and misleading information; breach of fiduciary duty for failing to properly oversee and manage the company; abuse of control; gross mismanagement; and waste of corporate assets. The Besner lawsuit also alleges two counts against defendants Dr. Raj Shrotriya, Brett Scott, and Anthony Maida for unjust enrichment and for breach of fiduciary duties for insider selling and misappropriation of information. The complaints similarly allege that defendants knew or should have known that the Company's statements about future FUSILEV sales were misleadingly optimistic and that these statements inflated the trading price of Company stock. The complaints allege that, as a result of the March 12, 2013 press release, the Company's stock price declined. The complaints seek compensatory damages, corporate governance reforms, restitution and disgorgement of defendants' alleged profits, equitable and/or injunctive relief, and costs and fees. The cases have been consolidated and stayed.

SEC Subpoena

On April 1, 2013, the Company received a subpoena from the Securities and Exchange Commission (the "SEC") for documents pursuant to a formal order of investigation. The subpoena followed the Company's March 12, 2013 announcement that it anticipated a change in ordering patterns of FUSILEV. The Company is cooperating with the SEC investigation. The Company cannot predict when the SEC will conclude its investigation or the outcome of the investigation.

We are involved with various legal matters arising in the ordinary course of business. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions are reviewed at least quarterly and adjusted to reflect the impact of any settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. Although the ultimate resolution of these various matters cannot be determined at this time, we do not believe that such matters, individually or in the aggregate, will have a material adverse effect on our condensed consolidated results of operations, cash flows or financial condition.

12. Stockholder's Equity

Treasury Stock

On August 10, 2012, our Board of Directors authorized the repurchase of up to \$100 million of our outstanding common stock through August 1, 2013. The previous authorization was for up to \$25 million and covered the period through December 31, 2012. As of June 30, 2013 we have purchased an aggregate of \$13.6 million, or 1,338,055 shares, all of which have been retired.

Warrant Activity

We have issued warrants to purchase shares of our common stock to investors as part of financing transactions, or in connection with services rendered by consultants. Our outstanding warrants expire on varying dates through June 2015. Below is a summary of warrant activity during the six months ended June 30, 2013:

	Common Stock Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2012	395,000	\$ 5.45
Granted	50,000	\$ 7.51
Outstanding, at June 30, 2013	445,000	\$ 5.68
Exercisable, at June 30, 2013	395,000	\$ 5.45

Table of Contents**Share-Based Compensation**

We record share-based employee compensation expense for all equity-based programs, including stock options, restricted stock grants, 401(k) plan matching and our employee stock purchase plan. Total expense recorded for the three and six month periods ended June 30, 2013 and 2012 is as shown below:

	Three Months Ended June 30,		Six months Ended June 30,	
	2013	2012	2013	2012
	(\$ in 000 s)			
Research and development	\$ 485	\$ 397	\$ 1,159	\$ 788
Selling, general and administrative	2,439	2,685	4,512	5,309
Total share based compensation expense	\$ 2,924	\$ 3,082	\$ 5,671	\$ 6,097

Stock Options

During the three and six month period ended June 30, 2013, the Compensation Committee of our Board of Directors granted stock options at exercise prices equal to or greater than the closing price of our common stock on the trading day prior to the grant date. The weighted average grant date fair value of stock options granted during the six month period ended June 30, 2013 and 2012 were estimated at approximately \$8.71 and \$7.57, respectively using the Black-Scholes option pricing model with the following assumptions:

	Six-months ended June 30,	
	2013	2012
Divided yield	0.00%	0.00%
Expected volatility	69.5%	72.1%
Risk free interest rate	0.35%	0.40%
Expected life (years)	4.95	4.50

Share based compensation expense is recognized only for those awards that are ultimately expected to vest, and we have applied a forfeiture rate to unvested awards for the purpose of calculating the compensation cost. These estimates will be reversed in future periods if actual forfeitures differ from our estimates.

