

SPECTRUM PHARMACEUTICALS INC

Form 10-Q

November 14, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35006

SPECTRUM PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

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

11500 South Eastern Avenue, Suite 240 89052  
Henderson, Nevada  
(Address of principal executive offices) (Zip Code)  
(702) 835-6300  
(Registrant’s telephone number, including area code)

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

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

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

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

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

As of October 31, 2016, 80,557,934 shares of the registrant’s common stock were outstanding.

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 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016  
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Items 2 through 5 of Part II have been omitted because they are not applicable with respect to the current reporting period.

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## PART I: FINANCIAL INFORMATION

## ITEM 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## SPECTRUM PHARMACEUTICALS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value amounts)

(Unaudited)

|  | September 30,<br>2016 | December 31,<br>2015 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 171,605            | \$ 139,741           |
| Marketable securities  | 247                   | 245                  |
| Accounts receivable, net of allowance for doubtful accounts of \$15 and \$120, respectively  | 42,466                | 30,384               |
| Other receivables  | 7,091                 | 12,572               |
| Inventories  | 7,303                 | 4,176                |
| Prepaid expenses and other assets  | 2,702                 | 3,507                |
| Total current assets   | 231,414               | 190,625              |
| Property and equipment, net of accumulated depreciation  | 538                   | 918                  |
| Intangible assets, net of accumulated amortization and impairment charges  | 171,460               | 190,335              |
| Goodwill   | 18,017                | 17,960               |
| Other assets   | 28,015                | 19,211               |
| Total assets   | \$ 449,444            | \$ 419,049           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                      |
| Current liabilities:   |                       |                      |
| Accounts payable and other accrued liabilities   | \$ 49,977             | \$ 56,539            |
| Accrued payroll and benefits   | 7,741                 | 8,188                |
| Deferred revenue   | 4,458                 | 6,130                |
| Drug development liability   | 156                   | 259                  |
| Acquisition-related contingent obligations   | —                     | 5,227                |
| Total current liabilities  | 62,332                | 76,343               |
| Drug development liability, less current portion   | 14,004                | 14,427               |
| Deferred revenue, less current portion   | 741                   | 383                  |
| Acquisition-related contingent obligations, less current portion   | 1,915                 | 1,439                |
| Deferred tax liability   | 6,739                 | 6,779                |
| Other long-term liabilities  | 8,772                 | 7,444                |
| Convertible senior notes   | 104,144               | 99,377               |
| Total liabilities  | 198,647               | 206,192              |
| Commitments and contingencies  |                       |                      |
| Stockholders' equity:  |                       |                      |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized:   | —                     | —                    |
| Series B junior participating preferred stock, \$0.001 par value; 1,500,000 shares authorized; no shares issued and outstanding  | —                     | —                    |
| Series E Convertible Voting Preferred Stock, \$0.001 par value and \$10,000 stated value; 2,000 shares authorized; 0 and 20 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively (the prior year balance relates to the 20 shares of preferred stock which were converted into 40,000 shares of common stock in the current year) | —                     | 123                  |
| Common stock, \$0.001 par value; 175,000,000 shares authorized; 80,566,699 and 68,228,935 shares issued and outstanding at September 30, 2016 and December 31, 2015,   | 80                    | 68                   |

respectively

|  |            |              |
|--|------------|--------------|
| Additional paid-in capital                 | 638,006    | 552,108      |
| Accumulated other comprehensive loss       | (2,090     | ) (5,319 )   |
| Accumulated deficit                        | (385,199   | ) (334,123 ) |
| Total stockholders' equity                 | 250,797    | 212,857      |
| Total liabilities and stockholders' equity | \$ 449,444 | \$ 419,049   |

See accompanying notes to these unaudited condensed consolidated financial statements.

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

|   | Three Months Ended |            | Nine Months Ended |            |
|---|--------------------|------------|-------------------|------------|
|   | September 30,      |            | September 30,     |            |
|   | 2016               | 2015       | 2016              | 2015       |
| Revenues:   |                    |            |                   |            |
| Product sales, net  | \$30,272           | \$28,457   | \$96,401          | \$102,014  |
| License fees and service revenue  | 3,121              | 170        | 14,807            | 10,212     |
| Total revenues  | \$33,393           | \$28,627   | \$111,208         | \$112,226  |
| Operating costs and expenses:   |                    |            |                   |            |
| Cost of product sales (excludes amortization and impairment charges of intangible assets) | 7,503              | 8,447      | 18,715            | 21,508     |
| Cost of service revenue   | 2,221              | —          | 5,716             | —          |
| Selling, general and administrative   | 19,465             | 19,411     | 69,047            | 65,297     |
| Research and development  | 13,293             | 9,924      | 43,037            | 35,333     |
| Amortization and impairment charges of intangible assets                                  | 6,907              | 6,919      | 19,052            | 27,857     |
| Total operating costs and expenses  | 49,389             | 44,701     | 155,567           | 149,995    |
| Loss from operations  | (15,996)           | (16,074)   | (44,359)          | (37,769)   |
| Other (expense) income:   |                    |            |                   |            |
| Interest expense, net   | (2,373)            | (2,274)    | (7,087)           | (6,760)    |
| Change in fair value of contingent consideration related to acquisitions                  | 78                 | 81         | (1,249)           | (565)      |
| Other income (expense), net   | 372                | (535)      | 990               | (1,501)    |
| Total other expenses  | (1,923)            | (2,728)    | (7,346)           | (8,826)    |
| Loss before income taxes  | (17,919)           | (18,802)   | (51,705)          | (46,595)   |
| Benefit (provision) for income taxes  | 464                | 78         | 635               | (37)       |
| Net loss  | \$(17,455)         | \$(18,724) | \$(51,070)        | \$(46,632) |
| Net loss per share:   |                    |            |                   |            |
| Basic and diluted   | \$(0.22)           | \$(0.28)   | \$(0.73)          | \$(0.71)   |
| Weighted average shares outstanding:  |                    |            |                   |            |
| Basic and diluted   | 79,303,386         | 65,855,727 | 70,437,885        | 65,457,060 |
| See accompanying notes to these unaudited condensed consolidated financial statements.    |                    |            |                   |            |

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

|   | Three Months Ended |            | Nine Months Ended |            |
|---|--------------------|------------|-------------------|------------|
|   | September 30,      |            | September 30,     |            |
|   | 2016               | 2015       | 2016              | 2015       |
| Net loss  | \$(17,455)         | \$(18,724) | \$(51,070)        | \$(46,632) |
| Other comprehensive income (loss), net of income tax:   |                    |            |                   |            |
| Unrealized gain (loss) on available-for-sale securities | 465                | (3,934 )   | 2,975             | (949 )     |
| Foreign currency translation adjustments                | 96                 | 387        | 254               | (1,913 )   |
| Other comprehensive income (loss)                       | 561                | (3,547 )   | 3,229             | (2,862 )   |
| Total comprehensive loss                                | \$(16,894)         | \$(22,271) | \$(47,841)        | \$(49,494) |

See accompanying notes to these unaudited condensed consolidated financial statements.

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## SPECTRUM PHARMACEUTICALS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|  | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
|  | 2016                               | 2015        |
| Cash Flows From Operating Activities:  |                                    |             |
| Net loss   | \$(51,070 )                        | \$(46,632 ) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities:  |                                    |             |
| Depreciation and amortization  | 19,493                             | 21,235      |
| Stock-based compensation   | 9,754                              | 8,490       |
| Accretion of debt discount, recorded to interest expense on 2018 Convertible Notes (Note 14)   | 4,246                              | 3,895       |
| Amortization of deferred financing costs, recorded to interest expense on 2018 Convertible Notes (Note 14)                           | 521                                | 493         |
| Bad debt (recovery) expense  | (15 )                              | ) 11        |
| Impairment of intangible assets (Note 3(f))  | —                                  | 7,160       |
| Unrealized foreign currency exchange loss (gain)   | (155 )                             | ) 435       |
| Research and development expense recognized for the value of stock issued in connection with milestone achievement (Note 16(b)(xii)) | 2,419                              | —           |
| Change in fair value of contingent consideration related to the EVOMELA and Talon acquisitions (Note 9)                              | 1,249                              | 565         |
| Changes in operating assets and liabilities:   |                                    |             |
| Accounts receivable, net   | (12,040 )                          | ) 22,537    |
| Other receivables  | 5,571                              | (8,008 )    |
| Inventories  | (6,768 )                           | ) 2,127     |
| Prepaid expenses   | 804                                | (133 )      |
| Deferred tax assets  | —                                  | (147 )      |
| Other assets   | (2,095 )                           | (1,398 )    |
| Accounts payable and other accrued obligations   | (6,595 )                           | (5,638 )    |
| Accrued payroll and benefits   | (451 )                             | (1,286 )    |
| Drug development liability   | (526 )                             | (1,385 )    |
| Acquisition related contingent obligations   | (1,300 )                           | —           |
| Deferred revenue   | (1,417 )                           | ) 359       |
| Deferred tax liability   | (40 )                              | ) 89        |
| Other long-term liabilities  | 1,321                              | 874         |
| Net cash (used in) provided by operating activities  | (37,094 )                          | ) 3,643     |
| Cash Flows From Investing Activities:  |                                    |             |
| Proceeds from sale of available-for-sale securities  | —                                  | 3,061       |
| Redemption of mutual funds   | (1 )                               | ) —         |
| Purchases of property and equipment  | (61 )                              | (212 )      |
| Net cash (used in) provided by investing activities  | (62 )                              | ) 2,849     |
| Cash Flows From Financing Activities:  |                                    |             |
| Proceeds from exercise of stock options  | 190                                | 1,482       |
| Proceeds from sale of stock under employee stock purchase plan   | 383                                | 335         |
| Purchase and retirement of restricted stock to satisfy employees' tax liability at vesting   | (829 )                             | (629 )      |
| Payment of contingent consideration related to EVOMELA acquisition (Note 9(b))   | (4,700 )                           | ) —         |
| Proceeds from common shares sold under an at-the-market-issuance sales agreement (Note 18)   | 73,869                             | —           |

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|   |           |           |
|---|-----------|-----------|
| Dividends paid upon conversion of Series E Convertible Voting Preferred Stock (Note 18) | (6        | ) —       |
| Net cash provided by financing activities   | 68,907    | 1,188     |
| Effect of exchange rates on cash and equivalents  | 113       | (1,095 )  |
| Net increase in cash and cash equivalents   | 31,864    | 6,585     |
| Cash and cash equivalents—beginning of period   | 139,741   | 129,942   |
| Cash and cash equivalents—end of period   | \$171,605 | \$136,527 |
| Supplemental disclosure of cash flow information:                                       |           |           |
| Cash paid for income taxes  | \$11      | \$332     |
| Cash paid for interest  | \$1,650   | \$1,650   |

See accompanying notes to these unaudited condensed consolidated financial statements.

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Spectrum Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

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

(a) Description of Business

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

We also have three drugs in late-stage development:

**ROLONTIS** (formerly referred to as SPI-2012) for chemotherapy-induced neutropenia in patients with breast cancer.

**QAPZOLA** (formerly referred to as APAZQUONE) for immediate intravesical instillation in post-transurethral resection of bladder tumors in patients with non-muscle invasive bladder cancer.

**POZIOTINIB**, a novel pan-HER inhibitor used in the treatment of patients with breast cancer.

(b) Basis of Presentation

Interim Financial Statements

The interim financial data as of September 30, 2016 and 2015 is unaudited, and is not necessarily indicative of our operating results for a full year. In the opinion of our management, the interim data includes normal and recurring adjustments necessary for a fair presentation of our financial results for the three and nine months ended September 30, 2016 and 2015. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted pursuant to U.S. Securities and Exchange Commission ("SEC") rules and regulations relating to interim financial statements. The December 31, 2015 balances reported herein are derived from the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 14, 2016.

Principles of Consolidation

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

Variable Interest Entity

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

(c) Operating Segment

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Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

We operate in one reportable operating segment that is focused exclusively on developing and commercializing oncology and hematology drug products. For the three and nine months ended September 30, 2016 and 2015, all of our revenue and related expenses were solely attributable to these activities. Substantially all of our assets (excluding our cash held in certain foreign bank accounts and our ZEVALIN distribution rights for the Ex-U.S. territory) are held in the U.S.

2. USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(i) Revenue Recognition

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

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

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

Our GTN estimates are comprised of the following categories:

Product Returns Allowances: Our FUSILEV, MARQIBO, and BELEODAQ customers are permitted to return purchased product beginning at its expiration date, and within six months thereafter. Our EVOMELA customers are permitted to return purchased product beginning at six months prior to its expiration date, and within 12 months thereafter (as well as for overstock inventory, as determined by end-users). Returned product is generally not resold. Returns for expiry of ZEVALIN and FOLOTYN are not contractually, or customarily, allowed. We estimate expected returns based on our historical return rates.

Government Chargebacks: Our products are subject to pricing limits under certain federal government programs (e.g., Medicare and the 340B Drug Pricing Program). Qualifying entities (i.e., end-users) purchase product from our

customers at their qualifying discounted price. The chargeback amount we incur represents the difference between our contractual sales price

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Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

to our customer, and the end-user's applicable discounted purchase price under the government program. There may be significant lag time between our reported net product sales and our receipt of corresponding government chargeback claims from our customers.

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

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

**Medicaid Rebates:** Our products are subject to state government-managed Medicaid programs, whereby rebates are issued to participating state governments. These rebates arise when a patient treated with our product is covered under Medicaid, resulting in a discounted price for our product under the applicable Medicaid program. Our Medicaid rebate accrual calculations require us to project the magnitude of our sales, by state, that will be subject to these rebates.

There is a significant time lag in us receiving rebate notices from each state (generally several months or longer after our sale is recognized). Our estimates are based on our historical claim levels by state, as supplemented by management's judgment.

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

(b) **License Fees:** Our out-license arrangements may include one or more of the following: (a) upfront license fees, (b) royalties from our licensees' sales, and (c) milestone payments from our licensees' sales or regulatory achievements.

We recognize revenue from these categories based on the contractual terms that establish the legal rights and obligations between us and our licensees.

We first assess the number of "units of accounting" in the arrangement in accordance with multiple element arrangement guidance. We consider if the separate "deliverable" has standalone value to our licensee, and if (i) standalone value does not exist for a deliverable, it is combined with other deliverables until the "bundle" has standalone value. The allocation of arrangement consideration and the recognition of revenue then is determined for those combined deliverables as a single unit of accounting

(ii) Next, we measure and allocate arrangement consideration among the separate units of accounting. This measurement and allocation is based upon the fixed and discreet license fee payments and fixed royalties (as a percentage of our licensees' net sales) that are part of the contractual terms within our arrangements. This fixed or determinable consideration is allocated to the units of accounting using the "relative selling price method".

(iii) We evaluate certain customer payments as follows:

(a) For upfront license fees, we consider whether the revenue is earned and realizable at the time of contract execution (i.e., when the license rights transfer to the customer). We give specific consideration to whether we have any on-going contractual service obligations to the licensee, including any requirements for us to provide on-going support services, and/or for us to supply drug products for the licensee's future sales. As a result, we may either recognize all upfront license fees as revenue in the period of contract execution, or recognize these fees over the actual (or implied) contractual term of the out-license.

(b) For royalties, when we have no on-going performance obligation, we recognize revenue in the period that our licensee has sales for which we are contractually entitled to a percentage-based royalty payment.

