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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

o **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 000-28782

SPECTRUM PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**93-0979187**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
157 Technology Drive Irvine, California	**92618**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **(949) 788-6700**

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 o

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

Large accelerated filer o Accelerated filer ☑ Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12B-2 of the Exchange Act).

Yes o 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 May 1, 2006**
Common Stock, $.001 par value	24,320,802

SPECTRUM PHARMACEUTICALS, INC.

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SPECTRUM PHARMACEUTICALS, INC.

FORM 10-Q

For the Three-month period ended March 31, 2006

PART I — FINANCIAL INFORMATION

ITEM 1. Financial Statements

Statement Regarding Financial Information

The condensed consolidated financial statements of Spectrum Pharmaceuticals, Inc. included herein have been prepared by management, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States has been condensed or omitted pursuant to such rules and regulations. However, we believe that the disclosures are adequate to make the information presented not misleading.

We recommend that you read the condensed consolidated financial statements included herein in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission on March 15, 2006.

SPECTRUM PHARMACEUTICALS, INC.

Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2006	December 31, 2005
	(In Thousands, Except Share and Per Share Data)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 5,080	$ 28,750
Marketable securities	54,839	34,917
Accounts receivable	237	287
Inventory — raw materials	58	58
Prepaid expenses and other current assets	346	373
Total current assets	60,560	64,385
Property and equipment, net	616	562
Other Assets	187	128
Total assets	$ 61,363	$ 65,075
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 2,196	$ 1,220
Accrued compensation	397	683
Accrued clinical study costs	1,929	1,925
Total current liabilities	4,522	3,828
Deferred rent and deposit	220	241
Total liabilities	4,742	4,069
Commitments and Contingencies (Note 4)		
Minority Interest	21	23
Stockholders' Equity:		
Preferred Stock, par value $0.001 per share, 5,000,000 shares authorized:		
Series B Junior Participating Preferred Stock, 200,000 shares authorized, no shares issued and outstanding		
Series D 8% Cumulative Convertible Voting Preferred Stock, 600 shares authorized, stated value $10,000 per share, aggregate liquidation value $1.524 million, issued and outstanding, 127 shares and 157 shares at March 31, 2006 and December 31, 2005, respectively	604	747
Series E Convertible Voting Preferred Stock, 2,000 shares authorized, stated value $10,000 per share, aggregate liquidation value $3.492 million, issued and outstanding, 291 shares at March 31, 2006 and December 31, 2005	1,795	1,795
Common stock, par value $0.001 per share, 50,000,000 shares authorized:		
Issued and outstanding, 23,715,052 and 23,503,157 shares at March 31, 2006 and December 31, 2005, respectively	24	24
Additional paid-in capital	244,400	243,656
Deferred stock-based compensation	–	(783)
Accumulated other comprehensive income	80	(26)
Accumulated deficit	(190,303)	(184,430)
Total stockholders' equity	56,600	60,983
Total liabilities and stockholders' equity	$ 61,363	$ 65,075

The accompanying notes are an integral part of these condensed consolidated balance sheets.

SPECTRUM PHARMACEUTICALS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three-Months Ended March 31, 2006	Three-Months Ended March 31, 2005
	(In Thousands, Except Share and Per Share Data)	
Revenues	$ –	$ –
Operating expenses:		
Research and development	3,723	3,694
General and administrative	1,395	1,132
Stock-based charges	1,388	658
Total operating expenses	6,506	5,484
Loss from operations	(6,506)	(5,484)
Other income, net	631	214
Net loss before minority interest in consolidated subsidiary	(5,875)	(5,270)
Minority interest in net loss of consolidated subsidiary	2	2
Net loss	$ (5,873)	$ (5,268)
Basic and diluted net loss per share	$ (0.25)	$ (0.35)
Basic and diluted weighted average common shares outstanding	23,626,960	15,132,771
Supplemental Information		
Stock-based charges — Components:		
Research and development	$ 902	$ 638
General and administrative	486	20
Total stock based charges	$ 1,388	$ 658

The accompanying notes are an integral part of these condensed consolidated balance sheets.

