

SPECTRUM PHARMACEUTICALS INC

Form 10-Q

May 15, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2009**

**OR**

☐ **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 000-28782**

**SPECTRUM PHARMACEUTICALS, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**93-0979187**

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

**157 Technology Drive**

**Irvine, California**

(Address of Principal Executive Offices)

**92618**

(Zip Code)

**Registrant's Telephone Number, Including Area Code: (949) 788-6700**

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒  
(Do not check if a 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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date:

**Class**

**Outstanding at May 13, 2009**

Common Stock, \$.001 par value

32,995,887



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**SPECTRUM PHARMACEUTICALS, INC.**  
**FORM 10-Q**  
**For the Three-month period ended March 31, 2009**  
**(Unaudited)**  
**PART I FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**Statement Regarding Financial Information**

The unaudited condensed consolidated financial statements of Spectrum Pharmaceuticals, Inc. included herein have been prepared by management pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States has been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures are adequate to make the information presented not misleading.

We recommend that you read the unaudited condensed consolidated financial statements included herein in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the SEC on March 31, 2009.

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**SPECTRUM PHARMACEUTICALS, INC.**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

|                                                                            | <b>March 31,<br/>2009</b>                                  | <b>December 31,<br/>2008</b> |
|----------------------------------------------------------------------------|------------------------------------------------------------|------------------------------|
|                                                                            | <b>(In Thousands, Except Share and Per<br/>Share Data)</b> |                              |
| <b>Assets</b>                                                              |                                                            |                              |
| Current Assets:                                                            |                                                            |                              |
| Cash and cash equivalents                                                  |                                                            |                              |
| Unrestricted Cash                                                          | \$ 4,065                                                   | \$ 9,860                     |
| Restricted Cash (Note 2)                                                   | 10,000                                                     |                              |
| Total cash and cash equivalents                                            | 14,065                                                     | 9,860                        |
| Marketable securities                                                      | 49,833                                                     | 68,226                       |
| Accounts receivable-trade, net                                             | 6,306                                                      | 5,002                        |
| Inventory                                                                  | 1,894                                                      | 1,841                        |
| Prepaid expenses and other current assets                                  | 736                                                        | 693                          |
| Total current assets                                                       | 72,834                                                     | 85,622                       |
| Property and equipment, net                                                | 1,818                                                      | 1,782                        |
| ZEVALIN related intangible assets, net                                     | 36,092                                                     | 37,042                       |
| Other assets                                                               | 104                                                        | 289                          |
| Total assets                                                               | \$ 110,848                                                 | \$ 124,735                   |
| <b>Liabilities and Stockholders' Equity</b>                                |                                                            |                              |
| Current Liabilities:                                                       |                                                            |                              |
| Accounts payable and accrued obligations                                   | \$ 8,221                                                   | \$ 5,627                     |
| Accrued compensation                                                       | 1,921                                                      | 2,956                        |
| Note payable in connection with ZEVALIN Acquisition                        | 10,000                                                     | 7,500                        |
| Current portion of deferred revenue and other credits                      | 8,500                                                      | 8,500                        |
| Accrued drug development costs                                             | 4,798                                                      | 3,449                        |
| Total current liabilities                                                  | 33,440                                                     | 28,032                       |
| Capital lease obligations, net of current portion                          | 89                                                         | 95                           |
| Deferred revenue and other credits, net of current portion                 | 31,785                                                     | 33,929                       |
| ZEVALIN related contingent obligations                                     | 4,998                                                      | 8,798                        |
| Total liabilities                                                          | 70,312                                                     | 70,854                       |
| Commitments and contingencies (Note 5)                                     |                                                            |                              |
| Minority interest in consolidated entity                                   |                                                            | 14,262                       |
| Stockholders' Equity:                                                      |                                                            |                              |
| Preferred Stock, par value \$0.001 per share, 5,000,000 shares authorized: |                                                            |                              |

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Series B Junior participating preferred stock, 1,000,000 shares authorized,  
no shares issued and outstanding

Series E Convertible voting preferred stock, 2,000 shares authorized,  
stated value \$10,000 per share, \$0.8 million aggregate liquidation value;  
68 shares issued and outstanding at March 31, 2009 and December 31,  
2008

Common stock, par value \$0.001 per share, 100,000,000 shares

authorized; Issued and outstanding, 32,547,700 and 32,166,316 shares at  
March 31, 2009 and December 31, 2008

Additional paid-in capital

Accumulated other comprehensive loss

Accumulated deficit

Total stockholders' equity

Total liabilities and stockholders' equity

|            |            |
|------------|------------|
| 419        | 419        |
| 33         | 32         |
| 297,208    | 296,531    |
| (531)      | (146)      |
| (256,593)  | (257,217)  |
| 40,536     | 39,619     |
| \$ 110,848 | \$ 124,735 |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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**SPECTRUM PHARMACEUTICALS, INC.**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

|                                                        | <b>Three Months<br/>Ended<br/>March 31,<br/>2009</b>       | <b>Three Months<br/>Ended<br/>March 31, 2008</b> |
|--------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------|
|                                                        | <b>(In Thousands, Except Share and Per<br/>Share Data)</b> |                                                  |
| Revenues                                               |                                                            |                                                  |
| License and contract revenue                           | \$ 2,125                                                   | \$                                               |
| Product sales                                          | 12,038                                                     |                                                  |
| Total revenues                                         | \$ 14,163                                                  | \$                                               |
| Operating expenses:                                    |                                                            |                                                  |
| Cost of product sold                                   | \$ 1,834                                                   | \$                                               |
| Research and development                               | 5,654                                                      | 6,382                                            |
| Amortization of purchased intangibles                  | 950                                                        |                                                  |
| Selling, general and administrative                    | 6,351                                                      | 2,585                                            |
| Total operating expenses                               | 14,789                                                     | 8,967                                            |
| Loss from operations                                   | (626)                                                      | (8,967)                                          |
| Other income, net                                      | 104                                                        | 301                                              |
| Loss before minority interest in consolidated entities | (522)                                                      | (8,666)                                          |
| Minority interest in net loss of consolidated entities | 1,146                                                      |                                                  |
| <b>Net income (loss)</b>                               | <b>\$ 624</b>                                              | <b>\$ (8,666)</b>                                |
| Net income (loss) per share                            |                                                            |                                                  |
| <b>Basic</b>                                           | <b>\$ 0.02</b>                                             | <b>\$ (0.28)</b>                                 |
| <b>Diluted</b>                                         | <b>\$ 0.02</b>                                             | <b>\$ (0.28)</b>                                 |
| Weighted average common shares:                        |                                                            |                                                  |
| <b>Basic</b>                                           | <b>32,439,523</b>                                          | <b>31,271,281</b>                                |
| <b>Diluted</b>                                         | <b>32,644,425</b>                                          | <b>31,271,281</b>                                |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.



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**SPECTRUM PHARMACEUTICALS, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

|                                                                                      | <b>Three Months Ended</b>                              |                       |
|--------------------------------------------------------------------------------------|--------------------------------------------------------|-----------------------|
|                                                                                      | <b>March 31,</b>                                       | <b>March 31, 2008</b> |
|                                                                                      | <b>2009</b>                                            |                       |
|                                                                                      | <b>(In Thousands, Except Share and Per Share Data)</b> |                       |
| <b>Cash Flows From Operating Activities:</b>                                         |                                                        |                       |
| Net Income (loss)                                                                    | \$ 624                                                 | \$ (8,666)            |
| Adjustments to reconcile net loss to net cash from / (used in) operating activities: |                                                        |                       |
| Amortization of deferred revenue                                                     | (2,125)                                                |                       |
| Depreciation and amortization                                                        | 136                                                    | 87                    |
| Share-based compensation expense                                                     | 968                                                    | 1,731                 |
| Fair value of common stock issued in connection with drug license                    | 185                                                    | 305                   |
| Minority interest in consolidated entities                                           | (1,146)                                                |                       |
| Changes in operating assets and liabilities:                                         |                                                        |                       |
| Accounts Receivable                                                                  | (1,304)                                                | 107                   |
| Inventory                                                                            | (53)                                                   | (562)                 |
| Prepaid expenses and other assets                                                    | 148                                                    | 188                   |
| Accounts payable and accrued obligations                                             | 3,942                                                  | (170)                 |
| Accrued compensation and related taxes                                               | (1,035)                                                | (107)                 |
| Deferred revenue and other credits                                                   | (25)                                                   | (30)                  |
| Net cash provided by (used in) operating activities                                  | 315                                                    | (7,117)               |
| <b>Cash Flows From Investing Activities:</b>                                         |                                                        |                       |
| Net sales of marketable securities                                                   | 18,112                                                 | 10,151                |
| Investment in ZEVALIN acquisition                                                    | (14,050)                                               |                       |
| Restricted Cash in escrow for ZEVALIN acquisition                                    | (10,000)                                               |                       |
| Purchases of property and equipment                                                  | (172)                                                  | (138)                 |
| Net cash provided by (used in) investing activities                                  | (6,110)                                                | 10,013                |
| <b>Cash Flows From Financing Activities:</b>                                         |                                                        |                       |
| Net cash provided by financing activities                                            |                                                        |                       |
| Net increase (decrease) in cash and cash equivalents                                 | (5,795)                                                | 2,896                 |
| Cash and cash equivalents, beginning of period                                       | 9,860                                                  | 1,141                 |
| Cash and cash equivalents, end of period                                             | \$ 4,065                                               | \$ 4,037              |
| <b>Supplemental Cash Flow Information:</b>                                           |                                                        |                       |
| Interest paid                                                                        | \$ 7                                                   |                       |
| Income taxes paid                                                                    | \$ 45                                                  |                       |

