

CELL THERAPEUTICS INC
Form 10-Q
August 18, 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: June 30, 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

incorporation or organization)

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

(206) 282-7100

(Registrant's telephone number, including area code)

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

98119
(Zip 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 Smaller reporting company
(Do not check if a 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 July 31, 2008
Common Stock, no par value	139,761,841

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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)**

	June 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,704	\$ 15,798
Restricted cash	26,862	
Securities available-for-sale	7,622	2,548
Interest receivable	93	46
Accounts receivable, net	1,780	51
Inventory, net	593	290
Prepaid expenses and other current assets	5,526	3,904
Total current assets	47,180	22,637
Property and equipment, net	4,880	6,025
Goodwill	17,064	17,064
Other intangibles, net	15,261	15,957
Other assets	12,433	11,830
Total assets	\$ 96,818	\$ 73,513
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	\$ 12,942	\$ 6,595
Accrued expenses	28,170	26,034
Warrant liability	8,275	
Current portion of deferred revenue	80	80
Current portion of long-term obligations	736	1,020
Current portion of convertible senior subordinated notes		16,907
Current portion of convertible subordinated notes		2,910
Total current liabilities	50,203	53,546
Deferred revenue, less current portion	358	398
Long-term obligations, less current portion	9,558	9,879
15% convertible senior notes	21,783	
13.5% convertible senior notes	17,144	
9% convertible senior notes	4,156	
7.5% convertible senior notes	32,410	32,220
6.75% convertible senior notes	6,921	6,922
5.75% convertible senior notes	23,433	23,287
4% convertible senior subordinated notes	55,150	55,150
Total liabilities	221,116	181,402
Commitments and contingencies		
Minority interest in subsidiary		
Preferred stock, no par value:		
Authorized shares - 10,000,000	417	5,188

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Series A 3% Convertible Preferred Stock, \$1,000 stated value, 20,000 shares designated; 550 and 6,850 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively		
Series B 3% Convertible Preferred Stock, \$1,000 stated value, 37,200 shares designated; 5,218 and 15,380 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	4,031	11,881
Series C 3% Convertible Preferred Stock, \$1,000 stated value, 20,250 shares designated; 6,284 and 8,284 shares issued and outstanding at June 30, 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 June 30, 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 - 139,769,041 and 62,444,239 at June 30, 2008 and December 31, 2007, respectively	1,090,376	979,295
Accumulated other comprehensive loss	(1,248)	(4,007)
Accumulated deficit	(1,223,333)	(1,109,413)
Total shareholders' deficit	(134,205)	(134,125)
Total liabilities and shareholders' deficit	\$ 96,818	\$ 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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues:				
Product sales	\$ 2,870	\$	\$ 6,244	\$
License and contract revenue	20	20	40	40
Total revenues	2,890	20	6,284	40
Operating expenses:				
Cost of product sold	767		1,657	
Research and development	15,857	16,516	31,712	31,802
Selling, general and administrative	11,518	7,590	22,692	15,720
Amortization of purchased intangibles	537	212	934	419
Acquired in-process research and development			36	
Total operating expenses	28,679	24,318	57,031	47,941
Loss from operations	(25,789)	(24,298)	(50,747)	(47,901)
Other income (expense):				
Investment and other income, net	93	738	353	1,441
Interest expense	(2,395)	(2,098)	(4,380)	(4,019)
Amortization of debt discount and issuance costs	(30,202)	(1,580)	(41,146)	(3,575)
Foreign exchange gain (loss)	76	387	(2,161)	834
Make-whole interest expense	(25,596)		(33,377)	(2,310)
Gain on derivative liabilities, net	31,433	906	43,177	3,614
Loss on exchange of convertible notes	(3,313)		(5,608)	
Write-off of financing arrangement costs	(2,361)		(2,361)	
Settlement expense		(17)		(160)
Other expense, net	(32,265)	(1,664)	(45,503)	(4,175)
Loss before minority interest	(58,054)	(25,962)	(96,250)	(52,076)
Minority interest in net loss of subsidiary	31		63	
Net loss	(58,023)	(25,962)	(96,187)	(52,076)
Preferred stock beneficial conversion feature	(1,067)	(1,789)	(1,067)	(4,383)
Preferred stock dividends	(226)	(150)	(468)	(181)
Deemed dividends on conversion of preferred stock			(16,198)	
Net loss attributable to common shareholders	\$ (59,316)	\$ (27,901)	\$ (113,920)	\$ (56,640)
Basic and diluted net loss per common share	\$ (0.52)	\$ (0.65)	\$ (1.23)	\$ (1.41)
Shares used in calculation of basic and diluted net loss per common share	114,470	42,713	92,772	40,165

See accompanying notes.

