SPECTRUM PHARMACEUTICALS INC
Form 10-Q
August 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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

For the transition period from to

Commission File Number: 001-35006

SPECTRUM PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**93-0979187**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

11500 South Eastern Avenue, Suite 240

Henderson, Nevada	**89052**
(Address of principal executive offices)	**(Zip Code)**

(702) 835-6300

(Registrant s telephone number, including area code)

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

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

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

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

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

As of July 18, 2012, 60,243,835 shares of the registrant s common stock were outstanding.

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SPECTRUM PHARMACEUTICALS, INC.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2012

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Item 1 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. Financial Statements

SPECTRUM PHARMACEUTICALS, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and equivalents	$ 190,154	$ 121,202
Marketable securities	3,550	40,060
Accounts receivable, net of allowance for doubtful accounts of $412 and $471, respectively	84,839	51,703
Inventories, net	7,686	10,762
Prepaid expenses and other current assets	1,800	2,074
Deferred tax assets	10,532	
Total current assets	298,561	225,801
Investments		9,283
Property and equipment, net	2,488	2,681
Intangible assets, net	60,327	41,654
Goodwill	2,389	
Deferred tax assets	20,961	
Other assets	2,846	1,361
TOTAL ASSETS	$ 387,572	$ 280,780
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and other accrued obligations	$ 89,610	$ 54,771
Accrued compensation and related expenses	3,505	1,788
Deferred revenue	12,300	12,300
Accrued drug development costs	10,610	9,678
Total current liabilities	116,025	78,537
Capital lease obligations		9
Deferred revenue and other credits less current portion	8,329	14,029
Tax liability	169	
Other long-term obligations	298	298
Total liabilities	124,821	92,873
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 and no shares issued and outstanding		
	123	123

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, 2012 and December 31, 2011 (aggregate liquidation value of $240)		
Common stock, $0.001 par value 175,000,000 shares authorized; 59,824,472 and 59,247,483 issued and outstanding at June 30, 2012 and December 31, 2011, respectively	60	59
Additional paid-in capital	463,607	452,761
Accumulated other comprehensive loss	(525)	(227)
Accumulated deficit	(197,271)	(261,883)
Less: Treasury stock at cost; 388,055 and 363,055 shares outstanding at June 30, 2012 and December 31, 2011, respectively	(3,243)	(2,926)
Total stockholders equity	262,751	187,907
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 387,572	$ 280,780

See accompanying notes to unaudited condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Income

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Product sales, net	$ 65,627	$ 42,287	$ 122,411	$ 82,810
License and contract revenue	3,075	3,075	6,150	6,150
Total revenues	$ 68,702	$ 45,362	$ 128,561	$ 88,960
Operating costs and expenses:				
Cost of product sales (excludes amortization of purchased intangible assets)	11,574	8,130	20,247	14,710
Selling, general and administrative	23,347	18,699	41,609	31,450
Research and development	9,583	7,686	18,474	13,516
Amortization of purchased intangibles	1,636	930	2,566	1,860
Total operating costs and expenses	46,140	35,445	82,896	61,536
Income from operations	22,562	9,917	45,665	27,424
Change in fair value of common stock warrant liability		(1,237)		(6,487)
Other income (expense), net	(1,507)	174	(1,369)	694
Income before income taxes	21,055	8,854	44,296	21,631
(Provision) benefit for income taxes	(2,985)	(1,650)	20,316	(1, 650)
Net income	$ 18,070	$ 7,204	$ 64,612	$ 19,981
Net income per share:				
Basic	$ 0.31	$ 0.14	$ 1.10	$ 0.39
Diluted	$ 0.29	$ 0.12	$ 1.01	$ 0.35
Weighted average shares outstanding:				
Basic	58,763,700	52,257,049	58,617,530	51,814,122
Diluted	63,387,003	58,265,264	63,666,546	56,845,371

See accompanying notes to unaudited condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$ 18,070	$ 7,204	$ 64,612	$ 19,981
Other comprehensive income, net of tax:				
Unrealized loss on securities	(369)	(35)	(301)	(84)
Foreign currency translation adjustment	3		3	
Total comprehensive income	$ 17,704	$ 7,169	$ 64,314	$ 19,897

