CELL THERAPEUTICS INC Form 10-Q/A February 06, 2007 Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended: September 30, 2006
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

 $incorporation\ or\ organization)$

Identification No.)

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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 x 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 x

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 x

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

Class
Common Stock, no par value

Outstanding at October 31, 2006 144,652,751

CELL THERAPEUTICS, INC.

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Explanatory Note:

Cell Therapeutics, Inc., or CTI, is filing this Amendment No. 1 on Form 10-Q/A to its Form 10-Q for the quarter ended September 30, 2006, to reflect the restatement of its previously issued financial statements to correct inadvertent errors in accounting for accounts payable and accrued expenses in our Italian subsidiary, Cell Therapeutics Europe, S.r.l., or CTI (Europe).

The information contained in this Amendment, including the financial statements and the notes hereto, amends only Items 1, 2 and 4 of Part I and Item 1A of Part 2 of our originally filed Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 and no other items in our originally filed Form 10-Q are amended hereby. In accordance with Rule 12b-15 of the Securities and Exchange Act of 1934, the complete text of those items in which amended language appears is set forth herein, including those portions of the text that have not been amended from that set forth in the original Form 10-Q. Except for the aforementioned adjustments, this Form 10-Q/A does not materially modify or update other disclosures in the original Form 10-Q, including the nature and character of such disclosure to reflect events occurring after November 9, 2006, the filing date of the original Form 10-Q. Accordingly this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission. Currently dated certifications from the our Chief Executive Officer and Chief Financial Officer have been included as exhibits to this amendment.

Impact on Management s Assessment of Internal Control over Financial Reporting: In connection with the restatement, we reevaluated our disclosure controls and procedures in CTI (Europe). We concluded that our failure to correctly account for accounts payable and accrued expenses constituted a material weakness in our internal control over financial reporting. As a result of this material weakness, we concluded that our disclosure controls and procedures in relation thereto were not effective as of September 30, 2006.

Remediation of Material Weakness: In an effort to remediate the material weakness described above, we are currently implementing enhanced procedures that are designed to ensure that we will properly record accounts payable and accrued expenses in CTI (Europe). These enhanced procedures will provide for additional managerial oversight of accounts payable and accrued expense balances.

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CELL THERAPEUTICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	September 30, 2006 (unaudited)		December 31, 2005	
	(restated)		
ASSETS		ĺ		
Current assets:				
Cash and cash equivalents	\$	16,128	\$	50,022
Restricted cash		57		25,596
Securities available-for-sale		51,329		18,858
Interest receivable		645		187
Accounts receivable, net		339		2,306
Prepaid expenses and other current assets		11,062		10,107
Total current assets		79,560		107,076
Property and equipment, net		9,013		12,278
Goodwill		17,064		17,064
Other intangibles, net		1,799		2,239
Other assets		13,550		16,783
Total assets	\$	120,986	\$	155,440
LIABILITIES AND SHAREHOLDERS DEFICIT				
Current liabilities:				
Accounts payable	\$	4,800	\$	3,370
Accrued expenses		22,201		17,558
Current portion of deferred revenue		80		80
Current portion of long-term obligations		2,701		2,880
Current portion of convertible senior notes				6,900
Total current liabilities		29,782		30,788
Deferred revenue, less current portion		498		558
Long-term obligations, less current portion		5,242		7,326
7.5% convertible senior notes		50,409		
6.75% convertible senior notes		6,954		72,146
Convertible senior subordinated notes		82,557		122,079
Convertible subordinated notes		28,490		29,640
Commitments and contingencies				
Shareholders deficit:				
Preferred stock, no par value:				
Authorized shares - 10,000,000				
Series C, 100,000 shares designated, none issued or outstanding				
Common stock, no par value:				
Authorized shares - 200,000,000				
Issued and outstanding shares - 137,073,731 (unaudited) and 73,421,721 at September 30, 2006 and				
December 31, 2005, respectively		843,600		721,544
Deferred stock-based compensation		(4.020)		(1,669)
Accumulated other comprehensive loss		(1,038)		(1,683)

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Accumulated deficit	(925,508)	(825,289)
Total shareholders deficit	(82,946)	(107,097)
Total liabilities and shareholders deficit	\$ 120,986	\$ 155,440

See accompanying notes.