(c) For our licensees' sales or regulatory milestone achievements, revenue associated with substantive at-risk milestones is recognized when we have no on-going performance obligation

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Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

and based upon the achievement of the milestones set forth in the respective agreements, as this is the point at which the additional consideration becomes fixed or determinable.

(c) Service Revenue: We receive fees under certain arrangements for (a) sales and marketing services, (b) supply chain services (c) research and development services, and (d) clinical trial management services. Payment for these services may be triggered by (i) an established fixed-fee schedule, (ii) the completion of product delivery in our capacity as a procurement agent, (iii) the successful completion of a phase of development, (iv) favorable results from a clinical trial, and/or (v) regulatory approval events.

We consider whether revenue associated with these service arrangements is “realizable and earned” each reporting period, based on our completed services or deliverables during the period, and the contractual terms of the arrangement (which typically includes fee schedules). For any/all milestone achievements in the reporting period that contractually result in fixed payments due to us, we apply the “milestone method” of revenue recognition. Accordingly, this revenue recognition occurs as each “substantive” milestone (as discussed below) is achieved by us, since (1) all contingencies associated with each milestone is resolved upon its achievement, (2) the milestone achievement relates solely to our past performance, and (3) no remaining milestone performance obligations exist in relation to our receipt of payment.

In recognizing revenue under the milestone method, we first assess the number of “units of accounting” in the arrangement. We consider if the separate “deliverable” has standalone value to our licensee, and if standalone value does not exist for a deliverable, it is combined with other deliverables until the “bundle” has standalone value. The allocation of arrangement consideration and the recognition of revenue is determined for those combined deliverables as a single unit of accounting. This includes allocation of consideration associated with milestones achieved by our licensees.

Next, we measure and allocate arrangement consideration among the separate units of accounting. This fixed or determinable consideration is allocated to the units of accounting using the “relative selling price method”. Variable fees subsequently earned (other than substantive milestone payments) are allocated to the units of accounting on the same basis.

We determine whether the milestone is substantive by considering (i) the extent of our effort to achieve the milestone and/or the enhancement of the value of the delivered item(s) as a result of milestone achievement, (ii) whether the milestone achievement relates solely to our past performance, and (iii) if the milestone payment is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

For service contracts without milestones, we recognize revenue when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) services have been rendered, (iii) fees are fixed or determinable, and (iv) collectability is reasonably assured.

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

We intend to apply the "cumulative effect transition method" of ASU 2014-09 for its implementation. We continue to evaluate the impact of this new standard on our current revenue recognition models for product sales, license fees, and service revenue (as described above), though we currently believe the most significant impact of this new standard relates to the timing of our license fee revenue.

(ii) Cash and Equivalents

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

(iii) Marketable Securities

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Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

Our marketable securities consist of our holdings in mutual funds and bank certificates of deposit. Since we classify these securities as “available-for-sale” under applicable GAAP, any unrealized gains or losses from their change in value is reflected in “unrealized gain (loss) on available-for-sale securities” on the accompanying Condensed Consolidated Statements of Comprehensive Loss. Realized gains and losses on available-for-sale securities are included in “other income (expense), net” on the accompanying Condensed Consolidated Statements of Operations.

(iv) Accounts Receivable

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

(v) Inventories

We value our inventory at the lower of (i) the actual cost of its purchase or manufacture, or (ii) its current market value. Inventory cost is determined on the first-in, first-out method. We regularly review our inventory quantities in process of manufacture and on hand. When appropriate, we record a provision for obsolete and excess inventory to derive its new cost basis, which takes into account our sales forecast by product and corresponding expiry dates. Direct and indirect manufacturing costs related to the production of inventory prior to U.S. Food and Drug Administration ("FDA") approval are expensed through “research and development,” rather than being capitalized to inventory cost.

(vi) Property and Equipment

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

(vii) Goodwill and Intangible Assets

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

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

(a) a significant decrease in the market value of an asset;

(b) a significant adverse change in the extent or manner in which an asset is used; or

(c) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset.

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

(viii) Stock-Based Compensation

Stock-based compensation expense for equity awards granted to our employees and members of our board of directors is recognized on a straight-line basis over each award's vesting period. Recognized compensation expense is net of an estimated



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(Unaudited)

forfeiture rate, representing the percentage of awards that are expected to be forfeited (by termination of employment or service) prior to vesting. We use the Black-Scholes option pricing model to determine the fair value of stock options (as of the date of grant) which carry service conditions for vesting. When applicable, we use the Monte Carlo valuation model to value equity awards (as of the date of grant) which carry combined market conditions and service conditions for vesting.

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

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

(ix) Foreign Currency Translation

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

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

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

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

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

(xi) Income Taxes

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

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

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

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(Unaudited)

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

(xii) Research and Development Costs

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

(xiii) Fair Value Measurements

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

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

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

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

3. BALANCE SHEET ACCOUNT DETAIL

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

(a) Cash and Cash Equivalents and Marketable Securities

As of September 30, 2016 and December 31, 2015, our holdings included within “cash and cash equivalents” and “marketable securities” were at major financial institutions.

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

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

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

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## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

|   | Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Cash and Cash<br>Equivalents | Marketable Securities<br>Current | Long<br>Term |
|---|-----------|------------------------------|-------------------------------|----------------------------|------------------------------|----------------------------------|--------------|
| September 30, 2016  |           |                              |                               |                            |                              |                                  |              |
| Bank deposits   | \$28,134  | \$ —                         | \$ —                          | \$28,134                   | \$ 28,134                    | \$ —                             | \$ —         |
| Money market funds  | 138,472   | —                            | —                             | 138,472                    | 138,472                      | —                                | —            |
| Bank certificates of deposits                             | 5,246     | —                            | —                             | 5,246                      | 4,999                        | 247                              | —            |
| Total cash and cash equivalents and marketable securities | \$171,852 | \$ —                         | \$ —                          | \$171,852                  | \$ 171,605                   | \$ 247                           | \$ —         |
| December 31, 2015   |           |                              |                               |                            |                              |                                  |              |
| Bank deposits   | \$59,625  | \$ —                         | \$ —                          | \$59,625                   | \$ 59,625                    | \$ —                             | \$ —         |
| Money market funds  | 80,116    | —                            | —                             | 80,116                     | 80,116                       | —                                | —            |
| Bank certificates of deposits                             | 245       | —                            | —                             | 245                        | —                            | 245                              | —            |
| Total cash and cash equivalents and marketable securities | \$139,986 | \$ —                         | \$ —                          | \$139,986                  | \$ 139,741                   | \$ 245                           | \$ —         |

As of September 30, 2016, none of these securities had been in a continuous unrealized loss position longer than one year.

## (b) Property and Equipment, Net of Accumulated Depreciation

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

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| Computer hardware and software                          | \$ 3,823              | \$ 3,785             |
| Laboratory equipment                                    | 622                   | 608                  |
| Office furniture  | 354                   | 355                  |
| Leasehold improvements                                  | 2,880                 | 2,872                |
| Property and equipment, at cost                         | 7,679                 | 7,620                |
| (Less): Accumulated depreciation                        | (7,141)               | (6,702)              |
| Property and equipment, net of accumulated depreciation | \$ 538                | \$ 918               |

Depreciation expense (included within “total operating costs and expenses” in the accompanying Condensed Consolidated Statements of Operations) for the nine months ended September 30, 2016 and 2015, was \$0.4 million and \$0.5 million, respectively.

In February 2016, the FASB issued ASU 2016-02, which amends the FASB Accounting Standards Codification and creates Topic 842, “Leases.” The new topic supersedes Topic 840, “Leases,” and requires lease assets and lease liabilities (including for operating leases) to be presented on the balance sheet at its “gross amount” and requires additional disclosures regarding lease arrangements. The guidance is effective for us beginning January 1, 2019, and mandates a “modified retrospective” transition method. We are currently assessing the impact this guidance will have on our consolidated financial statements. We presently do not have any capital lease arrangements, though we have several operating lease agreements that primarily relate to our principal executive office in Henderson, Nevada, and our research and development facility in Irvine, California, in addition to several other administrative office leases.

## (c) Inventories

“Inventories” consist of the following:



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## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

|  | September 30, December 31, |          |
|--|----------------------------|----------|
|  | 2016                       | 2015     |
| Raw materials  | \$ 2,632                   | \$ 1,606 |
| Work-in-process*   | 10,091                     | 4,228    |
| Finished goods   | 1,380                      | 1,498    |
| (Less:) Non-current portion of inventories included within "other assets" ** | (6,800 )                   | (3,156 ) |
| Inventories  | \$ 7,303                   | \$ 4,176 |

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

\*\* The "non-current" portion of inventories is presented within "other assets" in the accompanying Condensed Consolidated Balance Sheet at September 30, 2016 and December 31, 2015, respectively. This value of \$6.8 million at September 30, 2016 represents product that we expect to sell beyond September 30, 2017.

## (d) Prepaid expenses and other assets

"Prepaid expenses and other assets" consist of the following:

|   | September 30, December 31, |          |
|---|----------------------------|----------|
|   | 2016                       | 2015     |
| Prepaid operating expenses              | \$ 2,702                   | \$ 3,507 |
| Current portion of debt issuance costs* | —                          | —        |
| Prepaid expenses and other assets       | \$ 2,702                   | \$ 3,507 |

\* Beginning January 1, 2016, our debt issuance costs (current and non-current portions) were retrospectively reclassified from "prepaid expenses and other assets" and "other assets" to a reduction of the carrying amount of "convertible senior notes" (i.e., contra-liability - see Note 14) within our accompanying Consolidated Balance Sheets, in accordance with the FASB-issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). These amounts were \$1.7 million and \$2.2 million (including current and non-current portions) as of September 30, 2016 and December 31, 2015, respectively.

## (e) Other receivables

"Other receivables" consist of the following:

|   | September 30, December 31, |           |
|---|----------------------------|-----------|
|   | 2016                       | 2015      |
| Income tax receivable                                     | \$ 1,264                   | \$ 1,301  |
| Insurance receivable                                      | 350                        | 7,100     |
| Mundipharma promissory note                               | —                          | 2,215     |
| CASI note - short term*                                   | 1,500                      | —         |
| Eagle receivable for services and support costs (Note 13) | 1,896                      | —         |
| Research and development expenses - reimbursements due    | 1,726                      | 1,699     |
| Other miscellaneous receivables                           | 355                        | 257       |
| Other receivables   | \$ 7,091                   | \$ 12,572 |

\* This full balance was prospectively reclassified beginning March 31, 2016 to "other receivables" (presented within current assets on the accompanying Condensed Consolidated Balance Sheets) from "other assets" (presented within non-current assets) due to this note's maturity date of March 17, 2017 (i.e., within 12 months of September 30, 2016) - see Note 10.

## (f) Intangible Assets and Goodwill

"Intangible assets, net of accumulated amortization and impairment charges" consist of the following:



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## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

|   | September 30, 2016 |              |                         |            |            | Full         | Remaining    |
|---|--------------------|--------------|-------------------------|------------|------------|--------------|--------------|
|   | Historical         | Accumulated  | Foreign                 | Impairment | Net Amount | Amortization | Amortization |
|   | Cost               | Amortization | Currency<br>Translation |            |            | Period       | Period       |
|   |                    |              |                         |            |            | (months)     | (months)     |
| MARQIBO IPR&D (NHL and other novel indications) | \$ 17,600          | \$—          | \$—                     | \$—        | \$ 17,600  | n/a          | n/a          |
| EVOMELA distribution rights (1)                 | 7,700              | (296 )       | —                       | —          | 7,404      | 156          | 150          |
| BELEODAQ distribution rights                    | 25,000             | (4,219 )     | —                       | —          | 20,781     | 160          | 133          |
| MARQIBO distribution rights                     | 26,900             | (11,783 )    | —                       | —          | 15,117     | 81           | 42           |
| FOLOTYN distribution rights (2)                 | 118,400            | (37,767 )    | —                       | —          | 80,633     | 152          | 74           |
| ZEVALIN distribution rights U.S.                | 41,900             | (33,214 )    | —                       | —          | 8,686      | 123          | 30           |
| ZEVALIN distribution rights Ex-U.S.             | 23,490             | (14,159 )    | (3,818 )                | —          | 5,513      | 96           | 42           |
| FUSILEV distribution rights (3)                 | 16,778             | (9,618 )     | —                       | (7,160 )   | —          | 56           | 0            |
| FOLOTYN out-license (4)                         | 27,900             | (11,151 )    | —                       | (1,023 )   | 15,726     | 110          | 70           |
| Total intangible assets                         | \$ 305,668         | \$(122,207)  | \$(3,818 )              | \$(8,183 ) | \$ 171,460 |              |              |

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

Beginning June 2016, we adjusted the amortization period of our FOLOTYN distribution rights to November 2022 (2) from March 2025, representing the period through which we expect to have patent protection from generic competition (see Note 16(g)).

On February 20, 2015, the U.S. District Court for the District of Nevada found the patent covering FUSILEV to be invalid, which was upheld on appeal. On April 24, 2015, Sandoz began to commercialize a generic version of (3) FUSILEV. This represented a "triggering event" under applicable GAAP in evaluating the value of our FUSILEV distribution rights as of March 31, 2015, resulting in a \$7.2 million impairment charge (non-cash) in the first quarter of 2015. We accelerated amortization expense recognition in 2015 for the then remaining net book value of FUSILEV distribution rights.

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



2013.

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

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## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

Intangible asset amortization expense recognized during the nine months ended September 30, 2016 was \$19.1 million, as compared to \$27.9 million of amortization and impairment expense recognized in the prior year period (of which \$7.2 million relates to the impairment of the FUSILEV distribution rights, and the remaining \$20.7 million relates to scheduled amortization expense).

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

| Years Ending December 31, |           |
|---------------------------|-----------|
| Remainder of 2016         | \$6,909   |
| 2017                      | 27,635    |
| 2018                      | 27,635    |
| 2019                      | 25,029    |
| 2020                      | 19,740    |
| 2021                      | 18,266    |
| 2022 and thereafter       | 28,646    |
|                           | \$153,860 |

“Goodwill” is comprised of the following:

|  | September 30, 2016 | December 31, 2015 |
|--|--------------------|-------------------|
| Acquisition of Talon (MARQIBO rights)              | \$ 10,526          | \$ 10,526         |
| Acquisition of ZEVALIN Ex-U.S. distribution rights | 2,525              | 2,525             |
| Acquisition of Allos (FOLOTYN rights)              | 5,346              | 5,346             |
| Foreign currency exchange translation effects      | (380)              | (437)             |
| Goodwill   | \$ 18,017          | \$ 17,960         |

(g) Other assets

“Other assets” are comprised of the following:

|   | September 30, 2016 | December 31, 2015 |
|---|--------------------|-------------------|
| Equity securities and secured promissory note - CASI (see Note 10)* | \$ 9,146           | \$ 6,689          |
| Supplies and deposits   | 181                | 185               |
| 2018 Convertible Notes issuance costs (excluding current portion)** | —                  | —                 |
| Executive officer life insurance – cash surrender value             | 11,845             | 9,181             |
| Inventories - non-current portion                                   | 6,800              | 3,156             |
| Other miscellaneous assets  | 43                 | —                 |
| Other assets  | \$ 28,015          | \$ 19,211         |

\* These equity securities were excluded from “marketable securities” (see Note 3(a)) due to our intent to hold these securities for at least one year beyond September 30, 2016, as discussed in Note 10. The “unrealized gain on available-for-sale securities” within the Condensed Consolidated Statements of Comprehensive Loss, totaled \$3.0 million, net of income tax, for the nine months ended September 30, 2016.

