

CTI BIOPHARMA CORP  
Form 10-Q  
November 05, 2015

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, 2015

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

CTI BIOPHARMA CORP.

(Exact name of registrant as specified in its charter)

Washington	91-1533912
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3101 Western Avenue, Suite 600	
Seattle, Washington	98121
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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 October 30, 2015
Common Stock, no par value	231,723,931

CTI BIOPHARMA CORP.

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## PART 1 – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CTI BIOPHARMA CORP.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$46,355	\$70,933
Accounts receivable, net	422	2,011
Inventory, net	2,594	4,182
Prepaid expenses and other current assets	3,968	3,379
Total current assets	53,339	80,505
Property and equipment, net	3,950	4,646
Other assets	5,843	7,136
Total assets	\$63,132	\$92,287
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$13,381	\$6,356
Accrued expenses	17,455	19,734
Warrant liability	247	—
Current portion of deferred revenue	652	826
Current portion of long-term debt	4,300	9,014
Other current liabilities	453	410
Total current liabilities	36,488	36,340
Deferred revenue, less current portion	1,272	1,779
Long-term debt, less current portion	47,351	8,363
Other liabilities	5,538	5,882
Total liabilities	90,649	52,364
Commitments and contingencies		
Common stock purchase warrants	—	1,445
Shareholders' equity (deficit):		
Common stock, no par value:		
Authorized shares - 315,000,000 and 215,000,000		
at September 30, 2015 and December 31, 2014, respectively		
Issued and outstanding shares - 191,841,451 and 176,761,099	2,053,087	2,023,949

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at September 30, 2015 and December 31, 2014, respectively		
Accumulated other comprehensive loss	(6,885 )	(6,499 )
Accumulated deficit	(2,069,480)	(1,975,695)
Total CTI shareholders' equity (deficit)	(23,278 )	41,755
Noncontrolling interest	(4,239 )	(3,277 )
Total shareholders' equity (deficit)	(27,517 )	38,478
Total liabilities and shareholders' equity	\$63,132	\$92,287

See accompanying notes.

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CTI BIOPHARMA CORP.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Revenues:</b>				
Product sales, net	\$740	\$2,021	\$2,394	\$4,437
License and contract revenue	224	37,513	2,398	37,851
Total revenues	964	39,534	4,792	42,288
<b>Operating costs and expenses:</b>				
Cost of product sold	831	252	1,204	599
Research and development	18,404	16,528	55,195	42,725
Selling, general and administrative	13,682	12,563	38,603	43,104
Other operating expense	—	2,719	253	2,719
Total operating costs and expenses	32,917	32,062	95,255	89,147
Income (loss) from operations	(31,953 )	7,472	(90,463 )	(46,859 )
<b>Non-operating income (expense):</b>				
Interest expense	(1,288 )	(472 )	(2,379 )	(1,403 )
Amortization of debt discount and issuance costs	(40 )	(185 )	(351 )	(547 )
Foreign exchange loss	(18 )	(2,455 )	(561 )	(2,621 )
Other non-operating income (expense)	203	—	(993 )	(885 )
Total non-operating expense, net	(1,143 )	(3,112 )	(4,284 )	(5,456 )
Net income (loss) before noncontrolling interest	(33,096 )	4,360	(94,747 )	(52,315 )
Noncontrolling interest	504	243	962	517
Net income (loss)	\$(32,592 )	\$4,603	\$(93,785 )	\$(51,798 )
<b>Net income (loss) per common share:</b>				
Basic	\$(0.19 )	\$0.03	\$(0.54 )	\$(0.36 )
Diluted	\$(0.19 )	\$0.03	\$(0.54 )	\$(0.36 )
<b>Shares used in calculation of earnings (loss) per common share:</b>				
Basic	176,004	145,138	175,143	143,920
Diluted	176,004	147,097	175,143	143,920

See accompanying notes.

CTI BIOPHARMA CORP.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(unaudited)

	Three Months		Nine Months Ended	
	Ended September 30, 2015	2014	September 30, 2015	2014
Net income (loss) before noncontrolling interest	\$(33,096)	\$4,360	\$(94,747)	\$(52,315)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(33 )	1,214	1,462	1,261
Unrealized foreign exchange gain (loss) on intercompany balance	42	—	(1,832 )	—
Net unrealized income (loss) on securities available-for-sale:	(8 )	10	(16 )	(48 )
Other comprehensive income (loss)	1	1,224	(386 )	1,213
Comprehensive income (loss)	(33,095)	5,584	(95,133)	(51,102)
Comprehensive loss attributable to noncontrolling interest	504	243	962	517
Comprehensive loss attributable to CTI	\$(32,591)	\$5,827	\$(94,171)	\$(50,585)

See accompanying notes.

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CTI BIOPHARMA CORP.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended	
	September 30,	2014
	2015	2014
<b>Operating activities</b>		
Net loss	\$(94,747)	\$(52,315)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation expense	12,997	17,022
Depreciation and amortization	757	875
Loss on debt extinguishment	1,211	—
Provision for inventory reserve	754	—
Noncash interest expense	351	547
Change in value of warrant liability	(135 )	886
Other	(128 )	317
Changes in operating assets and liabilities:		
Accounts receivable	1,253	(1,033 )
Other receivable	—	(17,674)
Inventory	510	115
Prepaid expenses and other current assets	(652 )	851
Other assets	771	(753 )
Accounts payable	7,119	1,384
Accrued expenses	(2,504 )	6,106
Deferred revenue	(681 )	278
Other liabilities	3	(5 )
Total adjustments	21,626	8,916
Net cash used in operating activities	(73,121)	(43,399)
<b>Investing activities</b>		
Purchases of property and equipment	(31 )	(258 )
Net cash used in investing activities	(31 )	(258 )
<b>Financing activities</b>		
Proceeds from common stock offering	15,700	—
Proceeds from Hercules debt, net of issuance costs	5,870	(73 )
Repayment of Hercules debt	(4,659 )	—
Proceeds from Baxalta milestone advance	32,000	—
Payment of tax withholding obligations related to stock compensation	(580 )	(167 )
Cash paid for Series 21 preferred stock issuance costs	(227 )	—
Other	83	61
Net cash provided by (used in) financing activities	48,187	(179 )

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Effect of exchange rate changes on cash and cash equivalents	387	2,107
Net decrease in cash and cash equivalents	(24,578)	(41,729)
Cash and cash equivalents at beginning of period	70,933	71,639
Cash and cash equivalents at end of period	\$46,355	\$29,910
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	\$1,507	\$1,383
Cash paid during the period for taxes	\$—	\$—
Supplemental disclosure of noncash financing and investing activities		
Issuance of common stock upon exercise of common stock purchase warrants	\$—	\$1,877
Repayment and issuance of Hercules debt	\$13,815	\$—

See accompanying notes.

CTI BIOPHARMA CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business and Summary of Significant Accounting Policies

CTI BioPharma Corp., together with its wholly-owned subsidiaries, also referred to collectively in this Quarterly Report on Form 10-Q as CTI, the Company, we, us or our, is a biopharmaceutical company focused on the acquisition, development and commercialization of novel targeted therapies covering a spectrum of blood-related cancers that offer a unique benefit to patients and health care providers. Our goal is to build a profitable company by generating income from products we develop and commercialize, either alone or with partners. We are currently concentrating our efforts on treatments that target blood-related cancers where there is an unmet medical need. In particular, we are primarily focused on commercializing PIXUVRI<sup>®</sup> (pixantrone), or PIXUVRI, in select countries in the European Union, or the E.U., for multiply relapsed or refractory aggressive B-cell non-Hodgkin lymphoma and conducting a Phase 3 clinical trial program evaluating pacritinib for the treatment of adult patients with myelofibrosis to support regulatory submission for approval in the United States, or the U.S., and Europe. We are also evaluating pacritinib in early phase clinical trials as treatment for other blood-related cancers.

We operate in a highly regulated and competitive environment. The manufacturing and marketing of pharmaceutical products require approval from, and are subject to, ongoing oversight by the Food and Drug Administration in the U.S., the European Medicines Agency, or the EMA, in the E.U. and comparable agencies in other countries. Obtaining approval for a new therapeutic product is never certain, may take many years and may involve expenditure of substantial resources.

Basis of Presentation

The accompanying unaudited financial information of CTI as of September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 has been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, such financial information includes all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our financial position at such date and the operating results and cash flows for such periods. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the entire year or for any other subsequent interim period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the rules of the U.S. Securities and Exchange Commission, or the SEC. These unaudited financial statements and related notes should be read in conjunction with our audited annual financial statements for the year ended December 31, 2014 included in our Annual Report on Form 10-K filed with the SEC on March 12, 2015.

The condensed consolidated balance sheet at December 31, 2014 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles in the U.S. for complete financial statements.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of CTI and its wholly-owned subsidiaries, which include Systems Medicine LLC and CTI Life Sciences Limited, or CTILS. We also retain ownership of our branch, CTI BioPharma Corp.– Sede Secondaria, or CTI (Europe); however, we ceased operations related to this branch in September 2009. In addition, CTI Commercial LLC, a wholly-owned subsidiary, was included in the consolidated financial statements until dissolution in March 2012.

As of September 30, 2015, we also had a 61% interest in our majority-owned subsidiary, Aequus Biopharma, Inc., or Aequus. The remaining interest in Aequus not held by CTI is reported as noncontrolling interest in the consolidated financial statements.

All intercompany transactions and balances are eliminated in consolidation.

#### Accounts Receivable

Our accounts receivable balance includes trade receivables related to PIXUVRI sales. We estimate an allowance for doubtful accounts based upon the age of outstanding receivables and our historical experience of collections, which includes adjustments for risk of loss for specific customer accounts. We periodically review the estimation process and make changes to our assumptions as necessary. When it is deemed probable that a customer account is uncollectible, the account balance is written off against the existing

allowance. We also consider the customers' country of origin to determine if an allowance is required. We continue to monitor economic conditions, including the volatility associated with international economies, the sovereign debt crisis in certain European countries and associated impacts on the financial markets and our business. As of September 30, 2015 and December 31, 2014, our accounts receivable did not include any balance from a customer in a country that has exhibited financial stress that would have had a material impact on our financial results. Our allowance for doubtful accounts balance was \$0.2 million as of September 30, 2015 and \$0.1 million as of December 31, 2014.

### Liquidity

The accompanying condensed consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date of these condensed consolidated financial statements. However, we have incurred net losses since inception and expect to generate losses for the next few years primarily due to research and development costs for pacritinib, PIXUVRI, tosedostat and Opaxio.

Our available cash and cash equivalents were \$46.4 million as of September 30, 2015, and subsequent to period end, we raised approximately \$46.5 million in net proceeds in an underwritten offering. See Note 10, Subsequent Events, for additional information. We believe that our present financial resources, together with milestone payments projected to be received under certain of our contractual agreements and our ability to control costs, will be sufficient to fund our operations through the fourth quarter of 2016.

We expect that we will need to acquire additional funds in order to develop our business. We may seek to raise such capital through public or private equity financings, partnerships, collaborations, joint ventures, disposition of assets, debt financings or restructurings, bank borrowings or other sources of financing. Furthermore, we have a limited number of authorized shares of common stock available for issuance and additional funding may not be available on favorable terms or at all. If additional funds are raised by issuing equity securities, substantial dilution to existing shareholders may result. If we fail to obtain additional capital when needed, our ability to operate as a going concern will be harmed, and we may be required to delay, scale back or eliminate some or all of our research and development programs, reduce our selling, general and administrative expenses, be unable to attract and retain highly qualified personnel, refrain from making our contractually required payments when due (including debt payments) and/or may be forced to cease operations, liquidate our assets and possibly seek bankruptcy protection.

### Value Added Tax Receivable

Our European operations are subject to a value added tax, or VAT, which is usually applied to all goods and services purchased and sold throughout Europe. The VAT receivable is approximately \$4.6 million and \$4.9 million as of September 30, 2015 and December 31, 2014, of which \$4.4 million and \$4.7 million is included in other assets and \$0.2 million and \$0.2 million is included in prepaid expenses and other current assets as of September 30, 2015 and December 31, 2014, respectively. The collection period of VAT receivable for our European operations ranges from approximately three months to five years. For our Italian VAT receivable, the collection period is approximately three to five years. As of September 30, 2015, the VAT receivable related to operations in Italy is approximately \$4.4 million. We review our VAT receivable balance for impairment whenever events or changes in circumstances indicate the carrying amount might not be recoverable.

### Inventory

We carry inventory at the lower of cost or market. The cost of finished goods and work in process is determined using the standard-cost method, which approximates actual cost based on a first-in, first-out method. Inventory includes the cost of materials, third-party contract manufacturing and overhead costs, quality control costs and shipping costs from the manufacturers to the final distribution warehouse associated with the production and distribution of PIXUVRI.

Production costs for our other product candidates continue to be charged to research and development expense as incurred prior to regulatory approval or until our estimate for regulatory approval becomes probable. We review our inventories on a quarterly basis for impairment and reserves are established when necessary. Estimates of excess inventory consider our projected sales of the product and the remaining shelf lives of product. In the event we identify excess, obsolete or unsalable inventory, the value is written down to the net realizable value. Based on assessment of shelf lives and net realizable value of the product, a \$0.7 million reserve for excess, obsolete or unsalable inventory was recorded as of September 30, 2015. No reserve was recorded as of December 31, 2014.

#### Revenue Recognition

We currently have conditional marketing authorization for PIXUVRI in the E.U. Revenue is recognized when there is persuasive evidence of the existence of an agreement, delivery has occurred, prices are fixed or determinable, and collectability is assured. Where the revenue recognition criteria are not met, we defer the recognition of revenue by recording deferred revenue until such time that all criteria under the provision are met.

### Product sales

We sell PIXUVRI through a limited number of distributors and directly to health care providers in Austria, Denmark, Finland, Germany, Norway, Sweden and the United Kingdom. We generally record product sales upon receipt of the product by the health care providers and certain distributors at which time title and risk of loss pass. Product sales are recorded net of distributor discounts, estimated government-mandated rebates, trade discounts, and estimated product returns. Reserves are established for these deductions and actual amounts incurred are offset against the applicable reserves. We reflect these reserves as either a reduction in the related account receivable or as an accrued liability depending on the nature of the sales deduction. These estimates are periodically reviewed and adjusted as necessary.

### Government-mandated discounts and rebates

Our products are subject to certain programs with government entities in the E.U. whereby pricing on products is discounted below distributor list price to participating health care providers. These discounts are provided to participating health care providers either at the time of sale or through a claim by the participating health care providers for a rebate. Due to estimates and assumptions inherent in determining the amount of government-mandated discounts and rebates, the actual amount of future claims may be different from our estimates, at which time we would adjust our reserves accordingly.

### Product returns and other deductions

At the time of sale, we also record estimates for certain sales deductions such as product returns and distributor discounts and incentives. We offer certain customers a limited right of return or replacement of product that is damaged in certain instances. When we cannot reasonably estimate the amount of future product returns and/or other sales deductions, we do not recognize revenue until the risk of product return and additional sales deductions have been substantially eliminated.

### Milestone payments

In February 2015, under our exclusive license and collaboration agreement with Les Laboratoires Servier and Institut de Recherches Internationales Servier, or the Servier Agreement, we received a €1.5 million milestone payment (or \$1.7 million upon conversion from euros as of the date we received the funds) relating to the attainment of reimbursement approval for PIXUVRI in Spain. We allocated the milestone payment based on the relative-selling-price percentages originally used to allocate the arrangement consideration under the Servier Agreement. This revenue was accounted for under the milestone method of accounting since this milestone was determined to be substantive at the inception of the arrangement.

### Cost of Product Sold

Cost of product sold includes third-party manufacturing costs, shipping costs, contractual royalties and other costs of PIXUVRI product sold. Cost of product sold also includes allowances for excess inventory that may expire and become unsalable.

### Foreign Currency Translation and Transaction Gains and Losses

We record foreign currency translation adjustments and transaction gains and losses in accordance with ASC 830, Foreign Currency Matters. For our operations that have a functional currency other than the U.S. dollar, gains and losses resulting from the translation of the functional currency into U.S. dollars for financial statement presentation are not included in determining net loss, but are accumulated in the cumulative foreign currency translation adjustment account as a separate component of shareholders' equity (deficit), except for intercompany transactions that are of a short-term nature with entities that are consolidated, combined or accounted for by the equity method in our

consolidated financial statements. We and our subsidiaries also have transactions in foreign currencies other than the functional currency. We record transaction gains and losses in our consolidated statements of operations related to the recurring measurement and settlement of such transactions.

During the three months ended March 31, 2015, we have determined that the intercompany balance due from CTILS may no longer be considered of a short-term nature. Due to this change in accounting estimate, favourable unrealized foreign exchange gain of \$42,000 and unfavourable unrealized foreign exchange loss of \$1.8 million was recorded in cumulative foreign currency translation adjustment account for the three and nine months ended September 30, 2015, respectively. As of September 30, 2015, the intercompany balance due from CTILS was €23.3 million (or \$26.0 million upon conversion from euros as of September 30, 2015).

#### Net Income (Loss) Per Share

Basic net income (loss) per share is calculated based on the net income (loss) attributable to common shareholders divided by the weighted average number of shares outstanding for the period excluding any dilutive effects of options, warrants, unvested share



awards and convertible securities. Diluted net income (loss) per common share assumes the conversion of all dilutive convertible securities, such as convertible debt and convertible preferred stock using the if-converted method, and assumes the exercise or vesting of other dilutive securities, such as options, warrants and restricted stock using the treasury stock method.

#### Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. There are three levels of inputs used to measure fair value with Level 1 having the highest priority and Level 3 having the lowest:

Level 1 - Observable inputs, such as unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities, or other inputs that are observable directly or indirectly.

Level 3 - Unobservable inputs that are supported by little or no market activity, requiring an entity to develop its own assumptions.

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

#### Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board, or the FASB, issued a new financial accounting standard which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the impact of this accounting standard on our consolidated financial statements.

In August 2014, the FASB issued a new accounting standard which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim reporting period and to provide related footnote disclosures in certain circumstances. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the impact of this accounting standard on our consolidated financial statements.

In April 2015, the FASB issued a new accounting standard which changes the presentation of debt issuance costs in financial statements. Under the new standard, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The accounting standard is effective for annual reporting periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. Early adoption is allowed for all entities for financial statements that have not been previously issued. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

In July 2015, FASB issued a new accounting guidance on simplifying the measurement of inventory which requires that inventory within the scope of the guidance be measured at the lower of cost and net realizable value. Prior to the

issuance of the standard, inventory was measured at the lower of cost or market (where market was defined as replacement cost, with a ceiling of net realizable value and floor of net realizable value less a normal profit margin). The accounting guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

#### Reclassifications

Certain prior year items have been reclassified to conform to current year presentation.

#### 2. Earnings (Loss) Per Share

The numerator for both basic and diluted earnings (loss) per share, or EPS, is net income (loss). The denominator for basic EPS (referred to as basic shares) is the weighted average number of common shares outstanding during the period, whereas the

denominator for diluted EPS (referred to as diluted shares) also takes into account the dilutive effect of outstanding stock options and restricted stock awards using the treasury stock method. Basic and diluted shares as of the three and nine months ended September 30, 2015 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Basic shares	176,004	145,138	175,143	143,920
Effect of dilutive securities	—	1,959	—	—
Diluted shares	176,004	147,097	175,143	143,920

The effect of dilutive securities included unexercised stock options and unvested restricted stock. Equity awards, warrants, and unvested share rights aggregating 14.9 million and 9.4 million shares for the three months ended September 30, 2015 and 2014, respectively, and 14.9 million and 15.1 million shares for the nine months ended September 30, 2015 and 2014, respectively, prior to the application of the treasury stock method, are excluded from the calculation of diluted EPS because they are anti-dilutive.