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CELL THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30, 2006 2005		Nine Mont Septeml 2006	
	(restated)	2003	(restated)	2003
Revenues:	` ′		· ´	
Product sales	\$	\$ 1,190	\$	\$ 14,599
License and contract revenue	20	101	60	300
Total revenues	20	1,291	60	14,899
Operating expenses:				
Cost of product sold		60		518
Research and development	14,443	13,340	45,370	55,582
Selling, general and administrative	9,032	12,500	27,452	49,475
Amortization of purchased intangibles	200	236	588	731
Restructuring charges and related asset impairments	25	5,077	367	7,049
Gain on divestiture of TRISENOX		(30,500)		(30,500)
Total operating expenses	23,700	713	73,777	82,855
Income (loss) from operations	(23,680)	578	(73,717)	(67,956)
Other income (expense):				
Investment and other income	607	414	1,843	1,326
Interest expense	(3,552)	(2,955)	(16,888)	(10,842)
Foreign exchange gain (loss)	(115)	(104)	997	98
Make-whole interest expense	(213)		(24,753)	
Gain (loss) on derivative liabilities	(879)		5,204	
Gain on exchange of convertible notes			7,978	
Settlement expense			(883)	
Loss on extinguishment of royalty obligation		(6,437)		(6,437)
Other expense, net	(4,152)	(9,082)	(26,502)	(15,855)
Net loss	\$ (27,832)	\$ (8,504)	\$ (100,219)	\$ (83,811)
Basic and diluted net loss per share	\$ (0.25)	\$ (0.13)	\$ (0.98)	\$ (1.32)
Shares used in calculation of basic and diluted net loss per share	111,560	63,515	102,132	63,385

See accompanying notes.