See accompanying notes to condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2012	**2011**
Cash Flows From Operating Activities:		
Net income	$ 64,612	$ 19,981
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred revenue	(6,150)	(6,150)
Depreciation and amortization	4,043	2480
Stock-based compensation	6,097	10,880
Deferred income tax benefit	(31,493)	
Change in fair value of common stock warrant liability		6,487
Provision for (recovery of) bad debt	(31)	291
Provision for inventory obsolescence	437	
Foreign currency remeasurement loss	1,354	
Excess tax benefits from share-based compensation	(2,181)	
Changes in operating assets and liabilities:		
Accounts receivable, net	(33,105)	(25,711)
Inventories, net	2,639	(5,165)
Prepaid expenses and other assets	(950)	12
Accounts payable and other accrued obligations	36,409	7,677
Accrued compensation and related expenses	1,717	(497)
Accrued drug development costs	932	2,062
Deferred revenue and other credits	619	(55)
Net cash provided by operating activities	44,949	12,292
Cash Flows From Investing Activities:		
Sales and maturities of marketable securities	57,797	15,157
Purchases of marketable securities	(11,944)	(15,972)
Purchases of property and equipment	(302)	(341)
Purchases of available for sale securities	(622)	
Acquisition of ZEVALIN Rights	(25,435)	
Net cash provided by (used in) investing activities	19,494	(1,156)
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock from stock option exercises	2,523	1,973
Proceeds from contributions to ESPP	372	398
Payments to acquire treasury stock	(317)	
Repurchase of shares to satisfy minimum tax withholding for restricted stock vesting	(326)	
Repayment of capital leases	(9)	(15)
Excess tax benefits from share-based compensation	2,181	
Net cash provided by financing activities	4,424	2,356
Effect of exchange rates on cash	85	

Net increase in cash and cash equivalents	68,952	13,492
Cash and cash equivalents beginning of period	121,202	53,557
Cash and cash equivalents end of period	$ 190,154	$ 67,049
Supplemental Disclosure of Cash Flow Information:		
Conversion of preferred stock to common stock	$	$ 37
Common stock issued for Targent milestone	$	$ 6,230
Targent milestones included in intangible assets and accrued liabilities	$	$ 10,159
Inventory liability assumed in acquisition	$ 580	$

See accompanying notes to condensed consolidated financial statements.

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SPECTRUM PHARMACEUTICALS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Business and Basis of Presentation

Business

Spectrum Pharmaceuticals, Inc. (Spectrum , the Company , we , our , or us) is a biotechnology company with fully integrated commercial and development operations, with a primary focus in oncology and hematology. Our strategy is comprised of acquiring, developing and commercializing a broad and diverse pipeline of late-stage clinical and commercial products. We currently market two oncology drugs - FUSILEV® (levoleucovorin) for Injection in the U.S. and ZEVALIN® (ibritumomab tiuxetan) Injection for intravenous use, for which we have worldwide rights. 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. 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, 2012 and the results of operations and cash flows for the related interim periods ended June 30, 2012 and 2011. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 or for any other periods. The unaudited financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2011, 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, 2011 included in our Annual Report on Form 10-K filed on March 2, 2012 with the SEC. We have not changed our significant accounting policies as of June 30, 2012. 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 March 2, 2012.

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

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.

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.

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Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an accounting standards update that eliminates the option to present components of other comprehensive income as part of the statement of changes in equity and requires an entity to present items of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance also requires an entity to present on the face of the financial statements reclassification adjustments from other comprehensive income to net income. This guidance became effective for fiscal years beginning after December 15, 2011. In December 2011, the FASB issued an accounting standards update that defers the presentation requirement for other comprehensive income reclassifications on the face of the financial statements. We adopted the provisions of the guidance in the first quarter of 2012 and elected to present items of net income and other comprehensive income in two separate but consecutive statements. In May 2011, the FASB issued an accounting standards update that clarifies and amends the existing fair value measurement and disclosure requirements. This guidance became effective prospectively for interim and annual periods beginning after December 15, 2011. We adopted the provisions of the guidance in the first quarter of 2012. The adoption did not have a material impact on our consolidated financial statements.