### 3. Inventory

The components of PIXUVRI inventory consisted of the following as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Finished goods	\$ 1,122	\$ 850
Work-in-process	2,185	3,332
Inventory, gross	3,307	4,182
Reserve for expiring inventory	(713 )	—
Inventory, net	\$ 2,594	\$ 4,182

### 4. Long-term Debt

#### Baxalta

In June 2015, we entered into the First Amendment, or the Pacritinib License Amendment, to the Development, Commercialization and License Agreement, or the Original Pacritinib License Agreement, dated as of November 14, 2013, with Baxter International Inc., or Baxter. Baxalta Incorporated and its affiliates, or Baxalta, have been assigned Baxter's rights and obligations under the Original Pacritinib License Agreement. Pursuant to the Pacritinib License

Amendment, two potential milestone payments in the aggregate amount of \$32.0 million from Baxalta to us were accelerated from the schedule contemplated by the Original Pacritinib License Agreement relating to the following: the \$12.0 million development milestone payment payable in connection with the regulatory submission to the EMA with respect to pacritinib, or the EMA Milestone, and the \$20.0 million development milestone payment payable in connection with the first treatment dosing of the last patient enrolled in PERSIST-2, or the PERSIST-2 Milestone. Under the Pacritinib License Amendment, each of the two milestone advances bears interest at an annual rate of 9% percent until the earlier of the date of the first occurrence of the respective milestone or the date that the respective advance plus accrued interest is repaid in full.

In the event that pacritinib development is terminated due to certain specified reasons or the milestones are not achieved by respective deadlines (December 31, 2016 for the PERSIST-2 Milestone and March 31, 2017 for the EMA Milestone), we would be required to repay the respective advance to Baxalta in eight quarterly installments of \$1.5 million relating to the EMA Milestone and \$2.5 million relating to the PERSIST-2 Milestone, in each case beginning 30 days after the end of the calendar quarter of the first occurrence of such event, and a final payment equal to the remainder of the unpaid balance. Repayment of the advances will be accelerated in the event of the commencement of insolvency proceedings and certain other events of default. If a milestone is achieved, however, then we would remain entitled to the respective milestone payments. Additionally, in the event that we do not spend a specified amount on the development of pacritinib from the date of the amendment through February 29, 2016, payments to Baxalta in an amount equal to such deficiency may be required or credited against amounts owed to us under certain circumstances. In connection with this advance, we recorded debt issuance costs of \$0.1 million. As of September 30, 2015, the outstanding balance of such advance was \$32.0 million, and the unamortized issuance costs were \$0.1 million.

## Hercules

In June 2015, we entered into the Third Amendment, or the Third Amendment, to the Loan and Security Agreement, or the Loan Agreement, with Hercules Technology Growth Capital, Inc. and certain affiliates, or collectively, Hercules. Under the Third Amendment, Hercules agreed to provide term loans in an aggregate principal amount of up to \$25.0 million, inclusive of the principal balance outstanding immediately prior to closing of the Third Amendment of \$13.8 million, or collectively, the Term Loan Borrowings. We drew \$6.2 million upon closing of the Third Amendment, resulting in a then-outstanding principal balance of \$20.0 million under the Term Loan Borrowings. The remaining \$5.0 million is available for borrowing at our option through June 30, 2016, subject to certain conditions. In connection with the Third Amendment, we paid a commitment fee of \$15,000 and a facility charge of \$0.3 million. The provision under the Loan Agreement requiring us to pay a fee to Hercules of \$1.3 million on the date of repayment of the borrowings thereunder was amended pursuant to the Third Amendment, such that the fee will now be payable on the earliest to occur of (1) October 1, 2016, (2) the date on which the Term Loan Borrowings are prepaid in full or (3) the date on which the Term Loan Borrowings become due and payable in full.

The interest rate on the Term Loan Borrowings floats at a rate per annum equal to 10.95% plus the amount by which the prime rate exceeds 3.25%. We are initially required to make interest payments only on a monthly basis, followed by the 36 equal monthly installments of principal and interest (mortgage style) commencing on January 1, 2016. The interest-only period may be extended by up to six months at our option if we achieve certain milestones by certain specified deadlines. We may elect to prepay some or all of the Term Loan Borrowings at any time subject to a prepayment fee, if any, pursuant to the terms of the Third Amendment. Under certain circumstances, we may be required to prepay the Term Loan Borrowings with proceeds of asset dispositions. The Term Loan Borrowings are secured by a first priority security interest on substantially all of our personal property except our intellectual property and subject to certain other exceptions.

In connection with the Third Amendment, we issued a warrant to Hercules to purchase shares of common stock. The warrant is exercisable for five years from the date of issuance for 0.3 million shares of common stock at an initial exercise price is \$1.71 per share. The exercise price is subject to adjustment if, within six months after closing of the Third Amendment, we issue shares of common stock or securities that are exercisable or convertible into shares of common stock in transactions not registered under the Securities Act of 1933, as amended, under certain circumstances at an effective price per share of common stock that is less than the then-effective exercise price of the warrant. In such case, the exercise price shall automatically be reduced to equal the price per share of common stock in such transaction. The exercise price under the warrant and the number of shares for which the warrant is exercisable are each subject to certain customary adjustments as set forth in the agreement representing the warrant. Since the warrant does not meet the considerations necessary for equity classification under the applicable authoritative guidance, we determined the warrant is a liability instrument that is marked to fair value with changes in fair value recognized through earnings at each reporting period. The warrant is categorized as Level 2 in the fair value hierarchy as the significant inputs used in determining fair value are considered observable market data. As of the issuance date and September 30, 2015, we estimate the fair value of the warrant to be \$0.4 million and \$0.2 million, respectively.

The modified terms under the Third Amendment are considered substantially different as compared to the terms of the Loan Agreement immediately prior to the Third Amendment, pursuant to ASC 470-50, Modification and Extinguishment. As such, the Third Amendment was accounted for as a debt extinguishment, resulting in a loss on debt extinguishment of \$1.2 million which is included in other non-operating expense.

As of September 30, 2015 and December 31, 2014, the outstanding principal balance under our Loan Agreement, as amended by the Third Amendment, was \$20.0 million and \$18.5 million, unamortized debt discount was \$0.3 million and \$1.1 million, and unamortized issuance costs were \$0.1 million and \$0.2 million, respectively.

#### 5. Common Stock

In September 2015, we entered into a subscription agreement with certain affiliates of BVF Partners L.P., or, collectively, BVF. Pursuant to the Subscription Agreement, we issued to BVF an aggregate of 10,000,000 shares of common stock at a purchase price per share of \$1.57. The shares of common stock were offered directly to BVF without a placement agent or underwriter. The net proceeds from the offering, after deducting offering expenses, were approximately \$15.1 million.

#### 6. Legal Proceedings

As previously disclosed, on December 10, 2009, the Commissione Nazionale per le Società e la Borsa (which is the public authority responsible for regulating the Italian securities markets), or CONSOB, sent us a notice claiming, among other things, violation of the provisions of Section 114, paragraph 1 of the Italian Legislative Decree no. 58/98 due to the asserted late disclosure of the contents of the opinion expressed by Stonefield Josephson, Inc., an independent registered public accounting firm, with respect to

our 2008 financial statements. However, we understand that, according to applicable Italian law provisions as interpreted by applicable case law, CONSOB's right to pursue a pecuniary administrative sanction is considered barred due to the passage of time.

The Italian Tax Authority, or the ITA, issued notices of assessment to CTI (Europe) based on the ITA's audit of CTI (Europe)'s value added tax, or VAT, returns for the years 2003, 2005, 2006 and 2007, or, collectively, the VAT Assessments. The ITA audits concluded that CTI (Europe) did not collect and remit VAT on certain invoices issued to non-Italian clients for services performed by CTI (Europe). We believe that the services invoiced were non-VAT taxable consultancy services and that the VAT returns are correct as originally filed. We are defending ourselves against the assessments both on procedural grounds and on the merits of the case, although we can make no assurances regarding the ultimate outcomes of these cases. As of December 31, 2012, we reversed the entire reserve we had previously recorded relating to the VAT Assessments after having received favorable Provincial Tax Court rulings. In January 2013, our then remaining deposit for the VAT Assessments was refunded to us.

The current status of the legal proceedings surrounding each respective VAT year return at issue is as follows:

2003. In June 2013, the Regional Tax Court issued decision no. 119/50/13 in regards to the 2003 VAT assessment, which accepted the appeal of the ITA and reversed the previous decision of the Provincial Tax Court. In January 2014, we were notified that the ITA requested partial payment of the 2003 VAT assessment in the amount of €0.4 million (or \$0.6 million), which we paid in March 2014. We believe that the decision of the Regional Tax Court did not carefully take into account our arguments and the documentation we filed, and in January 2014, we appealed such decision to the Italian Supreme Court both on procedural grounds and on the merits of the case.

2005, 2006 and 2007. The ITA has appealed to the Italian Supreme Court the decisions of the respective appellate Regional Tax Court, which ruled in our favor, with respect to each of the 2005, 2006 and 2007 VAT returns.

If the final decisions of the Italian Supreme Court for the VAT Assessments are unfavorable to us, we may incur up to \$10.5 million in losses for the VAT amount assessed including penalties, interest and fees upon conversion from euros as of September 30, 2015.

On May 13, 2015, the Company (as nominal defendant) and our directors (as individual defendants) entered into a memorandum of understanding to settle the pending lawsuit in King County Superior Court in the State of Washington docketed as Lopez & Gilbert v. Nudelman, et al., Case No. 14-2-18941-9 SEA, or the Settlement. The provisions of the Settlement include the following terms, which are subject to final court approval:

- We will cancel and the non-employee directors will agree to the rescission of all currently outstanding equity awards that we previously granted to non-employee directors that included performance-based vesting metrics and as to which the performance goals remained unsatisfied as of May 13, 2015;
- Our current non-employee directors will agree to hold (not transfer or sell or encumber in any way) until September 14, 2015 shares of our stock that they currently own and that we awarded to them during 2011, or at any time after 2011 to the present, and that, at the time of the award by us, was fully-vested and unrestricted;
- We will cap the total annual compensation provided by it to its non-employee directors for each of 2015 and 2016. Such annual compensation cap for each non-employee director for each of 2015 and 2016 will be the greater of (i) \$375,000, plus, as to our Board Chairman, an additional \$100,000, or (ii) the 75th percentile of compensation paid by a group of peer companies to their non-employee directors (and, in the case of our Chairman, the 75th percentile of compensation paid by such peers who have a non-employee director chair of their respective board of directors to such non-employee director chairs). The peer group for these purposes will be selected based on advice from the outside compensation consultant. For purposes of the compensation cap and the peer group comparison, compensation will be determined and measured consistent with the rules under Item 402 of Regulation S-K under the Securities Exchange Act of 1934, as amended, and based on publicly-available information at the applicable time; and

· We will implement, if not already implemented, within 90 days following final approval of the Settlement by the court, and maintain until at least the end of calendar year 2017 the following: an annual board discussion of non-employee director compensation philosophy; the use of a compensation consultant to advise the Compensation Committee on material decisions concerning non-employee director compensation issues and compare our non-employee director compensation program to a group of our peers; the use of plain language in our compensation-related public filings; and obtain confirmation from our legal department and outside legal counsel advising on executive compensation matters that any contemplated non-employee director awards do not materially violate the applicable plan or materially fail to comply with applicable law.

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On September 24, 2015, the court issued an order granting preliminary approval to the Settlement. The court has scheduled a final hearing on December 10, 2015 to determine, among other things, whether it should issue an order for final approval of the Settlement.

We currently anticipate that we will be obligated to pay an amount for plaintiffs' legal fees and expenses, which will ultimately be subject to court approval. However, in light of our existing insurance coverage, we do not anticipate that the payment of the ultimate fee award will have a material effect on our financial position or results of operations. The amount of our reasonable estimate of liability as of September 30, 2015, though immaterial, was accrued for in our financial statements as of September 30, 2015.

#### 7. Share-based Compensation Expense

The following table summarizes share-based compensation expense for the three and nine months ended September 30, 2015 and 2014, which was allocated as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Research and development	\$1,430	\$801	\$3,168	\$2,617
Selling, general and administrative	4,458	3,036	9,829	14,405
Total share-based compensation expense	\$5,888	\$3,837	\$12,997	\$17,022

For the three and nine months ended September 30, 2015 and 2014, we incurred share-based compensation expense due to the following types of awards (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Performance rights	\$3,262	\$427	\$4,103	\$1,121
Restricted stock	1,796	2,864	6,754	12,512
Options	830	546	2,140	3,389
Total share-based compensation expense	\$5,888	\$3,837	\$12,997	\$17,022

#### 8. Other Comprehensive Income (Loss)

Total accumulated other comprehensive income (loss) consisted of the following (in thousands):

	Net Unrealized	Foreign Currency	Unrealized foreign exchange loss on intercompany balance	Accumulated Other Comprehensive Loss
	Loss on Securities Available-For- Sale	Translation Adjustments		
December 31, 2014	\$ (490 )	\$ (6,009 )	\$ —	\$ (6,499 )
Current period other comprehensive income (loss)	(16 )	1,462	(1,832 )	(386 )
September 30, 2015	\$ (506 )	\$ (4,547 )	\$ (1,832 )	\$ (6,885 )

#### 9. Leases

Our deferred rent balance was \$4.1 million as of September 30, 2015, of which \$0.5 million was included in other current liabilities and \$3.6 million was included in other liabilities. As of December 31, 2014, our deferred rent balance was \$4.4 million, of which \$0.4 million was included in other current liabilities and \$4.0 million was included in other liabilities.

#### 10. Subsequent Events

In October 2015, in an underwritten public offering, we issued 50,000 shares of our Series N-1 convertible preferred stock, or Series N-1 Preferred Stock, for gross proceeds of \$50.0 million before deducting underwriting commissions and discounts and other offering costs. Issuance costs related to this transaction were approximately \$3.5 million, including \$3.0 million in underwriting commissions and discounts.

The Series N-1 Preferred Stock was convertible at the holder's option at an initial conversion price of \$1.25 per share of common stock. Each share of Series N-1 Preferred Stock was entitled to a liquidation preference equal to the initial stated value of \$1,000 per share of Series N-1 Preferred Stock, plus any declared and unpaid dividends, and any other payments that may be due on such shares, before any distribution of assets may be made to holders of capital stock ranking junior to the Series N-1 Preferred Stock. The Series N-1 Preferred Stock was not entitled to dividends except to share in any dividends actually paid on common stock or any pari passu or junior securities. The Series N-1 Preferred Stock had no voting rights, except as otherwise expressly provided in the amended articles or as otherwise required by law.

In October 2015, all 50,000 shares of Series N-1 Preferred Stock were converted into 40.0 million shares of common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q may contain, in addition to historical information, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and should be read in conjunction with the Condensed Consolidated Financial Statements and the related Notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q. When used in this Quarterly Report on Form 10-Q, terms such as "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should," or "will" or the negative terms or other comparable terms are intended to identify such forward-looking statements. Such statements, which include statements concerning sufficiency of cash resources and other projections, product manufacturing and sales, research and development expenses, selling, general and administrative expenses, financings and additional losses. These statements are based on assumptions about many important factors and information currently available to us to the extent that we have thus far had an opportunity to fully and carefully evaluate such information in light of all surrounding facts, circumstances, recommendations and analyses. Additionally, these statements are subject to known and unknown risks and uncertainties, including, but not limited to, those discussed below and elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ending December 31, 2014, or the 2014 Form 10-K, particularly in "Factors Affecting Our Business, Financial Condition, Operating Results and Prospects," that could cause actual results, levels of activity, performance or achievements to differ significantly from those projected. Although we believe that expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We will not update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or changes in our expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q.

## OVERVIEW

We are a biopharmaceutical company focused on the acquisition, development and commercialization of novel targeted therapies covering a spectrum of blood-related cancers that offer a unique benefit to patients and health care providers. Our goal is to build a profitable company by generating income from products we develop and commercialize, either alone or with partners. We are currently concentrating our efforts on treatments that target blood-related cancers where there is an unmet medical need. In particular, we are primarily focused on commercializing PIXUVRI® (pixantrone), or PIXUVRI, in select countries in the European Union, or the E.U., for multiply relapsed or refractory aggressive B-cell non-Hodgkin lymphoma, or NHL, and conducting a Phase 3 clinical trial program evaluating pacritinib for the treatment of adult patients with myelofibrosis to support regulatory submission for approval in the United States, or the U.S., and Europe. We are also evaluating pacritinib in early phase clinical trials as treatment for other blood-related cancers.

## PIXUVRI

PIXUVRI is a novel aza-anthracenedione with unique structural and physiochemical properties. In May 2012, the European Commission granted conditional marketing authorization in the E.U. for PIXUVRI as a monotherapy for the treatment of adult patients with multiply relapsed or refractory aggressive B-cell NHL. PIXUVRI is the first approved treatment in the E.U. for patients with multiply relapsed or refractory aggressive B-cell NHL who have failed two or three prior lines of therapy. As a part of the conditional marketing authorization, we are required to conduct a post-authorization trial, which we refer to as PIX306, which compares PIXUVRI and rituximab with gemcitabine and rituximab in the setting of aggressive B-cell NHL. Pursuant to our conditional marketing authorization, we are required to submit the requisite clinical study report for PIX306 by November 2016. We plan to request an extension to such deadline. Although we do not have and are not currently pursuing regulatory approval of PIXUVRI in the U.S., we may reevaluate a possible submission strategy in the U.S. based on the data generated from PIX306.

In September 2014, we entered into an exclusive license and collaboration agreement, or the Servier Agreement, with Les Laboratoires Servier and Institut de Recherches Internationales Servier, or collectively, Servier, with respect to the development and commercialization of PIXUVRI. Under the Servier Agreement, we have full commercialization

rights to PIXUVRI in Austria, Denmark, Finland, Germany, Israel, Norway, Sweden, Turkey, the United Kingdom, or U.K., and the U.S., while Servier has exclusive rights to commercialize PIXUVRI in all other countries. For additional information on our collaboration with Servier, see Part I, Item 2, “License Agreements and Milestone Activities – Servier.”

PIXUVRI is currently available in Austria, Denmark, Finland, France, Germany, Israel, Italy, Netherlands, Norway, Sweden and the U.K. and has achieved reimbursement decisions under varying conditions in England/Wales, Italy, France, Germany, the Netherlands and Spain. In almost all European markets, pricing and availability of prescription pharmaceuticals are subject to governmental control.

## Pacritinib

Our lead development candidate, pacritinib, is an investigational oral kinase inhibitor with specificity for JAK2, FLT3, IRAK1 and CSF1R. The JAK family of enzymes is a central component in signal transduction pathways, which are critical to normal blood cell growth and development, as well as inflammatory cytokine expression and immune responses. Mutations in these kinases have been shown to be directly related to the development of a variety of blood-related cancers, including myeloproliferative neoplasms, leukemia and lymphoma. In addition to myelofibrosis, the kinase profile of pacritinib suggests its potential therapeutic utility in conditions such as acute myeloid leukemia, or AML, myelodysplastic syndrome (MDS), chronic myelomonocytic leukemia (CMML), and chronic lymphocytic leukemia (CLL) due to its inhibition of c-fms, IRAK1, JAK2, and FLT3.

We are pursuing a broad approach to advancing pacritinib for adult patients with myelofibrosis by conducting two Phase 3 clinical trials: one in a broad set of patients without limitations on blood platelet counts, the PERSIST-1 trial; and the other in patients with low platelet counts, the PERSIST-2 trial. Myelofibrosis is a rare blood cancer associated with significantly reduced quality of life and shortened survival. As the disease progresses, the body slows production of important blood cells and within one year of diagnosis, the incidence of disease-related thrombocytopenia (very low blood platelet counts), severe anemia and red blood cell transfusion requirements increase significantly. Among other complications, most patients with myelofibrosis present with enlarged spleens (splenomegaly), as well as many other potentially devastating physical symptoms such as abdominal discomfort, bone pain, feeling full after eating little, severe itching, night sweats and extreme fatigue. We believe pacritinib may offer an advantage over other JAK inhibitors through effective treatment of symptoms while having less treatment-emergent thrombocytopenia and anemia than has been seen in the currently approved JAK inhibitor.