CELL THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

Operating activities (restated) Net loss \$ (100,219) \$ (83,811) Adjustments to reconcile net loss to net cash used in operating activities: 4,850 7,426 Equity-based compensation expense 3,579 2,516 Loss on disposition of property and equipment 85 271 Non-cash gain on exchange of convertible notes (7,978) 7 Non-cash gain on derivative disblitties (5,204) 7 Non-cash jami on derivative disblitties (5,204) 2,503 Asset impairments 10,445 719 Asset impairments (8,500) 4,370 Gain on divestiture of TRISENOX (30,500) Loss on extinguishment of royalty obligation (11) 135 Loss on exit (benefit) experse (11) 135 Loss on exit receivable (45 4 Loss on exit (benefit) experse (11) 135 Loss on exit (benefit) experse (11) 135 Loss on exit (benefit) expense (11) 135 Loss (benefit) expense (11) 4 Roceast f			Nine Months Ended September 30, 2006 2005	
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Equity-based compensation expense 3,579 2,516 Loss on disposition of property and equipment 91 83 Amortization of investment premium 85 271 Non-cash gain on exchange of convertible notes (7,978) Non-cash gain on exchange of convertible notes (5,204) Non-cash gain on derivative liabilities (5,203) Asset impairments (30,500) Gain on divestiture of TRISENOX (11) 135 Loss on extinguishment of royalty obligation (11) 135 Loss on sale of investment securities 14 14 Changes in operating assets and liabilities: 877 1 Restricted cash 877 4 Restricted cash 877 4 Interest receivable, net 1,532 (1,855) Inventory 4 4 Prepaid expenses and other current assets 3,182 1448 Other assets 103 (1,029) Accruded expenses 2,18 (3,763) Accrude expenses 2,18 (3,763) Other long	Adjustments to reconcile net loss to net cash used in operating activities:			
Loss on disposition of property and equipment 91 83 Amortization of investment premium 85 271 Non-cash gain on exchange of convertible notes (5,204) Non-cash gain on exchange of convertible notes (5,204) Non-cash gain on exchange of convertible notes 2,563 Non-cash interest expense 10,445 719 Asset impairments 2,563 Gain on divestiture of TRISENOX (30,500) Loss on extinguishment of royalty obligation (11 135 Non-cash ret (benefit) expense (11 135 Loss on sale of investment securities 14 Changes in operating assets and liabilities: 87 Restricted cash 877 Interest receivable (458) 48 Accounts receivable, net 1,532 1,855 Inventory 4 4 Prepaid expenses and other current assets 3,182 1,443 Other assets 2,169 (8,703) Accrued expenses 2,189 (8,703) Deferred revenue 60 1,568	Depreciation and amortization	4,850	7,426	
Amortization of investment premium 85 271 Non-cash gain on exchange of convertible notes (7,978) Non-cash gain on derivative liabilities (5,204) Non-cash jam on derivative liabilities 10,445 719 Asset impairments 2,563 2,563 Gain on divestiture of TRISENOX (30,500) Loss on extinguishment of royalty obligation 6,437 Non-cash rent (benefit) expense (11) 135 Loss on sale of investment securities 14 Changes in operating assets and liabilities: 87 Restricted cash 87 1 Interest receivable 458 48 Accounts receivable, net 1,532 (1,855) Inventory 4 4 Prepaid expenses and other current assets 3,182 1,443 Other assets 103 (1,029) Accounts payable (2,767) (3,433) Accoude expenses 2,189 (8,703) Deferred revenue (60) 1,568 Excess facilities obligations (19) 4,675 </td <td>Equity-based compensation expense</td> <td>3,579</td> <td>2,516</td>	Equity-based compensation expense	3,579	2,516	
Non-cash gain on exchange of convertible notes (7,978) Non-cash gain on derivative liabilities (5,204) Non-cash interest expense 10,445 719 Asset impairments 2,563 Gain on divestiture of TRISENOX (30,500) Loss on extinguishment of royalty obligation 6,437 Non-cash rent (benefit) expense (11) 135 Loss on sale of investment securities 877 1 Changes in operating assets and liabilities: 877 1 Restricted cash 877 1 Interest receivable (458) 48 Accounts receivable, net 1,532 (1,855) Inventory 4 4 Prepaid expenses and other current assets 3,182 1,443 Other assets 103 (1,029) Accounts payable (2,767) (3,433) Accured expenses 2,189 (8,703) Deferred revenue (60) 1,568 Excess facilities obligations (1),91 4,675 Other long-term obligations (416)	Loss on disposition of property and equipment	91	83	