SPECTRUM PHARMACEUTICALS, INC.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three-Months Ended March 31, 2006	Three-Months Ended March 31, 2005
	(In Thousands, Except Share and Per Share Data)	
Cash Flows From Operating Activities:		
Net loss	$ (5,873)	$ (5,268)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	48	66
Amortization of deferred stock-based compensation	1,388	64
Fair value of common stock issued in connection with drug license	–	594
Minority interest in subsidiary	(2)	(2)
Changes in operating assets and liabilities:		
Decrease in Accounts Receivable	50	199
Increase in Inventory	–	(108)
Decrease in other assets	70	75
Increase in accounts payable and accrued expenses	980	1,608
Decrease in accrued compensation and related taxes	(286)	(446)
(Decrease) increase in other non-current liabilities	(21)	51
Net cash used in operating activities	(3,646)	(3,167)
Cash Flows From Investing Activities:		
Sales of marketable securities	–	1,750
Purchases of marketable securities	(19,922)	(99)
Purchases of property and equipment	(102)	(20)
Net cash provided by (used in) investing activities	(20,024)	1,631
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock and warrants, net of related offering costs and expenses paid during the period	–	750
Proceeds from exercise of warrants	–	1,052
Proceeds from exercise of stock options	–	2
Net cash provided by financing activities	–	1,804
Net (increase) decrease in cash and cash equivalents	(23,670)	268
Cash and cash equivalents, beginning of period	28,750	3,241
Cash and cash equivalents, end of period	$ 5,080	$ 3,509
Supplemental Cash Flow Information:		
Interest paid	$ 3	$ –
Income taxes paid	$ 1	$ 1
Schedule of Non-Cash Investing and Financing Activities:		
Fair value of common stock issued in connection with drug license	$ –	$ 594
Preferred stock dividends paid with common stock	$ 29	$ 31
Fair value of warrants issued to consultants for services	$ 229	$ 44
Fair value of restricted stock granted employees and directors	$ 338	$ –

The accompanying notes are an integral part of these condensed consolidated balance sheets.

SPECTRUM PHARMACEUTICALS, INC.
Notes to Condensed Financial Statements

March 31, 2006
(Unaudited)

1. Business and Basis of Presentation

Business

Spectrum Pharmaceuticals, Inc. (the "Company") is a specialty pharmaceutical company engaged in the business of acquiring, developing and commercializing prescription drug products for various indications. While we own patent rights to certain product candidates, the drug products we are currently developing, which are focused on the treatment of cancer and other unmet medical needs, are in-licensed from third parties whereby we acquired exclusive rights to develop and commercialize those compounds in territories specified in the respective agreements. We are also actively seeking Food and Drug Administration, or FDA, approval for marketing generic versions of branded drugs whose patent protection has either already expired, or is scheduled to expire in the foreseeable future.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements are prepared on a consistent basis in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and consolidation and elimination entries) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

Certain quarterly amounts have been reclassified to conform to the current period presentation.

2. Summary of Significant Accounting Policies and Estimates

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and of our wholly owned and majority owned subsidiaries. As of March 31, 2006, we had three subsidiaries: NeoJB LLC (NeoJB), 80% owned, organized in Delaware in April 2002; Spectrum Pharmaceuticals GmbH, wholly owned, incorporated in Switzerland in April 1997; and NeoGene Technologies, Inc. (NeoGene), an inactive subsidiary, 88.4% owned, incorporated in California in October 1999. We have eliminated all significant intercompany accounts and transactions.

Investments by outside parties in our consolidated subsidiary are recorded as Minority Interest in Consolidated Subsidiary in our accounts, and stated net after allocation of income and losses in the subsidiary.

We operate in one business segment, that of acquiring, developing and commercializing prescription drug products. The business has not matured to the point that disaggregated segment information would be meaningful. Accordingly the accompanying financial statements are reported in the aggregate including all our activities in one segment.

Certain prior year amounts have been reclassified to conform to the current year presentation.

SPECTRUM PHARMACEUTICALS, INC.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent obligations in the financial statements and accompanying notes. Our most significant assumptions are employed in estimates used in determining values of financial instruments and accrued obligations, as well as in estimates used in applying the revenue recognition policy and estimating stock-based charges. The estimation process requires assumptions to be made about future events and conditions, and as such, is inherently subjective and uncertain. Actual results could differ materially from our estimates.

In estimating the fair value of stock-based compensation, we use the quoted market price of our common stock for stock awards, and the Black-Scholes Option Pricing Model for stock options and warrants. We estimate future volatility based on past volatility of our common stock; and we estimate the expected length of the option on several criteria, including the vesting period of the grant, and the expected volatility. In estimating the fair value of restricted common stock we issue in connection with licensing transactions, we apply a discount for the marketability restrictions calculated after considering past volatility of our common stock as well as the term of restriction and the cost of risk free capital for a period that is comparable with the term of the restriction on the shares.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities, as reported in the balance sheets, are considered to approximate fair value given the short term maturity and/or liquidity of these financial instruments.