\*\* Beginning January 1, 2016, our debt issuance costs (current and non-current portions) were retrospectively reclassified from “prepaid expenses and other assets” and “other assets” to a reduction of the carrying amount of “convertible senior notes” (i.e., contra-liability - see Note 14) within our accompanying Consolidated Balance Sheets, in

accordance with ASU 2015-03. These amounts were \$1.7 million and \$2.2 million (including current and non-current portions) as of September 30, 2016 and December 31, 2015, respectively.

(h) Accounts payable and other accrued liabilities

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## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

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

|  | September 30, December 31, |           |
|--|----------------------------|-----------|
|  | 2016                       | 2015      |
| Trade accounts payable and other accrued liabilities | \$ 27,180                  | \$ 26,684 |
| Accrued rebates                                      | 10,130                     | 18,166    |
| Accrued product royalty                              | 5,286                      | 4,908     |
| Allowance for returns                                | 2,237                      | 1,394     |
| Accrued data and distribution fees                   | 2,996                      | 1,830     |
| Accrued GPO administrative fees                      | 342                        | 1,058     |
| Accrued inventory management fee                     | 323                        | 498       |
| Allowance for chargebacks                            | 1,483                      | 2,001     |
| Accounts payable and other accrued liabilities       | \$ 49,977                  | \$ 56,539 |

Amounts presented within “accounts payable and other accrued liabilities” in the accompanying Condensed Consolidated Balance Sheets specifically for GTN estimates (see Note 2(i)) are as follows:

|                                      | Rebates and<br>Chargebacks | Data and<br>Distribution,<br>GPO Fees, and<br>Inventory<br>Management<br>Fees | Returns  |
|--------------------------------------|----------------------------|---|----------|
| Balance as of December 31, 2014      | \$ 45,822                  | \$ 8,284  | \$ 1,135 |
| Add: provisions                      | 75,498                     | 15,928  | 1,486    |
| (Less): credits or actual allowances | (101,153 )                 | (20,826 )   | (1,227 ) |
| Balance as of December 31, 2015      | 20,167                     | 3,386   | 1,394    |
| Add: provisions                      | 67,390                     | 10,235  | 1,558    |
| (Less): credits or actual allowances | (75,944 )                  | (9,960 )  | (715 )   |
| Balance as of September 30, 2016     | \$ 11,613                  | \$ 3,661  | \$ 2,237 |

## (i) Deferred revenue

Deferred revenue (current and non-current) is comprised of the following:

|   | September 30, December 31, |          |
|---|----------------------------|----------|
|   | 2016                       | 2015     |
| Mundipharma deferred revenue (see Note 11)    | \$ 1,700                   | \$ —     |
| EVOMELA deferred revenue*                     | 3,094                      | —        |
| FUSILEV deferred revenue**                    | —                          | 6,083    |
| Dr. Reddy's out-license (see Note 16(b)(iii)) | 405                        | 430      |
| Deferred revenue                              | \$ 5,199                   | \$ 6,513 |

\*We commercialized EVOMELA beginning in April 2016, and have deferred revenue recognition (see Note 2(i)(a)) for any product shipped to our distributors, but not ordered and received by end-users as of September 30, 2016.

\*\*In the third quarter of 2015, we deferred revenue recognition related to certain FUSILEV product shipments that did not meet our revenue recognition criteria (see Note 2(i)(a)), aggregating \$9.9 million. Specifically, this deferral resulted from our inability to concurrently estimate future rebate values (with requisite precision) offered to our customers in order to compete with generic products. During the fourth quarter of 2015, we recognized \$3.8 million for these third quarter shipments, and \$6.1 million remained deferred as of December 31, 2015. In the first quarter of 2016, this \$6.1 million of deferred revenue was recognized in full.



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## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

## (j) Other long-term liabilities

Other long-term liabilities are comprised of the following:

|  | September 30, December 31, |          |
|--|----------------------------|----------|
|  | 2016                       | 2015     |
| Accrued executive deferred compensation    | \$ 7,797                   | \$ 6,458 |
| Deferred rent (non-current portion)        | 193                        | 248      |
| Clinical study holdback costs, non-current | 44                         | —        |
| Other tax liabilities                      | 738                        | 738      |
| Other long-term liabilities                | \$ 8,772                   | \$ 7,444 |

## 4. GROSS-TO-NET PRODUCT SALES

The below table presents a GTN product sales reconciliation for the accompanying Condensed Consolidated Statements of Operations:

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30,      |           | September 30,     |           |
|   | 2016               | 2015      | 2016              | 2015      |
| Gross product sales   | \$61,513           | \$44,713  | \$175,963         | \$160,111 |
| Commercial rebates and government chargebacks                       | (26,167 )          | (12,515 ) | (67,389 )         | (44,364 ) |
| Data and distribution fees, GPO fees, and inventory management fees | (4,234 )           | (3,503 )  | (10,235 )         | (12,709 ) |
| Prompt pay discounts  | (300 )             | (15 )     | (380 )            | (16 )     |
| Product returns allowance   | (540 )             | (223 )    | (1,558 )          | (1,008 )  |
| Net product sales   | \$30,272           | \$28,457  | \$96,401          | \$102,014 |

## 5. NET PRODUCT SALES BY GEOGRAPHIC REGION AND PRODUCT LINE, AND COMPOSITION OF LICENSE FEES AND SERVICE REVENUE

The below table presents our net product sales by geography for the three and nine months ended September 30, 2016 and 2015:

|                     | Three Months Ended |         |          | Nine Months Ended |          |         |           |         |
|---------------------|--------------------|---------|----------|-------------------|----------|---------|-----------|---------|
|                     | September 30,      |         |          | September 30,     |          |         |           |         |
|                     | 2016               | 2015    |          | 2016              | 2015     |         |           |         |
| United States       | \$29,576           | 97.7 %  | \$26,262 | 92.3 %            | \$93,392 | 96.9 %  | \$96,546  | 94.6 %  |
| International:      |                    |         |          |                   |          |         |           |         |
| Europe              | 696                | 2.3 %   | 709      | 2.5 %             | 3,009    | 3.1 %   | 1,806     | 1.8 %   |
| Asia Pacific*       | —                  | — %     | 1,486    | 5.2 %             | —        | — %     | 3,662     | 3.6 %   |
| Total international | 696                | 2.3 %   | 2,195    | 7.7 %             | 3,009    | 3.1 %   | 5,468     | 5.4 %   |
| Net product sales   | \$30,272           | 100.0 % | \$28,457 | 100.0 %           | \$96,401 | 100.0 % | \$102,014 | 100.0 % |

\* See Note 11 for discussion of our November 2015 out-license for Asia Pacific territory to Mundipharma.

The below table presents our net product sales by product line for the three and nine months ended September 30, 2016 and 2015:



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|                   | Three Months Ended |         |          |         | Nine Months Ended |         |           |         |
|-------------------|--------------------|---------|----------|---------|-------------------|---------|-----------|---------|
|                   | September 30,      |         | 2015     |         | September 30,     |         | 2015      |         |
|                   | 2016               |         |          |         | 2016              |         |           |         |
| FUSILEV           | \$4,893            | 16.2 %  | \$11,101 | 39.0 %  | \$30,568          | 31.7 %  | \$45,597  | 44.7 %  |
| FOLOTYN           | 11,315             | 37.4 %  | 8,722    | 30.6 %  | 35,577            | 36.9 %  | 30,261    | 29.7 %  |
| ZEVALIN           | 2,627              | 8.7 %   | 4,762    | 16.7 %  | 8,224             | 8.5 %   | 13,784    | 13.5 %  |
| MARQIBO           | 1,925              | 6.4 %   | 1,316    | 4.6 %   | 4,921             | 5.1 %   | 5,290     | 5.2 %   |
| BELEODAQ          | 3,635              | 12.0 %  | 2,556    | 9.0 %   | 10,326            | 10.7 %  | 7,082     | 6.9 %   |
| EVOMELA           | 5,877              | 19.4 %  | —        | — %     | 6,785             | 7.0 %   | —         | — %     |
| Net product sales | \$30,272           | 100.0 % | \$28,457 | 100.0 % | \$96,401          | 100.0 % | \$102,014 | 100.0 % |

The below table presents our license fee and service revenue by source for the three and nine months ended September 30, 2016 and 2015:

|  | Three Months Ended |         |       |         | Nine Months Ended |         |          |         |
|--|--------------------|---------|-------|---------|-------------------|---------|----------|---------|
|  | September 30,      |         | 2015  |         | September 30,     |         | 2015     |         |
|  | 2016               |         |       |         | 2016              |         |          |         |
| Out-license to Servier in Canada territory (Note 12)                               | \$—                | — %     | \$—   | — %     | \$6,000           | 40.5 %  | \$—      | — %     |
| Co-promotion with Eagle (Note 13)  | 2,406              | 77.1 %  | —     | — %     | 6,737             | 45.5 %  | —        | — %     |
| Out-license to Mundipharma in China and other ex-U.S. territories (Note 11 and 15) | 703                | 22.5 %  | 158   | 92.9 %  | 2,013             | 13.6 %  | 493      | 4.8 %   |
| Out-license to CASI in China territory (Note 10)                                   | —                  | — %     | —     | — %     | —                 | — %     | 9,682    | 94.8 %  |
| Other license fees and service revenues  | 12                 | 0.4 %   | 12    | 7.1 %   | 57                | 0.4 %   | 37       | 0.4 %   |
| License fees and service revenues  | \$3,121            | 100.0 % | \$170 | 100.0 % | \$14,807          | 100.0 % | \$10,212 | 100.0 % |

## 6. STOCK-BASED COMPENSATION

We classify our stock-based compensation expense (inclusive of our incentive stock plan, employee stock purchase plan, and 401(k) contribution matching program) in the accompanying Condensed Consolidated Statements of Operations, based on the department to which the recipient belongs. Stock-based compensation expense included within “Total operating costs and expenses” for the three and nine months ended September 30, 2016 and 2015 was as follows:

|                                     | Three Months Ended |               | Nine Months Ended |               |
|-------------------------------------|--------------------|---------------|-------------------|---------------|
|                                     | September 30,      | September 30, | September 30,     | September 30, |
|                                     | 2016               | 2015          | 2016              | 2015          |
| Cost of product sales               | \$30               | \$21          | \$84              | \$43          |
| Research and development            | 470                | 474           | 1,461             | 1,326         |
| Selling, general and administrative | 2,650              | 2,005         | 8,209             | 7,121         |
| Total stock-based compensation      | \$3,150            | \$2,500       | \$9,754           | \$8,490       |

## 7. NET LOSS PER SHARE

Net loss per share was computed by dividing net loss by the weighted average number of common shares outstanding for the three and nine months ended September 30, 2016 and 2015:



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|   | Three Months Ended |             | Nine Months Ended |             |
|---|--------------------|-------------|-------------------|-------------|
|   | September 30,      |             | September 30,     |             |
|   | 2016               | 2015        | 2016              | 2015        |
| Net loss                                    | \$(17,455)         | \$(18,724 ) | \$(51,070)        | \$(46,632 ) |
| Weighted average shares – basic and diluted | 79,303,380         | 65,855,727  | 70,437,885        | 65,457,060  |
| Net loss per share – basic and diluted      | \$(0.22 )          | \$(0.28 )   | \$(0.73 )         | \$(0.71 )   |

The below outstanding securities were excluded from the above calculation of net loss per share because their impact would have been anti-dilutive due to net loss per share in the three and nine months ended September 30, 2016 and 2015, as summarized below:

|                         | Three Months Ended |            | Nine Months Ended |            |
|-------------------------|--------------------|------------|-------------------|------------|
|                         | September 30,      |            | September 30,     |            |
|                         | 2016               | 2015       | 2016              | 2015       |
| 2018 Convertible Notes  | 11,401,284         | 11,401,284 | 11,401,284        | 11,401,284 |
| Common stock options    | 1,603,028          | 1,591,709  | 1,498,034         | 1,507,700  |
| Restricted stock awards | 2,609,533          | 1,457,232  | 2,609,533         | 1,457,232  |
| Common stock warrants   | —                  | 59,853     | 1,674             | 45,121     |
| Preferred stock         | —                  | 40,000     | —                 | 40,000     |
| Total                   | 15,613,845         | 14,550,078 | 15,510,525        | 14,451,337 |

## 8. FAIR VALUE MEASUREMENTS

The table below summarizes certain asset and liability fair values that are included within our accompanying Condensed Consolidated Balance Sheets, and their designations among three fair value measurement categories:

|  | September 30, 2016      |           |          |           |
|--|-------------------------|-----------|----------|-----------|
|  | Fair Value Measurements |           |          |           |
|  | Level 1                 | Level 2   | Level 3  | Total     |
| <b>Assets:</b>   |                         |           |          |           |
| Bank certificates of deposits  | \$—                     | \$5,246   | \$—      | \$5,246   |
| Money market currency funds  | —                       | 138,472   | —        | 138,472   |
| Equity securities  | 9,146                   | —         | —        | 9,146     |
| Mutual funds   | —                       | 45        | —        | 45        |
| Deferred compensation investments, including life insurance cash surrender value | —                       | 11,845    | —        | 11,845    |
|  | \$9,146                 | \$155,608 | \$—      | \$164,754 |
| <b>Liabilities:</b>  |                         |           |          |           |
| Deferred executive compensation liability  | \$—                     | \$7,797   | \$—      | \$7,797   |
| Drug development liability (Note 15)   | —                       | —         | 14,160   | 14,160    |
| Talon CVR (Note 9(a))  | —                       | —         | 1,853    | 1,853     |
| Corixa Liability   | —                       | —         | 62       | 62        |
|  | \$—                     | \$7,797   | \$16,075 | \$23,872  |

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## Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

|  | December 31, 2015       |          |          |          |
|--|-------------------------|----------|----------|----------|
|  | Fair Value Measurements |          |          |          |
|  | Level 1                 | Level 2  | Level 3  | Total    |
| <b>Assets:</b>   |                         |          |          |          |
| Bank certificates of deposits  | \$—                     | \$245    | \$—      | \$245    |
| Money market currency funds  | —                       | 80,116   | —        | 80,116   |
| Equity securities  | 5,189                   | —        | —        | 5,189    |
| Deferred compensation investments, including life insurance cash surrender value | —                       | 9,181    | —        | 9,181    |
|  | \$5,189                 | \$89,542 | \$—      | \$94,731 |
| <b>Liabilities:</b>  |                         |          |          |          |
| Deferred executive compensation liability  | \$—                     | \$6,458  | \$—      | \$6,458  |
| Drug development liability   | —                       | —        | 14,686   | 14,686   |
| Ligand Contingent Consideration  | —                       | —        | 5,227    | 5,227    |
| Talon CVR  | —                       | —        | 1,377    | 1,377    |
| Corixa Liability   | —                       | —        | 62       | 62       |
|  | \$—                     | \$6,458  | \$21,352 | \$27,810 |

We did not have any transfers between Levels 1 and 2 for all periods presented. The following presents a roll forward of our liabilities for which we utilize Level 3 inputs in determining period-end value. These liabilities are included on our Condensed Consolidated Balance Sheets within “acquisition-related contingent obligations” and “drug development liability”. The basis of the various Level 3 valuation inputs are discussed in the Notes to these accompanying Condensed Consolidated Financial Statements.