PERSIST-1 is a randomized (2:1), open-label, multinational Phase 3 registration-directed trial comparing the efficacy and safety of pacritinib with that of best available therapy other than JAK inhibitors, in 327 patients with myelofibrosis, without exclusion for low platelet counts. Fifty-one of the 327 patients receiving pacritinib or best available therapy in the study and 35 of the 253 evaluable patients had platelet counts of less than 50,000 per microliter (<50,000/uL). In May 2015, data from PERSIST-1 showed that compared to best available therapy (exclusive of a JAK inhibitor) pacritinib therapy resulted in a significantly higher proportion of patients with spleen volume reduction and control of disease-related symptoms. Treatment with pacritinib resulted in improvements in severe thrombocytopenia and severe anemia, eliminating the need for blood transfusions in a quarter of patients who were transfusion dependent at the time of enrollment. Gastrointestinal symptoms were the most common adverse events and typically lasted for approximately one week. A limited number of patients discontinued treatment due to side effects. There were no Grade 4 gastrointestinal events reported. These results were presented at a late-breaking oral session at the 51<sup>st</sup> Annual Meeting of the American Society of Clinical Oncology Annual Meeting. Additionally, in June 2015, results from PERSIST-1 patient-reported outcome (PRO) and other quality of life measures presented at a late-breaking oral session at the 20th Congress of the European Hematology Association showed significant improvements in symptom score with pacritinib therapy compared to best available therapy (exclusive of a JAK inhibitor) across the symptoms reported in the presentation.

In October 2013, we reached agreement with the Food and Drug Administration, or the FDA, on a Special Protocol Assessment, or SPA, for the PERSIST-2 trial. The SPA is a written agreement between us and the FDA regarding the design, endpoints and planned statistical analysis approach of the trial to be used in support of a New Drug Application, or NDA, submission. The design of PERSIST-1 and PERSIST-2 allows for patients on the best availability therapy arm to crossover and receive treatment with pacritinib if their disease progresses or after they achieve the 24-week measurement endpoint. Although crossover design of clinical trials may confound evaluation of survival, such designs are frequently used in cancer studies, and the FDA has approved multiple oncology drugs that utilized crossover design in Phase 3 trials. The Independent Data Monitoring Committee, or IDMC, in place at the time for the PERSIST program recommended patients on the best available therapy arm should not crossover to receive pacritinib due to non-statistically significant safety concerns in patients who crossover after 24 weeks, which crossover confounds evaluation of survival. After receiving input from external independent experts and providing the

FDA the PERSIST-1 data, IDMC's recommendation and correspondence, we and Baxalta Incorporated and its affiliates, or Baxalta, notified the FDA of the decision to proceed per protocol. Following a written response in lieu of a Type C meeting with the FDA, we and Baxalta determined that no modifications to the ongoing trials were required. Enrollment in PERSIST-2, which is designed to enroll up to 300 patients in North America, Europe, Australia, New Zealand and Russia, is continuing, and we have recently constituted a new IDMC for PERSIST-2.

PERSIST-2 is a randomized (2:1), open-label, multinational Phase 3 clinical trial evaluating pacritinib compared to best available therapy, including the approved JAK inhibitor, dosed according to product label for patients with myelofibrosis whose platelet counts are less than or equal to 100,000 per microliter ( $\leq 100,000/\mu\text{L}$ ). Based on current timelines, PERSIST-2 enrollment is expected to be completed in the first quarter of 2016.

In September 2015, following a pre-NDA meeting for pacritinib, we announced our plan to submit a new drug application, or NDA, to the FDA in the fourth quarter of 2015. We expect to submit the NDA in the fourth quarter of 2015 and to request accelerated approval and priority review for the treatment of patients with intermediate and high-risk myelofibrosis with low platelet counts  $< 50,000/\mu\text{L}$ . The NDA will be based primarily on data from the PERSIST-1 Phase 3 trial, as well as data from Phase 1 and 2 studies

of pacritinib, and additional information requested by the FDA, including a separate study report and datasets for the specific patient population with low platelet counts 50,000/uL for whom there are no approved drugs. Submission of an NDA after a single Phase 3 trial under accelerated approval, instead of waiting to complete two Phase 3 trials, could potentially reduce time to market by up to 14 months.

Under the Pacritinib License Agreement (defined below), we share joint commercialization rights to pacritinib with Baxalta in the U.S., while Baxalta has exclusive commercialization rights for all indications outside the U.S. For additional information relating to the Pacritinib License Agreement, see Part I, Item 2, “License Agreements and Milestone Activities—Baxalta”.

#### Tosedostat

Our earlier stage product candidate, tosedostat, is a novel oral, once-daily aminopeptidase inhibitor that has demonstrated significant responses in patients with AML. Tosedostat is currently being evaluated in several Phase 2 cooperative group-sponsored trials and investigator sponsored trials. These clinical trials are evaluating tosedostat in combination with hypomethylating agents in AML and myelodysplastic syndrome, which are cancers of the blood and bone marrow. We anticipate data from these signal-finding trials may be used to determine an appropriate design for a potential Phase 3 trial.

In June 2015, data from an investigator-sponsored Phase 2 trial of tosedostat in elderly patients with either primary AML or AML that has evolved from myelodysplastic syndrome showed the combination of tosedostat with low-dose cytarabine/Ara-C resulted in an overall response rate of 54 percent, with 45 percent of patients achieving durable complete responses. These findings were presented at the 20<sup>th</sup> Congress of the European Hematology Association.

#### Recent Changes to Our Board of Directors and Its Committees

On October 13, 2015, our board of directors appointed Richard L. Love as a member and chairman of the Audit Committee and determined that he qualifies as an “audit committee financial expert” in accordance with the applicable rules of the SEC. Mr. Love also continues to serve as chairman of the Audit Committee and as a member of the Compensation Committee and the Nominating and Governance Committee. On October 19, 2015, Phillip M. Nudelman, Ph.D. was appointed to serve as chairman of the Nominating and Governance Committee of our board of directors, effective immediately. Dr. Nudelman also continues to serve as a member of the Audit Committee and Compensation Committee of our board of directors, as well as the chairman of our board of directors.

On October 20, 2015, John H. Bauer resigned from our board of directors.

#### Financial summary

Our revenues are generated from a combination of PIXUVRI sales and collaboration and license agreements. Collaboration revenues reflect the earned amount of upfront payments and milestone payments under our product collaborations. Total revenues were \$1.0 million for the three months ended September 30, 2015, compared to \$39.5 million for the same period in 2014. Total revenues decreased to \$4.8 million for the nine months ended September 30, 2015, compared to \$42.3 million for the same period in 2014. Our loss from operations for the three and nine months ended September 30, 2015 was \$32.0 million and \$90.5 million, respectively, compared to income of \$7.5 million and a loss of \$46.9 million during the same periods in 2014. Our results of operations may vary substantially from year to year and from quarter to quarter and, as a result, you should not rely on them as being indicative of our future performance.

On September 24, 2015, we entered into a subscription agreement with certain affiliates of BVF Partners L.P., or, collectively, BVF. Pursuant to the subscription agreement, we issued to BVF an aggregate of 10 million shares of common stock at a purchase price per share of \$1.57. The net proceeds from the offering, after deducting offering



expenses, were approximately \$15.1 million. We closed the registered direct offering on September 29, 2015.

As of September 30, 2015, we had cash and cash equivalents of \$46.4 million.

Subsequent to September 30, 2015, we issued 50,000 shares of preferred stock (which were subsequently converted into 40 million shares of common stock) for net proceeds of approximately \$46.5 million in an underwritten equity offering that closed on October 30, 2015. See Part I, Item 1, Note 10, Subsequent Events, in this Quarterly Report on Form 10-Q, which note is incorporated herein by reference.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2015 and 2014

Product sales, net. Product sales, net from PIXUVRI were \$0.7 million and \$2.0 million for the three months ended September 30, 2015 and 2014, and \$2.4 million and \$4.4 million for the nine months ended September 30, 2015 and 2014, respectively. We sell PIXUVRI through a limited number of wholesale distributors and directly to health care providers in Austria, Denmark, Finland, Germany, Norway, Sweden and England. Servier is responsible for distribution of PIXUVRI in the respective countries in its territory. We generally record product sales upon receipt of the product by the health care provider or distributor at which time title and risk of loss pass.

Product sales are recorded net of distributor discounts, estimated government-mandated discounts and rebates, trade discounts and estimated product returns. The decrease in net product sales of \$1.3 million for the three months ended September 30, 2015 and \$2.0 million for the nine months ended September 30, 2015 compared to the same periods in 2014 was primarily related to the pricing and volume variances between the periods presented as well as the decline in average exchange rate of the euro for our euro-denominated sales. Any expansion of our commercial operations in E.U. (including with regard to sales of PIXUVRI) may increase our exposure to fluctuations in foreign currency exchange rates. Any future revenues are dependent on market acceptance of PIXUVRI, the reimbursement decisions made by governmental authorities in each country where PIXUVRI is available for sale and other factors.

Gross sales is defined as our contracted reimbursement price in each country. Gross sales from PIXUVRI were \$0.7 million and \$2.1 million for the three months ended September 30, 2015 and 2014, and \$2.4 million and \$4.5 million for the nine months ended September 30, 2015 and 2014, respectively.

Product sales, net for the three months ended September 30, 2015 and 2014 includes a provision for discounts, rebates and other of \$4,000 and \$32,000 for current period sales, respectively. Product sales, net for the nine months ended September 30, 2015 and 2014 includes a provision for discounts, rebates and other of \$22,000 and \$0.1 million for current period sales, respectively. The provision for discounts, rebates and other during the periods presented primarily relates to distributor discounts on PIXUVRI product sold.

The provision for product returns relates to a limited right of return or replacement that we offer to certain customers. There was no material activity related to the product returns during the periods presented.

During the periods presented, there were no material payments and credits applied towards provision for discounts, rebates and other for current or prior period sales.

As of September 30, 2015, the balances of reserve for product returns of \$12,000, and reserve for discounts, rebates and other of \$26,000, are reflected in accounts receivable and accrued expenses, respectively. As of September 30, 2014, the balances were \$0.1 million for both the product returns reserve and the reserve for discounts, rebates and other.

License and Contract Revenues

License and contract revenues are summarized as follows (in thousands):

Three Months Ended	Nine Months Ended
September 30,	September 30,

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	2015	2014	2015	2014
Baxalta License revenue	\$—	\$18,183	\$—	\$18,183
Development services revenue	\$193	2,049	604	\$2,387
Total Baxalta	193	20,232	604	20,570
Servier License revenue	—	17,277	1,622	17,277
Development services revenue	26	4	157	4
Royalty revenue	5	—	15	—
Total Servier	31	17,281	1,794	17,281
Total license and contract revenue	\$224	\$37,513	\$2,398	\$37,851

## Baxalta

The license and contract revenue under the Pacritinib License Agreement for each of the three months ended September 30, 2015 and 2014 includes \$0.2 million of development services revenue recognized from the upfront payment we received in connection with the Pacritinib License Agreement in 2013. \$0.6 million of such revenue was recognized for each of the nine months ended September 30, 2015 and 2014.

In August 2014, we received a \$20 million milestone payment under the Pacritinib License Agreement in connection with the first treatment dosing of the last patient enrolled in PERSIST-1. Of the \$20 million milestone payment, \$18.2 million was allocated to license revenue and \$1.8 million was allocated to development services revenue in the table above based on the relative-selling-price percentages originally used to allocate the arrangement consideration under the Pacritinib License Agreement.

For additional information relating to the Pacritinib License Agreement, see Part I, Item 2, “License Agreements and Milestone Activities—Baxalta”.

## Servier

The license and contract revenue under the Servier Agreement for the nine months ended September 30, 2015 includes \$1.6 million of license revenue and \$0.2 million of development services revenue. In February 2015, we received a €1.5 million milestone payment (or \$1.7 million using the currency exchange rate as of the date we received the funds) relating to the attainment of reimbursement approval for PIXUVRI in Spain. We allocated the milestone payment in the table above based on the relative-selling-price percentages originally used to allocate the arrangement consideration under the Servier Agreement. There were no such milestone payments received in other periods presented.

In connection with the execution of the Servier Agreement in September 2014, we allocated and recorded \$17.3 million and \$0.8 million from the upfront payment we received under the Servier Agreement to license revenue and deferred revenue, respectively. During the three months ended September 30, 2014, \$4,000 was recognized as revenue and included in development services revenue in the table above.

For additional information on our collaboration with Servier, see Part I, Item 2, “License Agreements and Milestone Activities – Servier”.

The following table illustrates such balances of deferred revenue under each of the Pacritinib License Agreement and the Servier Agreement as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Current portion of deferred revenue		
Baxalta	\$ 550	\$ 724
Servier	102	102
	652	826

Total current portion of deferred revenue		
Deferred revenue, less current portion		
Baxalta	630	1,059
Servier	642	720
Total deferred revenue, less current portion	1,272	1,779
Total deferred revenue	\$ 1,924	\$ 2,605

#### Operating costs and expenses

Cost of product sold. Cost of product sold is related to sales of PIXUVRI. Cost of product sold for each of the three months ended September 30, 2015 and 2014 was \$0.8 million and \$0.3 million, respectively. Cost of product sold for the nine months ended September 30, 2015 and 2014 was \$1.2 million and \$0.6 million, respectively. Based on assessment of shelf lives and net realizable value of the product, a \$0.7 million reserve for excess, obsolete or unsalable inventory was recorded as of September 30, 2015, which was the primary factor in these increases. The euro experienced a decline between comparable periods which partially offset the overall increases. We began capitalizing costs related to the production of PIXUVRI in February 2012 upon receiving a positive opinion for conditional marketing authorization by the Committee for Medicinal Products for Human Use, or the CHMP, which is a committee of the European Medicines Agency, or the EMA. While we tracked the quantities of individual PIXUVRI product lots, we did not track manufacturing costs prior to capitalization, and therefore, the manufacturing cost of PIXUVRI produced prior to

capitalization is not reasonably determinable. Most of this reduced-cost inventory is expected to be available for us to use commercially; however, we have reserved \$0.7 million of existing inventory expected to be unsalable. The timing of the sales of such reduced-cost inventory and its impact on gross margin is dependent on the level of PIXUVRI sales as well as our ability to utilize this inventory prior to its expiration date. We expect that our cost of product sold as a percentage of product sales may increase in future periods as PIXUVRI product manufactured and expensed prior to capitalization is sold; however, such future cost trend will ultimately depend on several factors in the near term, including, but not limited to, the consumption rate and availability of reduced cost inventory, the effect of expiring inventory and applicable manufacturing pricing structures (which will depend, in part, on the particular drug substance manufacturers we select).

Research and development expenses. Our research and development expenses for compounds under development and preclinical development were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Compounds:				
PIXUVRI	\$2,925	\$1,761	\$11,249	\$4,340
Pacritinib	8,393	9,444	25,455	22,580
Opaxio	578	29	590	270
Tosedostat	131	123	390	408
Operating expenses	6,177	4,909	16,762	14,452
Research and preclinical development	200	262	749	675
Total research and development expenses	\$18,404	\$16,528	\$55,195	\$42,725

Costs for our compounds include external direct expenses such as principal investigator fees, charges from clinical research organizations, or CROs, and contract manufacturing fees incurred for preclinical, clinical, manufacturing and regulatory activities associated with preparing the compounds for submissions of NDAs or similar regulatory filings to the FDA, the EMA or other regulatory agencies outside the U.S. and Europe, as well as upfront license fees for acquired technology. Subsequent to receiving a positive opinion for conditional approval of PIXUVRI in the E.U. from the EMA's CHMP, costs associated with commercial batch production, quality control, stability testing, and certain other manufacturing costs of PIXUVRI were capitalized as inventory. Operating expenses include our personnel and an allocation of occupancy, depreciation and amortization expenses associated with developing these compounds. Research and preclinical development costs primarily include costs associated with external laboratory services associated with the compound licensed to and under development by Aequus Biopharma, Inc. We are not able to capture the total cost of each compound because we do not allocate operating expenses to all of our compounds. External direct costs incurred by us as of September 30, 2015 were \$105.2 million for PIXUVRI (excluding costs prior to our 2004 merger with Novuspharma S.p.A, formerly a public pharmaceutical company located in Italy), \$72.3 million for pacritinib (excluding costs for pacritinib prior to our acquisition of certain assets from S\*BIO Pte Ltd, or S\*BIO, in May 2012 and \$29.1 million of in-process research and development expenses associated with the acquisition of certain assets from S\*BIO), \$227.8 million for Opaxio, \$11.8 million for tosedostat (excluding costs for tosedostat prior to our co-development and license agreement with Chroma Therapeutics Limited, or Chroma, in 2011 and \$21.9 million of in-process research and development expenses associated with the acquisition of certain assets from Chroma). External direct costs incurred by us as of September 30, 2015 were \$9.6 million for brostallicin. We did not expend material resources on brostallicin during the periods presented.

Research and development expenses increased to \$18.4 million for the quarter ended September 30, 2015 compared to \$16.5 million for the quarter ended September 30, 2014. The increase in research and development expenses of \$1.9 million was primarily attributed to a ramp-up in patients accrued in our ongoing PIX306 trial and to operating expenses associated with supporting the research and development program of our portfolio compounds. Research and development expenses increased to \$55.2 million for the nine months ended September 30, 2015 compared to \$42.7 million for the same period in 2014. The increase of \$12.5 million was primarily attributed to a ramp-up of patients accrued in our ongoing PIX306 trial, including establishing additional sites throughout Europe; our continuing development of pacritinib for myelofibrosis, including our ongoing PERSIST-1 and PERSIST-2 Phase 3 clinical trials and operating expenses associated with supporting our research and development efforts across our portfolio of compounds.

Regulatory agencies, including the FDA and EMA, regulate many aspects of a product candidate's life cycle, including research and development and preclinical and clinical testing. We will need to commit significant time and resources to develop our current and any future product candidates. Our product candidates pacritinib, tosedostat and Opaxio are currently in clinical development, and our product PIXUVRI, which is currently being commercialized in parts of Europe, is undergoing a post-authorization trial. Many drugs in human clinical trials fail to demonstrate the desired safety and efficacy characteristics. We are unable to provide the nature, timing and estimated costs of the efforts necessary to complete the development of pacritinib, tosedostat and Opaxio, and to complete

the post-authorization PIX306 trial of PIXUVRI, because, among other reasons, we cannot predict with any certainty the pace of patient enrollment of our clinical trials, which is a function of many factors, including the availability and proximity of patients with the relevant condition and the availability of the compounds for use in the applicable trials. We rely on third parties to conduct clinical trials, which may result in delays or failure to complete trials if the third parties fail to perform or meet applicable standards. Even after a clinical trial is enrolled, preclinical and clinical data can be interpreted in different ways, which could delay, limit or preclude regulatory approval and advancement of this compound through the development process. We or regulatory authorities may suspend clinical trials at any time on the basis that the participants are being exposed to unacceptable health risks. Even if our drugs progress successfully through initial human testing in clinical trials, they may fail in later stages of development. A number of companies in the pharmaceutical industry, including us, have suffered significant setbacks in advanced clinical trials, even after reporting promising results in earlier trials. For these reasons, among others, we cannot estimate the date on which clinical development of our product candidates will be completed, if ever, or when we will generate material net cash inflows from PIXUVRI or be able to begin commercializing pacritinib, tosedostat or Opaxio to generate material net cash inflows. In order to generate revenue from these compounds, our product candidates need to be developed to a stage that will enable us to commercialize, sell or license related marketing rights to third parties.

We also enter into collaboration agreements for the development and commercialization of our product candidates. We cannot control the amount and timing of resources our collaborators devote to product candidates, which may also result in delays in the development or marketing of products. Because of these risks and uncertainties, we cannot accurately predict when or whether we will successfully complete the development of our product candidates or the ultimate product development cost.

The risks and uncertainties associated with completing development on schedule and the consequences to operations, financial position and liquidity if the project is not timely completed are discussed in more detail in our risk factors, which can be found in Part II, Item 1A, "Risk Factors", of this Quarterly Report on Form 10-Q.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$13.7 million for the three months ended September 30, 2015 as compared to \$12.6 million for the same period in 2014. This increase was primarily due to a \$1.4 million increase in non-cash share-based compensation and other personnel costs. This increase was partially offset by decreases in consulting costs, legal fees and other professional services. Selling, general and administrative expenses were \$38.6 million for the nine months ended September 30, 2015 as compared to \$43.1 million for the same period in 2014. This decrease was primarily due to a \$4.6 million decrease in non-cash share-based compensation. The euro experienced a decline between comparable periods which was also a contributing factor to a decrease during current periods presented.