**Schedule of Non-Cash Investing and Financing Activities:**

|                                                                   |    |     |     |
|-------------------------------------------------------------------|----|-----|-----|
| Fair value of common stock issued in connection with drug license | \$ | 185 | 305 |
| Fair value of restricted stock granted employees and directors    | \$ | 182 | 223 |
| Fair value of stock issued to match employee 401k contributions   | \$ | 108 | 61  |
| Preferred stock dividends paid with common stock                  | \$ |     |     |
| Fair value of equity awarded to consultants and placement agents  | \$ | 111 | 72  |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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**SPECTRUM PHARMACEUTICALS, INC.**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2009**  
**(Unaudited)**

**1. Business and Basis of Presentation**

***Business***

Spectrum Pharmaceuticals, Inc. (the Company, we, Spectrum, our, or us) is a commercial stage biopharmaceutical company committed to developing and commercializing innovative therapies with a focus primarily in the areas of hematology-oncology and urology. We have a fully developed commercial infrastructure that is responsible for the sales and marketing of two drugs in the United States, FUSILEV and ZEVALIN. Our lead developmental drug is Apaziquone, which is presently being studied in two large Phase 3 clinical trials for non-muscle invasive bladder cancer under a strategic collaboration with Allergan Inc. (Allergan).

The following is a brief update of our most advanced products as of March 31, 2009:

**FUSILEV** (levoleucovorin) for injection (FUSILEV): We commercially launched FUSILEV in August 2008 and recorded net revenues of \$9.4 million from FUSILEV sales for the three months ended March 31, 2009.

A Prescription Drug User Fee Act (PDUFA) target date of October 2009 has been established by the FDA for a decision regarding the approval for our October 2008 supplemental New Drug Application (sNDA) filing for advanced metastatic colorectal cancer, which is currently under review by the FDA.

**ZEVALIN**<sup>®</sup> ([90Y]-ibritumomab tiuxetan) (ZEVALIN): In December 2008, we partnered with Cell Therapeutics, Inc. (CTI) to form a 50-50 owned joint venture, RIT Oncology, LLC (RIT) to commercialize and develop ZEVALIN in the United States. In March 2009, we acquired the remaining 50% ownership of RIT, resulting in RIT becoming our wholly-owned subsidiary, for \$16.5 million. For the three months ended March 31, 2009, we recorded net revenues of \$2.6 million from ZEVALIN sales.

In December 2008, the FDA accepted for filing and review, and granted priority review status for RIT's supplemental Biologics License Application (sBLA) for the use of ZEVALIN as first-line therapy for patients with B-cell follicular non-Hodgkin's lymphoma or NHL. A PDUFA target date of July 2, 2009 was established by the FDA for a decision regarding this sBLA which, if approved, will allow for the label to address a substantially larger patient population.

**Apaziquone**: Pursuant to our October 2008 strategic collaboration agreement with Allergan to co-develop and co-market Apaziquone for bladder cancer, we continue to conduct the two Apaziquone clinical trials pursuant to a joint development plan, with Allergan bearing 65% of these expenses, commencing January 1, 2009. During the three months ended March 31, 2009, Allergan reimbursed us approximately \$2.7 million of research and development costs. In addition, during the three months ended March 31, 2009, we recorded \$2.1 million licensing revenue from the amortization of the up front \$41.5 million fee received from Allergan in October 2008.

We continue to recruit sites and enroll patients in these two studies and our goal is to complete enrollment for both Phase 3 clinical trials by year-end 2009.

For a more detailed description of these and our other drugs in development, refer to our Annual Report on Form 10-K for the year ended December 31, 2008.

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**SPECTRUM PHARMACEUTICALS, INC.**

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements are prepared on a consistent basis in accordance with accounting principles generally accepted in the United States ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and consolidation and elimination entries) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

**2. Summary of Significant Accounting Policies and Estimates**

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiaries. As of March 31, 2009, we had three consolidated subsidiaries: RIT, a 100% owned effective March 15, 2009, organized in Delaware in 2008; OncoRx Pharma Private Limited ( OncoRx ), a 100% owned, organized in Mumbai, India in 2008 and Spectrum Pharmaceuticals GmbH, a wholly-owned inactive subsidiary, incorporated in Switzerland in April 1997; and one consolidated joint venture: Spectrum Pharma Canada, organized in Quebec, Canada in January 2008. We have eliminated all significant intercompany accounts and transactions.

***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. Our most significant assumptions are employed in estimates used in determining values of financial instruments and accrued obligations, as well as in estimates used in applying the revenue recognition policy and estimating share-based compensation. 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.

***Cash, Cash Equivalents and Marketable Securities***

Cash, cash equivalents and marketable securities primarily consist of bank checking deposits, short-term treasury securities, institutional money market funds, corporate debt and equity, municipal obligations, government agency notes, and certificates of deposit. We classify highly liquid short-term investments, with insignificant interest rate risk and maturities of 90 days or less at the time of acquisition, as cash and cash equivalents. Other investments, which do not meet the above definition of cash equivalents, are classified as either held-to-maturity or available-for-sale marketable securities, in accordance with the provisions of FASB Statement ( SFAS ) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* . Investments that lack immediate liquidity, or which we intend to hold for more than one year are classified as long-term investments, and included in other assets. As of March 31, 2009, \$10 million of our cash funds were held in an escrow account in connection with the March 2009 acquisition of the remaining 50% rights in RIT.

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We have adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, or FAS 157, and utilize the market approach to measure fair value of our financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

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

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 considers counterparty credit risk in its assessment of fair value.

The carrying values of our cash, cash equivalents, marketable securities, and funds held in escrow carried at fair value as of March 31, 2009, are classified in the table below in one of the three categories described above:

|                                 | Fair Value Measurements at March 31, 2009 |         |         |           |
|---------------------------------|-------------------------------------------|---------|---------|-----------|
|                                 | Level 1                                   | Level 2 | Level 3 | Total     |
| Cash & equivalents              | \$ 4,065                                  | \$      | \$      | \$ 4,065  |
| U.S. Treasury T-Bills           | 6,052                                     |         |         | 6,052     |
| Money Market Currency Funds     | 6,530                                     |         |         | 6,530     |
| FDIC insured bank CDs           | 12,207                                    |         |         | 12,207    |
| Medium term Corporate Notes     | 2,252                                     |         |         | 2,252     |
| U.S. Treasury Backed Securities | 22,792                                    |         |         | 22,792    |
| Funds held in escrow            | 10,000                                    |         |         | 10,000    |
| Other Securities                | 40                                        |         |         | 40        |
|                                 | \$ 63,938                                 | \$      | \$      | \$ 63,938 |

As described elsewhere funds held in escrow are related to the \$16.5 million acquisition of the 50% rights in RIT.

As of March 31, 2009, substantially all of our cash, cash equivalents and marketable securities were held at major financial institutions, who are required to invest our funds in accordance with our investment policy with the principal objectives 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. To a limited degree, these investments are insured by the Federal Deposit Insurance Corporation and by third party insurance. 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 as have existed since late 2007. We manage such risks on our portfolio by matching scheduled investment maturities with our cash requirements and investing in highly rated instruments.

