SPECTRUM PHARMACEUTICALS INC
Form 10-Q
May 06, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35006

SPECTRUM PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	93-0979187
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11500 South Eastern Avenue, Suite 240 Henderson, Nevada	89052
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of April 29, 2016, 69,220,610 shares of the registrant's common stock were outstanding.

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SPECTRUM PHARMACEUTICALS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2016
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Item 3 through 5 of Part II have been omitted because they are not applicable with respect to the current reporting period.

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PART I: FINANCIAL INFORMATION
ITEM 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SPECTRUM PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and par value amounts)
(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$132,306	$ 139,741
Marketable securities	246	245
Accounts receivable, net of allowance for doubtful accounts of $15 and $120, respectively	19,248	30,384
Other receivables	15,175	12,572
Inventories	3,155	4,176
Prepaid expenses and other assets	2,352	3,507
Total current assets	172,482	190,625
Property and equipment, net of accumulated depreciation	810	918
Intangible assets, net of accumulated amortization and impairment charges	184,753	190,335
Goodwill	18,044	17,960
Other assets	25,304	19,211
Total assets	$401,393	$ 419,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$47,503	$ 56,539
Accrued payroll and benefits	4,555	8,188
Deferred revenue	1,312	6,130
Drug development liability	156	259
Acquisition-related contingent obligations	6,000	5,227
Total current liabilities	59,526	76,343
Drug development liability, less current portion	14,354	14,427
Deferred revenue, less current portion	1,596	383
Acquisition-related contingent obligations, less current portion	1,708	1,439
Deferred tax liability	6,849	6,779
Other long-term liabilities	8,109	7,444
Convertible senior notes	100,933	99,377
Total liabilities	193,075	206,192
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized:	—	—
Series B junior participating preferred stock, $0.001 par value; 1,500,000 shares authorized; no shares issued and outstanding	—	—
Series E Convertible Voting Preferred Stock, $0.001 par value and $10,000 stated value; 2,000 shares authorized; 20 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively (convertible into 40,000 shares of common stock, with aggregate liquidation value of $240)	123	123
Common stock, $0.001 par value; 175,000,000 shares authorized; 68,942,042 and 68,228,935 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	68	68

Additional paid-in capital	555,056	552,108
Accumulated other comprehensive loss	(3,485)	(5,319)
Accumulated deficit	(343,444)	(334,123)
Total stockholders' equity	208,318	212,857
Total liabilities and stockholders' equity	$401,393	$ 419,049

See accompanying notes to these unaudited condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Product sales, net	$35,241	$38,413
License fees and service revenue	8,625	205
Total revenues	$43,866	$38,618
Operating costs and expenses:		
Cost of product sales (excludes amortization and impairment charges of intangible assets)	5,604	7,071
Cost of service revenue	1,282	—
Selling, general and administrative	21,962	23,335
Research and development	15,462	15,851
Amortization and impairment charges of intangible assets	5,839	14,022
Total operating costs and expenses	50,149	60,279
Loss from operations	(6,283)	(21,661)
Other (expense) income:		
Interest expense, net	(2,340)	(2,228)
Change in fair value of contingent consideration related to acquisitions	(1,042)	(500)
Other income (expense), net	278	(1,035)
Total other expenses	(3,104)	(3,763)
Loss before income taxes	(9,387)	(25,424)
Benefit (provision) for income taxes	66	(138)
Net loss	$(9,321)	$(25,562)
Net loss per share:		
Basic and diluted	$(0.14)	$(0.39)
Weighted average shares outstanding:		
Basic and diluted	65,597,261	64,880,677

See accompanying notes to these unaudited condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net loss	$(9,321)	$(25,562)
Other comprehensive (loss) income, net of income tax:		
Unrealized gain on available-for-sale securities	1,361	779
Foreign currency translation adjustments	473	(2,006)
Other comprehensive income (loss)	1,834	(1,227)
Total comprehensive loss	$(7,487)	$(26,789)