**Other operating expense.** Other operating expense for the periods presented represent payments made to Novartis International Pharmaceutical Ltd., or Novartis, as a result of the milestone payments we received under the Servier Agreement. There was no such payment made during the three months ended September 30, 2015.

#### Non-operating income and expenses

**Interest expense.** Interest expense for the three and nine months ended September 30, 2015 was primarily related to our senior secured term loan and the Baxalta milestone advances. Interest expense for the same periods in 2014 was primarily related to our senior secured term loan.

**Amortization of debt discount and issuance costs.** Amortization of debt discount and issuance costs for the three and nine months ended September 30, 2015 was related to our senior secured term loan and the Baxalta milestone advances whereas amortization of debt discount and issuance costs for the same periods in 2014 was related to our senior secured term loan.



Foreign exchange loss. The foreign exchange loss for the three and nine months ended September 30, 2015 and for the same periods in 2014 is due to fluctuations in foreign currency exchange rates, primarily related to operations in our European branches and subsidiaries denominated in foreign currencies.

Other non-operating expense. Other non-operating net income of \$0.2 million for the three months ended September 30, 2015 primarily includes the fair value adjustment of the warrant liability. Other non-operating net loss of \$1.0 million for the nine months ended September 30, 2015 was primarily related to a \$1.2 million loss on debt extinguishment in connection with our entry into an amendment to our senior secured term loan agreement, partially offset by the fair value adjustment of the warrant liability. Please see Part I, Item 1, Note 4, Long-term Debt, in this Quarterly Report on Form 10-Q, which note is incorporated herein by reference, for further information. Other non-operating expense for the same periods in 2014 was primarily related to the change in fair value of the warrant issued pursuant to our senior secured term loan agreement.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

Cash and cash equivalents. As of September 30, 2015, we had \$46.4 million in cash and cash equivalents.

Net cash used in operating activities. Net cash used in operating activities increased to \$73.1 million during the nine months ended September 30, 2015 as compared to \$43.4 million for the same period in 2014. In August 2014, we received a \$20.0 million milestone payment under the Pacritinib License Agreement in connection with the first treatment dosing of the last patient enrolled in PERSIST-1, resulting in the lower amount of cash used in operating activities in 2014 compared to 2015. In addition, there was an increase in research and development activities incurred in connection with our pacritinib development program and our PIX306 trial.

Net cash used in investing activities. Net cash used in investing activities decreased to \$31,000 for the nine months ended September 30, 2015 compared to \$0.3 million for the same period in 2014 due to a decrease in purchases of property and equipment.

Net cash provided by (used in) financing activities. Net cash provided by financing activities was \$48.2 million for the nine months ended September 30, 2015 compared to \$0.2 million net cash used in financing activities for the same period in 2014. The increase in net cash provided was primarily due to the proceeds received under our senior secured term loan agreement in June 2015, the Baxalta milestone advance received in June 2015 and the net proceeds from the equity offering we received in September 2015, each as discussed below.

In June 2015, we amended our senior secured term loan agreement pursuant to which we received \$6.2 million (less fees and expenses) in additional borrowed funds, thereby resulting in an outstanding principal balance thereunder of \$20.0 million as of September 30, 2015. An additional \$5.0 million is available for borrowing at our option through June 30, 2016, subject to the satisfaction of certain conditions. For a discussion of such loan agreement, please see Part I, Item 1, Note 4, Long-term Debt, in this Quarterly Report on Form 10-Q.

In June 2015, we received an advance of potential milestone payments from Baxalta in the aggregate amount of \$32.0 million relating to the development milestone payment payable to us in connection with the regulatory submission to the EMA with respect to pacritinib, or the EMA Milestone, and the development milestone payment payable to us for the first treatment dosing of the last patient enrolled in PERSIST-2, or the PERSIST-2 Enrollment Milestone. For a discussion of the terms of such advanced funds, including the applicable interest rate and events that may trigger repayment thereof, see Part I, Item 2, "License Agreements and Milestone Activities—Baxalta".

In September 2015, in a registered direct offering, we issued to BVF an aggregate of 10 million shares of common stock at a purchase price per share of \$1.57 for net proceeds of approximately \$15.1 million.

Subsequent to September 30, 2015, we issued 50,000 shares of preferred stock (which were converted into 40 million shares of common stock at a conversion price per common share of \$1.25) for net proceeds of approximately \$46.5 million in an underwritten equity offering that closed on October 30, 2015. See Part I, Item 1, Note 10, Subsequent Events, in this Quarterly Report on Form 10-Q, which note is incorporated herein by reference.

### Capital Resources

We have prepared our financial statements assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business. We believe that our present financial resources, together with milestone payments projected to be received under certain of our contractual

agreements and our ability to control costs, will be sufficient to fund our operations through the fourth quarter of 2016. However, we have incurred net losses since inception and expect to generate losses for the next few years primarily due to research and development costs for PIXUVRI, pacritinib, Opaxio and tosedostat. We have historically funded our operations through equity financings, borrowings and funds obtained under product collaborations, any or all of which may not be available to us in the future. As of September 30, 2015, our available cash and cash equivalents were \$46.4 million, and, as noted above, we subsequently raised net proceeds of approximately \$46.5 million in an underwritten offering. We had an outstanding principal balance under our senior secured term loan agreement of \$20.0 million, and an additional \$5.0 million is available for borrowing thereunder at our option through June 30, 2016, subject to the lender's receipt of the following: (1) on or prior to December 31, 2015, satisfactory evidence of the achievement of full patient enrollment in PERSIST-2; and (2) on or prior to June 30, 2016, satisfactory evidence of the achievement of positive data in connection for PERSIST-2. We also had an outstanding balance of \$32.0 million classified as debt as a result of the Baxalta milestone advance received in June 2015. Refer to the discussion above for further details regarding these borrowings.

Financial resource forecasts are subject to change as a result of a variety of risks and uncertainties. Changes in manufacturing, developments in and expenses associated with our clinical trials and the other factors identified under “Capital Requirements” below may consume capital resources earlier than planned. Additionally, we may not receive the anticipated milestone payments or achieve projected net sales from PIXUVRI. Due to these and other factors, the foregoing forecast for the period for which we will have sufficient resources to fund our operations may fail.

### Capital Requirements

We expect that we will need to acquire additional funds in order to develop our business. We may seek to raise such capital through public or private equity financings, partnerships, collaborations, joint ventures, disposition of assets, debt financings or restructurings, bank borrowings or other sources of financing. However, we have a limited number of authorized shares of common stock available for issuance and additional funding may not be available on favorable terms or at all. If additional funds are raised by issuing equity securities, substantial dilution to existing shareholders may result. If we fail to obtain additional capital when needed, our ability to operate as a going concern will be harmed, and we may be required to delay, scale back or eliminate some or all of our research and development programs, reduce our selling, general and administrative expenses, be unable to attract and retain highly qualified personnel, refrain from making our contractually required payments when due (including debt payments) and/or may be forced to cease operations, liquidate our assets and possibly seek bankruptcy protection.

Our future capital requirements will depend on many factors, including:

- changes in manufacturing;
- developments in and expenses associated with our clinical trials and other research and development activities;
- acquisitions of compounds or other assets;
- ability to generate sales of PIXUVRI and any expansion of our sales and marketing organization for PIXUVRI;
- regulatory approval developments;
- ability to consummate appropriate collaborations for development and commercialization activities;
- ability to reach milestones triggering payments under certain of our contractual arrangements, to receive the associated payments and to satisfy the conditions necessary to retain the funds from the June 2015 advance from Baxalta;
- litigation and other disputes;
- competitive market developments; and
- other unplanned business developments.

The following table includes information relating to our contractual obligations as of September 30, 2015 (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than
					5 Years
<b>Operating leases:</b>					
Facilities	\$ 18,793	\$ 2,751	\$ 5,389	\$ 5,449	\$ 5,204
Long-term debt (1)	52,000	4,376	40,131	7,493	—
Interest on long-term debt (1) (2)	11,685	2,066	9,423	196	—
Purchase commitments (3) (4)	4,294	3,638	537	86	33
Other obligations (5) (6)	4,728	1,150	3,578	—	—
	<b>\$ 91,500</b>	<b>\$ 13,981</b>	<b>\$ 59,058</b>	<b>\$ 13,224</b>	<b>\$ 5,237</b>

- (1) This amount includes the principal payable of \$20.0 million under our senior secured term loan. In addition, this amount (i) includes the advance received in June 2015 of \$32.0 million related to the acceleration of two potential development milestone payments under the Pacritinib License Amendment, (ii) bears fixed interest at an annual rate of 9% and (iii) assumes that we do not achieve the two development milestones by the respective deadlines, which, among other things, triggers repayment of the advance. Please refer to Part I, Item 1, Note 4, Long-term Debt, in this Quarterly Report on Form 10-Q, which note is incorporated herein by reference, for further information.
- (2) The interest rate on our senior secured term loan floats at a rate per annum equal to 10.95% plus the amount by which the prime rate exceeds 3.25%. The amounts presented for interest payments in future periods assume a prime rate of 3.25%.
- (3) Purchase commitments include obligations related to manufacturing supply, insurance and other purchase commitments.

- (4) In February 2015, CTI Life Sciences Limited, or CTILS, entered into a manufacturing and supply agreement with Baxter Oncology GmbH. In connection with process development and validation for the manufacture of PIXUVRI, CTILS has agreed to expend approximately €1.8 million under this agreement as of September 30, 2015 (or \$2.0 million upon conversion from euros as of September 30, 2015) of which €0.1 million has been expended (or \$0.1 million upon conversion from euros as of September 30, 2015). Beginning in 2018, under this agreement, CTILS is obliged to purchase from Baxter Oncology GmbH a minimum percentage of PIXUVRI product sold by CTILS or its sublicensees in certain territories. Such obligation is dependent on future product sales and is not provided for in the table above as it is not estimable.
- (5) Other obligations include a fee in the amount of \$1.3 million payable to Hercules on the earliest to occur of October 1, 2016, or the date on which the senior secured term loan is prepaid in full or the date on which the senior secured term loan becomes due and payable in full. Other obligations do not include \$4.1 million deferred rent associated with our operating lease for office space.
- (6) Other obligations also include contributions we have agreed to make under certain endowment agreements in the aggregate amount of \$3.5 million in three annual installments commencing October 31, 2015.

Certain of our licensing agreements obligate us to pay a royalty on net sales of products utilizing licensed compounds. Such royalties are dependent on future product sales and are not provided for in the table above as they are not estimable. For additional information, please see discussion below in Part I, Item 2, "License Agreements and Milestone Activities".

## LICENSE AGREEMENTS AND MILESTONE ACTIVITIES

### Servier

In September 2014, we entered into the Servier Agreement pursuant to which we granted Servier an exclusive and sublicenseable (subject to certain conditions) royalty-bearing license with respect to the development and commercialization of PIXUVRI for use in pharmaceutical products outside of the CTI Territory (defined below). We retained rights to PIXUVRI in Austria, Denmark, Finland, Germany, Israel, Norway, Sweden, Turkey, the U.K. and the U.S., or collectively, the CTI Territory.

We received an upfront payment in October 2014 of €14.0 million (or \$17.8 million using the currency exchange rate as of the date we received the funds in October 2014). In addition, subject to the achievement of certain conditions, the Servier Agreement provides for our potential to receive milestone payments thereunder in the aggregate amount of up to €89.0 million, which is comprised of the following: up to €49.0 million in potential clinical and regulatory milestone payments (of which €9.5 million is payable upon occurrence of certain enrollment events in connection with the PIX306 study for PIXUVRI); and up to €40.0 million in potential sales-based milestone payments. Of the foregoing potential milestone payments, we have received a €1.5 million milestone payment relating to the attainment of reimbursement approval for PIXUVRI in Spain. In addition, for a number of years following the first commercial sale of a product containing PIXUVRI in the respective country, regardless of patent expiration or expiration of regulatory exclusivity rights, we are eligible to receive tiered royalty payments ranging from a low double-digit percentage up to a percentage in the mid-twenties based on net sales of PIXUVRI products, subject to certain reductions of up to mid-double digit percentages under certain circumstances.

Unless otherwise agreed by the parties, (i) certain development costs incurred pursuant to a development plan and (ii) certain marketing costs incurred pursuant to a marketing plan will be shared equally by the parties, subject to a maximum dollar obligation of each party.

The Servier Agreement will expire on a country-by-country basis upon the expiration of the royalty terms in the countries outside of the CTI Territory, at which time all licenses granted to Servier would become perpetual and royalty-free. Each party may terminate the Servier Agreement in the event of an uncured repudiatory breach (as defined under English law) of the other party's obligations. Servier may terminate the Servier Agreement without cause on a country-by-country basis upon written notice to us within a specified time period or upon written notice within a certain period of days in the event of (i) certain safety or public health issues involving PIXUVRI or (ii) cessation of certain marketing authorizations. In the event of a termination prior to the expiration date, rights granted to Servier will terminate, subject to certain exceptions.

#### Baxalta

In November 2013, we entered into a Development, Commercialization and License Agreement, dated as of November 14, 2013, between Baxter International Inc., or Baxter, and the Company, for the development and commercialization of pacritinib for use in oncology and potentially additional therapeutic areas, or the Original Pacritinib License Agreement. The Original Pacritinib License Agreement, the rights and obligations to which Baxter has assigned to Baxalta, was amended by a first amendment thereto, or the Pacritinib License Amendment, effective June 8, 2015. The Original Pacritinib License Agreement, as amended by the Pacritinib License Amendment, is referred to herein as the "Pacritinib License Agreement". Under the Pacritinib License Agreement, Baxalta has an exclusive, worldwide (subject to co-promotion rights discussed below), royalty-bearing, non-transferable license (which is sub-

licensable under certain circumstances) relating to pacritinib. Licensed products under the Pacritinib License Agreement consist of products in which pacritinib is an ingredient.

We received an upfront payment of \$60 million under the Pacritinib License Agreement, which included a \$30 million investment in our equity. The Pacritinib License Agreement also provides for us to receive potential additional payments of up to \$302 million upon the successful achievement of certain development and commercialization milestones, comprised of \$112 million of potential clinical, regulatory and commercial launch milestone payments, and potential additional sales milestone payments of up to \$190 million. Of such potential milestone payments, we have received \$20 million to date relating to the achievement of a clinical milestone. In addition, in June 2015, pursuant to the Pacritinib License Amendment, we received an advance of the potential milestone payments in the amount of \$32 million relating to the milestone payment payable in connection with the EMA Milestone and the PERSIST-2 Enrollment Milestone. Such advances bear interest at an annual rate of 9% percent until the earlier of (i) the date of first occurrence of the respective milestone and (ii) the date that the respective advance plus accrued interest is repaid in full. In the event that pacritinib development is terminated either because of a regulatory determination that the benefit/risk profile of the drug candidate is unacceptable or due to safety concerns or certain other reasons, including the failure of pacritinib to meet certain criteria or certain endpoints, or a Milestone Failure, we would be required to repay the respective advance to Baxalta in eight quarterly installments beginning thirty days after the end of the calendar quarter of the first occurrence of a Milestone Failure and a final payment equal to the remainder of the unpaid balance, or the Repayment Terms. Further, if (i) the EMA Milestone is not achieved prior to March 31, 2017 or (ii) the PERSIST-2 Enrollment Milestone is not achieved prior to December 31, 2016, then we would also be required to repay the respective advance pursuant to the Repayment Terms. Repayment of the advances will be accelerated in the event of the commencement of insolvency proceedings, and certain other events of default. If a milestone is achieved, however, then we would remain entitled to the respective advance.

Under the Pacritinib License Agreement, we were responsible for all development costs incurred prior to January 1, 2014 and are responsible for approximately \$96 million in U.S. and E.U. development costs incurred thereafter, subject to potential adjustment in certain circumstances. All development costs exceeding the \$96 million threshold will generally be shared as follows: (i) costs generally applicable worldwide will be shared 75 percent to Baxalta and 25 percent to us, (ii) costs applicable to territories exclusive to Baxalta will be 100 percent borne by Baxalta and (iii) costs applicable exclusively to co-promotion in the U.S. will be shared equally between the parties, subject to certain exceptions. In the event that we do not spend a specified amount on the development of pacritinib from June 8, 2015 through February 29, 2016, payments to Baxalta in an amount equal to such deficiency may be required or credited against amounts owed to us in certain circumstances. We and Baxalta have each been allocated up to 50% of the manufacturing (subject to certain conditions), with certain pricing adjustments based on comparative costs of supply. In addition, we may be obligated to pay the costs of certain product supplied by our manufacturer to Baxalta if such product does not meet certain prescribed standards. To the extent that any expenses are advanced by Baxalta on our behalf, such amounts may be deducted from any payments Baxalta owes us pursuant to the Pacritinib License Agreement.

Outside the U.S., we are eligible to receive tiered high single digit to mid-teen percentage royalty payments based on net sales for myelofibrosis, and higher double-digit royalties for other indications, subject to reduction by up to 50 percent if (i) Baxalta is required to obtain third party royalty-bearing licenses to fulfill its obligations under the Pacritinib License Agreement and (ii) in any jurisdiction where there is no longer either regulatory exclusivity or patent protection.

The Pacritinib License Agreement will expire when Baxalta has no further obligation to pay royalties to us in any jurisdiction, at which time the licenses granted to Baxalta will become perpetual and royalty-free. We or Baxalta may terminate the Pacritinib License Agreement prior to its expiration in certain circumstances. Following the one-year anniversary of receipt of regulatory approval in certain countries, we may terminate the Pacritinib License Agreement as to one or more such countries if Baxalta has not undertaken requisite regulatory or commercialization efforts in the applicable country and certain other conditions are met. Baxalta may terminate the Pacritinib License Agreement



earlier than its expiration in certain circumstances including (i) in the event development costs for myelofibrosis for the period commencing January 1, 2014 are reasonably projected to exceed a specified threshold, (ii) as to some or all countries in the event of commercial failure of the licensed product or (iii) without cause following the one-year anniversary of the effective date of the Pacritinib License Agreement, provided that such termination will have a lead-in period of six months before it becomes effective. Additionally, either party may terminate the Pacritinib License Agreement prior to its expiration in events of force majeure, or the other party's uncured material breach or insolvency. In the event of a termination prior to the expiration date, rights in pacritinib will revert to us.

#### University of Vermont

We entered into an agreement with the University of Vermont, or UVM, in March 1995, as amended, or the UVM Agreement, which grants us an exclusive sublicensable license for the rights to PIXUVRI. Pursuant to the UVM Agreement, we acquired the rights to make, have made, sell and use PIXUVRI, and we are obligated to make royalty payments to UVM ranging from low single digits to mid-single digits as a percentage of net sales. The higher royalty rate is payable for net sales in countries where specified UVM licensed patents exist, or where we have obtained orphan drug protection, until such UVM patents or such protection no longer

exists. For a period of ten years after first commercialization of PIXUVRI, the lower royalty rate is payable for net sales in such countries after expiration of the designated UVM patents or loss of orphan drug protection, and in all other countries without such specified UVM patents or orphan drug protection. Unless otherwise terminated, the term of the UVM Agreement continues for the life of the licensed patents in those countries in which a licensed patent exists, and continues for ten years after the first sale of PIXUVRI in those countries where no such patents exist. We may terminate the UVM Agreement, on a country-by-country basis or on a patent-by-patent basis, at any time upon advance written notice. UVM may terminate the UVM Agreement upon advance written notice in the event royalty payments are not made. In addition, either party may terminate the UVM Agreement in the event of an uncured material breach of the UVM Agreement by the other party or in the event of bankruptcy of the other party.

#### S\*BIO

We acquired the compounds SB1518 (which is referred to as “pacritinib”) and SB1578, which inhibit JAK2 and FLT3, from S\*BIO, in May 2012. Under our agreement with S\*BIO, we are required to make milestone payments to S\*BIO up to an aggregate amount of \$132.5 million if certain U.S., E.U. and Japanese regulatory approvals are obtained or if certain worldwide net sales thresholds are met in connection with any pharmaceutical product containing or comprising any compound that we acquired from S\*BIO for use for specific diseases, infections or other conditions. At our election, we may pay up to 50 percent of any milestone payments to S\*BIO through the issuance of shares of our common stock or shares of our preferred stock convertible into our common stock. In addition, S\*BIO will also be entitled to receive royalty payments from us at incremental rates in the low single digits based on certain worldwide net sales thresholds on a product-by-product and country-by-country basis.