Cash, Cash Equivalents and Marketable Securities

Cash, cash equivalents and marketable securities primarily consist of bank checking deposits, short-term treasury securities, and institutional money market funds, corporate debt and equity, municipal obligations, including market auction debt securities, government agency notes, and certificates of deposit. We classify highly liquid short-term investments, with insignificant interest rate risk and maturities of 90 days or less at the time of acquisition, as cash and cash equivalents. Other investments, which do not meet the above definition of cash equivalents, are classified as either “held-to-maturity” or “available-for-sale” marketable securities, in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. Investments that we intend to hold for more than one year are classified as long-term investments.

Concentrations of Credit Risk, Supplier and Customer

All of our cash, cash equivalents and marketable securities are invested at three major financial institutions. To a limited degree these investments are insured by the Federal Deposit Insurance Corporation (FDIC) and by third party insurance. However, these investments are not insured against the possibility of a complete loss of earnings or principal and are inherently subject to the credit risk related to the credit worthiness of the underlying issuer. We believe that such risks are mitigated because we invest only in investment grade securities. We have not incurred any significant credit risk losses related to such investments.

As of March 31, 2006, we had a bank account with a balance that exceeded the amount insured by the Federal Deposit Insurance Corporation by $661,000. We believe this concentration risk is mitigated by the financial strength of the bank at which we maintain the account.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market. As of March 31, 2006, inventory consisted of raw materials acquired for the purpose of manufacturing finished drug product for our drug product carboplatin injection. The lower of cost or market is determined based on net realizable value after appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors.

SPECTRUM PHARMACEUTICALS, INC.

Patents and Licenses

We own or license all the intellectual property that forms the basis of our business model. We expense all licensing and patent application costs as they are incurred.

Revenue Recognition

License fees representing non-refundable payments received upon the execution of license agreements are recognized as revenue upon execution of the license agreements where we have no significant future performance obligations and collectibility of the fees is assured. Milestone payments, which are generally based on developmental or regulatory events, are recognized as revenue when the milestones are achieved, collectibility is assured, and we have no significant future performance obligations in connection with the milestones. In those instances where we have collected fees or milestone payments but have ongoing future obligations related to the development of the drug product, revenue recognition is deferred and amortized ratably over the period of our future obligations.

Revenue from sales of product is recognized upon shipment of product when title and risk of loss have transferred to the customer, and provisions for estimates, including promotional adjustments, price adjustments, returns, and other potential adjustments are reasonably determinable. Such revenue is recorded, net of such estimated provisions, at the minimum amount of the customer's obligation to us. We state the related accounts receivable at net realizable value, with any allowance for doubtful accounts charged to general operating expenses.

Research and Development

Research and development expenses are comprised of the following types of costs incurred in performing research and development activities: personnel expenses, facility costs, contract services, licensing fees and milestone payments, costs of clinical trials, laboratory supplies and drug products, and allocations of corporate costs. We expense all research and development activity costs in the period incurred.

Basic and Diluted Net Loss Per Share

In accordance with FASB Statement No. 128, *Earnings Per Share*, we calculate basic and diluted net loss per share using the weighted average number of common shares outstanding during the periods presented, and adjust the amount of net loss, used in this calculation, for preferred stock dividends declared during the period.

We incurred a net loss in each period presented, and as such, did not include the effect of potentially dilutive common stock equivalents in the diluted net loss per share calculation, as their effect would be anti-dilutive for all periods. Potentially dilutive common stock equivalents would include the common stock issuable upon the conversion of preferred stock and the exercise of warrants and stock options that have conversion or exercise prices below the market value of our common stock at the measurement date. As of March 31, 2006 and 2005, all potentially dilutive common stock equivalents amounted to approximately 15 million and 11 million shares, respectively.

The following data show the amounts used in computing basic loss per share for the three-month periods ended March 31, 2006 and 2005.

	Three-Months Ended March 31, 2006	Three-Months Ended March 31, 2005
	(In Thousands, Except Share and Per Share Data)	
Net loss	$ (5,873)	$ (5,268)
Less:		
Preferred dividends paid in cash or stock	(29)	(31)
Income available to common stockholders used in computing basic earnings per share	$ (5,902)	$ (5,299)
Weighted average shares outstanding	23,626,960	15,132,771
Basic and diluted net loss per share	$ (0.25)	$ (0.35)

SPECTRUM PHARMACEUTICALS, INC.

