

CELL THERAPEUTICS INC
Form 10-Q
May 12, 2008
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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: March 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-12465

CELL THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of

91-1533912
(I.R.S. Employer Identification No.)

incorporation or organization)

501 Elliott Avenue West, Suite 400

Seattle, Washington
(Address of principal executive offices)

98119
(Zip Code)

(206) 282-7100

(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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at May 8, 2008
Common Stock, no par value	116,102,874

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CELL THERAPEUTICS, INC.

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Table of Contents**CELL THERAPEUTICS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)**

	March 31, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,603	\$ 15,798
Restricted cash	6,165	
Securities available-for-sale	1,725	2,548
Interest receivable	13	46
Accounts receivable, net	1,926	51
Inventory, net	341	290
Prepaid expenses and other current assets	3,777	3,904
Total current assets	27,550	22,637
Property and equipment, net	5,336	6,025
Goodwill	17,064	17,064
Other intangibles, net	15,788	15,957
Other assets	12,898	11,830
Total assets	\$ 78,636	\$ 73,513
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	\$ 7,558	\$ 6,595
Accrued expenses	28,762	26,034
Current portion of deferred revenue	80	80
Current portion of long-term obligations	821	1,020
Current portion of convertible senior subordinated notes	7,964	16,907
Current portion of convertible subordinated notes	2,760	2,910
Total current liabilities	47,945	53,546
Deferred revenue, less current portion	378	398
Long-term obligations, less current portion	9,700	9,879
9% convertible senior notes	16,953	
7.5% convertible senior notes	32,315	32,220
6.75% convertible senior notes	6,921	6,922
5.75% convertible senior notes	23,467	23,287
Convertible senior subordinated notes	55,150	55,150
Total liabilities	192,829	181,402
Commitments and contingencies		
Minority interest in subsidiary		
Preferred stock, no par value:		
Authorized shares - 10,000,000		
Series A 3% Convertible Preferred Stock, \$1,000 stated value, 20,000 shares designated; 550 and 6,850 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	417	5,188
Series B 3% Convertible Preferred Stock, \$1,000 stated value, 37,200 shares designated; 5,218 and 15,380 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	4,031	11,881

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Series C 3% Convertible Preferred Stock, \$1,000 stated value, 20,250 shares designated; 6,284 and 8,284 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	4,725	6,229
Series D 7% Convertible Preferred Stock, \$1,000 stated value, 6,500 shares designated; 1,000 and 4,000 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	734	2,938
Shareholders' deficit:		
Common stock, no par value:		
Authorized shares - 200,000,000		
Issued and outstanding shares - 94,631,098 and 62,444,239 at March 31, 2008 and December 31, 2007, respectively	1,040,975	979,295
Accumulated other comprehensive loss	(1,058)	(4,007)
Accumulated deficit	(1,164,017)	(1,109,413)
Total shareholders' deficit	(124,100)	(134,125)
Total liabilities and shareholders' deficit	\$ 78,636	\$ 73,513

See accompanying notes.

Table of Contents**CELL THERAPEUTICS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(unaudited)**

	Three Months Ended March 31,	
	2008	2007
Revenues:		
Product sales	\$ 3,374	\$
License and contract revenue	20	20
Total revenues	3,394	20
Operating expenses:		
Cost of product sold	890	
Research and development	15,855	15,286
Selling, general and administrative	11,174	8,130
Amortization of purchased intangibles	397	207
Acquired in-process research and development	36	
Total operating expenses	28,352	23,623
Loss from operations	(24,958)	(23,603)
Other income (expense):		
Investment and other income, net	260	703
Interest expense	(12,929)	(3,916)
Foreign exchange gain (loss)	(2,237)	447
Make-whole interest expense	(7,781)	(2,310)
Gain on derivative liabilities	11,744	2,708
Loss on exchange of convertible notes	(2,295)	
Settlement expense		(143)
Other expense, net	(13,238)	(2,511)
Loss before minority interest	(38,196)	(26,114)
Minority interest in net loss of subsidiary	32	
Net loss	(38,164)	(26,114)
Preferred stock beneficial conversion feature		(2,594)
Preferred stock dividends	(242)	(31)
Deemed dividends on conversion of preferred stock	(16,198)	
Net loss attributable to common shareholders	\$ (54,604)	\$ (28,739)
Basic and diluted net loss per common share	\$ (0.77)	\$ (0.76)
Shares used in calculation of basic and diluted net loss per common share	71,074	37,588

See accompanying notes.

Table of Contents**CELL THERAPEUTICS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	Three Months Ended March 31,	
	2008	2007
Operating activities		
Net loss	\$ (38,164)	\$ (26,114)
Adjustments to reconcile net loss to net cash used in operating activities:		
Acquired in-process research and development	36	
Depreciation and amortization	1,569	1,395
Minority interest in net loss of subsidiary	(32)	
Equity-based compensation expense	884	318
Non-cash loss on exchange of convertible notes	2,295	
Non-cash gain on derivative liabilities	(11,744)	(2,708)
Non-cash interest expense	10,944	1,995
Other	(56)	(60)
Changes in operating assets and liabilities:		
Restricted cash	7,781	
Interest receivable	33	101
Accounts receivable, net	(1,876)	(11)
Inventory	(50)	
Prepaid expenses and other current assets	184	928
Other assets	271	(595)
Accounts payable	869	344
Accrued expenses	3,199	1,302
Deferred revenue	(20)	(20)
Excess facilities obligations	(236)	(640)
Other long-term obligations	(69)	34
Total adjustments	13,982	2,383
Net cash used in operating activities	(24,182)	(23,731)
Investing activities		
Cash paid for acquisition of Zevalin	(420)	
Purchases of securities available-for-sale	(1,011)	(15,835)
Proceeds from sales of securities available-for-sale	1,607	
Proceeds from maturities of securities available-for-sale	235	15,335
Purchases of property and equipment	(242)	(191)
Net cash provided by (used in) investing activities	169	(691)
Financing activities		
Proceeds from sale of common stock, net of offering costs	1,183	
Proceeds from issuance of 9% convertible senior notes, net of issuance costs	49,543	
Restricted cash from issuance of 9% convertible senior notes	(13,947)	
Deemed dividends on conversion of preferred stock	(16,198)	
Transaction costs related to exchange of convertible subordinated and senior subordinated notes	(278)	

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Proceeds from issuance of Series A 3% convertible preferred stock and warrants, net	18,754	
Payment of additional offering costs related to December 2007 issuance of common stock and warrants	(473)	
Payment of dividends on preferred stock	(251)	
Payment of offering costs related to Series D 7% preferred stock and warrants	(44)	
Repayment of long-term obligations	(127)	(34)
Net cash provided by financing activities	19,408	18,720
Effect of exchange rate changes on cash and cash equivalents	2,410	(401)
Net decrease in cash and cash equivalents	(2,195)	