See accompanying notes to these unaudited condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash Flows From Operating Activities:		
Net loss	$(9,321)	$(25,562)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,008	7,017
Stock-based compensation	3,177	2,462
Accretion of debt discount, recorded to interest expense on 2018 Convertible Notes (Note 14)	1,385	1,270
Amortization of deferred financing costs, recorded to interest expense on 2018 Convertible Notes (Note 14)	171	162
Bad debt (recovery) expense	(16)	44
Impairment of intangible assets (Note 3(f))	—	7,160
Unrealized foreign currency exchange loss	14	1,128
Research and development expense recognized for the value of stock issued in connection with APAZIQUONE milestone (Note 16(b)(ix))	111	—
Change in fair value of contingent consideration related to Talon and EVOMELA acquisitions (Note 9)	1,042	500
Changes in operating assets and liabilities:		
Accounts receivable, net	11,186	1,864
Other receivables	(2,500)	(2,399)
Inventories	(2,741)	121
Prepaid expenses	1,154	436
Deferred tax assets	—	(235)
Other assets	(824)	(404)
Accounts payable and other accrued obligations	(9,074)	(2,778)
Accrued payroll and benefits	(3,641)	(4,056)
Drug development liability	(175)	(666)
Deferred revenue	(3,768)	7,555
Deferred tax liability	70	239
Other long-term liabilities	659	855
Net cash used in operating activities	(7,083)	(5,287)
Cash Flows From Investing Activities:		
Redemption of mutual funds	(1)	—
Purchase of equity securities (Note 10)	(17)	—
Purchases of property and equipment	(61)	(78)
Net cash used in investing activities	(79)	(78)
Cash Flows From Financing Activities:		
Proceeds from exercise of stock options	51	404
Purchase and retirement of restricted stock to satisfy employees' tax liability at vesting	(392)	(262)
Net cash (used in) provided by financing activities	(341)	142
Effect of exchange rates on cash and equivalents	68	(1,354)
Net decrease in cash and cash equivalents	(7,435)	(6,577)

Cash and cash equivalents—beginning of period	139,741	129,942
Cash and cash equivalents—end of period	$132,306	$123,365
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$9	$331
Cash paid for interest	$—	$—

See accompanying notes to these unaudited condensed consolidated financial statements.

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Spectrum Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements
(all tabular amounts presented in thousands, except share, per share, per unit, and number of years)
(Unaudited)

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

(a) Description of Business

Spectrum Pharmaceuticals, Inc. (“Spectrum”, the “Company”, “we”, “our”, or “us”) is a biotechnology company, with a prima strategy comprised of acquiring, developing, and commercializing a broad and diverse pipeline of late-stage clinical and commercial products. In addition to an in-house clinical development organization with regulatory and data management capabilities, we have established a commercial infrastructure for our marketed products. Currently, we market six approved oncology/hematology products that target different types of non-Hodgkin's lymphoma ("NHL"), advanced metastatic colorectal cancer, acute lymphoblastic leukemia ("ALL"), and multiple myeloma ("MM").

We also have three drugs in late-stage development:

- SPI-2012 for chemotherapy-induced neutropenia in patients with breast cancer.
- APAZIQUONE for immediate intravesical instillation in post-transurethral resection of bladder tumors in patients with non-muscle invasive bladder cancer.
- POZIOTINIB, a novel pan-HER inhibitor used in the treatment of patients with breast cancer.

(b) Basis of Presentation

Interim Financial Statements

The interim financial data as of March 31, 2016 and 2015 is unaudited, and is not necessarily indicative of our operating results for a full year. In the opinion of our management, the interim data includes normal and recurring adjustments necessary for a fair presentation of our financial results for the three months ended March 31, 2016 and 2015. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been condensed or omitted pursuant to U.S. Securities and Exchange Commission (“SEC”) rules and regulations relating to interim financial statements. The December 31, 2015 balances reported herein are derived from the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 14, 2016.

Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with GAAP and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These financial statements include the financial position, results of operations, and cash flows of Spectrum and its subsidiaries, all of which are wholly-owned (except for SPC, as discussed below). All inter-company accounts and transactions among these legal entities have been eliminated in consolidation.