#### Vernalis

We entered into an amended and restated exclusive license agreement with Vernalis, or the Vernalis License Agreement, for the exclusive worldwide right to use certain patents and other intellectual property rights to develop, market and commercialize tosedostat and certain other compounds. Under the Vernalis License Agreement, we have agreed to make tiered royalty payments of no more than a high single digit percentage of net sales of products containing licensed compounds, with such obligation to continue on a country-by-country basis for the longer of ten years following commercial launch or the expiry of relevant patent claims.

The Vernalis License Agreement will terminate when the royalty obligations expire, although the parties have early termination rights under certain circumstances, including the following: (i) we have the right to terminate, with three months’ notice, upon the belief that the continued development of tosedostat or any of the other licensed compounds is not commercially viable; (ii) Vernalis has the right to terminate in the event of our uncured failure to pay sums due; and (iii) either party has the right to terminate in event of the other party’s uncured material breach or insolvency.

#### Gynecologic Oncology Group

We entered into an agreement with the Gynecologic Oncology Group, now part of NRG Oncology, in March 2004, as amended, related to the GOG-0212 trial of Opaxio it is conducting in patients with ovarian cancer. Pursuant to the terms of such agreement, we paid an aggregate of \$1.1 million in milestone payments during 2014 based on certain enrollment milestones achieved. We may be required to pay up to an additional \$1.0 million upon the attainment of certain other milestones, of which \$0.5 million has been recorded in accrued expenses as of September 30, 2015.

#### PG-TXL

In November 1998, we entered into an agreement with PG-TXL Company, L.P., or PG-TXL, as amended in February 2006, which grants us an exclusive worldwide license for the rights to Opaxio and to all potential uses of PG-TXL’s polymer technology, or the PG-TXL Agreement. Pursuant to the PG-TXL Agreement, we acquired the rights to research, develop, manufacture, market and sell anti-cancer drugs developed using this polymer technology. Pursuant

to the PG-TXL Agreement, we are obligated to make payments to PG-TXL upon the achievement of certain development and regulatory milestones of up to \$14.4 million. The timing of the remaining milestone payments under the PG-TXL Agreement is based on trial commencements and completions for compounds protected by PG-TXL license rights, and regulatory and marketing approval of those compounds by the FDA and the EMA. Additionally, we are required to make royalty payments to PG-TXL based on net sales. Our royalty obligations range from low to mid-single digits as a percentage of net sales. Unless otherwise terminated, the term of the PG-TXL Agreement continues until no royalties are payable to PG-TXL. We may terminate the PG-TXL Agreement (i) upon advance written notice to PG-TXL in the event issues regarding the safety of the products licensed pursuant to the PG-TXL Agreement arise during development or clinical data obtained reveal a materially adverse tolerability profile for the licensed product in humans, or (ii) for any reason upon advance written notice. In addition, either party may terminate the PG-TXL Agreement (a) upon advance written notice in the event certain license fee payments are not made; (b) in the event of an uncured material breach of the respective material obligations and conditions of the PG-TXL Agreement; or (c) in the event of liquidation or bankruptcy of a party.

## Novartis

In January 2014, we entered into a Termination Agreement, or the Novartis Termination Agreement, with Novartis to reacquire the rights to PIXUVRI and Opaxio previously granted to Novartis under our agreement entered into in September 2006, as amended, or the Original Novartis Agreement. Pursuant to the Novartis Termination Agreement, the Original Novartis Agreement was terminated in its entirety, except for certain customary provisions, including those pertaining to confidentiality and indemnification, which survive termination.

Under the Novartis Termination Agreement, we agreed not to transfer, license, sublicense or otherwise grant rights with respect to intellectual property of PIXUVRI and Opaxio unless the recipient thereof agrees to be bound by the terms of the Novartis Termination Agreement. We also agreed to provide potential payments to Novartis, including a percentage ranging from the low double-digits to the mid-teens, of any consideration received by us or our affiliates in connection with any transfer, license, sublicense or other grant of rights with respect to intellectual property of PIXUVRI or Opaxio, respectively; provided that such payments will not exceed certain prescribed ceilings in the low single digit millions. Novartis is entitled to receive potential payments of up to \$16.6 million upon the successful achievement of certain sales milestones of PIXUVRI and Opaxio. We are also obligated to pay to Novartis tiered low single digit percentage royalty payments for the first several hundred million in annual net sales, and ten percent royalty payments thereafter based on annual net sales of each of PIXUVRI and Opaxio, subject to reduction in the event generic drugs are introduced and sold by a third party, causing the sale of PIXUVRI or Opaxio to fall by a percentage in the high double-digits. To the extent we are required to pay royalties on net sales of Opaxio pursuant to the PG-TXL Agreement, we may credit a percentage of the amount of such royalties paid to those payable to Novartis, subject to certain exceptions. Royalty payments for both PIXUVRI and Opaxio are subject to certain minimum floor percentages in the low single digits.

## Nerviano Medical Sciences

Our license agreement dated October 6, 2006 with Nerviano Medical Sciences, S.r.l. for brostallicin, a synthetic DNA minor groove binding agent that has demonstrated anti-tumor activity, which we terminated in June 2015, provided for the potential payment by us of up to \$80 million in milestone payments based on the achievement of certain product development results.

## Teva

In June 2005, we entered into an acquisition agreement with Cephalon, Inc., or Cephalon, pursuant to which we divested of the compound, TRISENOX. Cephalon was subsequently acquired by Teva Pharmaceutical Industries Ltd., or Teva. Under this agreement, we have the right to receive up to \$100 million in payments upon achievement by Teva of specified sales and development milestones related to TRISENOX. To date, we have received \$20.0 million of such potential milestone payments as a result of having achieved certain sales milestones.

## Other Agreements

We have several agreements with contract research organizations, third party manufacturers and distributors that have durations of greater than one year for the development and distribution of certain of our compounds.

## CRITICAL ACCOUNTING ESTIMATES

We make certain judgments and use certain estimates and assumptions when applying accounting principles generally accepted in the U.S. in the preparation of our condensed consolidated financial statements. We evaluate our estimates and judgments on an on-going basis and base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may

vary materially from what we anticipate and different assumptions or estimates about the future could change our reported results. There have been no material changes to our critical accounting estimates discussed in our 2014 Form 10-K. For a discussion of our critical accounting estimates, please see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2014 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.  
Foreign Exchange Market Risk

We are exposed to risks associated with the translation of euro-denominated financial results and accounts into U.S. dollars for financial reporting purposes. The carrying value of the assets and liabilities held in our European branches and subsidiaries will be affected by fluctuations in the value of the U.S. dollar compared to the euro. In addition, certain of our contractual arrangements, such as the Servier Agreement, denote monetary amounts in foreign currencies, and consequently, the ultimate financial impact to us from a

U.S. dollar perspective is subject to significant uncertainty. Any expansion of our commercial operations in Europe (including with regard to sales of PIXUVRI) may increase our exposure to fluctuations in foreign currency exchange rates. Changes in the value of the U.S. dollar as compared to applicable foreign currencies (in particular, the euro) might have an adverse effect on our reported results of operations and financial condition. Further, as the net positions of our unhedged foreign currency transactions fluctuate, our earnings might be negatively affected. As of September 30, 2015, we had a net asset balance, excluding intercompany payables and receivables, in our European branches and subsidiaries denominated in euros. If the euro were to weaken 20 percent against the dollar, our net asset balance would decrease by approximately \$1.3 million as of this date.

#### Interest Rate Risk

Our senior secured term loan bears interest at variable rates. Based on the outstanding principal balance under such loan at September 30, 2015 of \$20 million, and assuming such amount had been outstanding as of January 1, 2015, a 1.0 percent increase in interest rates would result in additional annualized interest expense of \$0.2 million. For a discussion of such loan, including applicable interest rates, covenants and events of default, please see Part I, Item 1, Note 4, Long-term Debt, in this Quarterly Report on Form 10-Q. The funds advanced to us pursuant to the Pacritinib License Amendment do not bear a variable interest rate.

#### Item 4. Controls and Procedures.

##### (a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in U.S. Securities and Exchange Commission, or SEC, rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, under the supervision and with the participation of our Chief Executive Officer and Executive Vice President, Finance and Administration, or EVP of Finance, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our Chief Executive Officer and EVP of Finance have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective.

##### (b) Changes in Internal Control over Financial Reporting

There have been no changes to our internal control over financial reporting that occurred during the third fiscal quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

CONSOB

As previously disclosed, on December 10, 2009, the Commissione Nazionale per le Società e la Borsa (which is the public authority responsible for regulating the Italian securities markets), or CONSOB, sent us a notice claiming, among other things, violation of the provisions of Section 114, paragraph 1 of the Italian Legislative Decree no. 58/98 due to the asserted late disclosure of the contents of the opinion expressed by Stonefield Josephson, Inc., an independent registered public accounting firm, with respect to our 2008 financial statements. However, we understand that, according to applicable Italian law provisions as interpreted by applicable case law, CONSOB's right to pursue a pecuniary administrative sanction is considered barred due to the passage of time.

ITA – VAT Returns

The Italian Tax Authority, or the ITA, issued notices of assessment to CTI BioPharma Corp.– Sede Secondaria, or CTI (Europe) based on the ITA's audit of CTI (Europe)'s value added tax, or VAT, returns for the years 2003, 2005, 2006 and 2007, or, collectively, the VAT Assessments. The ITA audits concluded that CTI (Europe) did not collect and remit VAT on certain invoices issued to non-Italian clients for services performed by CTI (Europe). We believe that the services invoiced were non-VAT taxable consultancy services and that the VAT returns are correct as originally filed. We are defending ourselves against the assessments both on procedural grounds and on the merits of the case, although we can make no assurances regarding the ultimate outcomes of these cases. As of December 31, 2012, we reversed the entire reserve we had previously recorded relating to the VAT Assessments after having received favorable Provincial Tax Court rulings. In January 2013, our then remaining deposit for the VAT Assessments was refunded to us.

Developments in the VAT proceedings since January 2013 are as follows:

2003. In June 2013, the Regional Tax Court issued decision no. 119/50/13 in regards to the 2003 VAT assessment, which accepted the appeal of the ITA and reversed the previous decision of the Provincial Tax Court. In January 2014, we were notified that the ITA requested partial payment of the 2003 VAT assessment in the amount of €0.4 million translated to \$0.6 million which we paid in March 2014. We believe that the decision of the Regional Tax Court did not carefully take into account our arguments and the documentation we filed, and in January 2014, we appealed such decision to the Italian Supreme Court both on procedural grounds and on the merits of the case.

2005, 2006 and 2007. The ITA has appealed to the Italian Supreme Court the decisions of the respective appellate Regional Tax Court, which ruled in our favor, with respect to each of the 2005, 2006 and 2007 VAT returns.

If the final decisions of the Italian Supreme Court for the VAT Assessments are unfavorable to us, we may incur up to \$10.5 million in losses for the VAT amount assessed including penalties, interest and fees upon conversion from euros as of September 30, 2015.

Derivative Lawsuit

On May 13, 2015, the Company (as nominal defendant) and our directors (as individual defendants) entered into a memorandum of understanding to settle the pending lawsuit in King County Superior Court in the State of Washington docketed as Lopez & Gilbert v. Nudelman, et al., Case No. 14-2-18941-9 SEA, or the Settlement. The

provisions of the Settlement include the following terms, which are subject to final court approval:

- We will cancel and the non-employee directors will agree to the rescission of all currently outstanding equity awards that we previously granted to non-employee directors that included performance-based vesting metrics and as to which the performance goals remained unsatisfied as of May 13, 2015;
- Our current non-employee directors will agree to hold (not transfer or sell or encumber in any way) until September 14, 2015 shares of our stock that they currently own and that we awarded to them during 2011, or at any time after 2011 to the present, and that, at the time of the award by us, was fully-vested and unrestricted;
- We will cap the total annual compensation provided by it to its non-employee directors for each of 2015 and 2016. Such annual compensation cap for each non-employee director for each of 2015 and 2016 will be the greater of (i) \$375,000, plus, as to our Board Chairman, an additional \$100,000, or (ii) the 75th percentile of compensation paid by a group of peer companies to their non-employee directors (and, in the case of our Chairman, the 75th percentile of compensation paid by such peers who have a non-employee director chair of their respective board of directors to such non-employee director chairs). The peer group for these purposes will be selected based on advice from the outside compensation

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consultant. For purposes of the compensation cap and the peer group comparison, compensation will be determined and measured consistent with the rules under Item 402 of Regulation S-K under the Exchange Act and based on publicly-available information at the applicable time; and

· We will implement, if not already implemented, within 90 days following final approval of the Settlement by the court, and maintain until at least the end of calendar year 2017 the following: an annual board discussion of non-employee director compensation philosophy; the use of a compensation consultant to advise the Compensation Committee on material decisions concerning non-employee director compensation issues and compare our non-employee director compensation program to a group of our peers; the use of plain language in our compensation-related public filings; and obtain confirmation from our legal department and outside legal counsel advising on executive compensation matters that any contemplated non-employee director awards do not materially violate the applicable plan or materially fail to comply with applicable law.

On September 24, 2015, the court issued an order granting preliminary approval to the Settlement. The court has scheduled a final hearing on December 10, 2015 to determine, among other things, whether it should issue an order for final approval of the Settlement.

For historical information concerning such matter, including the procedural history, see Part II, Item 1, “Legal Proceedings”, of the Company’s Quarterly Report on Form 10-Q for the quarter ended March 30, 2015.

In addition to the items discussed above, we are from time to time subject to legal proceedings and claims arising in the ordinary course of business.

#### Item 1A. Risk Factors.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The occurrence of any of the risks described below and elsewhere in this document, including the risk that our actual results may differ materially from those anticipated in these forward-looking statements, could materially adversely affect our business, financial condition, liquidity, operating results or prospects and the trading price of our securities. Additional risks and uncertainties that we do not presently know or that we currently deem immaterial may also harm our business, financial condition, operating results and prospects and the trading price of our securities.

#### Factors Affecting Our Business, Financial Condition, Operating Results and Prospects

We expect that we will need to raise additional funds to develop our business, but additional funds may not be available on acceptable terms, or at all. Any inability to raise required capital when needed could harm our liquidity, financial condition, business, operating results and prospects.

We have substantial operating expenses associated with the development of our compounds and the commercialization of PIXUVRI, and we have significant contractual payment obligations. We believe that our present financial resources, together with milestone payments projected to be received under certain of our contractual agreements and our ability to control costs, will be sufficient to fund our operations through the fourth quarter of 2016. Cash forecasts and capital requirements are subject to change as a result of a variety of risks and uncertainties. Changes in manufacturing, developments in and expenses associated with our clinical trials and other research and development activities, acquisitions of compounds or other assets, our ability to generate projected sales of PIXUVRI, any expansion of our sales and marketing organization for PIXUVRI, regulatory approval developments, ability to consummate appropriate collaborations for development and commercialization activities, ability to reach milestones triggering payments under applicable contractual arrangements, receive the associated payments and satisfy the conditions necessary to retain the funds from the June 2015 advance from Baxalta, litigation and other disputes, competitive market developments and other unplanned business developments may consume capital resources earlier than planned. Due to these and other factors, any forecast for the period for which we will have sufficient resources to fund our operations, as well as any other operational or business projection we have disclosed, or may, from time to time, disclose, may fail.

As of September 30, 2015, we had an outstanding principal balance under our senior secured term loan agreement of \$20.0 million, with an additional \$5.0 million being available for borrowing at our option through June 30, 2016, subject to certain conditions. We are required to make monthly interest-only payments in respect thereof in the approximate amount of \$0.2 million until January 1, 2016 (with such interest-only period being subject to extension by up to an additional six months under certain circumstances), and following January 1, 2016, we will be required to make monthly interest plus principal payments through December 1, 2018 in the approximate amount of \$0.7 million. Such borrowings are secured by a first priority security interest on substantially all of our personal property except our intellectual property and subject to certain other exceptions. While we have the potential to borrow an additional \$5.0 million available to us under the senior secured loan agreement subject to certain conditions described above, there can be no guarantees that we will be able to satisfy such conditions in order to borrow such funds. In addition,

the senior secured term loan agreement requires us to comply with restrictive covenants, including those that limit our operating flexibility and ability to borrow additional funds. A failure to make a required loan payment or an uncured covenant breach could lead to an event of default, and in such case, all amounts then outstanding may become due and payable immediately. In addition, with respect to the \$32.0 million advance we received in June 2015 from Baxalta, certain events may trigger repayment of such advance prior to attainment of the respective milestones.

We expect that we will need to acquire additional funds in order to develop our business. We may seek to raise such capital through public or private equity financings, partnerships, collaborations, joint ventures, disposition of assets, debt financings or restructurings, bank borrowings or other sources of financing. However, our ability to do so is subject to a number of risks, uncertainties, constraints and consequences, including:

- our ability to raise capital through the issuance of additional shares of our common stock or convertible securities is restricted by the limited number of our residual authorized shares, the potential difficulty of obtaining shareholder approval to increase authorized shares and the restrictive covenants under our senior secured term loan agreement;
- issuance of equity-based securities will dilute the proportionate ownership of existing shareholders;
- our ability to obtain further funds from any potential loan arrangements is limited by our existing senior secured term loan agreement;
- certain financing arrangements may require us to relinquish rights to various assets and/or impose more restrictive terms than any of our existing or past arrangements; and
- we may be required to meet additional regulatory requirements, and we may be subject to certain contractual limitations, which may increase our costs and harm our ability to obtain funding.

For these and other reasons, additional funding may not be available on favorable terms or at all. If we fail to obtain additional capital when needed, we may be required to delay, scale back or eliminate some or all of our research and development programs, reduce our selling, general and administrative expenses, be unable to attract and retain highly qualified personnel, refrain from making our contractually required payments when due (including debt payments) and/or be forced to cease operations, liquidate our assets and possibly seek bankruptcy protection. Any of these consequences could harm our business, financial condition, operating results and prospects.

We received an audit report for the years ended December 31, 2007 through December 31, 2011 and December 31, 2014 containing an explanatory paragraph on our consolidated financial statements raising substantial doubt as to our ability to continue as a going concern.

We received an audit report for each of the years ended December 31, 2007 through December 31, 2011 and December 31, 2014 containing an explanatory paragraph on our consolidated financial statements raising substantial doubt as to our ability to continue as a going concern. The inclusion of a going concern explanatory paragraph may negatively impact the trading price of our common stock and make it more difficult, time consuming or expensive to obtain necessary financing. In the event our operations were to cease, you would suffer a complete loss of your investment in our securities.

We expect to continue to incur net losses, and we may never achieve profitability.

We were incorporated in 1991 and have incurred a net operating loss every year since our formation. As of September 30, 2015, we had an accumulated deficit of \$2.1 billion and we expect to continue to incur net losses. As a part of our business plan, we will need to continue to conduct research, development, testing and regulatory compliance activities with respect to our compounds and ensure the procurement of manufacturing and drug supply services, the costs of which, together with projected general and administrative expenses, is expected to result in operating losses for the foreseeable future. There can be no assurances that we will ever achieve profitability.

If our development and commercialization collaborations are not successful, or if we are unable to enter into additional collaborations, we may not be able to effectively develop and/or commercialize the applicable

compound(s), which could have a material adverse effect on our business.

