

CELL THERAPEUTICS INC  
Form 10-Q  
August 09, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended: June 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

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**CELL THERAPEUTICS, INC.**

(Exact name of registrant as specified in its charter)

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Washington  
(State or other jurisdiction of  
incorporation or organization)  
501 Elliott Avenue West, Suite 400

91-1533912  
(I.R.S. Employer  
Identification No.)  
98119

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Seattle, Washington  
(Address of principal executive offices)

(Zip Code)

(206) 282-7100

(Registrant's telephone number, including area code)

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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

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 July 31, 2007
Common Stock, no par value	49,965,313

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	June 30, 2007 (unaudited)	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,026	\$ 17,129
Securities available-for-sale	35,413	36,708
Interest receivable	363	570
Accounts receivable, net	162	183
Prepaid expenses and other current assets	10,486	9,948
Total current assets	54,450	64,538
Property and equipment, net	6,478	7,915
Goodwill	17,064	17,064
Other intangibles, net	1,278	1,663
Other assets	10,311	10,641
Total assets	\$ 89,581	\$ 101,821
<b>LIABILITIES AND SHAREHOLDERS DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 1,035	\$ 639
Accrued expenses	16,883	28,567
Current portion of deferred revenue	80	80
Current portion of long-term obligations	1,982	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	
Total current liabilities	75,877	34,372
Deferred revenue, less current portion	438	478
Long-term obligations, less current portion	4,155	4,667
7.5% convertible senior notes	32,039	45,916
6.75% convertible senior notes	6,931	6,945
Convertible senior subordinated notes	55,150	82,557
Convertible subordinated notes		28,490
Total liabilities	174,590	203,425
Commitments and contingencies		
Preferred stock, no par value:		
Authorized shares 10,000,0000		
Series A 3% Convertible Preferred Stock, \$1,000 stated value, 20,000 shares designated; 6,850 and 0 shares issued and outstanding at June 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 June 30, 2007 and December 31, 2006, respectively	11,884	
Shareholders' deficit:		
Common stock, no par value:		

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Authorized shares 100,000,000

Issued and outstanding shares 43,332,181 and 36,397,230 at June 30, 2007 and December 31, 2006,  
respectively

	917,301	860,691
Accumulated other comprehensive loss	(1,634)	(1,187)
Accumulated deficit	(1,017,748)	(961,108)
Total shareholders deficit	(102,081)	(101,604)
Total liabilities and shareholders deficit	\$ 89,581	\$ 101,821

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 June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>				
License and contract revenue	\$ 20	\$ 20	\$ 40	\$ 40
<b>Total revenues</b>	<b>20</b>	<b>20</b>	<b>40</b>	<b>40</b>
<b>Operating expenses:</b>				
Research and development	16,516	15,164	31,802	30,928
Selling, general and administrative	7,590	8,199	15,720	18,762
Amortization of purchased intangibles	212	199	419	388
<b>Total operating expenses</b>	<b>24,318</b>	<b>23,562</b>	<b>47,941</b>	<b>50,078</b>
<b>Loss from operations</b>	<b>(24,298)</b>	<b>(23,542)</b>	<b>(47,901)</b>	<b>(50,038)</b>
<b>Other income (expense):</b>				
Investment and other income	738	694	1,441	1,236
Interest expense	(3,678)	(4,708)	(7,594)	(13,336)
Foreign exchange gain	387	821	834	1,112
Make-whole interest expense		(4,374)	(2,310)	(24,540)
Gain on derivative liabilities	906	2,659	3,614	6,083
Gain on exchange of convertible notes		7,978		7,978
Settlement expense	(17)		(160)	(883)
<b>Other income (expense), net</b>	<b>(1,664)</b>	<b>3,070</b>	<b>(4,175)</b>	<b>(22,350)</b>
<b>Net loss</b>	<b>(25,962)</b>	<b>(20,472)</b>	<b>(52,076)</b>	<b>(72,388)</b>
Preferred stock beneficial conversion feature	(1,789)		(4,383)	
Preferred stock dividends	(150)		(181)	
<b>Net loss attributable to common shareholders</b>	<b>\$ (27,901)</b>	<b>\$ (20,472)</b>	<b>\$ (56,640)</b>	<b>\$ (72,388)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (0.65)</b>	<b>\$ (0.78)</b>	<b>\$ (1.41)</b>	<b>\$ (2.97)</b>
Shares used in calculation of basic and diluted net loss per common share	42,713	26,150	40,165	24,335

See accompanying notes.

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

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating activities</b>		
Net loss	\$ (52,076)	\$ (72,388)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,693	3,234
Equity-based compensation expense	554	2,502
Loss on disposition of property and equipment		76
Amortization (accretion) of investment premium (discount)	(115)	134
Non-cash gain on convertible notes		(7,978)
Non-cash gain on derivative liabilities	(3,614)	(6,083)
Non-cash interest expense	3,575	9,257
Non-cash rent benefit	(96)	(8)
Loss on sale of investment securities	1	
Changes in operating assets and liabilities:		
Restricted cash		859
Interest receivable	207	(32)
Accounts receivable, net	21	1,346
Prepaid expenses and other current assets	(376)	784
Other assets	(358)	417
Accounts payable	405	(2,371)
Accrued expenses	(11,958)	(1,799)
Deferred revenue	(40)	(40)
Excess facilities obligations	(1,297)	(1,391)
Other long-term obligations	62	(276)
Total adjustments	(10,336)	(1,369)
Net cash used in operating activities	(62,412)	(73,757)
<b>Investing activities</b>		
Purchases of securities available-for-sale	(26,488)	(16,961)
Proceeds from sales of securities available-for-sale	5,485	
Proceeds from maturities of securities available-for-sale	22,377	18,488
Purchases of property and equipment	(733)	(348)
Proceeds from sale of property and equipment		511
Net cash provided by investing activities	641	1,690
<b>Financing activities</b>		
Proceeds from issuance of Series A 3% convertible preferred stock and warrants, net	18,608	
Proceeds from issuance of Series B 3% convertible preferred stock and warrants, net	34,920	
Proceeds from issuance of 7.5% convertible senior notes, net		31,177
Release of restricted cash related to 6.75% convertible senior notes		24,712