***Certain Risks and Concentrations***

Our cash and marketable security investments are subject to concentration of credit risk. We manage such risk by diversification of the investment portfolio and by the purchase of investment-grade securities.

Our product sales are concentrated in a limited number of customers. For the three months ended March 31, 2009, approximately 32% of our product sales were derived from Group Purchasing Organizations ( GPOs ) of oncology products, and approximately 68% from distributors. We do not require collateral or other security to support credit sales, but provide an allowance for bad debts when warranted.

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We are dependent on single source suppliers for raw materials, and the manufacturing of finished product of FUSILEV and ZEVALIN. A disruption in supply could materially affect our sales. Similarly, we have single source suppliers the manufacturing of our development drug product candidates. If we are unable to obtain sufficient quantities of such product, our research and development activities may be adversely affected.

***Inventory***

Inventory is stated at the lower of cost (first-in, first-out method) or market. The lower of cost or market is determined based on net estimated realizable value after appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors.

***Patents and Licenses***

We own or license all the intellectual property that forms the basis of our business model. We expense all licensing and patent application costs as they are incurred.

***Purchase price allocation***

In December 2008, we partnered with CTI to form a 50/50 owned joint venture, RIT, to commercialize and develop ZEVALIN in the U.S. In March 2009, CTI sold to us their remaining 50% ownership in RIT, resulting in RIT becoming a wholly-owned subsidiary. The assets contributed by CTI to RIT were all of its interests in the ZEVALIN business.

Based on the provisions of SFAS No. 141, Business Combinations, 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, as determined by an independent third-party valuation firm. 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. However, these assumptions may be inaccurate, and unanticipated events and circumstances may occur. We recorded intangible assets in connection with the acquisition of ZEVALIN and related amortization as follows:

|                                              | <b>March 31, 2009</b>                |                                     |                                |
|----------------------------------------------|--------------------------------------|-------------------------------------|--------------------------------|
|                                              | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net Carrying<br/>Amount</b> |
| Developed technology                         | \$ 23,100                            | \$ (660)                            | \$ 22,440                      |
| Core technology                              | 14,100                               | (447)                               | 13,653                         |
| Acquired in-process research and development | 4,700                                | (4,700)                             |                                |
| Total intangible assets                      | \$ 41,900                            | \$ (5,807)                          | \$ 36,093                      |

Identifiable intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives. The developed and core technology assets will be amortized over 10 years, or approximately \$3.7 million annually through 2018. Included in the intangible assets was an amount of \$4.7 million of in process research and development ( IP&D ) for a medical indication still awaiting approval by the FDA. Such amount was completely written off during the year ended December 31, 2008.

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**SPECTRUM PHARMACEUTICALS, INC.**

***Industry Segment and Geographic Information***

We operate in one business segment, that of acquiring, developing and commercializing prescription drug products. Accordingly, the accompanying financial statements are reported in the aggregate, including all our activities in one segment. Our foreign operations were not significant for any of the years presented herein.

***Revenue Recognition***

We follow the provisions as set forth by current accounting rules, which primarily include Staff Accounting Bulletin ( SAB ) 104, Revenue Recognition, and Emerging Issues Task Force ( EITF ) No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. Generally, revenue is recognized when evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collectability is reasonably assured.

Up-front fees representing non-refundable payments received upon the execution of licensing or other agreements are recognized as revenue upon execution of the agreements where we have no significant future performance obligations and collectability of the fees is reasonably assured. Milestone payments, which are generally based on developmental or regulatory events, are recognized as revenue when the milestones are achieved, collectability is reasonably assured, and we have no significant future performance obligations in connection with the milestone. In those instances where we have collected fees or milestone payments but have significant future performance obligations related to the development of the drug product, we record deferred revenue and recognize it over the period of our future obligations. Pursuant to this policy, as of December 31, 2008, we had recorded all of the \$41.5 million upfront fee we received from Allergan for the October 2008 codevelopment agreement as deferred revenue. We expect that we shall amortize such deferred revenue to income over the anticipated period of Apaziquone s development for bladder cancer. Accordingly, for the three months ended March 31, 2009, we amortized \$2.1 million to licensing revenue, and as of March 31, 2009, classified \$8.5 million of unamortized deferred revenue as current portion of deferred revenue.

Revenue from sales of product is recognized upon shipment of product when title and risk of loss have transferred to the customer, and provisions for estimates, including promotional adjustments, price adjustments, returns, and other potential adjustments are reasonably determinable. Such revenue is recorded, net of such estimated provisions, at the minimum amount of the customer s obligation to us. 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.

***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 collaboration research and development and include activities such as product registries and investigator-sponsored trials. In accordance with Statement of Financial Accounting Standards, or SFAS, No. 2, *Accounting for Research and Development Costs*, 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. In accordance with EITF 07-3, *Accounting for Nonrefundable Advance Payment for Goods or Services to be Used in Future Research and Development Activities*, 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. In connection with the October 2008 codevelopment agreement, Allergan bears 65% of the development costs incurred for Apaziquone in bladder cancer, commencing January 1, 2009. During the three months ended March 31, 2009, approximately \$2.7 million of development costs were reimbursed by Allergan, and credited against total related research and development expense.



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We review and accrue drug development expenses based on factors such as estimates of work performed, patient enrollment, completion of patient studies and other events. Accrued clinical study costs are subject to revisions as trials progress to completion. Revisions are recorded in the period in which the facts that give rise to the revision become known.

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

In accordance with FASB Statement No. 128, *Earnings Per Share*, we calculate basic net income (loss) per share by using the weighted average number of common shares outstanding during the periods presented. Diluted net income (loss) per share is calculated by using the weighted average number of common shares outstanding during the periods presented, increased to include all additional dilutive common shares issuable pursuant to outstanding common stock equivalents, determined using the treasury-stock method.

Potentially dilutive common stock equivalents include the common stock issuable upon the conversion of preferred stock and the exercise of warrants and stock options. These are included in the calculation of diluted net income (loss) per share only when their effect is dilutive. We incurred a net loss in each period presented, and as such, did not include the effect of potentially dilutive common stock equivalents in the diluted net loss per share calculation, as their effect would be anti-dilutive for all periods. Dilutive common stock equivalents would include the common stock issuable upon the conversion of preferred stock and the exercise of warrants and stock options that have conversion or exercise prices below the market value of our common stock at the measurement date.

The following table presents the data used in the calculations of basic and diluted net income (loss) per share for the three-month period ended March 31, 2009 and 2008.

|                                                   | <b>Three-Months<br/>Ended<br/>March 31, 2009</b> | <b>Three-Months<br/>Ended<br/>March 31, 2008</b> |
|---------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| Net income (loss)                                 | \$ 624                                           | \$ (8,666)                                       |
| Less:                                             |                                                  |                                                  |
| Preferred dividends paid in cash or stock         |                                                  |                                                  |
| Income (loss) attributable to common stockholders | \$ 624                                           | \$ (8,666)                                       |
| <b>Weighted average shares:</b>                   |                                                  |                                                  |
| <b>Basic</b>                                      | 32,439,523                                       | 31,271,281                                       |
| <b>Dilutive preferred shares</b>                  | 136,000                                          |                                                  |
| <b>Dilutive options</b>                           | 68,902                                           |                                                  |
| <b>Diluted</b>                                    | 32,644,425                                       | 31,271,281                                       |
| <b>Net income (loss) per share:</b>               |                                                  |                                                  |
| <b>Basic</b>                                      | \$ 0.02                                          | \$ (0.28)                                        |
| <b>Diluted</b>                                    | \$ 0.02                                          | \$ (0.28)                                        |

***Accounting for Employee Share-Based Compensation***

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment*. We measure compensation cost for all share-based awards at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest. As permitted under SFAS

No. 123(R), we have elected to recognize compensation cost for all options with graded vesting on a straight-line basis over the vesting period of the entire option.

In estimating the fair value of share-based compensation, we use the closing market price of our common stock for stock awards, and the Black-Scholes Option Pricing Model for stock options and warrants. We estimate future volatility based on past volatility of our common stock, and we estimate the expected length of options based on several criteria, including the vesting period of the grant and the expected volatility.