Our carrying amounts of financial instruments such as cash equivalents, accounts receivable, prepaid expenses, accounts payable, and accrued liabilities, excluding acquisition-related contingent obligations, approximate their related fair values due to their short-term nature.

|   | Fair Value Measurements of Unobservable Inputs (Level 3) |
|---|--|
| Balance at December 31, 2014  | \$ 23,127  |
| Deferred drug development costs   | (1,099 )   |
| Ligand Contingent Consideration fair value adjustment                                     | 326  |
| Talon CVR fair value adjustment   | (1,002 )   |
| Balance at December 31, 2015  | 21,352   |
| Settlement of Ligand Contingent Consideration liability (see Note 9(b))                   | (6,000 )   |
| Deferred drug development costs (see Note 15)   | (526 )   |
| Ligand Contingent Consideration fair value adjustment prior to settlement (see Note 9(b)) | 773  |
| Talon CVR fair value adjustment (see Note 9(a))   | 476  |
| Balance at September 30, 2016*  | \$ 16,075  |

\* This amount is comprised of the current and non-current portions of “drug development liability” and of “acquisition-related contingent obligations” on our accompanying Condensed Consolidated Balance Sheets.

**9. BUSINESS COMBINATIONS AND CONTINGENT CONSIDERATION****(a) Acquisition of Talon Therapeutics, Inc. and Related Contingent Consideration**

## Overview of Talon Acquisition

On July 17, 2013, we purchased all of the outstanding shares of common stock of Talon Therapeutics, Inc. (“Talon”). Through the acquisition of Talon, we gained worldwide rights to MARQIBO. The Talon purchase consideration comprised of (i) an aggregate upfront cash amount of \$11.3 million, (ii) issuance of 3.0 million shares of our common stock, then equivalent

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## Notes to Condensed Consolidated Financial Statements

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(Unaudited)

to \$26.3 million (based on a closing price of \$8.77 per share on July 17, 2013), and (iii) the issuance of contingent value rights ("CVR") initially valued at \$6.5 million.

The CVR was valued using a valuation model that probability-weights expected outcomes (ranging from 50% to 100%) and discounts those amounts to their present value, using an appropriate discount rate (these represent unobservable inputs and are therefore classified as Level 3 inputs – see Note 2 (xiii)). The CVR has a maximum payout of \$195 million if all sales and regulatory approval milestones are achieved, as summarized below:

\$5 million upon the achievement of net sales of MARQIBO in excess of \$30 million in any calendar year  
 \$10 million upon the achievement of net sales of MARQIBO in excess of \$60 million in any calendar year  
 \$25 million upon the achievement of net sales of MARQIBO in excess of \$100 million in any calendar year  
 \$50 million upon the achievement of net sales of MARQIBO in excess of \$200 million in any calendar year  
 \$100 million upon the achievement of net sales of MARQIBO in excess of \$400 million in any calendar year  
 \$5 million upon receipt of marketing authorization from the FDA regarding Menadione Topical Lotion

Talon CVR Fair Value as of September 30, 2016 and December 31, 2015

The CVR fair value will continue to be evaluated on a quarterly basis. Current and future changes in its fair value results from the likelihood and timing of milestone achievement and/or the corresponding discount rate applied thereon. Adjustments to CVR fair value are recognized within "change in fair value of contingent consideration related to acquisitions" in the accompanying Condensed Consolidated Statements of Operations.

|  | Fair Value<br>of Talon<br>CVR |
|--|-------------------------------|
| December 31, 2015  | \$ 1,377                      |
| Fair value adjustment for the nine months ended September 30, 2016 | 476                           |
| September 30, 2016   | \$ 1,853                      |

## (b) Acquisition of Rights to EVOMELA and Related Contingent Consideration

## Overview of Acquisition of Rights to EVOMELA

In March 2013, we completed the acquisition of exclusive global development and commercialization rights to Captisol-enabled®, propylene glycol-free MELPHALAN (which we branded as "EVOMELA") for use as a conditioning treatment prior to autologous stem cell transplant for patients with MM. We acquired these rights from CyDex Pharmaceuticals, Inc. a wholly-owned subsidiary of Ligand ("CyDex") for an initial license fee of \$3 million, and assumed responsibility for EVOMELA's then-ongoing clinical and regulatory development program. Concurrent with the execution of this in-license agreement, we entered into an exclusive supply agreement with CyDex that requires that all of our purchases of the Captisol product (which is required to formulate EVOMELA) must be from CyDex, while CyDex must supply us with all of our future commercial needs of this raw material.

We accounted for this transaction as a business combination, which required that assets acquired and liabilities assumed be recognized on the balance sheet at their fair values as of the transaction date.

We are required to pay Ligand additional amounts up to an aggregate \$60 million upon the achievement of annual net sales thresholds (exclusive of the \$6 million milestone payment triggered in March 2016, as discussed below), however, we continue to not expect to achieve these sales thresholds based on our estimated market size for this product and our projected market share. We also must pay royalties of 20% on our net sales of EVOMELA in all territories. Our EVOMELA royalty obligation and sales-based milestones are jointly treated under GAAP as part of an "executory contract" that is connected with an at-market supply agreement for Captisol (requiring the continuing involvement of CyDex). As a result, this royalty obligation and sales-based milestones are treated as separate transactions apart from consideration for the EVOMELA rights. Our royalty expenses are reported through "cost of

goods sold” on our Consolidated Statement of Operations in the period of our recognized revenue for the product sale.

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

(Unaudited)

## Consideration Transferred

The acquisition-date fair value of the consideration transferred consisted of the following:

|  |         |
|--|---------|
| Cash consideration                                       | \$3,000 |
| Ligand Contingent Consideration - FDA approval milestone | 4,700   |
| Total purchase consideration                             | \$7,700 |

## Fair Value Estimate of Asset Acquired and Liability Assumed

The total purchase consideration is allocated to the acquisition of the net tangible and intangible assets based on their estimated fair values as of the closing date. The allocation of the total purchase price to the net assets acquired is as follows:

EVOMELA IPR&amp;D \$7,700

We estimated the fair value of the in-process research and development using the income approach. The income approach uses valuation techniques to convert future amounts to a single present amount (discounted). Our measurement is based on the value indicated by current market expectations about those future amounts. The fair value estimate took into account our estimates of future incremental earnings that may be achieved upon regulatory approval, promotion, and distribution associated with the rights, and included estimated cash flows of approximately 10 years and a discount rate of approximately 25%.

The fair value of the contingent consideration liability assumed was determined using the probability of success and the discounted cash flow method of the income approach (representing unobservable inputs and are therefore represent Level 3 values - see Note 2(xiii)). In March 2016, the FDA approved EVOMELA, triggering a \$6 million milestone payment to Ligand ("Ligand Contingent Consideration") that was paid in April 2016. "EVOMELA IPR&D" of \$7.7 million was reclassified to "EVOMELA distribution rights" within "Intangible assets, net of accumulated amortization and impairment charges" in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2016 (see Note 3(f)). Amortization related to this intangible asset commenced on April 1, 2016. Ligand Contingent Consideration Fair Value as of September 30, 2016 and December 31, 2015

The fair value of the Ligand Contingent Consideration immediately prior to its payment was the full \$6 million payment due upon milestone achievement. Accordingly, in the first quarter of 2016, we recorded a \$0.8 million adjustment to the "change in fair value of contingent consideration related to acquisitions" in the accompanying Condensed Consolidated Statements of Operations.

|  | Fair Value of<br>Ligand<br>Contingent<br>Consideration |
|--|--|
| December 31, 2015  | \$ 5,227   |
| Fair value adjustment for the three months ended March 31, 2016        | 773  |
| Payment to Ligand in April 2016 for FDA approval milestone achievement | \$ (6,000 )  |
| September 30, 2016   | \$ —   |

## (c) Allos Acquisition

We acquired Allos Therapeutics, Inc. ("Allos") on September 5, 2012, which was accounted for as a business combination. Our total cash consideration for this acquisition was \$205.2 million, through which we acquired FOLOTYN distribution rights. We have no contingent consideration obligations as part of this transaction.

## 10. OUT-LICENSE OF MARQIBO, ZEVALIN, AND EVOMELA IN CHINA TERRITORY TO CASI

Overview of CASI Out-License

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

(Unaudited)

On September 17, 2014, we executed three product out-license agreements with a perpetual term (collectively, the “CASI Out-License”) with CASI Pharmaceuticals, Inc. (“CASI”), a publicly-traded biopharmaceutical company (NASDAQ: CASI) with a primary focus on the China market. Under the CASI Out-License, we granted CASI the exclusive rights to distribute two of our commercialized oncology drugs, ZEVALIN and MARQIBO, and our Phase 3 drug candidate, EVOMELA (“CASI Out-Licensed Products”) in greater China (which includes Taiwan, Hong Kong and Macau). In return, we received CASI equity for the rights related to ZEVALIN and EVOMELA and a secured promissory note for the rights related to MARQIBO. Additionally, under certain conditions which generally expire on September 17, 2019, we have a right to receive additional CASI common stock in order to maintain our post-investment ownership percentage if CASI issues additional securities. In February 2016 and July 2016, we acquired an additional 1.7 million and 1.1 million common shares of CASI at par value, respectively, resulting in our total holding of 8.2 million common shares as of September 30, 2016.

CASI will be responsible for the development and commercialization of these three drugs, including the submission of import drug registration applications to regulatory authorities and conducting any confirmatory clinical studies in greater China. We will provide CASI with future commercial supply of the CASI Out-Licensed Products under typical market terms.

Proceeds Received in the Third Quarter of 2014

The proceeds we received, and its fair value on the CASI Out-License execution date, consisted of the following:

|   |             |
|---|-------------|
| CASI common stock (5.4 million shares)  | \$8,649 (a) |
| CASI secured promissory note due March 17, 2017, net of fair value discount (\$1.5 million face value and 0.5% annual coupon) | 1,310 (b)   |
| Total consideration received, net of fair value discount  | \$9,959     |

Value determined based on the September 17, 2014 closing price of 5.4 million shares of CASI common stock on the NASDAQ Capital Market of \$1.60 per share. Our current intention is to hold these securities on a long-term basis. Accordingly, we have presented its value of \$9.1 million as of September 30, 2016 within "other assets" (a) (rather than "marketable securities") on our accompanying Condensed Consolidated Balance Sheets. The change in fair value of these securities is reported within “unrealized gain on available-for-sale securities” on the Condensed Consolidated Statements of Comprehensive Loss.

Value estimated using the terms of the \$1.5 million promissory note, the application of a synthetic debt rating based on CASI’s publicly-available financial information, and the prevailing interest yields on similar public debt securities as of September 17, 2014. The face value of the promissory note as of September 30, 2016 is included within "other receivables" on the accompanying Condensed Consolidated Balance Sheets. (b)

In addition, CASI will be responsible for paying any royalties or milestones that we are obligated to pay to our third-party licensors resulting from the achievement of certain milestones and/or sales of CASI Out-Licensed Products, but only to the extent of the greater China portion of such royalties or milestones.

11. OUT-LICENSE OF ZEVALIN IN CERTAIN EX-U.S. TERRITORIES TO MUNDIPHARMA

On November 16, 2015, we entered into an out-license agreement with Mundipharma International Corporation Limited for their commercialization of ZEVALIN in Asia (excluding India and Greater China), Australia, New Zealand, Africa, the Middle East, and Latin America (including the Caribbean). In return, we received \$18 million (comprised of \$15 million received in December 2015 and \$3 million received in January 2016). Of these proceeds, \$15 million was recognized within "license fees and service revenue" in the fourth quarter of 2015, and \$1.3 million of the \$3 million payment was recognized in the same caption for the nine months ended September 30, 2016. As of September 30, 2016, \$1.7 million remains deferred and is presented within "deferred revenue" (current and



non-current) in the accompanying Condensed Consolidated Balance Sheets. We are also eligible to receive an additional \$2 million upon Mundipharma's achievement of a specified sales milestone, that if/when achieved, will also be reported within "license fees and service revenue".

As Mundipharma has sales of ZEVALIN kits in their territories, the remaining unrecognized portion of this \$3 million payment will be reported by us within "license fees and service revenue" on an established per-unit basis. Mundipharma is required to reimburse us for our payment of royalties due to Bayer Pharma AG ("Bayer") from their ZEVALIN sales - see Note 16(b)(ii).

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(Unaudited)

In connection with this out-license, on November 16, 2015, we concurrently sold to Mundipharma K.K., all common stock of Spectrum Pharmaceuticals GK (the legal entity through which we previously sold ZEVALIN in Japan) for \$2.2 million (in the form of an unsecured note, which was paid in full in June 2016), representing its net asset value (excluding inventory) as of November 16, 2015.

**12. OUT-LICENSE OF ZEVALIN, FOLOTYN, BELEODAQ, AND MARQIBO IN CANADA TERRITORY TO SERVIER**

On January 8, 2016, we entered into a strategic partnership with Servier Canada, Inc. ("Servier") for the out-licenses of ZEVALIN, FOLOTYN, BELEODAQ, and MARQIBO. We received \$6 million in upfront payments in the first quarter of 2016 which was recognized within "license fees and service revenue" in the accompanying Condensed Consolidated Statement of Operations for the nine months ended September 30, 2016. We will also receive development milestone payments if/when achieved, and a high single-digit royalty on their sales of these products.

**13. CO-PROMOTION ARRANGEMENT WITH EAGLE PHARMACEUTICALS**

On November 4, 2015, we executed an agreement with Eagle Pharmaceuticals, Inc. ("Eagle") whereby designated members of our sales force will concurrently market up to six of Eagle's pharmaceutical products along with our products, in return for fixed monthly payments over the initial 18 month contract term through June 30, 2017, aggregating \$12.8 million (the "Eagle Agreement"). We are also eligible to receive milestone payments of up to \$5 million for sales made in 2016 that exceed certain thresholds, and up to \$4 million for sales made in the first half of 2017 that exceed certain thresholds. In addition, for performance above such sales levels in 2016, and in the first half of 2017, we are eligible to receive variable-based payments in the high single-digits on incremental sales of Eagle's products above these established threshold levels.

The fixed payments received by us, as well as reimbursable costs for certain marketing activities that we coordinate with third parties on Eagle's behalf, are recognized within "license fees and service revenue" on our accompanying Consolidated Statement of Operations. This amount was \$2.4 million and \$6.7 million for the three and nine months ended September 30, 2016, respectively. Any variable payments due to us will be recognized in the period earned and reported within the same revenue caption.

An allocation of our sales personnel costs that are dedicated to Eagle sales activities are reported within "cost of service revenue" on our accompanying Consolidated Statement of Operations, as are reimbursable costs for Eagle marketing activities. These were an aggregate \$2.2 million and \$5.7 million for the three and nine months ended September 30, 2016, respectively.

Eagle may extend the initial term of this agreement by six months to December 31, 2017 at its sole election. Any extensions after December 31, 2017 require mutual consent and will be for six months per extension. The Eagle Agreement may be terminated by either party for uncured material breaches and certain other events following a change of control or insolvency of either party, and solely by Eagle for convenience with 60 days written notice, subject to an established termination fee, as calculated within the Eagle Agreement.