Variable Interest Entity

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

(c) Operating Segment

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

We operate in one reportable operating segment that is focused exclusively on developing and commercializing oncology and hematology drug products. For the three months ended March 31, 2016 and 2015, all of our revenue and related expenses were solely attributable to these activities. Substantially all of our assets (excluding our cash held in certain foreign bank accounts and our ZEVALIN distribution rights for the Ex-U.S. territory) are held in the U.S.

2. USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The estimates and assumptions that most significantly impact the presented amounts within these accompanying Condensed Consolidated Financial Statements are further described below:

(i) Revenue Recognition

(a) Product Sales: We sell our products to wholesalers/distributors (i.e., our customers), except for our U.S. sales of ZEVALIN in which case the end-user (i.e. clinic or hospital) is our customer. Our wholesalers/distributors in turn sell our products directly to clinics, hospitals, and private oncology-based practices. Revenue from our product sales is recognized when title and risk of loss have transferred to our customer, and the following additional criteria are met:

(1) appropriate evidence of a binding arrangement exists with our customer;
(2) price is substantially fixed and determinable;
(3) collection from our customer is reasonably assured;
(4) our customer’s obligation to pay us is not contingent on resale of the product;
(5) we do not have significant continued performance obligations to our customer; and
(6) we have a reasonable basis to estimate returns.

Our gross revenue is reduced by our gross-to-net (“GTN”) estimates each period, resulting in our reported “product sales, net” in the accompanying Condensed Consolidated Statements of Operations. We defer revenue recognition in full if these estimates are not reasonably determinable at the time of sale. These estimates are based upon information received from external sources (such as written and oral information obtained from our customers with respect to their period-end inventory levels, and their sales to end-users during the period), in combination with management’s informed judgments. Due to the inherent uncertainty of estimates, the actual amount we incur may be materially different than our GTN estimates, and require prospective revenue adjustments in periods after the initial sale was recorded.

Our GTN estimates are comprised of the following categories:

Product Returns Allowances: Our FUSILEV, MARQIBO, and BELEODAQ customers are permitted to return purchased product beginning at its expiration date, and within six months thereafter. Returned product is generally not resold. Returns for expiry of ZEVALIN and FOLOTYN are not contractually, or customarily, allowed. We estimate expected returns based on our historical return rates.

Government Chargebacks: Our products are subject to pricing limits under certain federal government programs (e.g., Medicare and 340B Drug Pricing Program). Qualifying entities (i.e., end-users) purchase product from our customers at their qualifying discounted price. The chargeback amount we incur represents the difference between our contractual sales price to our customer, and the end-user’s applicable discounted purchase price under the government program. There may be significant

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(all tabular amounts presented in thousands, except share, per share, per unit, and number of years)
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lag time between our reported net product sales and our receipt of corresponding government chargeback claims from our customers.

Prompt Pay Discounts: Discounts for prompt payment are estimated at the time of sale, based on our eligible customers' prompt payment history and the contractual discount percentage.

Commercial Rebates: Commercial rebates are based on (i) our estimates of end-user purchases through a group purchasing organization ("GPO"), (ii) the corresponding contractual rebate percentage tier we expect each GPO to achieve, and (iii) our estimates of the impact of any prospective rebate program changes made by us.

Medicaid Rebates: Our products are subject to state government-managed Medicaid programs, whereby rebates are issued to participating state governments. These rebates arise when a patient treated with our product is covered under Medicaid, resulting in a discounted price for our product under the applicable Medicaid program. Our Medicaid rebate accrual calculations require us to project the magnitude of our sales, by state, that will be subject to these rebates. There is a significant time lag in us receiving rebate notices from each state (generally several months or longer after our sale is recognized). Our estimates are based on our historical claim levels by state, as supplemented by management's judgment.

Distribution, Data, and GPO Administrative Fees: Distribution, data, and GPO administrative fees are paid to authorized wholesalers/distributors of our products (except for U.S. sales of ZEVALIN) for various commercial services, including: contract administration, inventory management, delivery of end-user sales data, and product returns processing. These fees are based on a contractually-determined percentage of our applicable sales.