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, 2012, we determined there were no variable interest entities required to be consolidated other than our Canadian affiliate, Spectrum Pharma Canada.

We also perform an analysis to determine if the inputs and/or processes acquired in an acquisition qualify as a business. On the basis of our interpretations and conclusions, we determine if the in-licensed products qualify as a business and whether to account for such products as a business combination or an asset acquisition. The excess of the purchase price over the fair value of the net assets acquired can only be recognized as goodwill in a business combination.

Basic and Diluted Earnings per Share

We calculate basic and diluted net income per share using the weighted average number of common shares outstanding during the periods presented, and adjust the amount of net income used in this calculation for preferred stock dividends (if any) declared during the period. In periods of a net loss position, basic and diluted weighted average shares 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.

(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	301,708

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(in thousands, except share and per share data)	Net Income	Weighted-Average Shares Outstanding (Denominator)	Earnings Per Share
Three Months Ended June 30, 2011			
Basic earnings per share:	$ 7,204	52,257,049	$ 0.14
Diluted earnings per share:			
Dilutive preferred shares		40,000	
Dilutive options		4,384,113	
Incremental shares assumed issued on exercise of in the money warrants		189,446	
Unvested restrictive stock		248,842	
Targent milestone which may be settled in cash or stock		1,145,814	
Diluted earnings per share	$ 7,204	58,265,264	$ 0.12
Potentially dilutive securities not included above since they were antidilutive:			
Antidilutive warrants	$ 1,237	921,686	
Antidilutive options		194,250	

(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 restrictive 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		155,750	

(in thousands, except share and per share data)	Net Income	Weighted-Average Shares Outstanding (Denominator)	Earnings Per Share
Six Months Ended June 30, 2011			
Basic earnings per share:	$ 19,981	51,814,122	$ 0.39
Diluted earnings per share:			
Dilutive preferred shares		40,000	

Dilutive options		3,767,162	
Incremental shares assumed issued on exercise of in the money warrants		160,709	
Unvested restrictive stock		219,109	
Targent milestone which may be settled in cash or stock		844,269	
Diluted earnings per share	$ 19,981	56,845,371	$ 0.35
Potentially dilutive securities not included above since they were antidilutive:			
Antidilutive warrants	$ 6,487	603,944	
Antidilutive options		1,855,750	

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2. Licensing Rights of ZEVALIN Outside the U.S.

On April 1, 2012, through a subsidiary, Spectrum Pharmaceuticals Cayman, L.P., we completed the acquisition of licensing rights to market ZEVALIN (ZEVALIN Rights) outside of the U.S. 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. Under the terms of the agreement, Spectrum obtained marketing rights, patents, and access to existing inventory of ZEVALIN from Bayer. In consideration for the rights granted under the Agreement, concurrent with the closing, Spectrum paid Bayer a one-time fee of Euro 19 million or US $25.4 million and will pay Bayer royalties based on a percentage of net sales of the licensed products in all territories worldwide except the U.S. 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.

The acquisition of ZEVALIN Rights has been accounted for 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 ZEVALIN Rights related transaction costs expensed for the three and six months ended June 30, 2012 were $687,384.

Consideration Transferred

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

Cash consideration for ZEVALIN Rights	$ 25,435
Total liabilities assumed	580
Total purchase consideration	$ 26,015

Fair Value Estimate of Assets Acquired and Liabilities Assumed

The total purchase consideration is allocated to ZEVALIN Rights 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 and included in our condensed consolidated balances sheet is as follows ($ in thousands):

ZEVALIN product line/marketing rights	$ 19,810
Customer relationships	3,680
Identified intangible assets	23,490
Goodwill	2,525
Total fair value of assets	$ 26,015

The fair value of the acquired marketing rights and customer relationships intangible assets was estimated using the income approach. The income approach uses valuation techniques to convert future amounts to a single present amount (discounted). The Company s measurement is based on the value indicated by current market expectations about those future amounts. The fair value considered the Company s estimates of future incremental earnings that may be achieved by the promotion and distribution contract intangible assets, and included estimated cash flows of approximately 22 years and a discount rate of 14% to 26%.