We recorded share-based compensation expense during the three-month period ended March 31, 2009 and 2008, as follows:

|                                  | <b>Three months ended</b> |                       |
|----------------------------------|---------------------------|-----------------------|
|                                  | <b>March 31,</b>          | <b>March 31, 2008</b> |
|                                  | <b>2009</b>               |                       |
| Research and development         | \$ 480                    | \$ 1,108              |
| General and administrative       | 488                       | 623                   |
| <b>Total share based charges</b> | <b>\$ 968</b>             | <b>\$ 1,731</b>       |

### ***Income Taxes***

We recorded no tax provision for the three-month ended March 31, 2009, based on an anticipated operating loss for the full calendar year.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has determined that the deferred tax asset does not meet the more likely than not criteria under SFAS No. 109,

*Accounting for Income Taxes*, and, accordingly, a valuation allowance has been recorded to reduce the net deferred tax asset to zero.

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***Comprehensive Income***

Comprehensive income is calculated in accordance with SFAS No. 130, *Reporting Comprehensive Income*. SFAS No. 130 requires the disclosure of all components of comprehensive income, including net income and changes in equity during a period from transactions and other events and circumstances generated from non-owner sources. The Company's accumulated other comprehensive income at March 31, 2009 consisted primarily of net unrealized gains on investments in marketable securities as of that date.

***Recent Accounting Pronouncements***

Effective January 2008, we adopted the provisions of EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*, or Issue 07-3, which addresses the accounting for nonrefundable advance payments. The EITF concluded that nonrefundable advance payments for goods or services to be received in the future for use in research and development activities should be deferred and capitalized. The capitalized amounts should be expensed as the related goods are delivered or the services are performed. If an entity's expectations change such that it does not expect it will need the goods to be delivered or the services to be rendered, capitalized nonrefundable advance payments should be charged to expense. The adoption of Issue No. 07-3 did not have a material impact on our results of operations or financial position.

In December 2007, FASB ratified the final consensus in Emerging Issues Task Force, or EITF, Issue No. 07-1, *Accounting for Collaborative Arrangements*, or Issue 07-1, which requires certain income statement presentation of transactions with third parties and of payments between parties to the collaborative arrangement, along with disclosure about the nature and purpose of the arrangement. Issue 07-1 is effective for us beginning January 1, 2009. The adoption of this accounting pronouncement did not have a significant impact on our financial statements.

In December 2007, FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)), which replaces SFAS No. 141, *Business Combinations*. SFAS No. 141(R), requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This Statement also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values. SFAS No. 141(R) makes various other amendments to authoritative literature intended to provide additional guidance or to confirm the guidance in that literature to that provided in this Statement. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this accounting pronouncement did not have a significant impact on our financial statements.

In March 2008, FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of: (i) How and why an entity uses derivative instruments; (ii) How derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (iii) How derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged.

In May 2008, FASB issued SFAS No. 162 *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162), which is effective 90 days following the SEC's approval of the Public Company Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). The adoption of this accounting pronouncement did not have a significant impact on our financial statements.



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In June 2008, FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP EITF 03-6-1 ). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in computing earnings per share under the two-class method described in SFAS No. 128, *Earnings Per Share*. FSP EITF 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. FSP EITF 03-6-1 will be effective for the Company's fiscal year beginning March 1, 2009, with early adoption prohibited. We are evaluating the effect the implementation of FSP EITF 03-6-1 will have, if any, on basic net earnings per share.

In December 2008, the FASB issued FASB Staff Position (FSP) No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1). FSP FAS 132(R)-1 amends FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 requires an employer to disclose information on the investment policies and strategies as well as on the significant concentrations of risk in plan assets. An employer must also disclose the fair value of each major category of plan assets as of each annual reporting date together with the information on the inputs and valuation techniques used to develop such fair value measurements. FSP FAS 132(R)-1 will be effective for the Company's financial statements as of December 31, 2009 and is not expected to have any impact on the Company's financial position or results of operations.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP requires the fair value disclosures required by FAS 107 regarding the fair value of financial instruments to be included in interim financial statements. This FSP is effective for interim periods ending after June 15, 2009, and requires additional disclosure from that required currently.

***Reclassification of Accounts***

Certain reclassifications have been made to prior-year comparative financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or financial position.

**3. Accounts Receivable**

Accounts receivable, at March 31, 2009 and December 31, 2008, were comprised as follows:

|                                                   | <b>March 31,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---------------------------------------------------|---------------------------|------------------------------|
|                                                   | (\$ in 000 s)             |                              |
| Accounts receivable gross                         | \$ 10,799                 | \$ 9,926                     |
| Allowances for discounts, chargebacks and returns | (4,343)                   | (4,774)                      |
| Allowances for doubtful accounts                  | (150)                     | (150)                        |
| Accounts Receivable, net of allowances            | \$ 6,306                  | \$ 5,002                     |

As of December 31, 2008, due to limited experience with sales returns, we had deferred the recognition of \$3.1 million revenue for product returns, until we had additional sales return data. Based on the experience gained to date, we believe that as of March 31, 2009, a product returns reserve of approximately \$1.9 million is more than adequate. We continually monitor the returns activity and will appropriately adjust such return reserve, as necessary.

**4. Inventories**

Inventories at March 31, 2009 and December 31, 2008, were comprised as follows:

| <b>March 31,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---------------------------|------------------------------|
| (\$ in 000 s)             |                              |

|                                        |    |              |    |              |
|----------------------------------------|----|--------------|----|--------------|
| Finished Goods                         | \$ | 1,345        | \$ | 1,492        |
| Work In Process                        |    | 145          |    | 312          |
| Raw Materials                          |    | 429          |    | 68           |
| Less: reserve for inventory allowances |    | (25)         |    | (31)         |
|                                        | \$ | <b>1,894</b> | \$ | <b>1,841</b> |

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We continually review product inventories on hand. Inventory levels are evaluated relative to product demand, remaining shelf life, future marketing plans and other factors, and reserves for obsolete and slow-moving inventories are recorded for amounts which may not be realizable.

**5. Commitments and Contingencies*****Facility and Equipment Leases***

As of March 31, 2009, we were obligated under a facility lease and various operating and capital equipment leases. The facility lease will expire on June 30, 2009. While we have a 5-year renewal option, we are evaluating whether to renew the lease for an additional 5 years term or consider securing an alternate facility. In the event we decide to secure an alternate facility, we do not expect the relocation to adversely affect our operations.

Minimum lease requirements for each of the next five years and thereafter, under the property and equipment operating leases, are as follows:

|                          | <b>Operating<br/>Lease<br/>Commitments<br/>Amounts In Thousands</b> | <b>Capital Lease<br/>Commitments</b> |
|--------------------------|---------------------------------------------------------------------|--------------------------------------|
| <b>March 31, 2009</b>    |                                                                     |                                      |
| 2009 (Remainder of year) | \$ 120                                                              | \$ 38                                |
| 2010                     | 2                                                                   | 51                                   |
| 2011                     |                                                                     | 50                                   |
| 2012                     |                                                                     | 46                                   |
| 2013                     |                                                                     |                                      |
| Thereafter               |                                                                     |                                      |
|                          | \$ 122                                                              | \$ 185                               |

***Licensing Agreements***

Almost all of our drug candidates are being developed pursuant to license agreements that provide us with rights in certain territories to, among other things, develop, sublicense, manufacture and sell the drugs. We are generally required to use commercially reasonable efforts to develop the drugs, are generally responsible for all development, patent filing and maintenance costs, sales, 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 our licensing agreements are generally tied to progress through the FDA approval process, which approval significantly depends on positive clinical trial results. The following items are typical of 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.

Given the uncertainty of the drug development process, we are unable to predict with any certainty when any of the milestones will occur, if at all. Accordingly, the milestone payments represent contingent obligations that will be recorded as expense when the milestone is achieved. While it is difficult to predict when milestones will be achieved, we estimate that if all of our contingent milestones were successfully achieved within our anticipated timelines, our potential contingent cash development and regulatory milestone obligations, aggregating approximately \$84.2 million as of March 31, 2009, would be due approximately as follows: \$14.0 million within 12 months; \$4.5 million in 2 to 3 years; \$7.0 million in 4 to 5 years; and \$58.7 million after 5 years. In the event these milestones are achieved, we believe it is likely that the increase in the potential value of the related drug product will significantly exceed the amount of the milestone obligation.