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

	Six Months Ended June 30,	
	2008	2007
Operating activities		
Net loss	\$ (96,187)	\$ (52,076)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash interest expense	41,146	3,575
Non-cash gain on derivative liabilities	(43,177)	(3,614)
Acquired in-process research and development	36	
Non-cash loss on exchange of convertible notes	5,608	
Depreciation and amortization	3,040	2,693
Equity-based compensation expense	1,907	554
Minority interest in net loss of subsidiary	(63)	
Other	(67)	(210)
Changes in operating assets and liabilities:		
Restricted cash	32,471	
Interest receivable	(47)	207
Accounts receivable, net	(1,729)	21
Inventory	(302)	
Prepaid expenses and other current assets	(1,588)	(376)
Other Credits	37,945	59,770
Non-Current Assets	4,020,730	4,529,491
Long Term Assets	549,077	696,604
Marketable Securities	98,953	121,003
Other Credits	450,124	575,601
Permanent	3,471,653	3,832,887
Investments	104,148	89,330
Property, Plant and Equipment	3,273,104	3,637,974
Deferred Charges	94,401	105,583
Total Assets	8,785,791	9,198,096
LIABILITIES	0	0
Current Liabilities	2,413,219	2,555,934
Loans and Financing	1,135,068	1,044,818
Suppliers	735,472	844,578
Salaries and Social Charges Payable	164,299	213,005
Taxes Payable	102,636	151,271
Dividends	48,908	88,798
Operating Liabilities	226,836	213,464
Non-Current Assets - Long Term Liabilities	3,270,194	3,471,998
Loans and Financing	2,951,997	3,149,565
Operating Liabilities	318,197	322,433
Deferred Discount of Investments	0	0
Minority Interest in Subsidiaries	29,064	22,519
Shareholder's Equity	3,073,314	3,147,645
Paid - Up Capital	2,000,000	2,000,000
Income Reserve	1,073,314	1,147,645
Total Liabilities and Equity	8,785,791	9,198,096

ATTACHMENT III

CASH FLOW STATEMENT

R\$ Thousand

	June 2007	June 2008
Net result from the period	205,549	334,463
Adjustments to reconcile net income to cash generated by operating activities:		
Variation in minority interest	(268)	(11,780)
Accrued interest, net of paid interest	(124,925)	(84,000)
Depreciation, amortization and depletion allowances	145,209	189,709
Goodwill amortization	10,386	10,481
Subvention	10,575	-
Equity in earnings of subsidiaries	(3,026)	980
Exchange variations on foreign investments	92,657	76,214
Deferred taxes	57,802	(22,850)
Contingencies	197	(8,915)
Result from the disposal of permanent assets	1,550	2,095
Variations in operating assets and liabilities:		
Trade accounts receivable	320,133	1,106
Inventories	(90,907)	(452,350)
Recoverable taxes and other	(35,229)	(355,883)
Judicial deposits	(7,623)	(3,000)
Suppliers	(32,307)	250,627
Taxes payable, salaries payable and others	(55,351)	130,609
Net cash generated from operating activities	494,422	57,506
Investments activities:		
Funds from the sale of permanent assets	2,790	1,048
Purchase of property, plant and equipment	(352,572)	(952,736)
Acquisition of subsidiary, net cash	-	(40,290)
Short-term investments	(1,489,358)	(1,039,224)
Redemption of investments	1,398,041	1,101,389
Cash applied in investments activities	(441,099)	(929,813)
Financing activities:		
Loans and financing	1,399,107	1,182,823
Payment of financing	(1,428,631)	(439,695)
Dividends paid	(57,831)	(130,832)
Sale of treasury shares	463	-
Purchase of treasury shares	(879)	-
Net cash generated from financing activities	(87,771)	612,296
Cash at beginning of year	234,069	320,028
Cash at end of year	199,621	60,017
Net addition in cash	(34,448)	(260,011)