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, the goodwill recorded as part

of the acquisition of ZEVALIN Rights includes benefits that the Company believes will result from expanding geographical sales internationally and any intangible assets that do not qualify for separate recognition. Goodwill is not amortized and is not deductible for tax purposes.

These identified intangible assets are being amortized over the estimated useful life of 10 years. Included in amortization of purchased intagibles expense in the accompanying statement of income for the three and six months ended June 30, 2012 is $706,000 related to the amortization of these intangibles.

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3. Cash, Equivalents and Marketable Securities

As of June 30, 2012, 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.

Cash, equivalents and investments in marketable securities, including long term bank certificates of deposits, totaled $194.0 million and $170.6 million as of June 30, 2012 and December 31, 2011, respectively. Long term bank certificates of deposit include a $500,000 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 thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated fair Value	Cash	Marketable Security	
						Current	Long Term
June 30, 2012							
Cash and equivalents	$ 190,154	$	$	$ 190,154	$ 190,154	$	$
Bank CDs (including restricted certificate of deposit of $500)	2,951			2,951		2,951	
Money market currency funds	599			599		599	
U.S. Government securities							
Other securities (included in other assets)	657		362	295			295
Total investments	$ 194,361	$	$ 362	$ 193,999	$ 190,154	$ 3,550	$ 295
December 31, 2011							
Cash and equivalents	$ 121,202	$	$	$ 121,202	$ 121,202	$	$
Bank CDs (including restricted certificate of deposit of $500)	27,845			27,845		18,562	9,283
Money market currency funds	14,485			14,485		14,485	
U.S. Government securities	7,013			7,013		7,013	
Other securities (included in other assets)	35		29	6			6
Total investments	$ 170,580	$	$ 29	$ 170,551	$ 121,202	$ 40,060	$ 9,289

As of June 30, 2012, none of the securities had been in a continuous unrealized loss position longer than one year.

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4. Fair Value Measurements

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, 2012 and December 31, 2011 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, 2012				
Assets:				
Cash and equivalents	$ 190,154	$	$	$ 190,154
Bank CDs (including restricted certificate of deposit of $500)		2,951		2,951
Money market currency funds		599		599
Cash and equivalents, and marketable securities and investments	190,154	3,550		193,704
Deferred compensation investments, including life insurance cash surrender value		2,059		2,059
Other securities	295			295
	$ 190,449	$ 5,609	$	$ 196,058
Liabilities:				
Deferred executive compensation liability		1,496		1,496
	$	$ 1,496	$	$ 1,496

	Fair Value Measurements ($ in 000 s)			
	Level 1	Level 2	Level 3	Total
December 31, 2011				
Assets:				
Cash and equivalents	$ 121,202	$	$	$ 121,202
Bank CDs (including restricted certificate of deposit of $500)		27,845		27,845
Money market currency funds		14,485		14,485
U.S. Government securities		7,013		7,013
Cash and equivalents, marketable securities and investments	121,202	49,343		170,545
Deferred compensation investments		972		972
Other securities	6			6
	$ 121,208	$ 50,315	$	$ 171,523
Liabilities:				
Deferred executive compensation liability		969		969
	$	$ 969	$	$ 969

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.

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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 carrying value as it approximates fair market value due to the short term maturities of these instruments.

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.

5. Intangible Assets and Goodwill

Intangible assets consist of the following:

	June 30, 2012	December 31, 2011
	($ in 000s)	
ZEVALIN intangibles US	$ 41,900	$ 41,900
ZEVALIN intangibles ZEVALIN Rights	22,220	
Fusilev intangibles	16,778	16,778
	80,898	58,678
Less: accumulated amortization	(20,571)	(17,024)
	$ 60,327	$ 41,654

During the three months ended June 30, 2012 and 2011, ZEVALIN intangible amortization of $1.6 million and $930,000, respectively, is included in amortization of purchased intangibles. In addition, during the three months ended June 30, 2012 and 2011, $493,000 and $171,000 is included in cost of goods sold related to Fusilev Targent milestones achieved in 2011.