Our business is heavily dependent on the success of our development and commercialization collaborations. In particular, under the Servier Agreement and the Pacritinib License Agreement, we rely heavily on Servier and Baxalta, respectively, to collaborate with us to develop and commercialize PIXUVRI and pacritinib, respectively. As a result of our dependence on our relationships with Servier and Baxalta, the success or commercial viability of PIXUVRI and pacritinib is, to a certain extent, beyond our control. We are subject to a number of specific risks associated with our dependence on our collaborative relationship with Servier and Baxalta, including the following: possible disagreements as to the timing, nature and extent of development plans for the respective compound,

including clinical trials or regulatory approval strategy; changes in their respective personnel who are key to the collaboration efforts; any changes in their respective business strategies adverse to our interests; possible disagreements regarding ownership of proprietary rights; the ability to meet our financial and other contractual obligations under the respective agreements; and the possibility that Servier or Baxalta could elect to terminate their respective agreements with us pursuant to certain “at-will” termination clauses or otherwise breach their respective agreements with us. Furthermore, the contingent financial returns under our collaborations with Servier and Baxalta depend in large part on the achievement of development and commercialization milestones and the ability to generate applicable product sales to trigger royalty payments. Therefore, our success, and any associated future financial returns to us and our investors, will depend in large part on the performance of each of Servier and Baxalta. If our existing collaborations fail, or if we do not successfully enter into additional collaborations when needed, we may be unable to further develop and commercialize the applicable compounds, generate revenues to sustain or grow our business or achieve profitability, which would harm our business, financial condition, operating results and prospects.

Compounds that appear promising in research and development may fail to reach later stages of development for a number of reasons, including, among others, that clinical trials may take longer to complete than expected or may not be completed at all, and top-line or preliminary clinical trial data reports may ultimately differ from actual results once existing data are more fully evaluated.

Successful development of anti-cancer and other pharmaceutical products is highly uncertain, and obtaining regulatory approval to market drugs to treat cancer is expensive, difficult and speculative. Compounds that appear promising in research and development may fail to reach later stages of development for several reasons, including, but not limited to:

- delay or failure in obtaining necessary U.S. and international regulatory approvals, or the imposition of a partial or full regulatory hold on a clinical trial;
- difficulties in formulating a compound, scaling the manufacturing process, timely attaining process validation for particular drug products and obtaining manufacturing approval,
- pricing or reimbursement issues or other factors that may make the product uneconomical to commercialize;
- production problems, such as the inability to obtain raw materials or supplies satisfying acceptable standards for the manufacture of our products, equipment obsolescence, malfunctions or failures, product quality/contamination problems or changes in regulations requiring manufacturing modifications;
- inefficient cost structure of a compound compared to alternative treatments;
- obstacles resulting from proprietary rights held by others with respect to a compound, such as patent rights;
- lower than anticipated rates of patient enrollment as a result of factors, such as the number of patients with the relevant conditions, the proximity of patients to clinical testing centers, eligibility criteria for tests and competition with other clinical testing programs;
- preclinical or clinical testing requiring significantly more time than expected, resources or expertise than originally expected and inadequate financing, which could cause clinical trials to be delayed or terminated;
- failure of clinical testing to show potential products to be safe and efficacious, and failure to demonstrate desired safety and efficacy characteristics in human clinical trials;
  - suspension of a clinical trial at any time by us, an applicable collaboration partner or a regulatory authority on the basis that the participants are being exposed to unacceptable health risks or for other reasons;
- delays in reaching or failing to reach agreement on acceptable terms with prospective CROs, and trial sites; and
- failure of third parties, such as CROs, academic institutions, collaborators, cooperative groups and/or investigator sponsors, to conduct, oversee and monitor clinical trials and results.

In addition, from time to time we report top-line data for clinical trials. Such data are based on a preliminary analysis of then-available efficacy and safety data, and such findings and conclusions are subject to change following a more comprehensive review of the data related to the particular study or trial. Top-line or preliminary data are based on important assumptions, estimations, calculations and information then available to us to the extent we have had, at the time of such reporting, an opportunity to fully and carefully evaluate such information in light of all surrounding facts, circumstances, recommendations and analyses. As a result, top-line results may differ from future results, or different

conclusions or considerations may qualify such results once existing data have been more fully evaluated. In addition, third parties, including regulatory agencies, may not accept or agree with our assumptions, estimations, calculations or analyses or may interpret or weigh the importance of data differently, which could impact the value of the particular program, the approvability or commercialization of the particular compound and our business in general.

If the development of our compounds is delayed or fails, or if top-line or preliminary clinical trial data reported differ from actual results, our development costs may increase and the ability to commercialize our compounds may be harmed, which could harm our business, financial condition, operating results or prospects.

We or our collaboration partners may not obtain or maintain the regulatory approvals required to develop or commercialize some or all of our compounds.

We are subject to rigorous and extensive regulation by the FDA in the U.S. and by comparable agencies in other jurisdictions, including the EMA in the E.U. Pacritinib and our other product candidates are currently in research or development and, other than conditional marketing authorization for PIXUVRI in the E.U., we have not received marketing approval for our compounds. Our products may not be marketed in the U.S. until they have been approved by the FDA and may not be marketed in other jurisdictions until they have received approval from the appropriate foreign regulatory agencies. Each product candidate requires significant research, development and preclinical testing and extensive clinical investigation before submission of any regulatory application for marketing approval. Obtaining regulatory approval requires substantial time, effort and financial resources, and we may not be able to obtain approval of any of our products on a timely basis, or at all. The number, size, design and focus of preclinical and clinical trials that will be required for approval by the FDA, the EMA or any other foreign regulatory agency varies depending on the compound, the disease or condition that the compound is designed to address and the regulations applicable to any particular compound. Preclinical and clinical data can be interpreted in different ways, which could delay, limit or preclude regulatory approval. The FDA, the EMA and other foreign regulatory agencies can delay, limit or deny approval of a compound for many reasons, including, but not limited to:

- a compound may not be shown to be safe or effective;
- the clinical and other benefits of a compound may not outweigh its safety risks;
- clinical trial results may be negative or inconclusive, or adverse medical events may occur during a clinical trial;
- the results of clinical trials may not meet the level of statistical significance required by regulatory agencies for approval;
- such regulatory agencies may interpret data from pre-clinical and clinical trials in different ways than we do;
- such regulatory agencies may not approve the manufacturing process of a compound or determine that a third party contract manufacturers manufactures a compound in accordance with current good manufacturing practices, or cGMPs;
- a compound may fail to comply with regulatory requirements; or
- such regulatory agencies might change their approval policies or adopt new regulations.

In addition, regulatory agencies may determine that the number of patients enrolled in the clinical trials supporting an application is insufficient to support approval of a product candidate. For example, we intend to seek accelerated approval from the FDA for pacritinib for the treatment of patients with myelofibrosis with platelet counts of less than 50,000/ $\mu$ L (a subset of patients with myelofibrosis for which there is no available therapy) on the basis of the surrogate endpoint of spleen volume reduction, measured by MRI or CT scan. If the FDA determines that such application, which is based on a limited subset of patients, does not provide substantial evidence of effectiveness or is otherwise insufficient for approval, we may need to submit the results of additional trials, such as PERSIST-2, or conduct additional trials before the FDA will approve the application, if at all. Furthermore, while Patient Reported Outcome, or PRO, instruments have been developed for recording and evaluating reduction in Total Symptom Score in myelofibrosis patients, we do not have any assurance that the particular instrument(s) we utilize from time to time will satisfy the FDA's stringent requirements for assessing PROs or that we will be able to demonstrate clinical benefit using such instruments. If our compounds are not approved at all or quickly enough to provide net revenues to defray our operating expenses, our business, financial condition, operating results and prospects could be harmed.

In the event that we seek and the FDA does not grant accelerated approval or priority review for a drug candidate, we would experience a longer time to commercialization in the U.S., if at all, our development costs may increase and our competitive position may be harmed.

We intend to seek an accelerated approval pathway for pacritinib and may do so in the future for other compounds. The FDA may grant accelerated approval to a product designed to treat a serious or life-threatening condition that provides meaningful therapeutic benefit over available therapies upon a determination that the product has an effect on a surrogate endpoint or intermediate clinical endpoint that is reasonably likely to predict clinical benefit. With respect to pacritinib, we intend to seek accelerated approval for the treatment of patients with myelofibrosis with platelet counts of less than 50,000/ $\mu$ L (a subset of patients with myelofibrosis for which there is no available therapy) on the basis of the surrogate endpoint of spleen volume reduction, measured by MRI or CT scan. A surrogate endpoint under an accelerated approval pathway may be used in cases in which the advantage of a new drug over available therapy may not be a direct therapeutic advantage, but is a clinically important improvement from a patient and public health



perspective. There can be no assurance that the FDA will agree that our endpoint is an appropriate surrogate endpoint. Furthermore, there can be no assurance that our application will be accepted or that approval will be granted. Even if a product candidate is granted accelerated approval, such accelerated approval is contingent on the sponsor's agreement to conduct one or more post-approval confirmatory trials. Such confirmatory trial(s) must be completed with due diligence and, in some cases, the FDA may require that the trial(s) be designed and/or initiated prior to approval. Moreover, the FDA may withdraw approval of a product candidate or indication approved under the accelerated approval pathway for a variety of reasons, including if the trial(s) required to verify the predicted clinical benefit of a product candidate fail to verify such benefit or do not demonstrate sufficient clinical benefit to justify the risks associated with the drug, or if the sponsor fails to conduct any required post-approval trial(s) with due diligence.

Upon submission of an NDA under a requested accelerated approval pathway for pacritinib, we also intend to request priority review, and we may in the future seek priority review for other compounds. In the event of priority review, the FDA has a goal to (but is not required to) take action on an application within a total of eight months (rather than a goal of twelve months for a standard review). The FDA grants priority review only if it determines that a product treats a serious condition and, if approved, would provide a significant improvement in safety or effectiveness when compared to a standard application. The FDA has broad discretion whether to grant priority review, and, while the FDA has granted priority review to other oncology product candidates, pacritinib may not receive similar designation. Moreover, receiving priority review from the FDA does not guarantee completion of review or approval within the targeted eight-month cycle or thereafter.

A failure to obtain accelerated approval or priority review would result in a longer time to commercialization of the applicable compound in the U.S., if at all, could increase the cost of development and could harm our competitive position in the marketplace.

Even if our compounds are successful in clinical trials and receive regulatory approvals, we or our collaboration partners may not be able to successfully commercialize them.

The development and ongoing clinical trials for our compounds may not be successful and, even if they are, the resulting products may never be successfully developed into commercial products. Even if we are successful in our clinical trials and in obtaining other regulatory approvals, the respective products may not reach or remain in the market for a number of reasons including:

- they may be found ineffective or cause harmful side effects;
- they may be difficult to manufacture on a scale necessary for commercialization;
- they may experience excessive product loss due to contamination, equipment failure, inadequate transportation or storage, improper installation or operation of equipment, vendor or operator error, inconsistency in yields or variability in product characteristics;
- they may be uneconomical to produce;
- we may fail to obtain reimbursement approvals or pricing that is cost effective for patients as compared to other available forms of treatment or that covers the cost of production and other expenses;
- they may not compete effectively with existing or future alternatives;
- we may be unable to develop commercial operations and to sell marketing rights;
- they may fail to achieve market acceptance; or
- we may be precluded from commercialization of a product due to proprietary rights of third parties.

In particular, with respect to the commercialization of PIXUVRI and the future potential commercialization of pacritinib, we will be heavily dependent on our collaboration partners, Servier and Baxalta, respectively. The failure of Servier or Baxalta (or any other applicable collaboration partner) to fulfill its respective commercialization obligations with respect to a compound, or the occurrence of any of the events in the list above, could adversely affect the commercialization of our products. If we fail to commercialize products or if our future products do not achieve significant market acceptance, we will not likely generate significant revenues or become profitable.

The pharmaceutical business is subject to increasing government price controls and other restrictions on pricing, reimbursement and access to drugs, which could adversely affect our future revenues and profitability.

To the extent our products are developed, commercialized and successfully introduced to market, they may not be considered cost-effective and third party or government reimbursement might not be available or sufficient. Globally, governmental and other third party payors are becoming increasingly aggressive in attempting to contain health care costs by strictly controlling, directly or indirectly, pricing and reimbursement and, in some cases, limiting or denying coverage altogether on the basis of a variety of justifications, and we expect pressures on pricing and reimbursement from both governments and private payors inside and outside the

U.S. to continue. In the U.S., we are subject to substantial pricing, reimbursement and access pressures from state Medicaid programs, private insurance programs and pharmacy benefit managers, and implementation of U.S. health care reform legislation is increasing these pricing pressures. The Patient Protection and Affordable Care Act instituted comprehensive health care reform, which includes provisions that, among other things, reduce and/or limit Medicare reimbursement, require all individuals to have health insurance (with limited exceptions) and impose new and/or increased taxes. In almost all European markets, pricing and choice of prescription pharmaceuticals are subject to governmental control. Therefore, the price of our products and their reimbursement in Europe is and will be determined by national regulatory authorities. Reimbursement decisions from one or more of the European markets may impact reimbursement decisions in other European markets. A variety of factors are considered in making reimbursement decisions, including whether there is sufficient evidence to show that treatment with the product is more effective than current treatments, that the product represents good value for money for the health service it provides and that treatment with the product works at least as well as currently available treatments. The continuing efforts of government and insurance companies, health maintenance organizations and other payors of health care costs to contain or reduce costs of health care may affect our future revenues and profitability or those of our potential customers, suppliers and collaborative partners, as well as the availability of capital.

We may never be able to generate significant product revenues from the sale of PIXUVRI.

We anticipate that, for at least the next several years, our ability to generate revenues and become profitable will depend, in part, on our ability and that of our collaborator, Servier, to successfully commercialize our only currently marketed product, PIXUVRI. As disclosed elsewhere herein, PIXUVRI is not approved for marketing in the U.S., is presently available only in a limited number of countries and is reimbursed in even fewer countries.

In addition, the successful commercialization of PIXUVRI depends heavily on the ability to obtain and maintain favorable reimbursement rates for users of PIXUVRI, as well as on various additional factors, including, without limitation, the ability to:

- obtain an annual renewal of our conditional marketing authorization for PIXUVRI;
- increase demand for and sales of PIXUVRI and obtain greater acceptance of PIXUVRI by physicians and patients;
- establish and maintain agreements with wholesalers and distributors on reasonable terms;
- maintain, and where necessary, enter into additional, commercial manufacturing arrangements with third parties, cost-effectively manufacture necessary quantities and secure distribution, managerial and other capabilities; and
- further develop and maintain a commercial organization to market PIXUVRI.

If we are unable to successfully commercialize PIXUVRI as planned, our business, financial condition, operating results and prospects could be harmed.

Post-approval or authorization regulatory reviews and obligations often result in significant expense and marketing limitations, and any failure to satisfy such ongoing obligations, including, in particular, our post-authorization commitment trial for PIXUVRI, could negatively affect our business, financial condition, operating results or prospects.

Even if a product receives regulatory approval or authorization, as applicable, we are and will continue to be subject to numerous regulations and statutes regulating the manner of obtaining reimbursement for and selling the product, including limitations on the indicated uses for which a product may be marketed. Approved or authorized products, including PIXUVRI, are subject to extensive manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record-keeping regulations. These requirements include submissions of safety and other post-marketing information and reports. In addition, such products are subject to ongoing maintenance of product registration and continued compliance with cGMPs, good clinical practices, or GCPs, and good laboratory practices, or GLPs. Further, distribution of products must be conducted in accordance with good distribution practices, or GDPs. The distribution process and facilities of our third party distributors are subject to, and our wholesale distribution authorization by the UK Medicines and Healthcare Products Regulatory Agency subjects us to, continuing

regulation by applicable regulatory authorities with respect to the distribution and storage of products. Regulatory authorities may also impose new restrictions on continued product marketing or may require the withdrawal of a product from the market if adverse events of unanticipated severity or frequency are discovered following approval. In addition, regulatory agencies may impose post-approval/post-authorization clinical trials, such as our ongoing PIX306 trial of PIXUVRI required by the EMA. We cannot predict the outcome of PIX306 or whether we will be able to complete the associated requirements in a timely manner. If we are unable to submit the requisite PIX306 clinical study report by the due date in November 2016 and are unable to obtain an extension of such deadline, or if we are otherwise unable to satisfy all applicable requirements, our conditional marketing authorization for PIXUVRI may be revoked.

Any other failure to comply with applicable regulations could result in warning or untitled letters, product recalls, interruption of manufacturing and commercial supply processes, withdrawal or seizure of products, suspension of an applicable wholesale

distribution authorization and/or distribution of products, operating restrictions, injunctions, suspension of licenses, revocation of the applicable product's approval or authorization, other administrative or judicial sanctions (including civil penalties and/or criminal prosecution) and/or unanticipated related expenditure to resolve shortcomings, which could negatively affect our business, financial condition, operating results or prospects.

We may be unable to obtain a quorum for meetings of our shareholders or obtain requisite shareholder approval and, consequently, be unable to take certain corporate actions, including financing activities.

Failure to meet the requisite quorum or obtain requisite shareholder approval can prevent us from raising capital through equity financing or otherwise taking certain actions that may be in our best interest and that of our shareholders. We have experienced such difficulties in the past.

We are required under the NASDAQ Marketplace Rules to obtain shareholder approval for any issuance of additional equity securities that would comprise more than 20 percent of the total shares of our common stock outstanding before the issuance of such securities sold at a discount to the greater of book or market value in an offering that is not deemed to be a "public offering" by the NASDAQ Marketplace Rules, as well as under certain other circumstances. We have in the past and may in the future issue additional equity securities that would comprise more than 20 percent of the total shares of our common stock outstanding in order to fund our operations. However, we might not be successful in obtaining the required shareholder approval for any future issuance that requires shareholder approval pursuant to applicable rules and regulations, particularly in light of difficulties we have had in the past in obtaining a quorum and obtaining the requisite vote. If we are unable to obtain financing or our financing options are limited due to shareholder approval difficulties, such failure may harm our ability to continue operations.

Additionally, a portion of our common shares are held by Italian institutions and, under Italian laws and regulations, it is difficult to communicate with the beneficial holders of those shares to obtain votes. In recent years, certain depository banks in Italy holding shares of our common stock have facilitated book-entry transfers of their share positions at Monte Titoli, S.p.A., the Italian central clearing agency, to their U.S. correspondent bank, who would then transfer the shares to an account of the Italian bank at a U.S. broker-dealer that is an affiliate of that bank. Certain of the banks we contacted to facilitate these arrangements agreed to make the share transfers pursuant to these arrangements as of the record date of the shareholder meeting, subject to the relevant beneficial owner being given notice before such record date and taking no action to direct the voting of such shares. Obtaining a quorum and necessary shareholder approvals at shareholder meetings may depend in part upon the willingness of the Italian depository banks to continue participating in the custody transfer arrangements, and we cannot be assured that those banks that have participated in the past will continue to do so in the future.

As a result of the foregoing or for other reasons, we may be unable to obtain a quorum at annual or special meetings of shareholders. Even if we are able to obtain a quorum at our shareholder meetings, we may not obtain enough votes to approve matters to be resolved upon at those meetings. Any failure to obtain a quorum or the requisite vote on a proposal in question could harm us.

We are subject to Italian regulatory requirements, which limit our ability to issue additional shares of our common stock, could result in administrative and other challenges and additional expenses and/or could limit our ability to undertake other business initiatives.

Because our common stock is traded on the Mercato Telematico Azionario, or MTA, in Italy, we are required to also comply with the rules and regulations of CONSOB and the Borsa Italiana, which regulate companies listed on Italy's public markets. Compliance with Italian regulatory requirements may delay additional issuances of our common stock or other business initiatives. Under Italian law, we must publish a registration document, securities note and summary (which jointly compose a prospectus) that have to be approved by CONSOB prior to issuing common stock that is equal to or exceeds, in any twelve-month period, 10 percent of the number of shares of our common stock outstanding at the beginning of that period, subject to certain exceptions. If we are unable to obtain and maintain a registration

document, securities note or summary to cover general financing efforts under Italian law, we may be required to raise money using alternative forms of securities. For example, we have issued convertible preferred stock in numerous prior offerings and may in the future issue convertible securities; the common stock resulting from the conversion of such securities, subject to current provisions of European Directive No. 71/2003 and according to the current interpretations of the Committee of European Securities Regulators, is not subject to the 10 percent limitation imposed by E.U. and Italian law. However, this exception to the prospectus requirement could change or cease to be available as a result of changes in regulations, interpretive positions, and policies or otherwise. Any such change may increase compliance costs or limit our ability to issue securities. Compliance with these regulations and responding to periodic information requests from Borsa Italiana and CONSOB requires us to devote additional time and resources to regulatory compliance matters and to incur additional expenses of engaging additional outside counsel, accountants and other professional advisors. Actual or alleged failure to comply with Italian regulators can also subject us to regulatory investigations and fines or other sanctions from time to time. For more information on a current investigation, see Part II, Item 1, "Legal Proceedings".