**14. CONVERTIBLE SENIOR NOTES**

Overview

On December 17, 2013, we entered into an agreement for the sale of \$120 million aggregate principal amount of 2.75% Convertible Senior Notes due December 2018 (the "2018 Convertible Notes"). The 2018 Convertible Notes are convertible into shares of our common stock at a conversion rate of 95 shares per \$1,000 principal amount of the 2018 Convertible Notes, equating to 11.4 million common shares if fully converted. The in-the-money conversion price is equivalent to \$10.53 per common share. The conversion rate and conversion price is subject to adjustment under

certain limited circumstances. The 2018 Convertible Notes bear interest at a rate of 2.75% per year, payable semiannually in arrears on June 15 and December 15 of each year. The 2018 Convertible Notes will mature and become payable on December 15, 2018, subject to earlier conversion into common stock at the holders' option. The sale of the 2018 Convertible Notes closed on December 23, 2013 and our net proceeds were \$115.4 million, after deducting banker and professional fees of \$4.6 million. We used a portion of these net proceeds to simultaneously enter into

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

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“bought call” and “sold warrant” transactions with Royal Bank of Canada (collectively, the “Note Hedge”). We recorded the Note Hedge on a net cost basis of \$13.1 million, as a reduction to “additional paid-in capital” in our accompanying Condensed Consolidated Balance Sheets. Under applicable GAAP, the Note Hedge transaction is not expected to be marked-to-market through earnings or comprehensive income in future reported periods.

## Conversion Hedge

We entered into Note Hedge transactions to reduce the potential dilution to our stockholders and/or offset any cash payments that we are required to make in excess of the principal amount, upon conversion of the 2018 Convertible Notes (in the event that the market price of our common stock is greater than the conversion price). The strike price of the “bought call” is equal to the conversion price and conversion rate of the 2018 Convertible Notes, matching the 11.4 million common shares the 2018 Convertible Notes may be converted into. The strike price of our “sold warrant” is \$14.03 per share of our common stock, and is also for 11.4 million common shares.

## Conversion Events

On and after June 15, 2018, and until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or a portion of their 2018 Convertible Notes. Prior to June 15, 2018, holders may convert all or a portion of their 2018 Convertible Notes only under any of the following circumstances: (1) during any fiscal quarter (and only during such fiscal quarter), if, for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on the last trading day of the immediately preceding fiscal quarter, the last reported sale price of our common stock on such trading day is greater than or equal to 130% of the Notes' conversion price on such trading day; (2) during the five consecutive business day period immediately following any five consecutive trading day period in which, for each trading day of that measurement period, the trading price per \$1,000 principal amount of 2018 Convertible Notes for such trading day was less than 98% of the product of (i) the last reported sale price of our common stock on such trading day and (ii) the Notes' conversion rate on such trading day; (3) upon the occurrence of certain corporate transactions; and (4) at any time prior to our stockholders' approval to settle the 2018 Convertible Notes in our common shares and/or cash. As of September 30, 2016, the 2018 Convertible Notes are not eligible to be converted into our common stock, as none of the above elements (1) through (4) were met. Our stockholders' approval of "flexible settlement" occurred at our Annual Meeting of Stockholders on June 29, 2015. As a result, we may (at our election) settle any future conversions of the 2018 Convertible Notes by paying or delivering cash, shares of our common stock, or a combination of cash and shares of our common stock. However, if the holders of the Convertible Notes do not elect any conversion into our common stock, our December 2018 obligation to repay the principal amount of \$120 million in cash, plus any accrued and unpaid interest, is unchanged.

## Carrying Value and Fair Value

The carrying value of the 2018 Convertible Notes as of September 30, 2016 is summarized as follows:

|   |            |
|---|------------|
| Principal amount  | \$ 120,000 |
| (Less): Unamortized debt discount (amortized through December 2018) | (14,206 )  |
| (Less): Debt issuance costs (see Note 3(d))                         | (1,650 )   |
| September 30, 2016 carrying value                                   | \$ 104,144 |

As of September 30, 2016 and December 31, 2015, the estimated aggregate fair value of the 2018 Notes is \$106.5 million and \$105.1 million, respectively. These fair value estimates are less than the principal amount of \$120 million, largely since the conversion feature of the 2018 Notes was, and remains, out-of-the-money. These estimated fair values represent a Level 2 measurement (see Note 2(xiii)), based upon the 2018 Convertible Notes' quoted bid price at each date in a thinly-traded market.

## Components of Interest Expense on 2018 Convertible Notes

The following table sets forth the components of interest expense recognized in the accompanying Condensed Consolidated Statements of Operations for the 2018 Convertible Notes for the nine months ended September 30, 2016:

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|                                     |         |   |
|-------------------------------------|---------|---|
| Contractual coupon interest expense | \$2,475 |   |
| Amortization of debt issuance costs | 521     |   |
| Accretion of debt discount          | 4,246   |   |
| Total                               | \$7,242 |   |
| Effective interest rate             | 8.66    | % |

**15. MUNDIPHARMA AGREEMENT AND DRUG DEVELOPMENT LIABILITY**

As the result of our acquisition of Allos Therapeutics, Inc. on September 5, 2012 (through which we obtained distribution rights for FOLOTYN), we assumed its obligations under an active strategic collaboration agreement with a third-party, Mundipharma (the “Mundipharma Collaboration Agreement”). Under the Mundipharma Collaboration Agreement, we retained full commercialization rights for FOLOTYN in the U.S. and Canada, with Mundipharma having exclusive rights to commercialize FOLOTYN in all other countries in the world (the “Mundipharma Territories”).

On May 29, 2013, the Mundipharma Collaboration Agreement was amended and restated (the “Amended Mundipharma Collaboration Agreement”), in order to modify: (i) the scope of the licensed territory, (ii) milestone payments, (iii) royalty rates, and (iv) drug development obligations. In connection with the Amended Mundipharma Collaboration Agreement, we received a one-time \$7 million payment from Mundipharma for certain research and development activities to be performed by us.

As a result of the Amended Mundipharma Collaboration Agreement, (a) Europe and Turkey were excluded from Mundipharma’s commercialization territory, (b) we may receive regulatory milestone payments of up to \$16 million, and commercial progress and sales-dependent milestone payments of up to \$107 million, (c) we will receive tiered double-digit royalties based on net sales of FOLOTYN within Mundipharma’s licensed territories, and (d) we and Mundipharma will bear our own FOLOTYN development costs.

On May 29, 2015 and effective as of May 1, 2015, we entered into an amendment to the Amended Mundipharma Collaboration Agreement (the “Amendment”). Pursuant to the Amendment, among other things, the parties revised the conditions to our exercise of the option to gain commercialization rights in Switzerland from Mundipharma, and also revised tiered double-digit royalties payable by Mundipharma on net sales in Switzerland.

The fair value of this liability is included in the current and long-term portions of “drug development liability” within the accompanying Condensed Consolidated Balance Sheets, and it includes our assumptions about personnel needed to perform these research and development activities, third party costs for projected clinical trial enrollment, and patient treatment-related follow up through approximately 2031.

The fair value of our “drug development liability” within our accompanying Condensed Consolidated Balance Sheets was estimated using the discounted income approach model. The unobservable inputs (i.e., Level 3 inputs - see Note 2(xiii)) in this valuation model that have the most significant effect on these liabilities include (i) estimates of research and development personnel costs needed to perform the research and development services, (ii) estimates of expected cash outflows to third parties for services and supplies during the expected period of performance through 2031, and (iii) an appropriate discount rate for these expenditures. These inputs are reviewed by management on a quarterly basis for continued applicability.

We assess this liability at each reporting date and record its adjustment through “research and development” expense in our accompanying Condensed Consolidated Statements of Operations.

|             |             |             |
|-------------|-------------|-------------|
| Drug        | Drug        | Total Drug  |
| Development | Development | Development |
| Liability,  | Liability,  | Liability – |
| Current –   | Long Term – | FOLOTYN     |

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|  | FOLOTYN | FOLOTYN   |           |
|--|---------|-----------|-----------|
| Balance at December 31, 2015               | \$ 259  | \$ 14,427 | \$ 14,686 |
| Transfer from long-term to current in 2016 | 423     | (423 )    | —         |
| (Less): Expenses incurred in 2016          | (526 )  | —         | (526 )    |
| Balance at September 30, 2016              | \$ 156  | \$ 14,004 | \$ 14,160 |

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(Unaudited)

16. COMMITMENTS AND CONTINGENCIES

(a) Facility Leases

We lease our principal executive office in Henderson, Nevada under a non-cancelable operating lease expiring April 30, 2019. We also lease our research and development facility in Irvine, California under a non-cancelable operating lease expiring May 31, 2019, in addition to several other administrative office leases. Each lease agreement contains scheduled rent increases which are accounted for on a straight-line basis.

(b) In/Out Licensing Agreements and Co-Development Arrangements

The in-license agreements for our commercialized and development-stage drug products provide us with territory-specific rights to their manufacture and distribution (including sub-licensing, or out-licensing, rights). We are generally responsible for all related clinical development costs, patent filings and maintenance costs, marketing costs, and liability insurance costs. We are also obligated to make specified milestone payments to our licensors upon the achievement of certain regulatory and sales milestones, and to pay royalties based on our net sales of all in-licensed products. We also enter into out-license agreements for territory-specific rights to our drug products which include one or more of: upfront license fees, royalties from our licensees' sales, and/or milestone payments from our licensees' sales or regulatory achievements. For certain development-stage drug products, we may enter into cost/effort-sharing arrangements with our licensees and licensors.

Our most significant of these agreements, and the key financial terms and our accounting for each, are summarized below:

(i) ZEVALIN U.S.: In-Licensing and Development in the U.S.

In December 2008, we acquired rights to commercialize and develop ZEVALIN in the U.S. as the result of a transaction with Cell Therapeutics, Inc. ("CTI") through our wholly-owned subsidiary, RIT Oncology LLC ("RIT"). We assumed certain agreements with various third parties related to ZEVALIN intellectual property for its manufacture, use, and sale in the U.S.

In accordance with the terms of assumed contracts, we are required to meet specified payment obligations, including a milestone payment to Corixa Corporation of \$5 million based on ZEVALIN sales in the U.S. (the "Corixa Liability"). This milestone has not yet been met, and \$0.1 million for this potential milestone achievement is included within "acquisition-related contingent obligations" in our accompanying Condensed Consolidated Balance Sheet as of September 30, 2016 and December 31, 2015, respectively. Our U.S. net sales-based royalties are in the low to mid-single digits to Genentech, Inc. and mid-teens to Biogen.

(ii) ZEVALIN Ex-U.S.: In-License and Asset Purchase Agreement with Bayer Pharma

In April 2012, through our wholly-owned subsidiary, Spectrum Pharmaceuticals Cayman, L.P., we completed the acquisition of licensing rights to market ZEVALIN outside of the U.S. from Bayer. ZEVALIN is currently approved in approximately 40 countries outside the U.S. for the treatment of B-cell non-Hodgkin lymphoma, including countries in Europe, Latin America, and Asia.

In consideration for the rights granted under the agreement, concurrent with the closing, we paid Bayer a one-time fee of €19 million. Our ex-U.S. net sales-based royalty to Bayer ranges between the single digits to mid-teens. We amended the agreement in February 2016. Under the amendment, in the event that we elect to sublicense the rights in certain countries, our applicable royalty on net sales to Bayer would be adjusted to a tiered rate from the single-digits to 20% in such countries. Unless earlier terminated, the term of the agreement, as amended, continues until the expiration of the last-to-expire patent covering the sale of a licensed product in the relevant country, or 15 years from the date of first commercial sale of the licensed product in such country, whichever is longer.

(iii) ZEVALIN Ex-U.S.: Out-License Agreement with Dr. Reddy's

Effective June 27, 2014, we executed an exclusive License Agreement with Dr. Reddy's Laboratories Ltd. ("Dr. Reddy's"), for the distribution rights of ZEVALIN within India. The agreement term is 15 years from the receipt of



pending approval of ZEVALIN from the Drug Controller General of India. On December 17, 2014, upon the execution of a supply agreement, an upfront and non-refundable payment of \$0.5 million was triggered and was paid to us in February 2015. The recognition of this upfront payment is reported on a straight-line basis within “license fee and service revenue” on the Condensed Consolidated Statements of Operations over a 10 year term through December 2024. Additionally, sales and

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regulatory milestones (aggregating \$3 million) will become payable to us when achieved by Dr. Reddy's, as well as a 20% royalty on net sales of ZEVALIN in India.

(iv) ZEVALIN Ex-U.S.: Out-License Agreement with Mundipharma

On November 16, 2015, we entered into an out-license agreement with Mundipharma for their commercialization of ZEVALIN in Asia (excluding India and Greater China), Australia, New Zealand, Africa, the Middle East, and Latin America (including the Caribbean). In return, we received \$18 million (comprised of \$15 million received in December 2015 and \$3 million received in January 2016). Of these proceeds, \$15 million was recognized within "license fees and service revenue" in the fourth quarter of 2015, and \$1.3 million of the \$3 million payment was recognized in the same caption for the nine months ended September 30, 2016. As of September 30, 2016, \$1.7 million remains deferred and is presented within "deferred revenue" (current and non-current) in the accompanying Condensed Consolidated Balance Sheets. As Mundipharma has sales of ZEVALIN kits in their territories, the remaining unrecognized portion of this \$1.7 million value will be recognized by us in subsequent periods within "license fees and service revenue" on an established per-unit basis. Mundipharma is required to reimburse us for our payment of royalties due to Bayer from their net sales of ZEVALIN (see Note 16(b)(ii)).

We are also eligible to receive an additional \$2 million upon Mundipharma's achievement of a specified sales milestone, that if/when achieved, will also be reported within "license fees and service revenue".

(v) FUSILEV: In-License Agreement with Merck & Cie AG

In May 2006, we amended and restated a license agreement with Merck & Cie AG ("Merck"), which we assumed in connection with our March 2006 acquisition of the assets of Targent, Inc. Pursuant to the license agreement with Merck, we obtained the exclusive license to use regulatory filings related to FUSILEV and a non-exclusive license under certain patents and know-how to develop, manufacture, use, and sell FUSILEV in the field of oncology in North America in return for a royalty percentage (in the mid-single digits) of net sales. Merck is eligible to receive a \$0.2 million payment from us upon the achievement of a FDA approval of an oral form of FUSILEV. This milestone has not yet been met, and no amounts have been accrued in our accompanying Condensed Consolidated Balance Sheets for its potential achievement.

(vi) FOLOTYN: In-License Agreement with Sloan-Kettering Institute, SRI International and Southern Research Institute

In December 2002, Allos entered into the FOLOTYN License Agreement with Sloan-Kettering Institute for Cancer Research, SRI International, and Southern Research Institute. As a result of Allos becoming our wholly owned subsidiary in September 2012, we are bound by the FOLOTYN License Agreement under which we obtained exclusive worldwide rights to a portfolio of patents and patent applications related to FOLOTYN and its uses. Under the terms of the FOLOTYN License Agreement, we are required to fund all development programs and will have sole responsibility for all commercialization activities. In addition, we pay graduated royalties to our licensors based on our (including sub licensees) worldwide annual net sales of FOLOTYN. Royalties are 8% of annual worldwide net sales up to \$150 million; 9% of annual worldwide net sales of \$150 million through \$300 million; and 11% of annual worldwide net sales in excess of \$300 million.

(vii) EVOMELA: In-License Agreement with Cydex Pharmaceuticals, Inc.