Accounting for Stock-Based Employee Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), *"Share-Based Payment."* This pronouncement amends SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires that companies account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in their statements of operations. We adopted SFAS No. 123(R) on January 1, 2006, using the modified prospective method and, accordingly, have not restated the consolidated statements of operations for periods prior to January 1, 2006. Under SFAS No. 123(R), we are required to measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest. As permitted under SFAS No. 123(R), we have elected to recognize compensation cost for all options with graded vesting on a straight-line basis over the vesting period of the entire option.

Prior to January 1, 2006, we accounted for stock-based compensation, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*, under the intrinsic value method described in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Under the intrinsic value method, no stock-based employee compensation cost is recorded when the exercise price is equal to, or higher than, the market value of the underlying common stock on the date of grant. We recognized stock-based compensation expense for all grants to consultants and for those grants to employees where the exercise prices were below the market price of the underlying stock at the measurement date of the grant.

The following table illustrates the effect on net loss and loss per share if we had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation, using the straight-line method, for periods prior to January 1, 2006.

	Three-Months Ended March 31, 2005
	(In Thousands, Except Share and Per Share Data)
Net loss, as reported	$ (5,268)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,982)
Pro forma net loss	$ (7,250)
Loss per share:	
Basic and diluted — as reported	$ (0.35)
Basic and diluted — pro forma	$ (0.48)

Comprehensive Loss

The net loss reflected on our Consolidated Statements of Operations substantially represents the total comprehensive loss for the periods presented.

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3. Products and Strategic Alliances

As of March 31, 2006, we had eight proprietary drug product candidates under development: satraplatin, EOquin™, elsamitrucin, ozarelix (formerly SPI-153), lucanthone, RenaZorb™, SPI-1620 and SPI-205 and through the date of this report we have filed thirteen Abbreviated New Drug Applications, or ANDAs, with the FDA, including those for ciprofloxacin and fluconazole tablets, and carboplatin injection, which have been approved by the FDA. We are developing our proprietary drug product candidates for the treatment of a variety of cancers and other unmet medical needs. We are also active in filing ANDAs with the FDA seeking approval for marketing generic versions of branded prescription drugs whose patent protection has either already expired or is scheduled to expire in the foreseeable future. In addition, we have a few neurology compounds that we may out-license to third parties for further development.

In general, we direct and pay for all aspects of the drug development process, and consequently incur the risks and rewards of drug development, which is an inherently uncertain process. To mitigate such risks we enter into alliances where we believe that our partners can provide strategic advantage in the development, manufacturing or distribution of our drugs. In such situations, the alliance partners may share in the risks and rewards of the drug development and commercialization.

Business Alliances

Our business alliances are described in detail in our Annual Report on Form 10-K for the year ended December 31, 2005. The following represents an update for current developments during the quarter.

Par Pharmaceutical Companies Inc.: In February 2006, we entered into a strategic alliance with Par Pharmaceutical Companies, Inc. (Par), one of the largest generics companies in the United States, to distribute generic drugs for which we have filed ANDAs, including sumatriptan succinate injection. We expect that we will receive FDA approval for several ANDAs during 2006, in addition to the three previously approved generic drugs, ciprofloxacin tablets, fluconazole tablets and carboplatin injection. The agreement also covers additional ANDAs currently being developed by us. Pursuant to the terms of the agreement, we are responsible for the development of, and regulatory filings for, the generic drugs and we will receive payments upon regulatory approval of each ANDA. The agreement also provides for a share of the profits from the sale by Par of our generic products. In addition, Par agreed to provide financial and legal support, including the payment of all legal expenses going forward, for the ongoing patent challenge for sumatriptan succinate injection. Within twenty-four months of the effective date of the agreement, we have the right to request Par to make an equity investment in the Company, which is subject to due diligence and the negotiation of definitive documents at that time. Not counting our share of the profits from sales of the generic drugs, we could receive an aggregate of over $10 million under the agreement if the equity investment is made and all the regulatory approvals are obtained. We believe that this alliance completes our generic commercialization strategy, provides an excellent marketing partner for our generic products and puts us in the best position to maximize the revenue potential from our generic drug portfolio.