During the three and six months ended June 30, 2013, our share-based charge in connection with the expensing of stock options was approximately \$1.6 million and \$3.0 million, respectively. During the three and six months ended June 30, 2012, our share-based compensation in connection with the expensing of stock options was approximately \$1.3 million and \$2.6 million, respectively.

As of June 30, 2013, there was approximately \$12.2 million of unrecognized stock-based compensation cost related to stock options which we expect to recognize over a weighted average period of approximately 2.41 years.

Restricted Stock

The fair value of restricted stock awards is the grant date closing market price of our common stock, and is charged to expense over the period of vesting. These awards are subject to forfeiture to the extent that the recipient's service is terminated prior to the shares becoming vested.

During the three and six month periods ended June 30, 2013, the share-based charge in connection with the expensing of restricted stock awards was approximately \$1.1 million and \$2.0 million, respectively. During the three and six month periods ended June 30, 2012, the share-based compensation in connection with the expensing of restricted stock awards was approximately \$1.3 million and \$2.5 million, respectively.

As of June 30, 2013, there was approximately \$6.7 million of unrecognized share-based compensation cost related to non-vested restricted stock awards, which is expected to be recognized over a weighted average period of approximately 2.67 years.

401(k) Plan Matching Contribution

During the six month period ended June 30, 2013, we issued 50,970 shares of common stock as our matching contribution of approximately \$446,000 for 401(k) contributions made by our employees. During the six month period ended June 30, 2012, we issued 26,154 shares of common stock as our matching contribution of approximately \$333,500 for 401(k) contributions made by our employees.

Table of Contents

Employee Stock Purchase Plan

Effective July 2009, we adopted the 2009 Employee Stock Purchase Plan ("Purchase Plan"). The Purchase Plan provides our eligible employees with an incentive by providing a method whereby they may voluntarily purchase shares of our common stock upon terms described in the Purchase Plan. The Purchase Plan is designed to be operated on the basis of six consecutive month offering periods commencing January 1 and July 1 of each year. The Purchase Plan provides that eligible employees may authorize payroll deductions to purchase shares of our common stock at 85% of the fair market value of common stock on the first or last day of the applicable purchase period. A participant may purchase a maximum of 50,000 shares of common stock during a 6-month offering period, not to exceed \$25,000 worth of stock on the offering date during each plan year. The Purchase Plan terminates in 2019.

A total of 5,000,000 shares of common stock are authorized for issuance under the Purchase Plan, and as of June 30, 2013, 420,046 shares have been issued under the Purchase Plan.

Common Stock Reserved for Future Issuances

As of June 30, 2013, approximately 16.3 million shares of our common stock, when fully vested, were issuable upon conversion or exercise of rights granted under prior financing arrangements, stock options and warrants, as follows:

Conversion of Series E preferred shares	40,000
Exercise of stock options	10,932,574
Exercise of warrants	445,000
Employee stock purchase plan shares reserved for issuance	4,579,954
Long-term retention and management incentive plan shares reserved for issuance	346,500
Total shares of common stock reserved for future issuances	16,344,028

13. Deferred Compensation Plan

On September 2, 2011, the Board of Directors approved the Spectrum Pharmaceuticals, Inc. Deferred Compensation Plan (the "Plan"). The Plan is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended. The Plan is administered by the Compensation Committee of the board of directors, or a designee or designees of the Compensation Committee. The Plan is intended to be an unfunded plan which is maintained primarily to provide deferred compensation benefits for a select group of our employees including management, as selected by the Plan administrator (the "Participants"). Under the Plan, we provide the Participants with the opportunity to make annual elections to defer up to a specified amount or percentage of their eligible cash compensation, as established by the Plan administrator, and we have the option to make discretionary contributions. At June 30, 2013, deferrals and contributions totaling \$3.2 million are included in other accrued obligations in the accompanying condensed consolidated balance sheet.