In March 2013, we completed the acquisition of exclusive global development and commercialization rights to EVOMELA from Ligand (see Note 9(b)) and assumed responsibility for EVOMELA's ongoing clinical and regulatory development program. We filed a New Drug Application ("NDA") with the FDA in December 2015 for its use as a conditioning treatment prior to autologous stem cell transplant for patients with MM. On March 10, 2016, the FDA communicated its approval of the NDA for EVOMELA. In connection with this FDA approval, we made a \$6 million milestone payment to Ligand on April 13, 2016.

We are required to pay Ligand additional amounts of up to \$60 million (exclusive of the \$6 million milestone paid in April 2016), upon the achievement of specified net sales thresholds. We will also pay royalties of 20% on our net sales of licensed products in all territories.

(viii) MARQIBO: Acquisition of Talon Therapeutics, Inc. and Related Contingent Consideration Agreement

In July 2013, we completed the acquisition of Talon, through which we obtained exclusive global development and commercialization rights to MARQIBO (see Note 9(a)). As part of this acquisition, we issued the former Talon stockholders a CVR that we have valued and presented on our accompanying Condensed Consolidated Balance Sheets as a \$1.9 million and

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\$1.4 million liability within “acquisition-related contingent obligations” as of September 30, 2016 and December 31, 2015, respectively. The CVR has a maximum payout value of \$195 million if all sales and regulatory approval milestones are achieved.

(ix) QAPZOLA: License Agreements with Allergan, Inc. and NDDO Research Foundation

In October 2008, we entered into an exclusive development and commercialization collaboration agreement with Allergan for QAPZOLA. Pursuant to the terms of the agreement, Allergan paid us an up-front non-refundable fee of \$41.5 million at closing (which we have amortized through revenue within “license fees and service revenue” in full as of December 31, 2013). In October 2008, pursuant to a letter agreement with NDDO Research Foundation (“NDDO”), we agreed to pay NDDO the following in relation to QAPZOLA milestones: (a) upon FDA acceptance of the NDA, the issuance of 25,000 of our common shares (which occurred in March 2016, and the \$0.1 million value of these shares is included in “research and development” expense for the nine months ended September 30, 2016) and (b) upon FDA approval of the drug (its target decision date is set for December 11, 2016), a one-time payment of \$0.3 million.

In January 2013, we entered into a second amendment to the license, development, supply and distribution agreement with Allergan to amend the agreement and reacquire the rights originally licensed to Allergan in the U.S., Europe, and other territories in exchange for a tiered single-digit royalty on certain products containing QAPZOLA, and relieved Allergan of its development and commercialization obligations.

(x) QAPZOLA: Collaboration Agreement with Nippon Kayaku Co. LTD.

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

Under the terms of this agreement, Nippon Kayaku paid us an upfront fee of \$15 million (which we have amortized through revenue within “license fees and service revenue” in full as of December 31, 2013). Nippon Kayaku is also obligated to make additional payments to us based on the achievement of certain development, regulatory and commercialization milestones. Under the terms of the agreement, we are entitled to payment of \$10 million and \$126 million upon achievement of certain regulatory and commercialization milestones, respectively. Also, Nippon Kayaku has agreed to pay us royalties based on a percentage of net sales of the subject products in the defined territory in the mid-teen digits.

(xi) BELEODAQ: In-License and Collaboration Agreement with Onxeo

In February 2010, we entered into a licensing and collaboration agreement with TopoTarget A/S (now Onxeo DK) (“Onxeo”), as amended in October 2013, for the development and commercialization of BELEODAQ. The agreement provides that we have the exclusive right to manufacture, develop, and commercialize BELEODAQ in North America and India, with an option for China. Pursuant to the terms of this agreement, we paid Onxeo an upfront fee of \$30 million in 2010.

Under continuing terms, all development, including studies, will be conducted under a joint development plan, which we will fund 70% of such costs, and Onxeo will fund 30%. We have final decision-making authority for all developmental activities in North America and India (and China upon exercise of its option). Onxeo has final decision-making authority for all developmental activities in all other jurisdictions. In February 2014, upon FDA acceptance of our new drug application, we issued one million shares of our common stock, and made a \$10 million milestone payment to Onxeo. The aggregate payout value of this first milestone at achievement was \$17.8 million, and was recognized within “research and development” in the first quarter of 2014.

In July 2014, we received approval from the FDA for BELEODAQ's use for injection and treatment of relapsed or refractory peripheral T-cell lymphoma. As a result, we paid a second milestone payment to Onxeo of \$25 million in November 2014, which we capitalized as an amortizable intangible asset. Other potential milestone payments due upon BELEODAQ regulatory achievements and sales thresholds (aggregating up to \$278 million) are not included within "total liabilities" in our accompanying Condensed Consolidated Balance Sheets.

We will pay Onxeo future royalties in the mid-teen digits based on net sales of BELEODAQ. The agreement will continue until the expiration of the last royalty payment period in the last country in the defined territory with certain provisions surviving, unless earlier terminated in accordance with its terms.

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(xii) ROLONTIS: Co-Development and Commercialization Agreement with Hanmi Pharmaceutical Company  
In October 2014, we exercised our option under a License Option and Research Collaboration Agreement dated January 2012 (as amended) with Hanmi Pharmaceutical Company, Ltd. (“Hanmi”), for ROLONTIS, formerly known as “LAPS-GCSF” or “SPI-2012”, a drug based on Hanmi’s proprietary LAPSCOVERY™ technology for the treatment of chemotherapy induced neutropenia. Under the terms of this agreement, as amended, we have primary financial responsibility for the ROLONTIS development plan. We have worldwide rights for ROLONTIS, except for Korea, China, and Japan. In the first quarter of 2016, we accrued a milestone payment of \$1.9 million (as quantified under GAAP) related to Hanmi, based on initial patient dosing in January 2016 as part of our Phase III study. On April 26, 2016, we (i) issued 318,750 of our common shares to Hanmi and (ii) remitted a \$0.4 million payment to the Internal Revenue Service (IRS) on their behalf for related tax obligations. This aggregate \$2.7 million value was recognized within “research and development” expense in accompanying Condensed Consolidated Statement of Operations for the nine months ended September 30, 2016. We will also be responsible for milestones relating to regulatory approvals and sales thresholds (aggregating \$238 million), which are not included within “total liabilities” in our Condensed Consolidated Balance Sheets. We will pay Hanmi royalties in the mid-teen digits on our net sales of ROLONTIS.

(xiii) POZIOTINIB: In-License Agreement with Hanmi

In February 2015, we executed an in-license agreement with Hanmi Pharmaceutical Co., Ltd for POZIOTINIB, a pan-HER inhibitor in Phase 2 clinical trials, requiring our upfront payment for these rights. This drug has shown single agent activity in the treatment of various cancer types during Phase I studies, including breast, gastric, colorectal, and lung cancers.

Under the terms of this agreement, we received the exclusive rights to commercialize POZIOTINIB globally, excluding Korea and China. Hanmi, and its development partners, will bear full responsibility for completion of on-going Phase 2 trials in Korea. We will bear full financial responsibility for all other clinical studies. We will pay Hanmi future regulatory and sales-dependent milestones payments (aggregating \$358 million), which are not included within “total liabilities” in our accompanying Condensed Consolidated Balance Sheets. We will pay Hanmi royalties in the low to mid-teen digits on our net sales of POZIOTINIB.

(xiv) ZEVALIN, FOLOTYN, BELEODAQ, and MARQIBO: Out-License Agreement with Servier

In January 2016, we entered into a strategic partnership with Servier for the out-licenses of ZEVALIN, FOLOTYN, BELEODAQ, and MARQIBO. We received an aggregate \$6 million in upfront payments in the first quarter of 2016, which is recognized within “license fees and service revenue” in our accompanying Condensed Consolidated Statement of Operations for the nine months ended September 30, 2016. We will also receive development milestone payments if/when achieved, and a high single-digit royalty on their sales of these products.

(c) Service Agreements

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

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

(d) Supply Agreements

We have entered into certain supply agreements, or have issued purchase orders, which require us to make minimum purchases from vendors for the manufacture of our products. These commitments do not exceed our planned commercial requirements, and the contracted prices do not exceed their fair market value.

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(e) Employment Agreement

We have entered into an employment agreement with our Chief Executive Officer under which cash compensation and benefits would become payable in the event of termination by us for any reason other than cause, his resignation for good reason, or upon a change in control of our Company.

(f) Deferred Compensation Plan

The Spectrum Pharmaceuticals, Inc. Deferred Compensation Plan (the “DC Plan”) is administered by the Compensation Committee of our Board of Directors and is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

The DC Plan is maintained to provide deferred compensation benefits for a select group of our employees (the “DC Participants”). Under the DC Plan, we provide the DC Participants with the opportunity to make annual elections to defer up to a specified amount or percentage of their eligible cash compensation, and we have the option to make discretionary contributions. At September 30, 2016 and December 31, 2015, the aggregate DC Plan deferrals by employees and our discretionary contributions totaled \$7.8 million and \$6.5 million, respectively, and are included within “other long-term liabilities” in the accompanying Condensed Consolidated Balance Sheets.

(g) Litigation

We are involved from time-to-time with various legal matters arising in the ordinary course of business. These claims and legal proceedings are of a nature we believe are normal and incidental to a pharmaceutical business, and may include product liability, intellectual property, employment matters, and other general claims.

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

FOLOTYN ANDA Litigation

On June 19, 2014, we filed a lawsuit against five parties resulting from Paragraph IV certifications in connection with four separate ANDAs to manufacture a generic version of FOLOTYN: (1) Teva Pharmaceuticals USA, Inc. (“Teva”), (2) Sandoz Inc. (“Sandoz”), (3) Fresenius Kabi USA, LLC (“Fresenius”), (4) Dr. Reddy’s Laboratories, Ltd., and (5) Dr. Reddy’s Laboratories, Inc. (collectively “Dr. Reddy’s”). We reached confidential settlement agreements with each defendant. As a result of the settlements, Teva, Dr. Reddy’s, Sandoz and Fresenius will be permitted to market a generic version of FOLOTYN in the United States commencing on November 15, 2022 or earlier under certain circumstances. The litigation has been dismissed as of August 17, 2016. All costs pertaining to this matter (incurred and accrued) have been recognized within "selling, general and administrative" expenses on the accompanying Condensed Consolidated Statement of Operations for all periods presented.



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(Unaudited)

Stockholder Litigation

Timothy Fik v. Rajesh C. Shrotriya, et al. (Filed April 11, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00624-JCM-CWH); Christopher J. Watkins v. Rajesh C. Shrotriya, et al. (Filed April 22, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00684-JCM-VCF); and Stefan Muenchhagen v. Rajesh C. Shrotriya, et al. (Filed May 28, 2013; Case Number 2:2013-cv-00942-APG-PAL). These consolidated federal derivative actions are brought by the respective purported stockholders on behalf of nominal plaintiff Spectrum against certain current and former directors and officers. The complaints generally allege breaches of fiduciary duty based on conduct relating to a March 12, 2013 press release concerning sales of Spectrum's product FUSILEV. The complaints seek compensatory damages, corporate governance reforms, restitution and disgorgement of defendants' alleged profits, and costs and fees. These actions are stayed. Settlement discussions are ongoing, and accordingly, no agreement has yet been reached to resolve these derivative complaints. If a settlement were reached, we believe it would be reimbursable by our insurance carrier, and would be subject to preliminary and final court approval.

Hardik Kakadia v. Rajesh C. Shrotriya, et al. (Filed April 23, 2013 in the Eighth Judicial District Court of the State of Nevada in and for Clark County; Case Number A-13-680643-B); and Joel Besner v. Rajesh C. Shrotriya, et al. (Filed May 31, 2013; Case Number A-13-682668-C) (collectively the "State Derivative Actions"). These consolidated state derivative actions are brought by the respective purported stockholders on behalf of nominal plaintiff Spectrum against certain current and former directors and officers and are substantially similar to the consolidated federal derivative actions. These actions are stayed. Settlement discussions are ongoing, and accordingly, no agreement has yet been reached to resolve these derivative complaints. If a settlement were reached, we believe it would be reimbursable by our insurance carrier, and would be subject to preliminary and final court approval.

Olutayo Ayeni v. Spectrum Pharmaceuticals, Inc., et al. (Filed September 21, 2016 in the United States District Court, Central District of California; Case No. 2:16-cv-07074) and Glen Hartsock v. Spectrum Pharmaceuticals, Inc., et al. (Filed September 28, 2016 in the United States District Court, District Court of Nevada Case; No. 2:16-cv-02279-RFB-GWF). These putative class action lawsuits allege that we and certain of our executive officers made false or misleading statements and failed to disclose material facts about our business and the prospects of approval for our new drug application to the FDA for QAPZOLA in violation of Section 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiffs seek damages, interest, costs, attorneys' fees, and other unspecified equitable relief. We believe that these claims are without merit, and intend to vigorously defend against these claims.

17. INCOME TAXES

We apply an estimated annual effective tax rate ("ETR") approach for calculating a tax provision for interim periods, as required under GAAP. We recorded a benefit for income taxes of \$0.6 million and a provision for income taxes of \$37 thousand for the nine months ended September 30, 2016 and 2015, respectively. Our ETR differs from the U.S. federal statutory tax rate of 35% primarily as a result of nondeductible expenses, state income taxes, foreign income taxes, and the impact of a valuation allowance on our deferred tax assets.

Our provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards.

Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence.

We recognize excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, we follow the with-and-without approach, excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to us. We recognize the impact of a tax position in our financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

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The intra period tax allocation rules require that we allocate the provision for income taxes between continuing operations and other categories of earnings, such as other comprehensive income. In periods which we have a year-to-date pretax loss from continuing operations and year-to-date pre-tax income in other categories of earnings, such as other comprehensive income, ASC 740-20-45-7 requires that we allocate the tax provision to other categories of earnings, and then record a related tax benefit in continuing operations.

For the three months ended September 30, 2016, we recognized a net loss from investments and currency transactions and recorded a tax expense of \$0.3 million in "other comprehensive income (loss), net of income tax" on the accompanying Condensed Consolidated Statements of Comprehensive Loss. For the nine months ended September 30, 2016, we recognized net income from investments and currency transactions and recorded a tax charge of \$0.9 million in "other comprehensive income (loss), net of income tax" on the accompanying Condensed Consolidated Statements of Comprehensive Loss. As a result of the taxes allocated to year-to-date "other comprehensive income (loss), net of income tax", we recognized a benefit of \$0.5 million and \$0.6 million for the three and nine months ended September 30, 2016, respectively, within "benefit (provision) for income taxes" on the Condensed Consolidated Statements of Operations.

## 18. STOCKHOLDERS' EQUITY

### Sale of Common Stock - December 2015 ATM Agreement

On December 23, 2015, we entered into a collective at-market-issuance sales agreement with FBR Capital Markets & Co., MLV & Co. LLC, and H.C. Wainwright & Co., LLC. ("December 2015 ATM Agreement"), through which we are able to raise gross proceeds of up to \$100 million from the sale of our common stock through these brokers under our shelf registration statement on Form S-3 (File No. 333-208760), declared effective by the SEC on February 3, 2016.