Products under development

The following is a brief update of the most advanced products under development as of March 31, 2006:

Satraplatin: Satraplatin is an orally administered chemotherapeutic agent that is being studied for treating hormone refractory prostate cancer. A phase 3 clinical trial being conducted by our development partner, GPC Biotech AG (GPC Biotech), was proceeding in accordance with plans, and a rolling submission of a New Drug Application (NDA) with the U.S. Food and Drug Administration (FDA) had been commenced. GPC Biotech has initiated additional studies in other indications.

EOquin™: EOquin™, a synthetic drug which is activated by certain enzymes present in higher amounts in cancer cells than in normal tissues, is currently being developed for its initial indication, superficial bladder cancer. A phase 2 clinical trial has been completed and the study report is being finalized. In addition, we initiated a new phase 2 study of EOquin™ intravesical instillation in patients with high-risk superficial bladder cancer and it is proceeding in accordance with plans. Also, apaziquone, the drug substance in EOquin™, is being evaluated as a radiation sensitizer. In early 2006, we held a pre-IND and end of phase 2 meeting with the FDA and recently filed an IND with the FDA, with the view to initiating phase 3 trials in the United States in the 2nd half of 2006 to evaluate EOquin™ in superficial bladder cancer.

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Ozarelix: Ozarelix, a fourth generation LHRH (Luteinizing Hormone Releasing Hormone, also known as GnRH or Gonadotropin Releasing Hormone) antagonist is under evaluation for its intended initial indications, hormone-dependent prostate cancer and benign prostatic hypertrophy. Phase 2 clinical trials in each of those indications were proceeding in Europe in accordance with plans.

Elsamitrucin: Elsamitrucin, an anti-tumor antibiotic that acts as a dual inhibitor of two key enzymes involved in DNA replication, topoisomerase I and II, is currently being developed for its intended initial indication, refractory non-Hodgkin's lymphoma. A phase 2 clinical trial is on-going.

4. Commitments and Contingencies

Facility and Equipment Leases

As of March 31, 2006, we were obligated under a facility lease and several operating equipment leases. We have sub-leased a portion of our facility through September 2007, with a renewal option through the remaining term of our underlying lease.

Minimum lease commitments, and minimum contractual sublease income for each of the next five years and thereafter, under the property and equipment operating leases, are as follows:

Year ending December 31:	Lease Commitments	Sub-Lease Commitments
	(Amounts In Thousands)	
2006	$ 341	$ 171
2007	$ 472	$ 171
2008	$ 492	$ –
2009	$ 251	$ –
Thereafter	$ 3	$ –
	$ 1,559	$ 342

Licensing Agreements

Each of our proprietary drug product candidates is being developed pursuant to license agreements, which provide us with exclusive rights to certain territories to, among other things, develop, sublicense, and sell the drug product candidates. With regard to one of our drug product candidates, satraplatin, we have out licensed our rights to GPC Biotech AG. We are required to use commercially reasonable efforts to develop the drug product candidates, are generally responsible for all development, patent filing and maintenance costs, sales, marketing and liability insurance costs, and are contingently obligated to make milestone payments to the licensors if we successfully reach development and regulatory milestones specified in the agreements. In addition, we are obligated to pay royalties and milestone payments based on net sales, if any, after marketing approval is obtained from regulatory authorities. We have no similar milestone or other payment obligations in connection with our generic drug products.

The potential contingent development and regulatory milestone obligations under all our licensing agreements, are generally tied to progress through the FDA approval process, which approval significantly depends on positive clinical trial results. The following list is typical of milestone events: commencement of phase 3 clinical trials, filing of new drug applications in the United States, Europe and Japan, and approvals from those regulatory agencies.

Given the uncertainty of the drug development process, we are unable to predict with any certainty when any of the milestones will occur and, accordingly, the milestone payments represent contingent obligations that will be recorded as expense when the milestone is achieved. In connection with the development of in-licensed drug products, we anticipate certain milestones will be achieved over the next eighteen months. If the anticipated milestones are achieved, we will likely become obligated to issue approximately 325,000 restricted shares of our

common stock and pay up to approximately $3 million in cash during the eighteen-month period. If all of our contingent milestones were achieved, our potential contingent development and regulatory milestone obligations, aggregating approximately $49 million as of March 31, 2006, would be due approximately as follows: $1.8 million in less than 1 year; $6 million between 1 and 3 years; $4.3 million between 3 and 5 years; and $36.7 million after 5 years.