(b) License Fees: We recognize revenue for our licensing of intellectual property to third-parties (out-licenses), based on the contractual terms of each agreement and our application of pertinent GAAP. This revenue may be associated with upfront license fees, milestone payments from our licensees' sales or regulatory achievements, and royalties from our licensees' sales in applicable territories.

(c) Service Revenue: We receive fees from third-parties under certain arrangements for our sales and marketing services, research and development activities, clinical trial management, and supply chain services. Payment may be triggered by contractual fixed payment schedules, the successful completion of a phase of development, results from a clinical trial, regulatory approval events, or completion of product delivery in our capacity as an agent in such arrangement. We recognize revenue when the corresponding milestone is achieved, or the revenue is otherwise earned and due to us through our on-going activities.

(d) New Revenue Recognition Standard: On April 1, 2015, the FASB voted for a one-year deferral of the effective date of the new revenue recognition standard, ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 is now effective for us beginning January 1, 2018, requiring revenue recognition in a manner that reasonably reflects the delivery of our goods or services to customers in return for expected consideration. To achieve this core principle, the guidance provides the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

We intend to apply the cumulative effect transition method of ASU 2014-09, and we continue to evaluate the impact of this new standard on our current revenue recognition models for product sales, license fees, and service revenue, as described above.

(ii) Cash and Equivalents

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

(iii) Marketable Securities

Our marketable securities consist of our holdings in mutual funds and bank certificates of deposit. Since we classify these securities as "available-for-sale" under applicable GAAP, any unrealized gains or losses from their change in value

is reflected in “unrealized gain on available-for-sale securities” on the accompanying Condensed Consolidated Statements of

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(Unaudited)

Comprehensive Loss. Realized gains and losses on available-for-sale securities are included in “other income (expense), net” on the accompanying Condensed Consolidated Statements of Operations.

(iv) Accounts Receivable

Our accounts receivables are derived from our product sales and license fees (our service revenue is recorded in "other receivables"), and do not bear interest. The allowance for doubtful accounts is management’s best estimate of the amount of probable credit losses in our existing accounts receivable. Account balances are charged off against the allowance after appropriate collection efforts are exhausted.

(v) Inventories

We value our inventory at the lower of (i) the actual cost of its purchase or manufacture, or (ii) its current market value. Inventory cost is determined on the first-in, first-out method ("FIFO"). We regularly review our inventory quantities in process of manufacture and on hand. When appropriate, we record a provision for obsolete and excess inventory to derive its new cost basis, which takes into account our sales forecast by product and corresponding expiry dates.

Direct and indirect manufacturing costs related to the production of inventory prior to U.S. Food and Drug Administration ("FDA") approval are expensed through “research and development,” rather than being capitalized to inventory cost.

(vi) Property and Equipment

Our property and equipment is stated at historical cost, and is depreciated on a straight-line basis over an estimated useful life that corresponds with its designated asset category. We evaluate the recoverability of “long-lived assets” (which includes property and equipment) whenever events or changes in circumstances in our business indicate that the asset’s carrying amount may not be recoverable through on-going operations.

(vii) Goodwill and Intangible Assets

Our goodwill represents the excess of our business acquisition cost over the estimated fair value of the net assets acquired in the corresponding transaction. Goodwill has an indefinite accounting life and is therefore not amortized. Instead, goodwill is evaluated for impairment on an annual basis (as of each October 1st), unless we identify impairment indicators that would require earlier testing.

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

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

Intangible assets with finite useful lives are amortized over their estimated useful lives on a straight-line basis. We review these assets for potential impairment if/when facts or circumstances suggest that the carrying value of these assets may not be recoverable.