Beginning in the second quarter of 2016 through September 30, 2016, we sold and issued shares of our common stock under this December 2015 ATM Agreement, as summarized in the following table:

| Description of Financing Transaction   | No. of<br>Common<br>Shares<br>Issued | Proceeds<br>Received<br>(Net of<br>Broker<br>Commissions<br>and Fees ) |
|--|--------------------------------------|--|
| Common shares issued pursuant to the December 2015 ATM Agreement between April 1, 2016 and September 30, 2016 (included within our issued and outstanding share count at September 30, 2016) | 10,890,915                           | \$ 73,869  |

### Conversion of Series E Convertible Voting Preferred Stock

In June 2016, our then 20 outstanding shares of Series E convertible voting preferred stock were converted (at the election of the preferred stockholders) into an aggregate of 40,000 common shares; a \$6 thousand dividend in arrears was paid upon this conversion.

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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, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, 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 products and product candidates, the success, safety and efficacy of our drug products, revenues, development timelines, product acquisitions, accounting principles, litigation expenses, liquidity and capital resources and trends, and other statements containing forward-looking words, such as, “believes,” “may,” “could,” “will,” “expects,” “intends,” “estimates,” “anticipates,” “seeks,” “continues,” or the negative thereof or variation thereon or similar terminology (although not all forward-looking statements contain these words). Such forward-looking statements are based on the reasonable beliefs of our management as well as assumptions made by and information currently available to our 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, or the SEC, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as well as those discussed elsewhere in this Quarterly Report on Form 10-Q, and the following factors:

- our ability to successfully develop, obtain regulatory approval for and market our products;
- our ability to continue to grow sales revenue of our marketed products;
- risks associated with doing business internationally;
- 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;
- the ability to timely deliver product supplies to our customers;
- our ability to identify new product candidates and to successfully integrate those product candidates into our operations;
- the timing and/or results of pending or future clinical trials, and our reliance on contract research organizations;
- our ability to protect our intellectual property rights;
- competition in the marketplace for our drugs;
- delay in approval of our products or new indications for our products by the FDA;
- actions by the FDA and other regulatory agencies, including international agencies;
- securing positive reimbursement for our products;
- the impact of any product liability, or other litigation to which we are, or may become a party;
  - the impact of legislative or regulatory reform of the healthcare industry and the impact of recently enacted healthcare reform legislation;
- the availability and price of acceptable raw materials and components from third-party suppliers, and their ability to meet our demands;
- our ability, and that of our suppliers, development partners, and manufacturing partners, to comply with laws, regulations and standards, and the application and interpretation of those laws, regulations and standards, that govern or affect the pharmaceutical and biotechnology industries, the non-compliance with which may delay or prevent the development, manufacturing, regulatory approvals and sale of our products;



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defending against claims relating to improper handling, storage or disposal of hazardous chemical, radioactive or biological materials which could be time consuming and expensive;  
our ability to maintain the services of our key executives and technical and sales and marketing personnel;  
the difficulty in predicting the timing or outcome of product development efforts and regulatory approvals; and  
demand and market acceptance for our approved products.

All subsequent written and oral forward-looking statements attributable to us or by persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. We expressly disclaim any intent or obligation to update information contained in any forward-looking statement after the date thereof to conform such information to actual results or to changes in our opinions or expectations.

Company Overview

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

We also have three drugs in late stage development:

• **ROLONTIS** (formerly referred to as SPI-2012 or LAPS-GCSF) for chemotherapy-induced neutropenia in patients with breast cancer.

• **QAPZOLA** (formerly referred to as APAZQUONE) for immediate intravesical instillation in post-transurethral resection of bladder tumors in patients with non-muscle invasive bladder cancer.

• **POZIOTINIB**, a novel pan-HER inhibitor used in the treatment of patients with breast cancer.

See Item 1. of our Annual Report on Form 10-K for the year ended December 31, 2015, "Business" section for a discussion of our:

• Company Overview

• Cancer Background and Market Size

• Product Portfolio

• Manufacturing

• Sales and Marketing

• Customers

• Competition

• Research and Development

Recent Highlights in Our Business, Product Development Initiatives, and Regulatory Approvals

During the nine months ended September 30, 2016, and through the filing date of this quarterly report, we accomplished various critical business objectives, which included:

**ROLONTIS**, a novel long-acting GCSF: A pivotal Phase 3 study was initiated in the first quarter of 2016 to evaluate ROLONTIS as a treatment for chemotherapy-induced neutropenia in approximately 580 patients with breast cancer. Neutropenia, a possible side effect of chemotherapy, is a condition where the number of neutrophils or white blood cells are too low, and can lead to infection, hospitalization, and even death. The Phase 2 data demonstrated that ROLONTIS was non-inferior to pegfilgrastim at the middle dose tested, and statistically superior in terms of duration of severe neutropenia at the highest dose tested. ROLONTIS was also shown to have an acceptable safety profile with no significant dose-related or unexpected toxicities.

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**QAPZOLA**, a potent tumor-activated drug being investigated for non-muscle invasive bladder cancer: An advisory committee of the FDA held a meeting regarding our New Drug Application ("NDA") for QAPZOLA on September 14, 2016. This committee voted that QAPZOLA has not shown substantial evidence of efficacy over placebo treatment in patients with non-muscle invasive bladder cancer, and recommended that the FDA not approve this drug for commercialization. However, this committee recommendation is not binding on the FDA, which is scheduled to make its final approval decision on December 11, 2016.

**POZIOTINIB**, a potential best-in-class, novel, pan-HER inhibitor: We are continuing to enroll a Phase 2 breast cancer program in the U.S., based on promising Phase 1 efficacy data in breast cancer patients who had failed multiple other HER2-directed therapies. In addition, multiple Phase 2 studies are being conducted by Hanmi Pharmaceuticals and National OncoVenture in South Korea.

**EVOMELA** (formerly referred to as Captisol-Enabled MELPHALAN): On March 10, 2016, the FDA approved EVOMELA as a high-dose conditioning treatment prior to hematopoietic progenitor (stem) cell transplantation in patients with multiple myeloma, and for the palliative treatment of patients with multiple myeloma for whom oral therapy is not appropriate. In April 2016, we launched EVOMELA, our sixth anti-cancer drug, with our existing sales force. On April 20, 2016, the FDA granted orphan drug designation to EVOMELA, giving us seven years of marketing exclusivity and two composition of matter patents that do not expire until March 2029.

**Out-license with Servier Canada:** On January 8, 2016, we entered into a strategic partnership with Servier Canada, Inc. for the out-licenses of ZEVALIN, FOLOTYN, BELEODAQ, and MARQIBO. We received \$6 million in upfront payments in the first quarter of 2016 which was recognized within "license fees and service revenue" in the accompanying Condensed Consolidated Statement of Operations. We will also receive development milestone payments if/when achieved, and a high single-digit royalty on their sales of these products.

**CHARACTERISTICS OF OUR REVENUE AND EXPENSES**

See Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015, Characteristics of Our Revenue and Expenses for a discussion of the nature of our revenue and operating expense line items within our accompanying Condensed Consolidated Statements of Operations.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

See Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015, Critical Accounting Policies and Estimates for a discussion of significant estimates and assumptions as part of the preparation of our accompanying Condensed Consolidated Financial Statements. These critical accounting policies and estimates arise in conjunction with the following accounts:

- Revenue recognition
- Inventories – lower of cost or market
- Fair value of acquired assets and assumed liabilities
- Goodwill and intangible assets – impairment evaluations
- Income taxes
- Stock-based compensation
- Litigation accruals

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## RESULTS OF OPERATIONS

## Operations Overview – Three and nine months ended September 30, 2016 and 2015

|   | Three Months Ended    |          |            |          | Nine Months Ended     |          |            |          |
|---|-----------------------|----------|------------|----------|-----------------------|----------|------------|----------|
|   | September 30,<br>2016 |          | 2015       |          | September 30,<br>2016 |          | 2015       |          |
|   | (\$ in thousands)     |          |            |          | (\$ in thousands)     |          |            |          |
| Total revenues  | \$33,393              | 100.0 %  | \$28,627   | 100.0 %  | \$111,208             | 100.0 %  | \$112,226  | 100.0 %  |
| Operating costs and expenses:   |                       |          |            |          |                       |          |            |          |
| Cost of product sales (excludes amortization and impairment charges of intangible assets) | 7,503                 | 22.5 %   | 8,447      | 29.5 %   | 18,715                | 16.8 %   | 21,508     | 19.2 %   |
| Cost of service revenue   | 2,221                 | 6.7 %    | —          | — %      | 5,716                 | 5.1 %    | —          | — %      |
| Selling, general and administrative   | 19,465                | 58.3 %   | 19,411     | 67.8 %   | 69,047                | 62.1 %   | 65,297     | 58.2 %   |
| Research and development  | 13,293                | 39.8 %   | 9,924      | 34.7 %   | 43,037                | 38.7 %   | 35,333     | 31.5 %   |
| Amortization and impairment charges of intangible assets                                  | 6,907                 | 20.7 %   | 6,919      | 24.2 %   | 19,052                | 17.1 %   | 27,857     | 24.8 %   |
| Total operating costs and expenses  | 49,389                | 147.9 %  | 44,701     | 156.1 %  | 155,567               | 139.9 %  | 149,995    | 133.7 %  |
| Loss from operations  | (15,996 )             | (47.9 )% | (16,074 )  | (56.1 )% | (44,359 )             | (39.9 )% | (37,769 )  | (33.7 )% |
| Interest expense, net   | (2,373 )              | (7.1 )%  | (2,274 )   | (7.9 )%  | (7,087 )              | (6.4 )%  | (6,760 )   | (6.0 )%  |
| Change in fair value of contingent consideration related to acquisitions                  | 78                    | 0.2 %    | 81         | 0.3 %    | (1,249 )              | (1.1 )%  | (565 )     | (0.5 )%  |
| Other income (expense), net   | 372                   | 1.1 %    | (535 )     | (1.9 )%  | 990                   | 0.9 %    | (1,501 )   | (1.3 )%  |
| Loss before income taxes  | (17,919 )             | (53.7 )% | (18,802 )  | (65.7 )% | (51,705 )             | (46.5 )% | (46,595 )  | (41.5 )% |
| Benefit (provision) for income taxes  | 464                   | 1.4 %    | 78         | 0.3 %    | 635                   | 0.6 %    | (37 )      | — %      |
| Net loss  | \$(17,455)            | (52.3 )% | \$(18,724) | (65.4 )% | \$(51,070)            | (45.9 )% | \$(46,632) | (41.6 )% |

## THREE MONTHS ENDED SEPTEMBER 30, 2016 VERSUS 2015

## Total Revenues

|                                  | Three months ended September 30, |        |           |          |
|----------------------------------|----------------------------------|--------|-----------|----------|
|                                  | 2016                             | 2015   | \$ Change | % Change |
|                                  | (\$ in millions)                 |        |           |          |
| Product sales, net:              |                                  |        |           |          |
| FUSILEV                          | \$4.9                            | \$11.1 | \$ (6.2 ) | (55.9 )% |
| FOLOTYN                          | 11.3                             | 8.7    | 2.6       | 29.9 %   |
| ZEVALIN                          | 2.6                              | 4.8    | (2.2 )    | (45.8 )% |
| MARQIBO                          | 1.9                              | 1.3    | 0.6       | 46.2 %   |
| BELEODAQ                         | 3.6                              | 2.6    | 1.0       | 38.5 %   |
| EVOMELA                          | 5.9                              | —      | 5.9       | 100.0 %  |
|                                  | \$30.2                           | \$28.5 | \$ 1.7    | 6.0 %    |
| License fees and service revenue | 3.1                              | 0.2    | 2.9       | >100.0 % |
| Total revenues                   | \$33.3                           | \$28.7 | \$ 4.6    | 16.0 %   |



Product sales, net. To derive net product sales, gross product revenues in each period are reduced by management's latest estimated provisions for (i) product returns, (ii) government chargebacks, (iii) prompt pay discounts, (iv) commercial rebates, (v) Medicaid rebates, and (vi) distribution, data, and group purchasing organization, or GPO, administrative fees. Management considers various factors in the determination of these provisions, which are described in more detail within "Critical Accounting Policies and Estimates" of our 2015 Form 10-K.

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FUSILEV revenue decrease is attributable to a significant decline in average price per unit due to the competitive launch in April 2015 of generic levo-leucovorin product - see Note 3(f), partially offset by an increase in units sold. FOLOTYN revenue increase is due to an increase in both the units sold and the net average sales price per unit in the current period.

ZEVALIN revenue decrease is due to a large decline in units sold in the current period in the U.S. and ex-U.S. territories. In November 2015, we entered into an out-license agreement for ZEVALIN within various ex-U.S. territories that contributed to this product revenue decline, particularly in Japan (see Note 11).

MARQIBO revenue increase is due to an increase in both the units sold and the net average sales price per unit in the current period.

BELEODAQ revenue increased as a result of an increase in the units sold in the current period and an increase in the average net sales price per unit.

EVOMELA revenue in the current period is a result of our commercial launch of this product in April 2016, thus there were no sales for this product in the prior year period.

License fees and service revenue. Our license fees and service revenue increased due to an increase of \$2.4 million in fees from our co-promotion with Eagle Pharmaceuticals, Inc. ("Eagle" - see Note 13) which was not present in the prior year period, and an increase of \$0.5 million from out-license royalties.

## Operating Expenses

|  | Three<br>months<br>ended<br>September<br>30, |        |           |          |  |
|--|--|--------|-----------|----------|--|
|  | 2016   | 2015   | \$ Change | % Change |  |
|  | (\$ in millions)                             |        |           |          |  |
| Operating costs and expenses:                                      |  |        |           |          |  |
| Cost of product sales (excludes amortization of intangible assets) | \$7.5  | \$8.4  | \$ (0.9 ) | (10.7 )% |  |
| Cost of service revenue  | 2.2  | —      | 2.2       | 100.0 %  |  |
| Selling, general and administrative                                | 19.5   | 19.4   | 0.1       | 0.5 %    |  |
| Research and development   | 13.3   | 9.9    | 3.4       | 34.3 %   |  |
| Amortization and impairment charges of intangible assets           | 6.9  | 6.9    | —         | — %      |  |
| Total operating costs and expenses                                 | \$49.4                                       | \$44.6 | \$ 4.8    | 10.8 %   |  |

Cost of Product Sales. Cost of product sales declined in the current period, despite our increase in net product sales as compared to the prior year period. This decrease was primarily a result of the non-recurrence of \$2.4 million of stability testing of ZEVALIN antibody, partially offset by a \$1.5 million increase in cost of product sales attributable to EVOMELA's launch in April 2016.

Cost of Service Revenue. Cost of service revenue exclusively relates to our allocated commercial and marketing expenses (from "selling, general, and administrative" expenses) for our promotion and sale of Eagle products (see Note 13).

Selling, General and Administrative. Selling, general and administrative expenses remained consistent with the prior year period.

Research and Development. Research and development expenses increased by \$3.4 million due to various costs associated with our ROLONTIS Phase 3 clinical trial and our QAPZOLA clinical initiatives and activities.

Amortization and Impairment Charges of Intangible Assets. Amortization expense remained consistent with the prior year period (see Note 3(f)).



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## Total Other Expenses

Three months  
ended  
September  
30,  
2016 2015 \$ Change % Change  
(\$ in  
millions)

Total other expenses \$(1.9) \$(2.7) \$ 0.8 29.6 %

Total other expenses decreased by \$0.8 million and is primarily due to a \$0.9 million decrease in executive deferred compensation expense as a result of an increase in the value of plan assets (see Note 16(f)), partially offset by a \$0.1 million increase related to the other various components included in this caption, including (i) foreign exchange loss adjustments (realized and unrealized) related to invoices for operating expenses that are denominated in foreign currencies, (ii) contingent consideration expenses related to the acquisition of our MARQIBO and EVOMELA rights (see Note 9), and (iv) interest expenses on our 2018 Convertible Notes (partially offset by minimal interest income) - see Note 14.