Any of such regulatory requirements of CONSOB and the Borsa Italiana could result in administrative and other challenges and additional expenses, limit our ability to undertake other business initiatives and negatively affect our business, financial condition, operating results and prospects.

We will incur a variety of costs for, and may never realize the anticipated benefits of, acquisitions, collaborations or other strategic transactions.

We evaluate and undertake acquisitions, collaborations and other strategic transactions from time to time. The process of negotiating these transactions, as well as integrating any acquisitions and implementing any strategic alliances, may result in operating difficulties and expenditures. In addition, these transactions may require significant management attention that would otherwise be available for ongoing development of our business, whether or not any such transaction is ever consummated. These undertakings could also result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to intangible assets, and we may never realize the anticipated benefits. In addition, following the consummation of a transaction, our results of operations and the market price of our common stock may be affected by factors different from those that affected our results of operations and the market price of our common stock prior to such acquisition. Any of the foregoing consequences resulting from transactions of the type described above could harm our business, financial condition, operating results or prospects.

We may be subject to fines, penalties, injunctions and other sanctions if we are deemed to be promoting the use of our products for non-FDA-approved, or off-label, uses.

Our business and future growth depend on the development, ultimate sale and use of products that are subject to FDA, EMA and or other regulatory agencies regulation, clearance and approval. Under the U.S. Federal Food, Drug, and Cosmetic Act and other laws, we are prohibited from promoting our products for off-label uses. This means that in the U.S., we may not make claims about the safety or effectiveness of our products and may not proactively discuss or provide information on the use of our products, except as allowed by the FDA.

Government investigations concerning the promotion of off-label uses and related issues are typically expensive, disruptive and burdensome, generate negative publicity and may result in fines or payments of settlement awards. For example, in April 2007, we paid a civil penalty of \$10.6 million and entered into a settlement agreement with the U.S. Attorney's Office for the Western District of Washington arising out of their investigation into certain of our prior marketing practices relating to TRISENOX, which was divested to Cephalon. in July 2005. As part of that settlement agreement and in connection with the acquisition of Zevalin, we also entered into a corporate integrity agreement with the Office of the Inspector General, Health and Human Services, which required us to establish a compliance committee and compliance program and adopt a formal code of conduct. If our promotional activities are found to be in violation of applicable law or if we agree to a settlement in connection with an enforcement action, we would likely face significant fines and penalties and would likely be required to substantially change our sales, promotion, grant and educational activities.

A failure to comply with the numerous laws and regulations that govern our business, including those related to cross-border conduct, health care fraud and abuse, anti-corruption and false claims and the protection of health information, could result in substantial penalties and prosecution.

We are subject to risks associated with doing business outside of the U.S., which exposes us to complex foreign and U.S. regulations. For example, we are subject to regulations imposed by the Foreign Corrupt Practices Act, or the FCPA, the U.K. Bribery Act 2010 and other anti-corruption laws. These laws generally prohibit U.S. companies and their intermediaries from offering, promising, authorizing or making improper payments to foreign government officials for the purpose of obtaining or retaining business. The SEC and U.S. Department of Justice have increased their enforcement activities with respect to the FCPA. Internal control policies and procedures and employee training and compliance programs that we have implemented to deter prohibited practices may not be effective in prohibiting

our employees, contractors or agents from violating or circumventing our policies and the law.

In addition, we are subject to various state and federal fraud and abuse laws, including, without limitation, the federal Anti-Kickback Statute and federal False Claims Act. There are similar laws in other countries. These laws may impact, among other things, the sales, marketing and education programs for our products. The federal Anti-Kickback Statute prohibits persons from knowingly and willingly soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing or arranging for a good or service, for which payment may be made under a federal health care program. The federal False Claims Act prohibits persons from knowingly filing, or causing to be filed, a false claim to, or the knowing use of false statements to obtain payment from the federal government. Suits filed under the False Claims Act can be brought by any individual on behalf of the government and such individuals, commonly known as “whistleblowers,” may share in any

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amounts paid by the entity to the government in fines or settlement. Many states have also adopted laws similar to the federal Anti-Kickback Statute and False Claims Act.

We may also be subject to the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act and their respective implementing regulations, or HIPAA, which established uniform standards for certain “covered entities” (health care providers, health plans and health care clearinghouses) governing the conduct of certain electronic health care transactions and protecting the security and privacy of protected health information. Among other things, HIPAA’s privacy and security standards are directly applicable to “business associates” — independent contractors or agents of covered entities that create, receive, maintain or transmit protected health information in connection with providing a service for or on behalf of a covered entity. In addition to possible civil and criminal penalties for violations, state attorneys general are authorized to file civil actions for damages or injunctions in federal courts to enforce HIPAA and seek attorney’s fees and costs associated with pursuing federal civil actions. In addition, state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

We are unable to predict whether we could be subject to actions under any of the foregoing or similar laws and regulations, or the impact of such actions. If we were to be found to be in violation of applicable laws or regulations, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from government health care reimbursement programs and the curtailment or restructuring of our operations, all of which could have a material adverse effect on our business and results of operations.

We are dependent on third party service providers for a number of critical operational activities including, in particular, for the manufacture, testing and distribution of our compounds and associated supply chain operations, as well as for clinical trial activities. Any failure or delay in these undertakings by third parties could harm our business.

Our business is dependent on the performance by third parties of their responsibilities under contractual relationships. In particular, we rely heavily on third parties for the manufacture and testing of our compounds. We do not have internal analytical laboratory or manufacturing facilities to allow the testing or production of compounds in compliance with GLP and cGMP. As a result, we rely on third parties to supply us in a timely manner with manufactured products/product candidates. We may not be able to adequately manage and oversee the manufacturers we choose, they may not perform as agreed or they may terminate their agreements with us. In particular, we depend on third party manufacturers to conduct their operations in compliance with GLP and cGMP or similar standards imposed by the U.S. and/or applicable foreign regulatory authorities, including the FDA and EMA. Any of such regulatory authorities may take action against a contract manufacturer who violates GLP and cGMP. Failure of our manufacturers to comply with FDA, EMA or other applicable regulations may cause us to curtail or stop the manufacture of such products until we obtain regulatory compliance.

We may not be able to obtain sufficient quantities of our compounds if we are unable to secure manufacturers when needed, or if our designated manufacturers do not have the capacity or otherwise fail to manufacture compounds according to our schedule and specifications. In particular, in connection with the transition of the manufacturing of PIXUVRI and pacritinib drug supply to successor vendors, respectively, we could face logistical, scaling or other challenges that may adversely affect supply. Furthermore, in order to ultimately obtain and maintain applicable regulatory approvals, any manufacturers we utilize are required to consistently produce the respective compounds in commercial quantities and of specified quality or execute fill-finish services on a repeated basis and document their ability to do so, which is referred to as process validation. In order to obtain and maintain regulatory approval of a compound, the applicable regulatory authority must consider the result of the applicable process validation to be satisfactory and must otherwise approve of the manufacturing process. Even if our compound manufacturing processes obtain regulatory approval and sufficient supply is available to complete clinical trials necessary for regulatory approval, there are no guarantees we will be able to supply the quantities necessary to effect a commercial launch of the applicable drug, or once launched, to satisfy ongoing demand. Any compound shortage could also

impair our ability to deliver contractually required supply quantities to applicable collaborators, as well as to complete any additional planned clinical trials.

We also rely on third party service providers for certain warehousing, transportation, sales, order processing, distribution and cash collection services. With regard to the distribution of our compounds, we depend on third party distributors to act in accordance with GDP, and the distribution process and facilities are subject to continuing regulation by applicable regulatory authorities with respect to the distribution and storage of products.

In addition, we depend on medical institutions and CROs (together with their respective agents) to conduct clinical trials and associated activities in compliance with GCP and in accordance with our timelines, expectations and requirements. To the extent any such third parties are delayed in achieving or fail to meet our clinical trial enrollment expectations, fail to conduct our trials in accordance with GCP or study protocol or otherwise take actions outside of our control or without our consent, our business may be harmed. Furthermore, we conduct clinical trials in foreign countries, subjecting us to additional risks and challenges, including, in

particular, as a result of the engagement of foreign medical institutions and foreign CROs, who may be less experienced with regard to regulatory matters applicable to us and may have different standards of medical care.

With regard to certain of the foregoing clinical trial operations and stages in the manufacturing and distribution chain of our compounds, we rely on single vendors. In particular, our current business structure contemplates, at least in the foreseeable future, use of a single commercial supplier for PIXUVRI drug substance. In addition, in the event pacritinib is approved, we are initially preparing to have only one commercial supplier for pacritinib. Although our collaborator, Baxalta, intends to qualify an additional manufacturer of pacritinib, the process for obtaining approval of a manufacturer can be lengthy. The use of single vendors for core operational activities, such as clinical trial operations, manufacturing and distribution, and the resulting lack of diversification, expose us to the risk of a material interruption in service related to these single, outside vendors. As a result, our exposure to this concentration risk could harm our business.

Although we monitor the compliance of our third party service providers performing the aforementioned services, we cannot be certain that such service providers will consistently comply with applicable regulatory requirements or that they will otherwise timely satisfy their obligations to us. Any such failure and/or any failure by us to monitor their services and to plan for and manage our short and long term requirements underlying such services could result in shortage of the compound, delays in or cessation of clinical trials, failure to obtain or revocation of product approvals or authorizations, product recalls, withdrawal or seizure of products, suspension of an applicable wholesale distribution authorization and/or distribution of products, operating restrictions, injunctions, suspension of licenses, other administrative or judicial sanctions (including civil penalties and/or criminal prosecution) and/or unanticipated related expenditures to resolve shortcomings. Such consequences could have a significant impact on our business, financial condition, operating results or prospects.

If we are unable to recruit, retain, integrate and motivate senior management, other key personnel and directors, or if such persons are unable to perform effectively, our business could suffer.

Our future success depends, in part, on our ability to continue to attract and retain senior management, other key personnel and directors to enable the execution of our business plan and to identify and pursue new opportunities. Additionally, our productivity and the quality of our operations are dependent on our ability to integrate and train our new personnel quickly and effectively.

Directors and management of publicly traded corporations are increasingly concerned with the extent of their personal exposure to lawsuits and shareholder claims, as well as governmental, creditor and other claims that may be made against them. Due to these and other reasons, such persons are also becoming increasingly concerned with the availability of directors and officers liability insurance to pay on a timely basis the costs incurred in defending such claims. We currently carry certain directors and officers liability insurance. However, directors and officers liability insurance is expensive and can be difficult to obtain. If we are unable to continue to provide directors and officers sufficient liability insurance at affordable rates or at all, or if directors and officers perceive our ability to do so in the future to be limited, it may become increasingly more difficult to attract and retain management and qualified directors to serve on our Board of Directors.

The loss of the services of senior management, other key personnel or directors and/or the inability to timely attract or integrate such persons could significantly delay or prevent the achievement of our development and strategic objectives and may adversely affect our business, financial condition and operating results.

We face direct and intense competition from our competitors in the biotechnology and pharmaceutical industries, and we may not compete successfully against them.

Competition in the oncology market is intense and is accentuated by the rapid pace of technological and product development. We anticipate that we will face increased competition in the future as new companies enter the market.

Our competitors in the U.S. and elsewhere are numerous and include, among others, major multinational pharmaceutical companies, specialized biotechnology companies and universities and other research institutions. Specifically:

- In Europe, PIXUVRI faces competition from existing treatments for adults with multiply relapsed or refractory aggressive B-cell NHL. For example, patients are currently being treated with ibrutinib, idelalisib, lenolidimide, bendamustine, oxaliplatin and gemcitabine, although these particular agents do not have regulatory approval in Europe for the foregoing indication. If we were to pursue bringing PIXUVRI to market in the U.S. (which is not currently part of our near-term plan), PIXUVRI would face similar competition.
- If we are successful in bringing pacritinib to market, pacritinib will face competition from the currently approved JAK1/JAK2 inhibitor, Jakafi®.

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- If we are successful in bringing tosedostat to market, we will face competition from currently marketed products, such as cytarabine, Dacogen<sup>®</sup>, Vidaza<sup>®</sup>, Clolar<sup>®</sup>, Revlimid<sup>®</sup> and Thalomid<sup>®</sup>.
- If we are successful in bringing Opaxio to market, we will face competition from other taxanes, epothilones, and other cytotoxic agents, which inhibit cancer cells by a mechanism similar to taxanes, or similar products such as paclitaxel and generic forms of paclitaxel, docetaxel, Tarceva<sup>®</sup>, Avastin<sup>®</sup>, Alimta<sup>®</sup> and Abraxane<sup>®</sup>.

In addition to the specific competitive factors discussed above, new anti-cancer drugs that may be under development or developed and marketed in the future could compete with our various compounds.

Many of our competitors, particularly multinational pharmaceutical companies, either alone or together with their collaborators, have substantially greater financial and technical resources and substantially larger development and marketing teams than us, as well as significantly greater experience than we do in developing, commercializing, manufacturing, marketing and selling products. As a result, products of our competitors might come to market sooner or might prove to be more effective, less expensive, have fewer side effects or be easier to administer than ours. In any such case, sales of PIXUVRI or any potential future product would likely suffer and we might never recoup the significant investments we have made and will continue to make to develop and market these compounds.

If any of our license agreements for intellectual property underlying our compounds are terminated, we may lose the right to develop or market that product.

We have acquired or licensed intellectual property from third parties, including patent applications and patents relating to intellectual property for PIXUVRI, pacritinib and tosedostat. We have also licensed the intellectual property for our drug delivery technology relating to Opaxio, which uses polymers that are linked to drugs known as polymer-drug conjugates. Some of our product development programs depend on our ability to maintain rights under these arrangements. Each licensor has the power to terminate its agreement with us if we fail to meet our obligations under these licenses. We may not be able to meet our obligations under these licenses. If we default under any license agreement, we may lose our right to market and sell any products based on the licensed technology and may be forced to cease operations, liquidate our assets and possibly seek bankruptcy protection. Bankruptcy may result in the termination of agreements pursuant to which we license certain intellectual property rights.

If we are unable to in-license or acquire additional product candidates, our future product portfolio and potential profitability could be harmed.

One component of our business strategy is the in-licensing and acquisition of drug compounds developed by other pharmaceutical and biotechnology companies or academic research laboratories. PIXUVRI, pacritinib, tosedostat and Opaxio have all been in-licensed or acquired from third parties. Competition for new promising compounds and commercial products can be intense. If we are not able to identify future in-licensing or acquisition opportunities and enter into arrangements on acceptable terms, our future product portfolio and potential profitability could be harmed.

We hold rights under numerous patents that we have acquired or licensed or that protect inventions originating from our research and development, and the expiration of any of these patents may allow our competitors to copy the inventions that are currently protected.

We dedicate significant resources to protecting our intellectual property, which is important to our business. We have filed numerous patent applications in the U.S. and various other countries seeking protection of inventions originating from our research and development, and we have also obtained rights to various patents and patent applications under licenses with third parties and through acquisitions. Patents have been issued on many of these applications. We have pending patent applications or issued patents in the U.S. and foreign countries directed to PIXUVRI, pacritinib, tosedostat, Opaxio and other product candidates. However, the lives of these patents are limited. Patents for the individual products extend for varying periods according to the date of the patent filing or grant and the legal term of patents in the various countries where patent protection is obtained. The patent status of our compounds follows:

· Our PIXUVRI-directed patents currently in force in Europe began to expire in late March 2015 and will continue to expire through a portion of 2023. Certain of such European patents are also subject to Supplementary Protection Certificates that extend the life of the applicable patents such that they will instead expire from 2020 to 2027. In addition, we are seeking to obtain a Supplementary Protection Certificate for one other PIXUVRI-directed European patent that, if obtained, could extend the applicable patent through 2027. However, no assurances can be made that such extension will be granted. In the U.S., we have a pending PIXUVRI-directed U.S. patent application for which we recently received a notice of allowance and which, when issued, will expire in 2023, subject to any applicable patent term adjustment. Our PIXUVRI-directed patents outside of Europe and the U.S. expire from 2015 to 2023.

· Our U.S. and various foreign pacritinib-directed patents expire from 2026 through 2030.

- Our U.S. and various foreign tosedostat-directed patents expire from 2017 to 2018.
- Our U.S. and various foreign Opaxio-directed patents primarily expire from 2017 through 2019.

In the absence of a patent, we would, to the extent possible, need to rely on unpatented technology, know-how and confidential information. Ultimately, the lack or expiration at any given time of a patent to protect our compounds may allow our competitors to copy the underlying inventions and better compete with us.

If we fail to adequately protect our intellectual property, our competitive position and the potential for long-term success could be harmed.

Development and protection of our intellectual property are critical to our business. If we do not adequately protect our intellectual property, competitors may be able to practice our technologies. Our success depends in part on our ability to:

- obtain and maintain patent protection for our products or processes both in the U.S. and other countries;
- protect trade secrets; and
- prevent others from infringing on our proprietary rights.

The patent position of pharmaceutical and biotechnology firms, including ours, generally is highly uncertain and involves complex legal and factual questions. The U.S. Patent and Trademark Office has not established a consistent policy regarding the breadth of claims that it will allow in biotechnology patents. If it allows broad claims, the number and cost of patent interference proceedings in the U.S. and the risk of infringement litigation may increase. If it allows narrow claims, the risk of infringement may decrease, but the value of our rights under our patents, licenses and patent applications may also decrease. Patent applications in which we have rights may never issue as patents, and the claims of any issued patents may not afford meaningful protection for our technologies or products. In addition, patents issued to us or our licensors may be challenged and subsequently narrowed, invalidated or circumvented. Litigation, interference proceedings or other governmental proceedings that we may become involved in with respect to our proprietary technologies or the proprietary technology of others could result in substantial cost to us.

We also rely upon trade secrets, proprietary know-how and continuing technological innovation to remain competitive. Third parties may independently develop such know-how or otherwise obtain access to our technology. While we require our employees, consultants and corporate partners with access to proprietary information to enter into confidentiality agreements, these agreements may not be honored.

Patent litigation is widespread in the biotechnology industry, and any patent litigation could harm our business.

Costly litigation might be necessary to protect a patent position or to determine the scope and validity of third party proprietary rights, and we may not have the required resources to pursue any such litigation or to protect our patent rights. Any adverse outcome in litigation with respect to the infringement or validity of any patents owned by third parties could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us to cease using a product or technology. With respect to our in-licensed patents, if we attempt to initiate a patent infringement suit against an alleged infringer, it is possible that our applicable licensor will not participate in or assist us with the suit and as a result we may not be able to effectively enforce the applicable patents against the alleged infringers.

We may be unable to obtain or protect our intellectual property rights and we may be liable for infringing upon the intellectual property rights of others, which may cause us to engage in costly litigation and, if unsuccessful, could cause us to pay substantial damages and prohibit us from selling our products.

At times, we may monitor patent filings for patents that might be relevant to some of our products and product candidates in an effort to guide the design and development of our products to avoid infringement, but may not have conducted an exhaustive search. We may not be able to successfully challenge the validity of third party patents and could be required to pay substantial damages, possibly including treble damages, for past infringement and attorneys'

fees if it is ultimately determined that our products infringe such patents. Further, we may be prohibited from selling our products before we obtain a license, which, if available at all, may require us to pay substantial royalties.

Moreover, third parties may challenge the patents that have been issued or licensed to us. We do not believe that PIXUVRI, pacritinib or any of the other compounds we are currently developing infringe upon the rights of any third parties nor are they materially infringed upon by third parties; however, there can be no assurance that our technology will not be found in the future to infringe upon the rights of others or be infringed upon by others. In such a case, others may assert infringement claims against us, and should we be found to infringe upon their patents, or otherwise impermissibly utilize their intellectual property, we might be forced to



pay damages, potentially including treble damages, if we are found to have willfully infringed on such parties' patent rights. In addition to any damages we might have to pay, we may be required to obtain licenses from the holders of this intellectual property, enter into royalty agreements or redesign our compounds so as not to utilize this intellectual property, each of which may prove to be uneconomical or otherwise impossible. Conversely, we may not always be able to successfully pursue our claims against others that infringe upon our technology and the technology exclusively licensed from any third parties. Thus, the proprietary nature of our technology or technology licensed by us may not provide adequate protection against competitors.