**Table of Contents****SPECTRUM PHARMACEUTICALS, INC.*****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 clinical trial centers, clinical research organizations, data monitoring centers, and with drug formulation, development and testing laboratories. The financial terms of these contracts are varied and generally obligate us to pay in stages, depending on the occurrence of certain events specified in the contracts, 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. As of March 31, 2009, we were committed under such contracts for up to approximately \$17.0 million, for future goods and services, including approximately \$12.0 million due within one year. 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 get 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.

***Employment Agreement***

We have entered into an employment agreement with Dr. Shrotriya, our President and Chief Executive Officer, which expires January 2, 2011. The employment agreement automatically renews for a one-year calendar term 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 the business and affairs of the Company 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 the Board of Directors.

**6. Stockholders' Equity*****Common Stock***

In March 2009, we issued to Targent, LLC, 125,000 shares of the Company's common stock for payment of a milestone pursuant to the asset purchase agreement with Targent in connection with for the acceptance of the sNDA by the FDA for FUSILEV in combination with 5-FU to prolong survival in the palliative treatment of patients with advanced colorectal cancer by the FDA. The fair value of the stock, \$185,000, was recorded as a stock-based research and development charge for the three-month period ended March 31, 2009.

***Common Stock Reserved for Future Issuance***

As of March 31, 2009, approximately 13.4 million shares of common stock were issuable upon conversion or exercise of rights granted under prior financing arrangements and stock options and warrants, as follows:

|                                         |           |
|-----------------------------------------|-----------|
| Conversion of Series E preferred shares | 136,000   |
| Exercise of stock options               | 7,823,122 |
| Exercise of warrants                    | 5,444,555 |

|                                                                   |                   |
|-------------------------------------------------------------------|-------------------|
| <b>Total shares of common stock reserved for future issuances</b> | <b>13,403,677</b> |
|-------------------------------------------------------------------|-------------------|

Subsequent to March 31, 2009, 2,165,372 employee stock options were purchased and retired pursuant to a tender offer to all eligible employees. Also, subsequent to March 31, 2009, warrants to acquire 1,252,000 shares of our common stock expired unexercised. As a result of the foregoing, the total number of shares of common stock reserved for issuance was reduced to approximately 10.0 million shares.



Table of Contents**SPECTRUM PHARMACEUTICALS, INC.*****Share-Based Compensation***

As of March 31, 2009, approximately 484,000 incentive award shares were available for grant under our share-based incentive award plan. Share-based awards generally vest over periods of up to four years and have a ten-year life.

Presented below is a summary of activity, for our entire share-based incentive award plans, during the three-month period ended March 31, 2009:

**Stock Options:**

During the three-month ended March 31, 2009, the Compensation Committee 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 nine-month period ended March 31, 2009 was estimated at approximately \$0.86, using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility (based on the historical volatility of our common stock) of 68.4%; risk free interest rate of 1.6%; and an expected life of 5 years.

|                                                      | <b>Common<br/>Stock<br/>Options</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Term<br/>(In Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>(In<br/>Thousands)</b> |
|------------------------------------------------------|-------------------------------------|----------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------|
| <b>Outstanding at beginning of year</b>              | \$ 7,115,772                        | \$ 4.80                                            |                                                                   |                                                                 |
| Granted                                              | 765,850                             | 1.50                                               |                                                                   |                                                                 |
| Expired                                              | (20,625)                            | 4.38                                               |                                                                   |                                                                 |
| Forfeited                                            | (37,875)                            | 2.94                                               |                                                                   |                                                                 |
| <b>Outstanding, at the end of period</b>             | 7,823,122                           | \$ 4.48                                            | 6.37                                                              | \$ 230                                                          |
| <b>Vested and expected to vest, at end of period</b> | 7,442,167                           | \$ 4.54                                            | 6.31                                                              | \$ 206                                                          |
| <b>Exercisable, at the end of period</b>             | 5,582,210                           | \$ 4.96                                            | 5.95                                                              | \$ 92                                                           |

The aggregate intrinsic value in the table above represents the total difference between the Company's closing common stock price of \$1.41 on March 31, 2009 and the exercise price, multiplied by the number of all in-the-money options, that would have been received by the option holders had all option holders exercised their options on March 31, 2009. This amount changes based on the fair market value of the Company's common stock.

During the three-month period ended March 31, 2009, the share-based charge in connection with the expensing of stock options was approximately \$0.6 million. As of March 31, 2009, there was approximately \$3.4 million of unrecognized stock-based compensation cost related to stock options which is expected to be recognized over a weighted average period of 1.8 years.

**Table of Contents****SPECTRUM PHARMACEUTICALS, INC.****Restricted Stock:**

|                                         | <b>Restricted<br/>Stock<br/>Awards</b> | <b>Weighted<br/>Average<br/>Grant date<br/>Fair Value</b> |
|-----------------------------------------|----------------------------------------|-----------------------------------------------------------|
| <b>Nonvested at beginning of period</b> | 377,500                                | \$ 3.04                                                   |
| Granted                                 | 200,000                                | 1.47                                                      |
| Vested                                  | (155,000)                              | 2.35                                                      |
| Forfeited                               |                                        |                                                           |
| <b>Nonvested at the end of period</b>   | 422,500                                | \$ 2.55                                                   |

The fair value of restricted stock awards is the grant date closing market price of our 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-month period ended March 31, 2009, the share-based charge in connection with the expensing of restricted stock awards was approximately \$0.3 million. As of March 31, 2009, there was approximately \$0.8 million of unrecognized share-based compensation cost related to nonvested restricted stock awards, which is expected to be recognized over a weighted average period of 1.7 years.

**401(k) Plan Matching Contribution:**

During the three-month period ended March 31, 2009, we issued 70,003 shares of common stock as the Company's match of approximately \$107,700 on the 401(k) contributions of our employees.

**7. Subsequent Events****Tender Offer:**

Due to our rapid growth over the past few years and a low personnel turnover rate combined with our success in financing our operations without having to issue additional equity, we have a limited number of shares available for future grant under the 2003 Amended and Restated Incentive Award Plan (the "2003 Plan"). Primarily in order to increase the pool of shares available for future grant under such plan, which grants will allow us to provide incentives to our employees that align their interest with that of our stockholders, we conducted a tender offer to eligible employees to acquire options granted to certain employees of the company pursuant to the Third Amended and Restated 1997 Stock Incentive Plan and 2003 Plan, outstanding at March 23, 2009. In addition, we wished to provide our employees the opportunity to benefit from their significant contributions to our business despite the loss of our stock's value, and to provide an additional incentive to remain with us. Eligible employees were employees of Spectrum or its subsidiaries who held options with exercise prices in excess of \$5.00. The cash amount offered to those employees was \$0.01 for options with an exercise price over \$10.00 and \$1.15 for the options with an exercise price between \$5.00 and \$9.99.

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**SPECTRUM PHARMACEUTICALS, INC.**

On April 23, 2009, a total of 36 eligible employees participated in the tender offer. Pursuant to the offer, we accepted all options tendered by eligible employees. 2,165,372 shares underlying eligible options were tendered by eligible employees and were accepted by us, representing 73% of the shares underlying eligible options that were eligible to be tendered in the offer. We made a cash payment in the aggregate of approximately \$2.4 million to the eligible employees participating in the offer. Options accepted for tender in the offer originally issued under the 2003 Plan will be made available for future issuance under the 2003 Plan.

**CTI Arbitration**

In December 2008, we partnered with Cell Therapeutics, Inc. (CTI) to form a 50-50 owned joint venture, RIT, to commercialize and develop ZEVALIN ([90Y]-ibritumomab tiuxetan) in the United States. In March 2009, CTI sold to us their remaining 50% ownership in RIT, resulting in RIT becoming our wholly-owned subsidiary. We acquired CTI's 50% ownership right in RIT at a cost of \$16.5 million.

Under the terms of our agreement with CTI, we agreed to pay CTI \$16.5 million in 3 installments. We paid the first installment of \$6.5 million in March 2009. The balance of \$10 million was placed into an escrow account, and the obligation of \$10 million was reflected on the balance sheet as of March 31, 2009. The escrow automatically released the second payment of \$6.5 million on April 3<sup>rd</sup>, 2009. The third payment of \$3.5 million due on April 15<sup>th</sup>, 2009 and was to be released automatically, unless any specific amount out of the \$3.5 million was disputed by us in writing to the escrow agents and CTI. Any disputed amount was subject to arbitration, which would be binding on both parties.