(viii) Stock-Based Compensation

Stock-based compensation expense for equity awards granted to our employees and members of our board of directors is recognized on a straight-line basis over each award's vesting period. Recognized compensation expense is net of an estimated forfeiture rate, representing the percentage of awards that are expected to be forfeited (by termination of employment or service) prior to vesting. We use the Black-Scholes option pricing model to determine the fair value of stock options (as of the

date of grant) which carry service conditions for vesting. When applicable, we use the Monte Carlo valuation model to value equity awards (as of the date of grant) which carry combined market conditions and service conditions for vesting.

The calculation of the fair value of stock options on the date of grant, and the recognition of stock-based compensation expense over the appropriate time period, requires uncertain assumptions, including (a) the pre-vesting forfeiture rate of the stock option, (b) the term of the stock option, (c) the stock price volatility over the term of the stock option, and (d) the risk-free interest rate over the term of the stock option.

We estimate forfeiture rates based on our employees' overall forfeiture history, which we believe will be representative of future results. We estimate the expected term of stock options granted based on our employees' historical exercise patterns, which we believe will be representative of their future behavior. We estimate the volatility of our common stock on the date of grant based on historical volatility of our common stock for a look-back period that corresponds with the expected term. We estimate the risk-free interest rate based upon the U.S. Treasury yields in effect at award grant, for a period equaling the stock options' expected term.

(ix) Foreign Currency Translation

We translate the assets and liabilities of our foreign subsidiaries that are stated in their functional currencies (i.e., local operating currencies), to U.S. dollars at the rates of exchange in effect at the reported balance sheet date. Revenues and expenses are translated using the monthly average exchange rates during the reported period. Unrealized gains and losses from the translation of our subsidiaries' financial statements (that are initially denominated in the corresponding functional currency) are included as a separate component of "accumulated other comprehensive loss" in the Condensed Consolidated Balance Sheets.

We record foreign currency transactions, when initially denominated in a currency other than the respective functional currency of our subsidiary, at the prevailing exchange rate on the date of the transaction. Resulting unrealized foreign exchange gains and losses from transactions with third parties are included in "accumulated other comprehensive loss" in the Condensed Consolidated Balance Sheets.

All unrealized foreign exchange gains and losses associated with our intercompany loans are included in "accumulated other comprehensive loss" in the Condensed Consolidated Balance Sheets, as these loans with our foreign subsidiaries are not expected to be settled in the "foreseeable future." For the period January 1, 2015 through March 31, 2015, unrealized foreign exchange gains and losses associated with our intercompany loans were included in "accumulated other comprehensive loss" in the Condensed Consolidated Balance Sheets and in "other income (expense), net" in the Condensed Consolidated Statements of Operations. In periods prior to January 1, 2015, all unrealized foreign exchange gains and losses associated with intercompany loans were included in "other income (expense), net" in the Condensed Consolidated Statements of Operations.

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

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

(xi) Income Taxes

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

We have recorded a valuation allowance to reduce our deferred tax assets, because we believe that, based upon a weighting of positive and negative factors, it is more likely than not that these deferred tax assets will not be realized.

If/when we determine that our deferred tax assets are realizable, an adjustment to the corresponding valuation allowance would increase our net income in the period that such determination was made.

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

In the event that we are assessed interest and/or penalties from taxing authorities that have not been previously accrued, such amounts would be included in “benefit (provision) for income taxes” within the Condensed Consolidated Statements of Operations in the period the notice was received.

(xii) Research and Development Costs

Our research and development costs are expensed as incurred, or as certain milestone payments become due, generally triggered by clinical or regulatory events.

(xiii) Fair Value Measurements

We determine measurement-date fair value based on the proceeds that would be received through the sale of the asset, or that we would pay to settle or transfer the liability, in an orderly transaction between market participants. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used in descending order to measure fair value. These tiers include the following:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that are publicly accessible at the measurement date.

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

Level 3: Unobservable inputs are used when little or no market data is available.

3. BALANCE SHEET ACCOUNT DETAIL

The composition of selected financial statement captions that comprise the accompanying Condensed Consolidated Balance Sheets are summarized below:

(a) Cash and Cash Equivalents and Marketable Securities

As of March 31, 2016 and December 31, 2015, our holdings included within “cash and cash equivalents” and “marketable securities” were at major financial institutions.