If we reach a milestone, it will likely occur prior to revenues being generated from the related compound. However, in connection with the milestone obligations related to satraplatin, each of our contingent future payment obligations is generally matched by a corresponding, greater payment milestone obligation of GPC Biotech to us.

Service Agreements

In connection with the research and development of our drug products, we have entered into contracts with numerous third party service providers, such as clinical trial centers, clinical research organizations, data monitoring centers, and with drug formulation, development and testing laboratories. The financial terms of these agreements vary and generally obligate us to pay in stages, depending on achievement of certain events specified in the agreements, such as contract execution, reservation of service or production capacity, actual performance of service, or the successful accrual and dosing of patients. As of each period end, we accrue for all non-cancelable installment amounts that we are likely to become obligated to pay.

Employment Agreements

We have entered into employment agreements with two of our Executive Officers, Dr. Shrotriya, Chief Executive Officer, and Dr. Lenaz, Chief Scientific Officer, expiring December 31, 2006 and July 1, 2007, respectively. The employment agreements automatically renew for a one-year term unless either party gives written notice at least 90 days prior to the commencement of the next year of such party's intent not to renew the agreement. The agreements require each executive to devote his full working time and effort to the business and affairs of the Company during the term of the agreement. The agreements provide for an annual base salary with annual increases, periodic bonuses and option grants as determined by the Compensation Committee of our Board of Directors.

Each officer's employment may be terminated by us with or without cause, as defined in the agreement. The agreements provide for certain guaranteed severance payments and benefits if the officer's employment is terminated without cause, if the officer's employment is terminated due to a change in control or is adversely affected due to a change in control and the officer resigns or if the officer decides to terminate his employment due to a disposition of a significant amount of assets or business units. The guaranteed severance payment includes a payment equal to the officer's annual base salary and other cash compensation, and approved bonus. The officer is also entitled to two years medical, dental and other benefits following termination. In addition, all options held by the officer shall immediately vest and will be exercisable for one year from the date of termination; provided, however, if the Board determines that the officer's employment is being terminated for the reason that the shared expectations of the officer and the Board are not being met, then the options currently held by the officer will vest in accordance with their terms for up to one year after the date of termination, with the right to exercise those options, when they vest, for approximately thirteen (13) months after the date of termination. The agreements also provide that, upon his retirement, all options held by the officer will become fully vested.

Litigation

We are party to various legal proceedings arising from the ordinary course of business. Although the ultimate resolution of these various proceedings cannot be determined at this time, we do not believe that such proceedings, individually or in the aggregate, will have a material adverse effect on our future consolidated results of operations, cash flows or financial condition.

At March 31, 2006, we were in litigation with GlaxoSmithKline as a result of filing an ANDA for sumatriptan succinate injection, which is marketed by GlaxoSmithKline under the brand name Imitrex®. Pursuant to our February 2006 agreement with Par Pharmaceutical Companies Inc. (Par), Par shall provide financial and legal support, including the payment of all legal expenses going forward, for this patent challenge.

SPECTRUM PHARMACEUTICALS, INC.

5. Stockholders' Equity

Common Stock Reserved for Future Issuance

As of March 31, 2006, approximately 15 million shares of common stock were issuable upon conversion or exercise of rights granted under prior financing arrangements and stock options and warrants, as follows:

Conversion of Series D preferred shares	537,479
Conversion of Series E preferred shares	582,000
Exercise of stock options	3,939,182
Exercise of warrants	9,913,703
Total shares of common stock reserved for future issuances	14,972,364

Stock-Based Compensation

At March 31, 2006, we had three stock incentive plans: the 1991 Stock Incentive Plan (1991 Plan), the 1997 Stock Incentive Plan (1997 Plan) and the 2003 Amended and Restated Incentive Award Plan (2003 Plan), (collectively, the Plans). We are not granting any more options pursuant the 1991 and 1997 Plans. The 2003 Plan authorizes the grant, in conjunction with all of our other plans, of various forms of stock-based awards including incentive and non-statutory stock options, stock purchase rights, stock appreciation rights, and restricted and unrestricted stock awards, for the purchase of up to a total of 30% of our issued and outstanding stock at the time of grant. As of March 31, 2006, approximately 2.9 million incentive awards were available for grant under the 2003 Plan. Stock-based awards generally vest over periods up to four years and have a ten-year life.