On April 10, 2009, we disputed the entire \$3.5 million, on the grounds that CTI's unpaid liabilities pertaining to ZEVALIN, and CTI's share of joint venture expenses equaled or exceeded the escrowed funds. This matter is now in Arbitration.

We believe that we will prevail in our arguments during the arbitration; however we cannot predict the outcome of the final arbitration proceedings at this time. CTI may or may not receive all or some of the \$3.5 million payment, depending on the final outcome of the arbitration.

**Stock Offering**

On May 6, 2009, we sold, off our shelf registration statement on Form S-3 (No. 333-150260), an aggregate of 432,200 shares of common stock to certain of our employees at a purchase price of \$2.70 per share, which was the closing price of the Company's common stock on May 6, 2009 (the Offering). The offering resulted in gross proceeds to the Company of approximately \$1.2 million. The investors included Dr. Rajesh Shrotriya, M.D., our Chairman, President and Chief Executive Officer, and Shyam Kumaria, our Vice President of Finance. Dr. Shrotriya purchased 290,000 shares of common stock and Mr. Kumaria purchased 85,000 shares of common stock. We decided to conduct the Offering to certain of our employees to allow such employees to invest their personal cash directly into the Company at the current fair market value of our stock. The purchase agreements include provisions prohibiting the investors from disposing of the shares of common stock purchased in the Offering for ninety days. The Offering was approved by the Placement Committee of the Board of Directors. In addition, the Audit Committee of the Board of Directors approved the Offering pursuant to our Related Party Transaction Policies and Procedures.

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**SPECTRUM PHARMACEUTICALS, INC.**

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, statements regarding our future product development activities and costs, the revenue potential (licensing, royalty and sales) of our product candidates, the the success, safety and efficacy of our drug products, product approvals, product sales, revenues, development timelines, product acquisitions, liquidity and capital resources and trends, and other statements containing forward-looking words, such as, believes, may, could, will, expects, intends, estimates, anticipates, plans, seeks, or continues. Such forward-looking statements are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. Readers should not put undue reliance on these forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified; therefore, our actual results may differ materially from those described in any forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in our periodic reports filed with the Securities and Exchange Commission including our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and this Quarterly Report on Form 10-Q for the period ended March 31, 2009. These factors include, but are not limited to:

our ability to successfully develop, obtain regulatory approvals for and market our products;

our ability to generate and maintain sufficient cash resources to fund our business;

our ability to enter into strategic alliances with partners for manufacturing, development and commercialization;

efforts of our development partners;

the ability of our manufacturing partners to meet our timelines;

our ability to identify new product candidates;

the timing and/or results of pending or future clinical trials;

competition in the marketplace for our drugs;

actions by the FDA and other regulatory agencies; and

demand and market acceptance for our approved products;

We do not plan to update any such forward-looking statements and expressly disclaim any duty to update the information contained in this report except as required by law.

You should read the following discussion of the financial condition and results of our operations in conjunction with the condensed consolidated financial statements and the notes to those financial statements included in Item I of Part I of this report.

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### **SPECTRUM PHARMACEUTICALS, INC.**

#### **Business Outlook**

We are a commercial stage biopharmaceutical company committed to developing and commercializing innovative therapies with a focus primarily in the areas of hematology-oncology and urology. We have a fully developed commercial infrastructure that is responsible for the sales and marketing of two drugs in the United States, namely Fusilev and Zevalin. Our lead developmental drug is apaziquone, which is presently being studied in two large Phase 3 clinical trials for bladder cancer under a strategic collaboration with Allergan Inc.

**FUSILEV** (levoleucovorin) for injection ( **FUSILEV** ): A PDUFA target date of October 2009 has been established by the FDA for a decision regarding the approval of our October 2008 sNDA filing for advanced metastatic colorectal cancer which is currently under review by the FDA. We also expect expanded uptake of FUSILEV in community practices and institutions, if the approval for colorectal cancer is received from the FDA.

**ZEVALIN**<sup>®</sup> ([90Y]-ibritumomab tiuxetan) ( **ZEVALIN** ): In December 2008, the FDA accepted for filing and review, and granted priority review status for RIT's sBLA for the use of ZEVALIN as first-line therapy for patients with B-cell follicular NHL. A PDUFA target date of July 2, 2009 was established by the FDA for a decision regarding this sBLA which, if approved, will allow for the label to address a substantially larger patient population. We also continue to work towards establishing reimbursement standards with the Centers for Medicare and Medicaid Services ( **CMS** ) for ZEVALIN.

**Apaziquone** (EOquin<sup>®</sup> in bladder cancer): We continue to enroll patients into the two trials at sites in the United States and Canada and expect enrollment in both trials to be completed by the end of 2009. We also plan to initiate trials by the end of the year in BCG-failure bladder cancer.

We expect to continue to evaluate additional promising drug product candidates, as well as marketed products, for opportunistic acquisition or license.

#### **Financial Condition**

##### *Liquidity and Capital Resources*

Our current business operations do not generate sufficient operating cash to finance the clinical development of our drug product candidates. Our cumulative losses, since inception in 1987 through March 31, 2009, are approximately \$260 million. We expect to continue to incur additional losses for at least the next few years, as we implement our growth strategy of commercializing FUSILEV and ZEVALIN, while continuing to develop our portfolio of late-stage drug products, unless they are offset, if at all, by the out-license of any of our drugs.

We believe that the approximately \$64 million in cash, cash equivalents, marketable securities and funds in escrow that we had on hand as of March 31, 2009 will allow us to fund our current planned operations for at least the next twelve to eighteen months. Of the \$64 million, as of March 31, 2009, we had \$10 million in escrow as the remaining payment for CTI's 50% share in RIT. We also believe the financial institutions through which we have invested our funds are strong, well capitalized and our instruments are held in accounts segregated from the assets of the institutions. However, due to the current extremely volatile financial and credit markets and liquidity crunch faced by most banking institutions, the financial viability of these institutions, and the safety and liquidity of our funds is being constantly monitored.

Our long-term strategy, however, is to generate profits from the sale and licensing of our drug products. Accordingly, in the next several years, we expect to supplement our cash position with sales of FUSILEV and ZEVALIN and generate licensing revenues from out-licensing our other drug products.

We may seek to obtain additional capital through the sale of debt or equity securities, if necessary, especially in conjunction with opportunistic acquisitions or license of drugs. In this regard, in April 2008, we filed a shelf registration statement with the SEC in Form S-3 (No 333-150260) to give us the ability, from time to time, to offer any combination of our securities described in the registration statement in one or more offerings for up to \$150 million. There can be no assurance that we will be able to obtain such additional capital when needed, or, if available, that it will be on terms favorable to us or to our stockholders. If additional funds are raised by issuing equity securities, the percentage ownership of our stockholders will be reduced, stockholders may experience additional dilution or such equity securities may provide for rights, preferences or privileges senior to those of the holders of our

common stock. If additional funds are raised through the issuance of debt securities, the terms of such securities may place restrictions on our ability to operate our business. If and when appropriate, just as we have done in the past, we may pursue non-dilutive financing alternatives as well. However, from a revenue generation perspective, we eventually hope to completely finance our operations from sales of our currently marketed products.

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**SPECTRUM PHARMACEUTICALS, INC.**

We are not able to provide any revenue guidance at this time. For FUSILEV, our goal is to be able to maintain current usage patterns, even though it appears that the leucovorin shortage may be over. In addition, successful and continual growth of FUSILEV sales will largely depend upon obtaining FDA approval for use of FUSILEV in combination with 5-FU containing regimens for the treatment of colorectal cancer. For ZEVALIN, sales growth is largely dependent on obtaining FDA approval of our sBLA for use in first-line consolidation treatment for non-Hodgkin's lymphoma or NHL, establishing reimbursement standards based on an Average Sales Price ( ASP ) methodology in concert with CMS and obtaining FDA approval to remove the In-111 bio-scan requirement. We are unable to reasonably estimate when, if ever, we will realize sustainable net profit from sales of these two products or any of our other products, if they are approved by the FDA.