Our investment policy requires that investments in marketable securities be in only highly-rated instruments, which are primarily U.S. treasury bills or U.S. treasury-backed securities, and limited investments in securities of any single issuer. We maintain cash balances in excess of federally insured limits with reputable financial institutions. To a limited degree, the Federal Deposit Insurance Corporation ("FDIC") and other third parties insure these investments. However, these investments are not insured against the possibility of a complete loss of earnings or principal and are inherently subject to the credit risk related to the continued credit worthiness of the underlying issuer and general credit market risks. We manage such risks on our portfolio by investing in highly liquid, highly rated instruments, and limit investing in long-term maturity instruments.

The carrying amount of our equity securities, money market funds, bank certificate of deposits ("Bank CDs"), and mutual funds approximates their fair value (utilizing Level 1 or Level 2 inputs – see Note 2(xiii)) because of our ability to immediately convert these instruments into cash with minimal expected change in value.

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

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Notes to Condensed Consolidated Financial Statements
(all tabular amounts presented in thousands, except share, per share, per unit, and number of years)
(Unaudited)

						Marketable Securities	
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Current	Long Term
March 31, 2016							
Bank deposits	$52,160	$ —	$ —	$52,160	$ 52,160	$ —	$ —
Money market funds	80,146	—	—	80,146	80,146	—	—
Bank certificates of deposits	246	—	—	246	—	246	—
Mutual funds	—	—	—	—	—	—	—
Total cash and equivalents and marketable securities	$132,552	$ —	$ —	$132,552	$ 132,306	$ 246	$ —
December 31, 2015							
Bank deposits	$59,625	$ —	$ —	$59,625	$ 59,625	$ —	$ —
Money market funds	80,116	—	—	80,116	80,116	—	—
Bank certificates of deposits	245	—	—	245	—	245	—
Mutual funds	—	—	—	—	—	—	—
Total cash and equivalents and marketable securities	$139,986	$ —	$ —	$139,986	$ 139,741	$ 245	$ —

As of March 31, 2016, none of these securities had been in a continuous unrealized loss position longer than one year.

(b) Property and Equipment, Net of Accumulated Depreciation

“Property and equipment, net of accumulated depreciation” consist of the following:

	March 31, 2016	December 31, 2015
Computer hardware and software	$ 3,824	$ 3,785
Laboratory equipment	622	608
Office furniture	355	355
Leasehold improvements	2,880	2,872
Property and equipment, at cost	7,681	7,620
(Less): Accumulated depreciation	(6,871)	(6,702)
Property and equipment, net of accumulated depreciation	$ 810	$ 918

Depreciation expense (included within “total operating costs and expenses” in the accompanying Condensed Consolidated Statements of Operations) for the three months ended March 31, 2016 and 2015, was $0.2 million and $0.2 million, respectively.

(c) Inventories

“Inventories” consist of the following:

	March 31, 2016	December 31, 2015
Raw materials	$ 1,782	$ 1,606
Work-in-process*	7,457	4,228
Finished goods	839	1,498
(Less:) Non-current portion of inventories included within "other assets" **	(6,923)	(3,156)
Inventories	$ 3,155	$ 4,176

* In January 2016, we received $3.4 million of ZEVALIN antibody materials for its future manufacture (representing strategic long-term supply).

** The "non-current" portion of inventories is presented within "other assets" in the accompanying Condensed Consolidated Balance Sheet at March 31, 2016. This value of $6.9 million represents product that we expect to sell beyond March 31, 2017.

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(d) Prepaid expenses and other assets
“Prepaid expenses and other assets” consist of the following:

	March 31, 2016	December 31, 2015
Prepaid operating expenses	$ 2,352	$ 3,507
Current portion of debt issuance costs*	—	—
Prepaid expenses and other assets	$ 2,352	$ 3,507

* Beginning January 1, 2016, our debt issuance costs (current and non-current portions) were retrospectively reclassified from “prepaid expenses and other assets” and "other assets" to a reduction of the carrying amount of “convertible senior notes” (i.e., contra-liability - see Note 14) within our accompanying Consolidated Balance Sheets, in accordance with the FASB-issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). These amounts were $2.0 million and $2.2 million (including current and non-current portions) as of March 31, 2016 and December 31, 2015, respectively.