Below is a summary of activity, for all of our stock incentive plans, during the three-month period ended March 31, 2006:

Stock Options:

During the three-month period ended March 31, 2006, the Compensation committee granted stock options at exercise prices equal to or greater than the quoted price of our common stock on the grant dates. The weighted average grant date fair value of stock options granted during the quarter ended March 31, 2006, was estimated at approximately $3.06, using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 84.75%; risk free interest rate of 4.4%; and an expected life of five years.

	Common Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Term (In Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at beginning of period	3,661,682	$ 6.98		
Granted	277,500	$ 4.42		
Exercised	–	$ –		
Forfeited	–	$ –		
Expired	–	$ –		
Outstanding, at the end of period	3,939,182	$ 6.80	**7.39**	**$ 2,192**
Vested and expected to vest, at end of period	3,874,136	$ 6.82	**7.37**	**$ 2,182**
Exercisable, at the end of period	2,638,270	$ 7.19	**6.89**	**$ 1,999**

SPECTRUM PHARMACEUTICALS, INC.

The aggregate intrinsic value in the table above represents the total difference between the Company's closing common stock price on March 31, 2006 and the exercise price, multiplied by the number of all in-the-money options, that would have been received by the option holders had all option holders exercised their options on March 31, 2006. This amount changes based on the fair market value of the Company's common stock.

During the three-month period ended March 31, 2006, the stock-based charge in connection with the expensing of stock options was $1.2 million. As of March 31, 2006, there was $5.2 million of unrecognized stock-based compensation cost related to stock options which is expected to be recognized over a weighted average period of 1.44 years.

Restricted Stock:

	Restricted Stock Awards	Weighted Average Grant date Fair Value
Nonvested at beginning of period	115,000	$ 4.26
Granted	80,000	$ 4.23
Vested	(48,750)	$ 4.25
Forfeited	–	$ –
Nonvested, at the end of period	146,250	$ 4.25

The fair value of restricted stock awards is the grant date quoted market price of our stock, and is charged to expense over the period of vesting. These awards are subject to forfeiture to the extent that the recipient's service is terminated prior to the shares becoming vested.

During the three-month period ended March 31, 2006, the stock-based charge in connection with the expensing of restricted stock awards was $143,000. As of March 31, 2006, there was $562,000 of unrecognized stock-based compensation cost related to nonvested restricted stock awards, which is expected to be recognized over a weighted average period of 2.76 years.

Warrants Activity

We typically issue warrants to purchase shares of our common stock to investors as part of a financing transaction, or in connection with services rendered by placement agents and consultants. Our outstanding warrants expire on varying dates through September 2013. Below is a summary of warrant activity during the three-month period ended March 31, 2006:

	Common Stock Warrants	Weighted Average Exercise Price
Outstanding at beginning of period	9,920,703	$ 7.20
Granted	–	$ –
Repurchased	–	$ –
Exercised	–	$ –
Forfeited	–	$ –
Expired	(7,000)	$ (114.29)
Outstanding, at the end of period	9,913,703	$ 7.13
Exercisable, at the end of period	9,793,703	$ 7.21

6. Subsequent Events

In April 2006, we completed the acquisition of all of the oncology drug product assets of Targent Inc. The principal asset in the transaction was a license agreement between Targent and Merck Eprova AG, a Swiss corporation, whereby we acquired the exclusive license to certain patents and know-how to make, have made, use and sell levofolinic acid ("LFA") in the field of oncology in North America. LFA is the pure active isomer of calcium leucovorin, a component of "standard of care" 5-fluorouracil (5-FU) containing regimens for the treatment of colorectal cancer and other malignancies, for which a new drug application is on file with the FDA. We also received the right to sublicense the license received in order to co-promote and sell LFA and we received a license to a trademark to use in connection with the promotion and sale of LFA. In addition, we have the right of first opportunity to negotiate an exclusive license to manufacture, have manufactured, use and sell LFA products outside the field of oncology in North America. Eprova, under the terms of the license agreement, is eligible to receive payments upon achievement of certain regulatory milestones, in addition to royalties on potential net sales, if any, including minimum royalties after the commercial launch. In connection with the acquisition, we paid Targent and its stockholders an aggregate amount of 600,000 shares of Spectrum common stock, with a fair value of $2.7 million as of the transaction closing date, all of which amount representing purchased research and development, has been charged to expense at the closing of the transaction. Targent is eligible to receive additional payments of shares of Spectrum common stock and/or cash upon achievement of certain regulatory and sales milestones, if any. At our option, cash payments specified in the agreement may be paid in shares of Spectrum common stock having a value determined as provided in the asset purchase agreement, equal to the cash payment amount.

