

CELL THERAPEUTICS INC  
Form 10-Q  
November 09, 2007  
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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, 2007

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  
incorporation or organization)  
**501 Elliott Avenue West, Suite 400**  
**Seattle, Washington**  
(Address of principal executive offices)

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

**(206) 282-7100**

**98119**  
(Zip Code)

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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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:

<b>Class</b>	<b>Outstanding at October 31, 2007</b>
Common Stock, no par value	51,404,265

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

	September 30, 2007 (unaudited)	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,700	\$ 17,129
Securities available-for-sale	26,251	36,708
Interest receivable	362	570
Prepaid expenses and other current assets	10,053	10,131
<b>Total current assets</b>	<b>48,366</b>	<b>64,538</b>
Property and equipment, net	6,106	7,915
Goodwill	17,064	17,064
Other intangibles, net	1,186	1,663
Other assets	12,231	10,641
<b>Total assets</b>	<b>\$ 84,953</b>	<b>\$ 101,821</b>
<b>LIABILITIES AND SHAREHOLDERS DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 1,299	\$ 639
Accrued expenses	23,308	28,567
Current portion of deferred revenue	80	80
Current portion of long-term obligations	1,698	2,816
Current portion of derivative liability		2,270
Current portion of convertible senior subordinated notes	27,407	
Current portion of convertible subordinated notes	28,490	
<b>Total current liabilities</b>	<b>82,282</b>	<b>34,372</b>
Deferred revenue, less current portion	418	478
Long-term obligations, less current portion	3,921	4,667
7.5% convertible senior notes	32,155	45,916
6.75% convertible senior notes	6,926	6,945
Convertible senior subordinated notes	55,150	82,557
Convertible subordinated notes		28,490
<b>Total liabilities</b>	<b>180,852</b>	<b>203,425</b>
Commitments and contingencies		
Minority interest in subsidiary	149	
Preferred stock, no par value:		
Authorized shares - 10,000,000		
Series A 3% Convertible Preferred Stock, \$1,000 stated value, 20,000 shares designated; 6,850 and 0 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	5,188	
Series B 3% Convertible Preferred Stock, \$1,000 stated value, 37,200 shares designated; 15,380 and 0 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	11,883	
Series C 3% Convertible Preferred Stock, \$1,000 stated value, 20,250 shares designated; 8,284 and 0 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	6,229	
Shareholders' deficit:		

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Common stock, no par value:

Authorized shares - 100,000,000

Issued and outstanding shares - 51,404,265 and 36,397,230 at September 30, 2007 and December 31, 2006, respectively

	954,015	860,691
Accumulated other comprehensive loss	(3,012)	(1,187)
Accumulated deficit	(1,070,351)	(961,108)
<b>Total shareholders' deficit</b>	<b>(119,348)</b>	<b>(101,604)</b>
<b>Total liabilities and shareholders' deficit</b>	<b>\$ 84,953</b>	<b>\$ 101,821</b>

See accompanying notes.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>				
License and contract revenue	\$ 20	\$ 20	\$ 60	\$ 60
<b>Total revenues</b>	<b>20</b>	<b>20</b>	<b>60</b>	<b>60</b>
<b>Operating expenses:</b>				
Research and development	18,566	14,443	50,368	45,370
Selling, general and administrative	8,874	9,057	24,594	27,819
Acquired in-process research and development	21,343		21,343	
Amortization of purchased intangibles	219	200	638	588
<b>Total operating expenses</b>	<b>49,002</b>	<b>23,700</b>	<b>96,943</b>	<b>73,777</b>
Loss from operations	(48,982)	(23,680)	(96,883)	(73,717)
<b>Other income (expense):</b>				
Investment and other income	626	607	2,067	1,843
Interest expense	(2,463)	(3,552)	(10,057)	(16,888)
Foreign exchange gain (loss)	2,308	(115)	3,142	997
Make-whole interest expense		(213)	(2,310)	(24,753)
Gain (loss) on derivative liabilities	4	(879)	3,618	5,204
Gain on exchange of convertible notes				7,978
Settlement expense			(160)	(883)
<b>Other income (expense), net</b>	<b>475</b>	<b>(4,152)</b>	<b>(3,700)</b>	<b>(26,502)</b>
Loss before minority interest	(48,507)	(27,832)	(100,583)	(100,219)
Minority interest in net loss of subsidiary	36		36	
Net loss	(48,471)	(27,832)	(100,547)	(100,219)
Preferred stock beneficial conversion feature	(3,918)		(8,301)	
Preferred stock dividends	(214)		(395)	
<b>Net loss attributable to common shareholders</b>	<b>\$ (52,603)</b>	<b>\$ (27,832)</b>	<b>\$ (109,243)</b>	<b>\$ (100,219)</b>
Basic and diluted net loss per common share	\$ (1.09)	\$ (1.00)	\$ (2.55)	\$ (3.93)
Shares used in calculation of basic and diluted net loss per common share	48,202	27,890	42,873	25,533

See accompanying notes.



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

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating activities</b>		
Net loss	\$ (100,547)	\$ (100,219)
Adjustments to reconcile net loss to net cash used in operating activities:		
Acquired in-process research and development	21,343	
Depreciation and amortization	3,806	4,850
Minority interest in net loss of subsidiary	(36)	
Equity-based compensation expense	954	3,579
Loss on disposition of property and equipment	7	91
Amortization (accretion) of investment premium (discount)	(223)	85
Non-cash gain on convertible notes		(7,978)
Non-cash gain on derivative liabilities	(3,618)	(5,204)
Non-cash interest expense	3,910	10,445
Non-cash rent benefit	(144)	(11)
Loss on sale of investment securities	2	
Changes in operating assets and liabilities:		
Restricted cash		877
Interest receivable	209	(458)
Prepaid expenses and other current assets	711	4,714
Other assets	(2,183)	103
Accounts payable	(974)	(2,767)
Accrued expenses	(6,358)	2,189
Deferred revenue	(60)	(60)
Excess facilities obligations	(1,843)	(1,913)
Other long-term obligations	76	(416)
<b>Total adjustments</b>	<b>15,579</b>	<b>8,126</b>
<b>Net cash used in operating activities</b>	<b>(84,968)</b>	<b>(92,093)</b>
<b>Investing activities</b>		
Cash acquired in acquisition of Systems Medicine, Inc., net	675	
Purchases of securities available-for-sale	(34,682)	(57,635)
Proceeds from sales of securities available-for-sale	7,484	
Proceeds from maturities of securities available-for-sale	37,872	25,113
Purchases of property and equipment		