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Non-cash gain on derivative liabilities (5,204) Non-cash interest expense 10,45 719 Asset impairments 2,563 Gain on divestiture of TRISENOX (30,500) Loss on extinguishment of royalty obligation 6,437 Non-cash rent (benefit) expense (11) 135 Loss on sale of investment securities 14 Changes in operating assets and liabilities: 87 Restricted cash 87 Interest receivable, net 1,532 (1,855) Inventory 4 Prepaid expenses and other current assets 3,182 1,443 Other assets 103 (1,029) Accounts payable 2,767 (3,433) Accrued expenses 2,189 (8,703) Deferred revenue 6(0) 1,568 Excess facilities obligations (1,913) 4,675 Other long-term obligations (1,913) 4,675 Other long-term obligations (92,093) (97,689) Proceds from divestiture of TRISENOX (92,093) (97,635) (6,001) <	Non-cash gain on exchange of convertible notes	(7,978)		
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Interest receivable (458) 48 Accounts receivable, net 1,532 (1,855) Inventory 4 Prepaid expenses and other current assets 3,182 1,443 Other assets 103 (1,029 Accounts payable (2,767) (3,433) Accrued expenses 2,189 (8,703) Deferred revenue (60) 1,568 Excess facilities obligations (1,913) 4,675 Other long-term obligations (416) 3,740 Total adjustments 8,126 (13,878) Net cash used in operating activities (92,093) (97,689) Investing activities (57,635) (26,922) Purchases of securities available-for-sale (57,635) (26,922) Proceeds from maturities of securities available-for-sale 25,113 13,494 Proceeds from sales of securities available-for-sale 15,815	Changes in operating assets and liabilities:			
Accounts receivable, net 1,532 (1,855) Inventory 4 Prepaid expenses and other current assets 3,182 1,443 Other assets 103 (1,029) Accounts payable (2,767) (3,433) Accrued expenses 2,189 (8,703) Deferred revenue (60) 1,568 Excess facilities obligations (1,913) 4,675 Other long-term obligations (416) 3,740 Total adjustments 8,126 (13,878) Net cash used in operating activities (92,093) (97,689) Investing activities (57,635) (26,922) Purchases of securities available-for-sale (57,635) (26,922) Proceeds from maturities of securities available-for-sale 25,113 13,494 Proceeds from sales of securities available-for-sale 15,815	Restricted cash	877		
Inventory 4 Prepaid expenses and other current assets 3,182 1,443 Other assets 103 (1,029) Accounts payable (2,767) (3,433) Accrued expenses 2,189 (8,703) Deferred revenue (60) 1,568 Excess facilities obligations (1,913) 4,675 Other long-term obligations (416) 3,740 Total adjustments 8,126 (13,878) Net cash used in operating activities (92,093) (97,689) Investing activities (57,635) (26,922) Purchases of securities available-for-sale (57,635) (26,922) Proceeds from maturities of securities available-for-sale 25,113 13,494 Proceeds from sales of securities available-for-sale 15,815	Interest receivable	(458)	48	
Prepaid expenses and other current assets 3,182 1,443 Other assets 103 (1,029) Accounts payable (2,767) (3,433) Accrued expenses 2,189 (8,703) Deferred revenue (60) 1,568 Excess facilities obligations (1,913) 4,675 Other long-term obligations (416) 3,740 Total adjustments 8,126 (13,878) Net cash used in operating activities (92,093) (97,689) Investing activities Net proceeds from divestiture of TRISENOX 67,061 Purchases of securities available-for-sale (57,635) (26,922) Proceeds from maturities of securities available-for-sale 25,113 13,494 Proceeds from sales of securities available-for-sale 15,815	Accounts receivable, net	1,532	(1,855)	
Other assets 103 (1,029) Accounts payable (2,767) (3,433) Accrued expenses 2,189 (8,703) Deferred revenue (60) 1,568 Excess facilities obligations (1,913) 4,675 Other long-term obligations (416) 3,740 Total adjustments 8,126 (13,878) Net cash used in operating activities (92,093) (97,689) Investing activities Net proceeds from divestiture of TRISENOX 67,061 Purchases of securities available-for-sale (57,635) (26,922) Proceeds from maturities of securities available-for-sale 25,113 13,494 Proceeds from sales of securities available-for-sale 15,815	Inventory		4	