During the six months ended June 30, 2012 and 2011, ZEVALIN intangible amortization of $2.6 million and $1.8 million, respectively, is included in amortization of purchased intangibles. In addition, during the six months ended June 30, 2012 and 2011, $986,000 and $171,000, respectively, is included in cost of goods sold related to Fusilev Targent milestones achieved in 2011. There were no comparable amounts for the six months ended June 30, 2011.

Future amortization of intangible assets is as follows:

Years Ending December 31	
2012	$ 4,329
2013	8,658
2014	8,658
2015	8,658
2016	8,658
Thereafter	21,366

	$ 60,327

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Goodwill

Changes in the carrying amount of goodwill through June 30, 2012 were as follows:

	June 30, 2012 ($ in 000s)
Balance at December 31, 2011	$
Acquisition of ZEVALIN Rights	2,525
Foreign exchange translation effects	(136)
	$ 2,389

6. Inventories

Inventories, net of allowances consisted of the following:

	June 30, 2012	December 31, 2011
	($ in 000s)	
Raw materials	$ 1,730	$ 1,213
Work-in-process	3,563	4,726
Finished goods	2,393	4,823
	$ 7,686	$ 10,762

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.

7. Accounts payable and accrued obligations

Accounts payable and other accrued obligations consisted of the following:

	June 30, 2012	December 31, 2011
	($ in 000s)	
Trade payables	$ 20,942	$ 9,805
Allowance for rebates	17,982	8,114
Accrued product royalty	8,223	11,003
Allowance for returns	3,500	4,000
Accrued data and distribution fees	8,900	5,866
Accrued GPO administrative fees	2,013	2,562
Inventory management fee	2,750	1,380
Accrued income taxes	3,974	1,409
Allowance for chargebacks	8,600	950
Other accrued obligations	12,726	9,682
	$ 89,610	$ 54,771

8. Income Taxes

On an interim basis, we estimate that the anticipated annual effective tax rate for the provision for income taxes will be 20.45% and have recorded a quarterly income tax provision in accordance with this anticipated annual rate. The annual effective rate is below the statutory rate principally as a result of tax benefits expected to be realized from the release of our valuation allowance against domestic deferred tax assets based upon projected current year earnings. 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. When we establish or reduce the valuation allowance against the deferred tax asset the provision for income taxes will increase or decrease, respectively, in the period such determination is made.

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Based on the weight of both positive and negative evidence, we concluded that it is more likely than not that our domestic net deferred tax assets will be realized, and therefore, during the quarter ended March 31, 2012 we began the process of releasing our domestic valuation allowance. Through June 30, 2012, we released approximately $24 million of our domestic valuation allowance as of January 1, 2012 as a discrete tax benefit. The remaining $22 million domestic valuation allowance as of January 1, 2012 will be released as a result of projected current year earnings and is a component in the calculation of our estimated 20.45% annual effective tax. We released approximately $22 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 through June 30, 2012. We maintain a valuation allowance against our foreign net deferred tax assets.

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.

9. 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. The lease agreement (and the sublease agreement each) 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 the second quarter of 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.

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 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.

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.

In October 2008, we signed an exclusive development and commercialization collaboration agreement with Allergan for apaziquone. Under the terms of the agreement, Allergan paid us an up-front non-refundable $41.5 million at closing and will make additional payments of up to $304 million based on the achievement of certain development, regulatory and commercialization milestones. In June 2011, we amended the agreement with Allergan to, among other things, revise the target indications of additional clinical trials, and extend certain milestone dates, and to modify certain payment obligations and expense allocation provisions. In November 2009, we entered into a collaboration agreement with Handok Pharmaceuticals of Korea for the development and commercialization of apaziquone for the treatment of non-muscle invasive bladder cancer in North and South Korea. Under the terms of the Handok collaboration agreement, Handok paid us an up-front payment of $1.0 million and is required to pay potential milestone payments of approximately $18.6 million. The potential milestones will be based on the achievement of certain regulatory and commercialization milestones.

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In March 2006, we entered into an Asset Purchase Agreement with Targent, Inc. 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 the three months ended June 30, 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.

In February 2010, we entered into a licensing and collaboration agreement with TopoTarget, for the development and