## Benefit for Income Taxes

Three  
months  
ended  
September  
30,  
2016 2015 \$ Change % Change  
(\$ in  
millions)

Benefit for income taxes \$0.5 \$0.1 \$ 0.4 >100.0 %

Our current period benefit for income taxes of \$0.5 million is primarily due to tax allocation rules under GAAP that require us to allocate the provision for income taxes between continuing operations and other categories of earnings, such as other comprehensive income. This results in a presented benefit in the current period, despite our minimum tax obligations.

## NINE MONTHS ENDED SEPTEMBER 30, 2016 VERSUS 2015

## Total Revenues

Nine months  
ended  
September 30,  
2016 2015 \$ Change % Change  
(\$ in millions)

## Product sales, net:

|                                  |         |         |            |          |
|----------------------------------|---------|---------|------------|----------|
| FUSILEV                          | \$30.6  | \$45.6  | \$ (15.0 ) | (32.9 )% |
| FOLOTYN                          | 35.6    | 30.3    | \$ 5.3     | 17.5 %   |
| ZEVALIN                          | 8.2     | 13.8    | \$ (5.6 )  | (40.6 )% |
| MARQIBO                          | 4.9     | 5.3     | \$ (0.4 )  | (7.5 )%  |
| BELEODAQ                         | 10.3    | 7.1     | \$ 3.2     | 45.1 %   |
| EVOMELA                          | 6.8     | —       | \$ 6.8     | 100.0 %  |
|                                  | \$96.4  | \$102.1 | \$ (5.7 )  | (5.6 )%  |
| License fees and service revenue | 14.8    | 10.2    | 4.6        | 45.1 %   |
| Total revenues                   | \$111.2 | \$112.3 | \$ (1.1 )  | (1.0 )%  |

Product sales, net. To derive net product sales, gross product revenues in each period are reduced by management's latest estimated provisions for (i) product returns, (ii) government chargebacks, (iii) prompt pay discounts, (iv) commercial rebates, (v) Medicaid rebates, and (vi) distribution, data, and GPO administrative fees. Management considers various factors in the determination of these provisions, which are described in more detail within "Critical Accounting Policies and Estimates" of our 2015 Form 10-K.

FUSILEV revenue decrease is attributable to a decline in our unit sales due to the competitive launch in April 2015 of generic levo-leucovorin product (see Note 3(f)), in addition to an decrease in our net average sales price per unit. FOLOTYN revenue increase is due to a significant increase in units sold in the current period, in addition to an increase in our net average sales price per unit.

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ZEVALLIN revenue decrease is due to a large decline in units sold in the current period in the U.S. and ex-U.S. territories. In November 2015, we entered into an out-license agreement for ZEVALLIN within various ex-U.S. territories that contributed to this product revenue decline, particularly in Japan (see Note 11).

MARQIBO revenue decrease is due to a decline in units sold during the period, partially offset by an increase in our average net sales price per unit.

BELEODAQ revenue increased as a result of an increase in the units sold during the period, in addition to an increase in our average net sales price per unit.

EVOMELA revenue in the current period is a result of our commercial launch of this product in April 2016, thus there were no sales for this product in the prior year period.

License fees and service revenue. Our license fees and service revenue in the current period increased primarily due to an increase of \$1.5 million from out-license royalties as compared to the prior year period. During the current period, our license fees and service revenue consisted of the following: (i) \$6.0 million in upfront proceeds related to the out-license of ZEVALLIN, FOLOTYN, MARQIBO, and BELEODAQ to Servier in the Canada territory (see Note 12); (ii) \$6.7 million in fees from our co-promotion with Eagle (see Note 13), and (iii) \$2.0 million from out-license royalties. During the prior year period, our license fees and service revenue consisted of \$9.7 million of upfront proceeds received from CASI during the second quarter of 2015 for our out-licenses of ZEVALLIN, MARQIBO, and EVOMELA (see Note 10), which did not reoccur in the current year period.

## Operating Expenses

|   | Nine months ended September 30, |         |           |          |
|---|---------------------------------|---------|-----------|----------|
|   | 2016                            | 2015    | \$ Change | % Change |
|   | (\$ in millions)                |         |           |          |
| Operating costs and expenses:   |                                 |         |           |          |
| Cost of product sales (excludes amortization and impairment charges of intangible assets) | \$18.7                          | \$21.5  | \$ (2.8 ) | (13.0 )% |
| Cost of service revenue   | 5.7                             | —       | 5.7       | 100.0 %  |
| Selling, general and administrative   | 69.0                            | 65.3    | 3.7       | 5.7 %    |
| Research and development  | 43.0                            | 35.3    | 7.7       | 21.8 %   |
| Amortization and impairment charges of intangible assets                                  | 19.1                            | 27.9    | (8.8 )    | (31.5 )% |
| Total operating costs and expenses  | \$155.5                         | \$150.0 | \$ 5.5    | 3.7 %    |

Cost of Product Sales. Cost of product sales declined with the decrease in revenue in the current period, as well as the impact of product sales mix between the periods.

Cost of Service Revenue. Cost of service revenue exclusively relates to our allocated commercial and marketing expenses (from "selling, general, and administrative" expenses) for our promotion and sale of Eagle products (see Note 13).

Selling, General and Administrative. Selling, general and administrative expenses increased by \$3.7 million, largely driven by an increase in legal expenses related to patent litigation matters in the first half of 2016, partially offset by a \$5.7 million allocation of our sales personnel costs (and other reimbursable commercial and marketing costs) to "cost of service revenue" that are assigned to marketing Eagle's products (see Note 13).

Research and Development. Research and development expenses increased by \$7.7 million due to increases in clinical trial costs associated with the ROLONTIS Phase 3 clinical trial, as well as various other increases in clinical and development activities, and a \$2.7 million research and development milestone achieved during the second quarter of 2016 (see Note 16(b)(xii)).

Amortization and Impairment Charges of Intangible Assets. Amortization expense decreased by \$8.8 million in the current year due to (i) a \$7.2 million impairment charge (non-cash) in the first quarter of 2015 for our FUSILEV distribution rights (see Note 3(f)), (ii) the sale of certain ex-U.S. ZEVALLIN rights to Mundipharma in November 2015 (see Note 11), and



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(iii) accelerated amortization of our FUSILEV distribution rights, which was fully amortized by December 31, 2015 (see Note 3(f)).

## Total Other Expenses

Nine months  
ended  
September  
30,  
2016 2015 \$ Change % Change  
(\$ in  
millions)

Total other expenses \$(7.3) \$(8.8) \$ 1.5 17.0 %

Total other expenses decreased by \$1.5 million due to multiple offsetting components, including (i) a \$1.0 change in executive deferred compensation expense as a result of changes in the fair value of plan assets (see Note 16(f)), and (ii) a \$1.5 million decrease in foreign currency exchange rate translation adjustment (i.e., unrealized loss) to the U.S. dollar for amounts we hold in ex-U.S. bank accounts, partially offset by a \$0.7 million increase in the contingent consideration valuation related to our MARQIBO and EVOMELA products (see Note 9), and a \$0.3 million increase in interest expense on our 2018 Convertible Notes (see Note 14).

## Benefit for Income Taxes

Nine months  
ended  
September  
30,  
2016 2015 \$ Change % Change  
(\$ in  
millions)

Benefit for income taxes \$ 0.6 \$ -\$ 0.6 100.0 %

Our current period benefit for income taxes of \$0.6 million is primarily due to tax allocation rules under GAAP that require us to allocate the provision for income taxes between continuing operations and other categories of earnings, such as other comprehensive income. This results in a presented benefit in the current period, despite our minimum tax obligations. Our prior period provision for income taxes primarily represents our minimum tax obligations.

## LIQUIDITY AND CAPITAL RESOURCES

|  | September<br>30, 2016                         | December<br>31, 2015 | September<br>30, 2015 |
|--|---|----------------------|-----------------------|
|  | (in thousands, except financial metrics data) |                      |                       |
| Cash, cash equivalents and marketable securities | \$ 171,852                                    | \$ 139,986           | \$ 136,772            |
| Accounts receivable, net                         | \$ 42,466                                     | \$ 30,384            | \$ 48,150             |
| Total current assets                             | \$ 231,414                                    | \$ 190,625           | \$ 209,533            |
| Total current liabilities                        | \$ 62,332                                     | \$ 76,343            | \$ 102,340            |
| Working capital surplus (a)                      | \$ 169,082                                    | \$ 114,282           | \$ 107,193            |
| Current ratio (b)                                | 3.7   | 2.5                  | 2.0                   |

(a) Total current assets at period end minus total current liabilities at period end.

(b) Total current assets at period end divided by total current liabilities at period end.

## Net Cash (Used In) Provided by Operating Activities

Net cash used in operating activities was \$37.1 million for the nine months ended September 30, 2016, as compared to cash provided by operating activities of \$3.6 million in the prior year period. For the nine months ended September 30, 2016 and 2015, our cash collections from customers totaled \$118.3 million and \$192.3 million, respectively, representing 106.4% and 171.4% of reported net revenue for the same years. For the nine months ended September 30, 2016 and 2015, cash payments to our employees, vendors, and end-users for products, services,



chargebacks, and rebates totaled \$161.0 million and \$195.3 million, respectively.

Net Cash (Used in) Provided by Investing Activities

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Net cash used in investing activities of \$0.1 million for the nine months ended September 30, 2016 primarily relates to \$0.1 million of property and equipment purchases, as compared to cash provided by investing activities of \$2.8 million in the prior year period.

### Net Cash Provided by Financing Activities

Net cash provided by financing activities was \$68.9 million for the nine months ended September 30, 2016, as compared to \$1.2 million in the prior year period. Our cash provided by financing activities during the nine months of 2016 primarily relates to: (i) \$73.9 million of proceeds received from common shares sold under an at-market-issuance sales agreement, (ii) \$0.2 million of proceeds from the issuance of common stock as a result of the exercise of employee stock options, and (iii) \$0.4 million of proceeds from employee stock purchases under our employee stock purchase plan. These amounts were partially offset by our \$0.8 million purchase and retirement of restricted stock (at our employees' election), in order to meet their federal and state tax obligations at the time of stock vesting and \$4.7 million related to the cash payment in April 2016 for the achievement of the EVOMELA milestone.

### Convertible Senior Notes Due 2018

On December 17, 2013, we entered into an agreement for the sale of \$120 million aggregate principal amount of 2.75% Convertible Senior Notes due December 2018 (the "2018 Convertible Notes"). The 2018 Convertible Notes are convertible into shares of our common stock at a conversion rate of 95 shares per \$1,000 principal amount of the 2018 Convertible Notes, totaling 11.4 million common shares if fully converted. The in-the-money conversion price is equivalent to \$10.53 per common share. The conversion rate and conversion price are subject to adjustment under certain limited circumstances. As of September 30, 2016, we may settle conversions of the 2018 Convertible Notes by paying or delivering, as the case may be, cash, shares of our common stock, or a combination of cash and shares, at our election.

The 2018 Convertible Notes bear interest at a rate of 2.75% per year, payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2014. The 2018 Convertible Notes will mature and become payable on December 15, 2018, subject to earlier conversion into common stock at the holders' option.

The sale of the 2018 Convertible Notes closed on December 23, 2013 and our net proceeds were \$115.4 million, after deducting banker and professional fees of \$4.6 million. We used a portion of these proceeds to simultaneously enter into "bought call" and "sold warrant" transactions with Royal Bank of Canada (collectively, the "Note Hedge"). We recorded the Note Hedge on a net cost basis of \$13.1 million, as a reduction to "additional paid-in capital" in our accompanying Condensed Consolidated Balance Sheets. Under applicable GAAP, the Note Hedge transaction is not expected to be marked-to-market through earnings or comprehensive income in future reporting periods.

### Future Capital Requirements

We believe that the future growth of our business will depend on our ability to successfully develop and acquire new drugs for the treatment of cancer and successfully bring these drugs to market.

The timing and amount of our future capital requirements will depend on many factors, including:

- the need for additional capital to fund future development programs;
- the need for additional capital to fund strategic acquisitions;
- the need for additional capital to fund licensing arrangements;
- our requirement for additional information technology infrastructure and systems; and
- adverse outcomes from potential litigation and the cost to defend such litigation.

We believe that our \$172 million in aggregate cash and equivalents, and marketable securities as of September 30, 2016 will allow us to fund our current and planned operations for at least the next twelve months. However, we may seek additional capital through the sale of debt or equity securities (see Note 18), if necessary, especially in conjunction with opportunistic acquisitions or licensing arrangements. We may be unable to obtain such additional capital when needed, or on terms favorable to us or our current stockholders and convertible senior note holders.

### Off-Balance Sheet Arrangements



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We have no off-balance sheet arrangements (except for operating leases) that provide financing, liquidity, market or credit risk support, or involve derivatives. In addition, we have no arrangements that may expose us to liability that are not expressly reflected in the accompanying Condensed Consolidated Financial Statements and/or notes thereto. As of September 30, 2016, we did not have any relationships with unconsolidated entities or financial partnerships, often referred to as “structured finance” or “special purpose entities,” established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not subject to any material financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, our operations are exposed to risks associated with fluctuations in interest rates and foreign currency exchange rates.

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. Because of our ability to generally redeem these investments at par at short notice and without penalty, 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 September 30, 2016, any decline in the fair value of our investments would not be material in the context of our accompanying Condensed Consolidated 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.

We are exposed to foreign currency exchange rate fluctuations relating to payments we make to vendors, suppliers and license partners in Euros. We mitigate such risk by maintaining a limited portion of our cash in Euros for the payment of our operating expenses in the same currency.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. These include controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our chief executive officer and chief financial officer concluded that, as of that date, our disclosure controls and procedures were effective.

#### Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### Limitations of the Effectiveness of Internal Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of inherent limitations in any control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. We are continuously seeking to improve the efficiency and effectiveness of our operations and of our

internal controls.

PART II. OTHER INFORMATION

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## ITEM 1. LEGAL PROCEEDINGS

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

Certain of the legal proceedings in which we are involved are discussed in Note 16, "Commitments and Contingencies," to our accompanying Condensed Consolidated Financial Statements, and are hereby incorporated by reference.

## ITEM 1A. RISK FACTORS

As of the date of this filing, there have been no material changes to the RISK FACTORS included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission on March 14, 2016.

## ITEM 6. EXHIBITS

| Exhibit<br>Number | Description   |
|-------------------|---|
| 31.1+             | Certification of Principal Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934.                           |
| 31.2+             | Certification of Principal Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934.                           |
| 32.1*             | Certification of Principal Executive Officer pursuant to Rule 13a-14(b)/15d-14(b) promulgated under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350. |
| 32.2*             | Certification of Principal Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) promulgated under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350. |
| 101.INS+          | XBRL Instance Document.   |
| 101.SCH+          | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL+          | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF+          | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB+          | XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE+          | XBRL Taxonomy Extension Presentation Linkbase Document.   |

+Filed herewith.

\*Furnished  
herewith.

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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: November 14, 2016 By: /s/ Kurt A. Gustafson

Kurt A. Gustafson

Executive Vice President and Chief Financial Officer

(Authorized Signatory and Principal Financial and Accounting Officer)