Accounts payable (2,767) (3,433) Accrued expenses 2,189 (8,703) Deferred revenue (60) 1,568 Excess facilities obligations (1,913) 4,675 Other long-term obligations (416) 3,740 Total adjustments 8,126 (13,878) Net cash used in operating activities (92,093) (97,689) Investing activities Net proceeds from divestiture of TRISENOX 67,061 Purchases of securities available-for-sale (57,635) (26,922) Proceeds from maturities of securities available-for-sale 25,113 13,494 Proceeds from sales of securities available-for-sale 15,815	Prepaid expenses and other current assets	3,182	1,443	
Accrued expenses 2,189 (8,703) Deferred revenue (60) 1,568 Excess facilities obligations (1,913) 4,675 Other long-term obligations (416) 3,740 Total adjustments 8,126 (13,878) Net cash used in operating activities (92,093) (97,689) Investing activities (57,635) (26,922) Purchases of securities available-for-sale (57,635) (26,922) Proceeds from maturities of securities available-for-sale 25,113 13,494 Proceeds from sales of securities available-for-sale 15,815	Other assets	103	(1,029)	
Deferred revenue(60)1,568Excess facilities obligations(1,913)4,675Other long-term obligations(416)3,740Total adjustments8,126(13,878)Net cash used in operating activities(92,093)(97,689)Investing activitiesNet proceeds from divestiture of TRISENOX67,061Purchases of securities available-for-sale(57,635)(26,922)Proceeds from maturities of securities available-for-sale25,11313,494Proceeds from sales of securities available-for-sale15,815	Accounts payable	(2,767)	(3,433)	
Excess facilities obligations (1,913) 4,675 Other long-term obligations (416) 3,740 Total adjustments 8,126 (13,878) Net cash used in operating activities (92,093) (97,689) Investing activities Net proceeds from divestiture of TRISENOX 67,061 Purchases of securities available-for-sale (57,635) (26,922) Proceeds from maturities of securities available-for-sale 25,113 13,494 Proceeds from sales of securities available-for-sale 15,815	Accrued expenses	2,189	(8,703)	
Other long-term obligations(416)3,740Total adjustments8,126(13,878)Net cash used in operating activities(92,093)(97,689)Investing activitiesNet proceeds from divestiture of TRISENOX67,061Purchases of securities available-for-sale(57,635)(26,922)Proceeds from maturities of securities available-for-sale25,11313,494Proceeds from sales of securities available-for-sale15,815	Deferred revenue	(60)	1,568	
Other long-term obligations(416)3,740Total adjustments8,126(13,878)Net cash used in operating activities(92,093)(97,689)Investing activitiesNet proceeds from divestiture of TRISENOX67,061Purchases of securities available-for-sale(57,635)(26,922)Proceeds from maturities of securities available-for-sale25,11313,494Proceeds from sales of securities available-for-sale15,815	Excess facilities obligations	(1,913)	4,675	
Net cash used in operating activities Investing activities Net proceeds from divestiture of TRISENOX Purchases of securities available-for-sale Proceeds from maturities of securities available-for-sale Proceeds from sales of securities available-for-sale 15,815		(416)	3,740	
Net cash used in operating activities Investing activities Net proceeds from divestiture of TRISENOX Purchases of securities available-for-sale Proceeds from maturities of securities available-for-sale Proceeds from sales of securities available-for-sale 15,815				
Investing activities Net proceeds from divestiture of TRISENOX Purchases of securities available-for-sale Proceeds from maturities of securities available-for-sale Proceeds from sales of securities available-for-sale 15,815	Total adjustments	8,126	(13,878)	
Net proceeds from divestiture of TRISENOX67,061Purchases of securities available-for-sale(57,635)(26,922)Proceeds from maturities of securities available-for-sale25,11313,494Proceeds from sales of securities available-for-sale15,815	Net cash used in operating activities	(92,093)	(97,689)	
Net proceeds from divestiture of TRISENOX67,061Purchases of securities available-for-sale(57,635)(26,922)Proceeds from maturities of securities available-for-sale25,11313,494Proceeds from sales of securities available-for-sale15,815	Investing activities			
Purchases of securities available-for-sale(57,635)(26,922)Proceeds from maturities of securities available-for-sale25,11313,494Proceeds from sales of securities available-for-sale15,815			67,061	
Proceeds from maturities of securities available-for-sale Proceeds from sales of securities available-for-sale 15,815		(57,635)	,	
Proceeds from sales of securities available-for-sale 15,815				
		, -		
	Purchases of property and equipment	(472)	(1,946)	