(e) Other receivables
“Other receivables” consist of the following:

	March 31, 2016	December 31, 2015
Income tax receivable	$ 754	$ 1,301
Insurance receivable	7,188	7,100
Mundipharma promissory note	2,347	2,215
CASI note - short term*	1,500	—
Eagle service revenue and support costs	1,450	—
Research and development expenses - reimbursements due	1,617	1,699
Other miscellaneous receivables	319	257
Other receivables	$ 15,175	$ 12,572

* This full balance was prospectively reclassified as of March 31, 2016 to "other receivables" (presented within current assets on the accompanying Condensed Consolidated Balance Sheets) from "other assets" (presented within non-current assets) due to this note's maturity date of March 17, 2017 (i.e., within 12 months of March 31, 2016) - see Note 10.

(f) Intangible Assets and Goodwill
“Intangible assets, net of accumulated amortization and impairment charges” consist of the following:

	March 31, 2016						
	Historical Cost	Accumulated Amortization	Foreign Currency Translation	Impairment	Net Amount	Full Amortization Period (months)	Remaining Amortization Period (months)
MARQIBO IPR&D (NHL and other novel indications)	$ 17,600	$ —	$ —	$ —	$ 17,600	n/a	n/a
EVOMELA distribution rights (1)	7,700	—	—	—	7,700	156	156
BELEODAQ distribution rights	25,000	(3,281)	—	—	21,719	160	139
MARQIBO distribution rights	26,900	(9,624)	—	—	17,276	81	48
FOLOTYN distribution rights	118,400	(31,834)	—	—	86,566	152	110
	41,900	(31,477)	—	—	10,423	123	36

ZEVALIN distribution rights – U.S.							
ZEVALIN distribution rights – Ex-U.S.	23,490	(13,543)	(3,566)	—	6,381	96	48
FUSILEV distribution rights (2)	16,778	(9,618)	—	(7,160)	—	56	0
FOLOTYN out-license (3)	27,900	(9,789)	—	(1,023)	17,088	110	76
Total intangible assets	$305,668	$(109,166)	$ (3,566)	$ (8,183)	$ 184,753		

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(1) The FDA approval of EVOMELA in March 2016 triggered a $6 million payment due to CyDex Pharmaceuticals, Inc. (a wholly-owned subsidiary of Ligand Pharmaceuticals Incorporated). This event also resulted in a reclassification of our $7.7 million "EVOMELA IPR&D" to "EVOMELA distribution rights" due to our ability to begin its commercialization with this FDA approval. In accordance with our capitalization policy for intangible assets, amortization will commence on the first day of the following month of this reclassification (i.e., April 1, 2016).

(2) On February 20, 2015, the U.S. District Court for the District of Nevada found the patent covering FUSILEV to be invalid, which was upheld on appeal. On April 24, 2015, Sandoz began to commercialize a generic version of FUSILEV. This represented a “triggering event” under applicable GAAP in evaluating the value of our FUSILEV distribution rights as of March 31, 2015, resulting in a $7.2 million impairment charge (non-cash) in the first quarter of 2015. We accelerated amortization expense recognition in 2015 for the remaining net book value of FUSILEV distribution rights.

(3) On May 29, 2013, we amended our FOLOTYN collaboration agreement with Mundipharma. As a result of the amendment, Europe and Turkey were excluded from Mundipharma’s commercialization territory, and their royalty rates and milestone payments to us were modified. This constituted a change under which we originally valued the FOLOTYN out-license as part of business combination accounting, resulting in an impairment charge (non-cash) of $1.0 million in the second quarter of 2013.