Even if infringement claims against us are without merit, or if we challenge the validity of issued patents, lawsuits take significant time, may, even if resolved in our favor, be expensive and divert management attention from other business concerns. Uncertainties resulting from the initiation and continuation of any litigation could limit our ability to continue our operations.

The illegal distribution and sale by third parties of counterfeit versions of a product or stolen product could have a negative impact on our reputation and business.

Third parties might illegally distribute and sell counterfeit or unfit versions of a product that do not meet our rigorous manufacturing and testing standards. A patient who receives a counterfeit or unfit product may be at risk for a number of dangerous health consequences. Our reputation and business could suffer harm as a result of counterfeit or unfit product sold under our brand name. In addition, thefts of inventory at warehouses, plants or while in-transit, which are not properly stored and which are sold through unauthorized channels, could adversely impact patient safety, our reputation and our business.

We may owe additional amounts for VAT related to our operations in Europe.

Our European operations are subject to the VAT, which is usually applied to all goods and services purchased and sold throughout Europe. The VAT receivable was \$4.6 million and \$4.9 million as of September 30, 2015 and December 31, 2014, respectively. On April 14, 2009, December 21, 2009 and June 25, 2010, the ITA issued notices of assessment to our branch, CTI (Europe), based on the ITA's audit of CTI (Europe)'s VAT returns for the years 2003, 2005, 2006 and 2007. The ITA audits concluded that CTI (Europe) did not collect and remit VAT on certain invoices issued to non-Italian clients for services performed by CTI (Europe). The assessments, including interest and penalties, for the years 2003, 2005, 2006 and 2007 are €0.5 million, €5.5 million, €2.5 million and €0.8 million, respectively. While we are defending ourselves against the assessments both on procedural grounds and on the merits of the case, there can be no assurances that we will be successful in such defense. Further information pertaining to these cases can be found in Part II, Item 1, "Legal Proceedings", and is incorporated by reference herein. If the final decision of the Italian Supreme Court is unfavorable to us, or if, in the interim, the ITA were to make a demand for payment and we were to be unsuccessful in suspending collection efforts, we may be requested to pay to the ITA an amount up to €9.4 million (or approximately \$10.5 million upon conversion from euros as of September 30, 2015) plus collection fees, notification expenses and additional interest for the period lapsed between the date in which the assessments were issued and the date of effective payment.

We are currently subject to certain regulatory and legal proceedings, and may in the future be subject to additional proceedings and/or allegations of wrong-doing, which could harm our financial condition and operating results and our ability to procure or afford directors and officers liability insurance.

We are currently, and may in the future be, subject to regulatory matters and legal claims, including possible securities, derivative, consumer protection and other types of proceedings pursued by individuals, entities or regulatory bodies. As described in Part II, Item 1, "Legal Proceedings", we are currently engaged in certain pending legal matters. Litigation is subject to inherent uncertainties, and we have had and may in the future have unfavorable rulings and settlements. Adverse outcomes in some or all of such pending cases may result in significant monetary damages or injunctive relief against us. It is possible that our financial condition and operating results could be

harmed in any period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable, and if an unfavorable ruling were to occur in any of the legal proceedings we are or may be subject to, our business, financial condition, operating results and prospects could be harmed. We are subject to a variety of claims and lawsuits from time to time, some of which arise in the ordinary course of our business. The ultimate outcome of litigation and other claims is subject to inherent uncertainties, and our view of these matters may change in the future.

Securities class action and shareholder derivative lawsuits are often instituted against issuers. We have been subjected to such actions and we, together with our directors and one former director, presently are subject to a derivative lawsuit.

We cannot predict with certainty the eventual outcome of pending litigation. In addition, negative publicity resulting from any allegations of wrong-doing could harm our business, regardless of whether the allegations are valid or whether there is a finding of liability. Furthermore, we may have to incur substantial time and expense in connection with such lawsuits and management's attention and resources could be diverted from operating our business as we respond to the litigation. Our insurance is subject to high deductibles and there is no guarantee that the insurance will cover any specific claim that we currently face or may face in the future,

or that it will be adequate to cover all potential liabilities and damages. In the event of negative publicity resulting from allegations of wrong-doing and/or an adverse outcome under any currently pending or future lawsuit, our business could be materially harmed.

Our net operating losses may not be available to reduce future income tax liability.

We have substantial tax loss carryforwards for U.S. federal income tax purposes, but our ability to use such carryforwards to offset future income or tax liability is limited under section 382 of the Internal Revenue Code of 1986, as amended, as a result of prior changes in the stock ownership of the Company. Moreover, future changes in the ownership of our stock, including those resulting from issuance of shares of our common stock upon exercise of outstanding warrants, may further limit our ability to use our net operating losses.

Due to the fact that we have European branches and subsidiaries conducting operations, together with the fact that we are party to certain contractual arrangements denoting monetary amounts in foreign currencies, we are subject to risk regarding currency exchange rate fluctuations.

We are exposed to risks associated with the translation of euro-denominated financial results and accounts into U.S. dollars for financial reporting purposes. The carrying value of the assets and liabilities, as well as the reported amounts of revenues and expenses, in our European branches and subsidiaries will be affected by fluctuations in the value of the U.S. dollar as compared to the euro. Any expansion of our commercial operations in Europe (including with regard to sales of PIXUVRI) may increase our exposure to fluctuations in foreign currency exchange rates. In addition, certain of our contractual arrangements, such as the Servier Agreement, denote monetary amounts in foreign currencies, and consequently, the ultimate financial impact to us from a U.S. dollar perspective is subject to significant uncertainty. Changes in the value of the U.S. dollar as compared to foreign currencies (in particular, the euro) might have an adverse effect on our reported operating results and financial condition.

We may be unable to obtain the raw materials necessary to produce a particular product or product candidate.

We may not be able to purchase the materials necessary to produce a particular product or product candidate in adequate volume and quality. For example, paclitaxel, a material used to produce Opaxio, is derived from certain varieties of yew trees and the supply of paclitaxel is controlled by a limited number of companies. If any raw material required to produce a product or product candidate is insufficient in quantity or quality, if a supplier fails to deliver in a timely fashion or at all or if these relationships terminate, we may not be able to qualify and obtain a sufficient supply from alternate sources on acceptable terms, or at all.

Because there is a risk of product liability associated with our compounds, we face potential difficulties in obtaining insurance, and if product liability lawsuits were to be successfully brought against us, our business may be harmed.

Our business exposes us to potential product liability risks inherent in the testing, manufacturing, marketing and sale of human pharmaceutical products. In particular, as a result of the commercialization of PIXUVRI, our risk with respect to potential product liability has increased. If our insurance covering a compound is not maintained on acceptable terms or at all, we might not have adequate coverage against potential liabilities. Our inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or limit the commercialization of any products we develop. A successful product liability claim could also exceed our insurance coverage and could harm our financial condition and operating results.

We may be subject to claims relating to improper handling, storage or disposal of hazardous materials.

Our research and development activities involve the controlled use of hazardous materials, chemicals and various radioactive compounds. We are subject to federal, state and local laws and regulations, both internationally and domestically, governing the use, manufacture, storage, handlings, treatment, transportation and disposal of such

materials and certain waste products and employee safety and health matters. Although we believe that our safety procedures for handling and disposing of such materials comply with applicable law and regulations, the risk of accidental contamination or injury from these materials cannot be eliminated completely. In the event of such an accident, we could be held liable for any damages that result and any such liability not covered by insurance could exceed our resources. Compliance with environmental, safety and health laws and regulations may be expensive, and current or future environmental regulations may impair our research, development or production efforts.

We depend on sophisticated information technology systems to operate our business and a cyber-attack or other breach of these systems could have a material adverse effect on our business.

We rely on information technology systems to process, transmit and store electronic information in our day-to-day operations. The size and complexity of our information technology systems makes them vulnerable to a cyber-attack, malicious intrusion, breakdown, destruction, loss of data privacy or other significant disruption. Any such successful attacks could result in the theft of

intellectual property or other misappropriation of assets, or otherwise compromise our confidential or proprietary information and disrupt our operations. Cyber-attacks are becoming more sophisticated and frequent. We have invested in our systems and the protection of our data to reduce the risk of an intrusion or interruption, and we monitor our systems on an ongoing basis for any current or potential threats. There can be no assurance that these measures and efforts will prevent future interruptions or breakdowns. If we fail to maintain or protect our information technology systems and data integrity effectively or fail to anticipate, plan for or manage significant disruptions to these systems, we could have difficulty preventing, detecting and controlling fraud, have disputes with customers, physicians and other health care professionals, have regulatory sanctions or penalties imposed, have increases in operating expenses, incur expenses or lose revenues or suffer other adverse consequences, any of which could have a material adverse effect on our business, results of operations, financial condition, prospects and cash flows.

#### Risks Related To the Securities Markets

Shares of our common stock are subordinate to any preferred stock we may issue and to existing and any future indebtedness.

Shares of our common stock rank junior to any shares of our preferred stock that we may issue in the future and to our existing indebtedness, including under our senior secured term loan agreement and our outstanding balance of \$32 million classified as debt as a result of the milestone advance we received from Baxalta, and any future indebtedness we may incur, as well as to all creditor claims and other non-equity claims against us and our assets available to satisfy claims on us, including claims in a bankruptcy or similar proceeding. Our senior secured term loan agreement restricts, and any future indebtedness and preferred stock may restrict, payment of dividends on our common stock.

Additionally, unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of our common stock, (i) dividends are payable only when and if declared by our Board of Directors or a duly authorized committee of our Board of Directors and (ii) as a corporation, we are restricted to making dividend payments and redemption payments out of legally available assets. We have never paid a dividend on our common stock and have no current intention to pay dividends in the future. Furthermore, our common stock places no restrictions on our business or operations or on our ability to incur indebtedness or engage in any transactions, subject only to the voting rights available to our shareholders generally.

We may not be able to maintain our listings on The NASDAQ Capital Market and the MTA in Italy, or trading on these exchanges may otherwise be halted or suspended, which may make it more difficult for investors to sell shares of our common stock and consequently may negatively impact the price of our common stock.

Maintaining the listing of our common stock on The NASDAQ Capital Market requires that we comply with certain listing requirements. We have in the past and may in the future fail to continue to meet one or more listing requirements. For example, in June 2012, we received a notification from The NASDAQ Stock Market indicating non-compliance with the requirement to maintain a minimum closing bid price of \$1.00 per share and that we would be delisted if we did not timely regain compliance. In connection therewith, we regained compliance through a reverse stock split in September 2012, but we could fail to meet the continued listing requirements as a result of a decrease in our stock price or otherwise.

If our common stock ceases to be listed for trading on The NASDAQ Capital Market for any reason, it may harm our stock price, increase the volatility of our stock price, decrease the level of trading activity and make it more difficult for investors to buy or sell shares of our common stock. Our failure to maintain a listing on The NASDAQ Capital Market may constitute an event of default under our senior secured term loan and any future indebtedness, which would accelerate the maturity date of such debt or trigger other obligations. In addition, certain institutional investors that are not permitted to own securities of non-listed companies may be required to sell their shares adversely affecting the market price of our common stock. If we are not listed on The NASDAQ Capital Market or if our public float falls below \$75 million, we will be limited in our ability to file new shelf registration statements on SEC Form

S-3 and/or to fully use one or more registration statements on SEC Form S-3. We have relied significantly on shelf registration statements on SEC Form S-3 for most of our financings in recent years, so any such limitations may harm our ability to raise the capital we need. Delisting from The NASDAQ Capital Market could also affect our ability to maintain our listing or trading on the MTA in Italy. Trading in our common stock has been halted or suspended on both The NASDAQ Capital Market and MTA in the past and may also be halted or suspended in the future due to market or trading conditions at the discretion of The NASDAQ Stock Market, CONSOB or the Borsa Italiana (which ensures the development of the managed markets in Italy). Any halt or suspension in the trading in our common stock may negatively impact the market price of our common stock.

The market price of shares of our common stock is extremely volatile, which may affect our ability to raise capital in the future and may subject the value of your investment in our securities to sudden decreases.

The market price for securities of biopharmaceutical and biotechnology companies, including ours, historically has been highly volatile, and the market from time to time has experienced significant price and volume fluctuations that are unrelated to the operating performance of such companies. For example, during the 12-month period ended October 30, 2015, our stock price has ranged from a

low of \$1.32 to a high of \$2.94. Fluctuations in the market price or liquidity of our common stock may harm the value of your investment in our common stock.

Factors that may have an impact, which, depending on the circumstances, could be significant, on the market price and marketability of our securities include:

- announcements by us or others of results of clinical trials and regulatory actions, such as the imposition of a clinical trial hold;
- announcements by us or others of serious adverse events that have occurred during administration of our products to patients;
- announcements by us or others relating to our ongoing development and commercialization activities;
- announcements of technological innovations or new commercial therapeutic products by us, our collaborative partners or our present or potential competitors;
- our issuance of debt or equity securities, which we expect to pursue to generate additional funds to operate our business, or any perception from time to time that we will issue such securities;
- our quarterly operating results;
- liquidity, cash position or financing needs;
- developments or disputes concerning patent or other proprietary rights;
- developments in relationships with collaborative partners;
- acquisitions or divestitures;
- our ability to realize the anticipated benefits of our compounds;
- litigation and government proceedings;
- adverse legislation, including changes in governmental regulation;
- third party reimbursement policies;
- changes in securities analysts' recommendations;
- short selling of our securities;
- changes in health care policies and practices;
- a failure to achieve previously announced goals and objectives as or when projected;
- halting or suspension of trading in our common stock on The NASDAQ Capital Market or on the MTA; and
- general economic and market conditions.

Anti-takeover provisions in our charter documents, in our shareholder rights agreement, or rights plan, under Washington law and in other applicable instruments could make removal of incumbent management or an acquisition of us, which may be beneficial to our shareholders, more difficult.

Provisions of our articles of incorporation and bylaws may have the effect of deterring or delaying attempts by our shareholders to remove or replace management, to commence proxy contests or to effect changes in control. These provisions include:

- elimination of cumulative voting in the election of directors;
- procedures for advance notification of shareholder nominations and proposals;
- the ability of our Board of Directors to amend our bylaws without shareholder approval; and
- the ability of our Board of Directors to issue shares of preferred stock without shareholder approval upon the terms and conditions and with the rights, privileges and preferences as our Board of Directors may determine.

Pursuant to our rights plan, an acquisition of 20 percent or more of our common stock by a person or group, subject to certain exceptions, could result in the exercisability of the preferred stock purchase right accompanying each share of our common stock (except those held by a 20 percent shareholder, which become null and void), thereby entitling the holder to receive upon exercise, in lieu of a number of units of preferred stock, that number of shares of our common stock having a market value of two times the

exercise price of the right. The existence of our rights plan could have the effect of delaying, deterring or preventing a third party from making an acquisition proposal for us and may inhibit a change in control that some, or a majority, of our shareholders might believe to be in their best interest or that could give our shareholders the opportunity to realize a premium over the then-prevailing market prices for their shares.

In addition, as a Washington corporation, we are subject to Washington's anti-takeover statute, which imposes restrictions on some transactions between a corporation and certain significant shareholders. Other existing provisions applicable to us that could have an anti-takeover effect include our executive employment agreements and certain provisions of our outstanding equity-based compensatory awards that allow for acceleration of vesting in the event of a change in control.

The foregoing provisions, alone or together, could have the effect of deterring or delaying changes in incumbent management, proxy contests or changes in control.



Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.  
 Stock Repurchases in the Second Quarter

The following table sets forth information with respect to purchases of our common stock during the three months ended September 30, 2015:

Period	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31, 2015	1,713	1.90	—	—
August 1 - August 31, 2015	4,988	\$ 1.67	—	—
September 1 - September 30, 2015	16,340	\$ 1.53	—	—
Total	23,041	1.59	—	—

(1) Represents purchases of shares in connection with satisfying tax withholding obligations on the vesting of restricted stock awards to employees granted under the Plan.

Item 3. Defaults Upon Senior Securities.  
 None.

Item 4. Mine Safety Disclosures.  
 Not applicable.

Item 5. Other Information.  
 None.



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Item 6. Exhibits.

Exhibit Number	Exhibit Description	Location
2.1	Agreement and Plan of Merger by and between Registrant and Novuspharma, S.p.A., dated as of June 16, 2003.	Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed on June 17, 2003.
3.1	Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on March 23, 2015.
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation, dated October 29, 2015 (Series N Preferred Stock).	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on October 30, 2015.
3.3	Articles of Amendment to Amended and Restated Articles of Incorporation, dated October 29, 2015 (Series N-1 Preferred Stock).	Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed on October 30, 2015.
3.4	Amended and Restated Bylaws.	Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed on June 2, 2014.
4.1	Shareholder Rights Agreement, dated December 28, 2009, between Registrant and Computershare Trust Company, N.A.	Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A, filed on December 28, 2009.
4.2	First Amendment to Shareholder Rights Agreement, dated as of August 31, 2012, between Registrant and Computershare Trust Company, N.A., as Rights Agent.	Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed on September 4, 2012.
4.3	Second Amendment to Shareholder Rights Agreement, dated as of December 6, 2012, between Registrant and Computershare Trust Company, N.A., as Rights Agent.	Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed on December 7, 2012.
4.4	Specimen Common Stock Certificate	Incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-3 (File No. 333-200452), filed on November 21, 2014.
4.5	Form of Common Stock Purchase Warrant, dated October 22, 2010.	Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed on October 22, 2010.
4.6	Form of Common Stock Purchase Warrant, dated May 3, 2011.	Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed on May 2, 2011.

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4.7	Form of Common Stock Purchase Warrant, dated July 5, 2011.	Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed on July 6, 2011.
4.8	Form of Common Stock Purchase Warrant, dated December 13, 2011.	Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed on December 14, 2011.
4.9	Warrant Agreement, dated June 9, 2015, by and between Registrant and Hercules Technology Growth Capital, Inc.	Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed on June 10, 2015.
10.1*	Director Compensation Policy, as amended.	Filed herewith.
10.2*	Form of 2015 Equity Incentive Plan Restricted Stock Award Agreement.	Filed herewith.
10.3*	Global Form of 2015 Equity Incentive Plan Restricted Stock Unit Award Agreement.	Filed herewith.

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Exhibit Number	Exhibit Description	Location
10.4*	Global Form of 2015 Equity Incentive Plan Stock Option Agreement.	Filed herewith.
10.5*	Global Form of 2015 Equity Incentive Plan Stock Bonus Award Agreement.	Filed herewith.
10.6*	CTI BioPharma Corp. 2015 Equity Incentive Plan, effective as of September 23, 2015.	Incorporated by reference to Exhibit 4.1 to the Registrant's Form S-8, filed on September 28, 2015.
10.7*	CTI BioPharma Corp. 2007 Employee Stock Purchase Plan, effective as of September 23, 2015.	Incorporated by reference Appendix B to the Registrant's Definitive Proxy Statement on Schedule 14A filed on July 29, 2015.
10.8	Form of Subscription Agreement for Common Stock.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on September 29, 2015.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32	Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
101. INS	XBRL Instance	Filed herewith.
101. SCH	XBRL Taxonomy Extension Schema	Filed herewith.
101. CAL	XBRL Taxonomy Extension Calculation	Filed herewith.
101. DEF	XBRL Taxonomy Extension Definition	Filed herewith.
101. LAB	XBRL Taxonomy Extension Labels	Filed herewith.
101. PRE	XBRL Taxonomy Extension Presentation	Filed herewith.

\*Indicates a management contract or compensatory plan or arrangement.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

CTI BIOPHARMA CORP.  
(Registrant)

Dated: November 5, 2015 By: /s/ James A. Bianco, M.D.  
James A. Bianco, M.D.  
President and Chief Executive Officer

Dated: November 5, 2015 By: /s/ Louis A. Bianco  
Louis A. Bianco  
Executive Vice President,  
Finance and Administration