In addition, As described elsewhere in this report, as well as the risk factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, our drug development efforts are subject to the considerable uncertainty inherent in any new drug development. Due to the uncertainties involved in progressing through clinical trials, and the time and cost involved in obtaining regulatory approval and in establishing collaborative arrangements, among other factors, we cannot reasonably estimate the timing, completion dates, and ultimate aggregate cost of developing each of our drug product candidates. Accordingly, the following discussion of our current assessment of expenditures may prove inadequate and our assessment of the need for cash to fund our operations may prove too optimistic.

Our expenditures for research and development consist of direct product specific costs, including, but not limited to, upfront license fees, milestone payments, active pharmaceutical ingredients, clinical trials, and patent related costs, and non-product specific, or indirect, costs. During the three-month period ended March 31, 2009, our total research and development expenditure was approximately \$5.7 million (net of \$2.7 million received from Allergan), of which approximately \$1.7 million was in direct costs. The principal components of direct expenses for that period related to the development of Apaziquone approximately \$0.8 million; FUSILEV approximately \$0.5 million; and Zevalin approximately \$0.3 million.

While we are currently focused on advancing our key product development programs, we anticipate that we will make regular determinations as to which other programs, if any, to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical success of each product candidate, as well as an ongoing assessment as to the product candidate's commercial potential.

Our primary focus areas for the rest of 2009, and the programs that are expected to represent a significant part of our expenditures, are the on-going clinical studies of Apaziquone and the commercialization of FUSILEV and ZEVALIN.

Key factors that we will monitor as we determine the funding of other development projects are:

- the continued commercialization of FUSILEV and ZEVALIN;
- continued patient enrollment in our 2 phase 3 Apaziquone clinical trials at anticipated rates; and
- continued positive results from our preclinical studies and clinical trials.

Further, while we do not receive any funding from third parties for research and development that we conduct, co-development and out-licensing agreements with other companies for any of our drug products may reduce our expenses. In this regard, we entered into a collaboration agreement with Allergan whereby, commencing January 1, 2009, Allergan is bearing bear 65% of the future development costs of Apaziquone.

In addition to our present portfolio of drug product candidates, we continually evaluate proprietary products for acquisition. If we are successful in acquiring rights to additional products, we may pay up-front licensing fees in cash and/or common stock and our research and development expenditures would likely increase.

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**SPECTRUM PHARMACEUTICALS, INC.**

*Net Cash provided by Operating Activities*

During the three-month period ended March 31, 2009, net cash from operations was approximately \$0.3 million compared to net cash used in operations of approximately \$7.1 million in the comparative period of 2008. The improvement in operating cash flows is primarily attributable to revenues derived from sales of FUSILEV.

*Net Cash provided by Investing Activities*

Net cash provided by investing activities of approximately \$3.9 million was due to the conversion of our marketable securities into shorter term cash-equivalent investments, and for investment in ZEVALIN.

**Results of Operations**

***Results of Operations for the three-month period ended March 31, 2009 compared to the three-month period ended March 31, 2008***

For the three-month period ended March 31, 2009, we recorded net income of approximately \$0.6 million, compared to a net loss of approximately \$8.7 million for the three-month period ended March 31, 2008. The principal components of the year-to-year changes in line items are discussed below.

During the three months ended March 31, 2009, we recognized \$2.1 million of licensing revenues from the amortization of the \$41.5 million upfront payment we received from Allergan in 2008. Also, during the three months ended March 31, 2009, we recorded approximately \$9.4 million (net of estimates for promotional, price and other adjustments) of revenue of our proprietary oncology drug FUSILEV, including adjustment of the allowance for product returns. As of December 31, 2008, we had deferred the recognition of \$3.1 million revenue for product returns, until we were able to obtain more data on product sales and returns. Based on the experience gained to date, we believe that as of March 31, 2009, a product returns reserve of \$1.9 million is adequate, and accordingly recognized the difference of approximately \$1.2 million as a component of revenue for the three months ended March 31, 2009. Also, during the three months ended March 31, 2009, net sales of ZEVALIN were approximately \$2.6 million. While the generic leucovorin shortage experienced in late 2008 and early 2009 appears to have abated, we continue to expect to generate revenue from the sales of these two products during the remainder of 2009; however, we are not able to provide any revenue or net income guidance at this time. No revenues were recorded in the period ended March 31, 2008.

Total research and development expenses, excluding amortization costs associated with ZEVALIN described below, decreased by approximately \$0.7 million, from approximately \$6.4 million in the three-month period ended March 31, 2008 to approximately \$5.7 million in the three-month period ended March 31, 2009, primarily due to the sharing in the costs associated with the development of Apaziquone of approximately \$2.7 million by our development partner, Allergan Inc. ( Allergan ), partially offset by higher R&D costs incurred for ZEVALIN of approximately \$1.2 million. We expect Research & Development expenses for the remainder of 2009 to continue at a similar pace to the quarter ended March 31, 2009.

We also incurred approximately \$1.0 million non-cash research and development costs due to the amortization of intangibles from the acquisition of ZEVALIN during the three month period ended March 31, 2009. No similar cost was incurred during the same period of 2008. We expect Research & Development expenses for the remainder of 2009 to continue at a similar pace to the quarter ended March 31, 2009.

Selling, general and administrative expenses increased by approximately \$3.8 million, from approximately \$2.6 million in the three-month period ended March 31, 2008 to approximately \$6.4 million in the three-month period ended March 31, 2009. The primary reason for the increase is due to increased sales and marketing expenses, including employee compensation costs, incurred in connection with the commercial activities associated with sales of FUSILEV of approximately \$1.7 million and ZEVALIN of approximately \$2.1 million. We expect selling, general and administrative expenses for the remainder of 2009 to continue at a pace similar to the quarter ended March 31, 2009.

Other income consisted of net interest income of approximately \$0.1 million and \$0.3 million for the three-month periods ended March 31, 2009 and 2008, respectively. The decrease in interest income was primarily due to lower investment yields resulting from the general financial market conditions and the higher emphasis on conservation and preservation of our capital. We expect similar yields going forward till such time as the credit markets stabilize.



**Table of Contents****SPECTRUM PHARMACEUTICALS, INC.****Off-Balance Sheet Arrangements**

None.

**Contractual and Commercial Obligations**

The following table summarizes our contractual and other commitments, including obligations under facility and equipment leases, as of March 31, 2009 (in thousands):

|                                         | <b>Total</b>      | <b>Less than<br/>1 Year</b> | <b>1-3 Years</b> | <b>3-5 Years</b> | <b>After<br/>5 Years</b> |
|-----------------------------------------|-------------------|-----------------------------|------------------|------------------|--------------------------|
| <b>Contractual Obligations (1)</b>      |                   |                             |                  |                  |                          |
| Capital Lease Obligations (2)           | \$ 185            | \$ 38                       | \$ 101           | \$ 46            |                          |
| Operating Lease Obligations (3)         | 122               | 120                         | 2                |                  |                          |
| Purchase Obligations (4)                | 17,236            | 11,857                      | 4,287            | 1,092            |                          |
| Contingent Milestone Obligations<br>(5) | 84,241            | 14,021                      | 4,523            | 7,023            | \$ 58,674                |
| <b>Total</b>                            | <b>\$ 101,784</b> | <b>\$ 26,036</b>            | <b>\$ 8,913</b>  | <b>\$ 8,161</b>  | <b>\$ 58,674</b>         |

(1) The table of contractual and commercial obligations excludes contingent payments that we may become obligated to pay upon the occurrence of future events whose outcome is not readily predictable, such as obligations pursuant to employment agreements.

(2) The capital lease obligations are related to leased office equipment.

(3) The operating lease obligations

are primarily for the facility lease for our corporate office, which extends through June 2009.

(4) Purchase obligations represent the amount of open purchase orders and contractual commitments to vendors for products and services that have not been delivered, or rendered, as of March 31, 2009. Over 90% of the purchase obligations consist of expenses associated with clinical trials and related costs for Apaziquone and ZEVALIN for each of the periods presented.