	December 31, 2015				
	Historical Cost	Accumulated Amortization	Foreign Currency Translation	Impairment	Net Amount
MARQIBO IPR&D (NHL and other novel indications)	$17,600	$—	$ —	$ —	$ 17,600
EVOMELA IPR&D	7,700	—	—	—	7,700
BELEODAQ distribution rights	25,000	(2,812)	—	—	22,188
MARQIBO distribution rights	26,900	(8,544)	—	—	18,356
FOLOTYN distribution rights	118,400	(29,474)	—	—	88,926
ZEVALIN distribution rights – U.S.	41,900	(30,608)	—	—	11,292
ZEVALIN distribution rights – Ex-U.S.	23,490	(12,632)	(4,353)	—	6,505
FUSILEV distribution rights	16,778	(9,618)	—	(7,160)	—
FOLOTYN out-license	27,900	(9,109)	—	(1,023)	17,768
Total intangible assets	$305,668	$(102,797)	$ (4,353)	$ (8,183)	$ 190,335

Intangible asset amortization expense recognized during the three months ended March 31, 2016 was $5.8 million, as compared to $14.0 million of amortization and impairment expense recognized in the prior year period (of which $7.2 million relates to the impairment of the FUSILEV distribution rights, and the remaining $6.9 million relates to scheduled amortization expense).

Estimated intangible asset amortization expense for the remainder of 2016 and the five succeeding fiscal years and thereafter is as follows:

Years Ending December 31,	
Remainder of 2016	$18,017

2017	24,023
2018	24,023
2019	21,417
2020	16,113
2021	14,634
2022 and thereafter	48,926
	$167,153

“Goodwill” is comprised of the following:

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	March 31, 2016	December 31, 2015
Acquisition of Talon (MARQIBO rights)	$ 10,526	$ 10,526
Acquisition of ZEVALIN Ex-U.S. distribution rights	2,525	2,525
Acquisition of Allos (FOLOTYN rights)	5,346	5,346
Foreign currency exchange translation effects	(353)	(437)
Goodwill	$ 18,044	$ 17,960

(g) Other assets

“Other assets” are comprised of the following:

	March 31, 2016	December 31, 2015
Equity securities and secured promissory note - CASI (see Note 10)*	$ 7,520	$ 6,689
Supplies and deposits**	1,165	185
2018 Convertible Notes issuance costs (excluding current portion)***	—	—
Executive officer life insurance – cash surrender value	9,651	9,181
Inventories - non-current portion	6,923	3,156
Other miscellaneous assets	45	—
Other assets	$ 25,304	$ 19,211

* These equity securities were excluded from “marketable securities” (see Note 3(a)) due to our intent to hold these securities for at least one year beyond March 31, 2016, as discussed in Note 10. Unrealized gains from these equity securities were recognized through “unrealized gain on available-for-sale securities" within the Condensed Consolidated Statements of Comprehensive Loss, and were $1.4 million for the three months ended March 31, 2016.

** Of this balance at March 31, 2016, $1.0 million relates to ZEVALIN inventories that we intend to consume in research and development activities in future periods as part of our new contract manufacturer validation process. Accordingly, we have presented this value within "other assets" rather than "inventories" due to our present intention for these units.

*** Beginning January 1, 2016, our debt issuance costs (current and non-current portions) were retrospectively reclassified from “prepaid expenses and other assets” and "other assets" to a reduction of the carrying amount of “convertible senior notes” (i.e., contra-liability - see Note 14) within our accompanying Consolidated Balance Sheets, in accordance with ASU 2015-03. These amounts were $2.0 million and $2.2 million (including current and non-current portions) as of March 31, 2016 and December 31, 2015, respectively.

(h) Accounts payable and other accrued liabilities

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

	March 31, 2016	December 31, 2015
Trade accounts payable and other accrued liabilities	$ 31,922	$ 26,684
Accrued rebates	6,978	18,166
Accrued product royalty	4,076	4,908
Allowance for returns	1,429	1,394
Accrued data and distribution fees	1,126	1,830
Accrued GPO administrative fees	521	1,058
Accrued inventory management fee	210	498

Allowance for chargebacks	1,241	2,001
Accounts payable and other accrued liabilities		