(5) Milestone obligations are payable contingent upon successfully reaching certain development and regulatory milestones. While the amounts included in the table above represent all of our potential

cash  
development  
and regulatory  
milestone  
obligations as of  
March 31, 2009,  
given the  
unpredictability  
of the drug  
development  
process, and the  
impossibility of  
predicting the  
success of  
current and  
future clinical  
trials, the  
timelines  
estimated above  
do not represent  
a forecast of  
when payment  
milestones will  
actually be  
reached, if at all.  
Rather, they  
assume that all  
development  
and regulatory  
milestones  
under all of our  
license  
agreements are  
successfully  
met, and  
represent our  
best estimates of  
the timelines. In  
the event that  
the milestones  
are met, we  
believe it is  
likely that the  
increase in the  
potential value  
of the related  
drug product  
will  
significantly  
exceed the  
amount of the

milestone  
obligation.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The estimation process requires assumptions to be made about future events and conditions, and is consequently inherently subjective and uncertain. Actual results could differ materially from our estimates. On an on-going basis, we evaluate our estimates, including cash requirements, by assessing: planned research and development activities and general and administrative requirements; required clinical trial activity; market need for our drug candidates; and other major business assumptions.

The SEC defines critical accounting policies as those that are, in management's view, most important to the portrayal of our financial condition and results of operations and most demanding of our judgment. We consider the following policies to be critical to an understanding of our consolidated financial statements and the uncertainties associated with the complex judgments made by us that could impact our results of operations, financial position and cash flows.

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**SPECTRUM PHARMACEUTICALS, INC.**

***Cash, Cash Equivalents and Marketable Securities***

Cash, cash equivalents and marketable securities primarily consist of bank checking deposits, short-term treasury securities, and institutional money market funds, corporate debt and equity, municipal obligations, including market auction debt securities, government agency notes, and certificates of deposit. We classify highly liquid short-term investments, with insignificant interest rate risk and maturities of 90 days or less at the time of acquisition, as cash and cash equivalents. Other investments, which do not meet the above definition of cash equivalents, are classified as either held-to-maturity or available-for-sale marketable securities, in accordance with the provisions of Financial Accounting Standards Board, or FASB, Statement, or SFAS, No. 115, *Accounting for Certain Investments in Debt and Equity Securities* . Investments that we intend to hold for more than one year are classified as long-term investments.

***Revenue Recognition***

We follow the provisions as set forth by current accounting rules, which primarily include Staff Accounting Bulletin ( SAB ) 104, *Revenue Recognition*, and Emerging Issues Task Force ( EITF ) No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* . Generally, revenue is recognized when evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collectibility is reasonably assured.

Upfront fees representing non-refundable payments received upon the execution of licensing or other agreements are recognized as revenue upon execution of the agreements where we have no significant future performance obligations and collectibility of the fees is reasonably assured. Milestone payments, which are generally based on developmental or regulatory events, are recognized as revenue when the milestones are achieved, collectibility is reasonably assured, and we have no significant future performance obligations in connection with the milestone. In those instances where we have collected fees or milestone payments but have significant future performance obligations related to the development of the drug product, we record deferred revenue and recognize it over the period of our future obligations.

Revenue from sales of product is recognized upon shipment of product, when title and risk of loss have transferred to the customer, and provisions for estimates, including promotional adjustments, price adjustments, returns, and other potential adjustments are reasonably determinable. Such revenue is recorded, net of such estimated provisions, at the minimum amount of the customer's obligation to us. We 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.

***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 collaboration research and development and include activities such as product registries and investigator-sponsored trials. In accordance with Statement of Financial Accounting Standards, or SFAS, No. 2, *Accounting for Research and Development Costs*, 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. In accordance with EITF 07-3, *Accounting for Nonrefundable Advance Payment for Goods or Services to be Used in Future Research and Development Activities*, 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. In connection with the October 2008 codevelopment agreement, Allergan bears 65% of the development costs incurred for Apaziquone in bladder cancer, commencing January 1, 2009. During the three months ended March 31, 2009, approximately \$2.7 million of development costs were reimbursed by Allergan, and credited against total related research and development expense.

We review and accrue drug development expenses based on factors such as estimates of work performed, patient enrollment, completion of patient studies and other events. Accrued clinical study costs are subject to revisions as trials progress to completion. Revisions are recorded in the period in which the facts that give rise to the revision become known.

***Accounting for Share-Based Employee Compensation***

In estimating the fair value of share-based compensation, we use the quoted market price of our common stock for stock awards and the Black-Scholes Option Pricing Model for stock options and warrants. We estimate future volatility based on past volatility of our common stock, and we estimate the expected length of options based on several criteria, including the vesting period of the grant and the expected volatility.

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**SPECTRUM PHARMACEUTICALS, INC.**

***Recent Accounting Pronouncements***

See Note 2: *Recent Accounting Pronouncements* of our accompanying consolidated financial statements for a description of recent accounting pronouncements that have a potentially significant impact on our financial reporting and our expectations of their impact on our results of operations and financial condition.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

The primary objective of our investment activities is to preserve principal, while at the same time maximizing yields without significantly increasing risk. We do not utilize hedging contracts or similar instruments.

We are exposed to certain market risks. Our primary exposures relate to (1) interest rate risk on our investment portfolio, (2) credit risk of the companies' bonds in which we invest, and (3) general credit market risks as have existed since late 2007 and have become more prominent during 2008 and (4) the financial viability of the institutions which hold our capital and through which we have invested our funds. We manage such risks on our investment portfolio by matching scheduled investment maturities with our cash requirements and investing in highly rated instruments.

In response to the dislocation in the credit markets since the latter part of 2007, in early 2008 we converted substantially all of our investments, including all of our market auction debt securities, into highly liquid and safe instruments. Our investments, as of March 31, 2009, were primarily in money market accounts, short-term corporate bonds, U.S. Treasury bills and U.S. Treasury-backed securities. We believe the financial institutions through which we have invested our funds are strong, well capitalized and our instruments are held in accounts segregated from the assets of the institutions. However, due to the current extremely volatile financial and credit markets and liquidity crunch faced by most banking institutions, the financial viability of these institutions, and the safety and liquidity of our funds is being constantly monitored.

Because of our ability to generally redeem these investments at par at short notice, changes in interest rates would have an immaterial effect on the fair value of these investments. If a 10% change in interest rates were to have occurred on March 31, 2009, any decline in the fair value of our investments would not be material in the context of our financial statements. In addition, we are exposed to certain market risks associated with credit ratings of corporations whose corporate bonds we may purchase from time to time. If these companies were to experience a significant detrimental change in their credit ratings, the fair market value of such corporate bonds may significantly decrease. If these companies were to default on these corporate bonds, we may lose part or all of our principal. We believe that we effectively manage this market risk by diversifying our investments, and investing in highly rated securities.

In addition, we are exposed to foreign currency exchange rate fluctuations relating to payments we make to vendors, suppliers and license partners using foreign currencies. In particular, some of our obligations are incurred in Euros. We mitigate such risk by maintaining a limited portion of our cash in Euros and other currencies.

**ITEM 4. Controls and Procedures**

We have established disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (our principal executive officer) and Vice President of Finance (our principal financial officer), as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching our desired disclosure control objectives.

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures as of March 31, 2009, the end of the period covered by this report. Based on the foregoing, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2009.

There has been no change in our internal control over financial reporting during the quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**SPECTRUM PHARMACEUTICALS, INC.  
PART II OTHER INFORMATION**

**ITEM 6. Exhibits**

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1+ #             | Limited Liability Company Interest Assignment Agreement, dated as of March 15, 2009, by and between the Registrant and Cell Therapeutics, Inc. (Schedules and similar attachments omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant will furnish supplementally a copy of any omitted schedules or similar attachments to the Securities and Exchange Commission upon request.) |
| 31.1+              | Certification of Principal Executive Officer, pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                 |
| 31.2+              | Certification of Principal Financial Officer, pursuant to Rule 13a-14 promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                 |
| 32.1+              | Certification of Principal Executive Officer; as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                |
| 32.2+              | Certification of Principal Financial Officer; as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                |
| #                  | Confidential portions omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.                                                                                                                                                                                                           |
| +                  | Filed herewith.                                                                                                                                                                                                                                                                                                                                                                                    |

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**SPECTRUM PHARMACEUTICALS, INC.**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPECTRUM PHARMACEUTICALS, INC.

Date: May 15, 2009

By: /s/ Shyam K. Kumaria  
Shyam K. Kumaria,  
Vice President, Finance  
(Authorized Signatory and Principal  
Financial and Accounting Officer)

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**SPECTRUM PHARMACEUTICALS, INC.  
EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                 |
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| #                  | Confidential portions omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.                                                                                                                                                                                                           |
| +                  | Filed herewith.                                                                                                                                                                                                                                                                                                                                                                                    |