SPECTRUM PHARMACEUTICALS, INC.

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

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding our future product development activities and costs, the revenue potential (licensing, royalty and sales) of our product candidates, the timing and likelihood of achieving development milestones and product revenues, the sufficiency of our capital resources, and other statements containing forward-looking words, such as, "believes," "may," "will," "expects," "intends," "estimates," "anticipates," "plans," "seeks," or "continues." Such forward-looking statements are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. Readers should not put undue reliance on these forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified; therefore, our actual results may differ materially from those described in any forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed below, including under "Risk Factors". These factors include, but are not limited to:

- our ability to successfully develop, obtain regulatory approvals for and market our products;
- our ability to generate and maintain sufficient cash resources to fund in our business;
- our ability to enter into strategic alliances with partners for manufacturing, development and commercialization;
- our ability to identify new product candidates;
- the timing or results of pending or future clinical trials;
- competition in the marketplace for our generic drugs;
- actions by the FDA and other regulatory agencies;
- demand and market acceptance for our approved products; and
- the effect of changing economic conditions.

We do not plan to update any such forward-looking statements and expressly disclaim any duty to update the information contained in this press release except as required by law.

You should read the following discussion of the financial condition and results of our operations in conjunction with the condensed financial statements and the notes to those financial statements included in Item 1 of Part 1 of this report.

Overview

Spectrum Pharmaceuticals, Inc. is a specialty pharmaceutical company engaged in the business of acquiring, developing and commercializing prescription drug products for various indications. While we own patent rights to certain product candidates, the drug products we are currently developing, which are focused on the treatment of cancer and other unmet medical needs, are in-licensed from third parties whereby we acquired exclusive rights to develop and commercialize those compounds in territories specified in the agreements. We are also actively seeking FDA approval for marketing generic versions of branded drugs whose patent protection has either already expired, or is scheduled to expire in the foreseeable future. We currently have three generic products approved by the FDA for marketing in the United States, ciprofloxacin tablets, fluconazole tablets, and carboplatin injection. In addition, we have a few neurology compounds that we may out-license to third parties for further development.

New drug development is an inherently uncertain, lengthy and expensive process. We focus our research and development efforts principally on clinical stage drug candidates, for which the primary expenses relate to the conduct of clinical trials necessary to demonstrate to the satisfaction of the FDA, and other regulatory authorities in the United States and other countries, that the products are both safe and effective in their respective indications and that they can be produced by a validated consistent manufacturing process. The number, size, scope and timing of the clinical trials necessary to bring a product candidate to development completion and commercialization cannot readily be determined at an early stage, nor, given the timelines of the trials extending over periods of years, can future costs be estimated with precision. While generic drug development is also subject to approval by regulatory authorities, the costs and timelines of development completion and commercialization can be significantly shorter, and compared to new drug development, relatively less uncertain and less expensive.

Business Outlook

Our primary business focus for 2006, and beyond, will be to continue to acquire, develop and commercialize a portfolio of marketable prescription drug products with a mix of near-term and long-term revenue potential. As of the date of filing this report, we had nine proprietary drug product candidates under development: satraplatin, levofolinic acid (LFA), EOquin™, elsamitrucin, ozarelix, lucanthone, RenaZorb™, SPI-1620 and SPI-205. Key developments anticipated in 2006 are:

- *Satraplatin*: Funding for worldwide satraplatin clinical trials is being borne entirely by our co-development partner GPC Biotech and its new sublicensee, Pharmion Corporation. Patient accrual in a phase 3 clinical trial was completed in December 2005. The independent Data Monitoring Board (DMB) released interim analysis of the phase 3 data in April 2006. As anticipated, the DMB recommended that the trial should continue as planned. The DMB analyzed the efficacy data as assessed by the blinded, independent end point review panel on the first 354 progression-free survival events and also reviewed the safety data from the first 593 patients who have been randomized in the trial and have completed at least one cycle of treatment. After reviewing the data, the DMB reported that the design and conduct of the trial remain sound. In addition, the DMB determined that the SPARC (Satraplatin and Prednisone Against Refractory Cancer) trial had also passed the pre-defined futility analysis. The SPARC trial, therefore, continues as planned. GPC Biotech and Spectrum Pharmaceuticals remain blinded to the study data. Final study results are expected in the Fall. Also in December 2005, GPC Biotech commenced a rolling NDA filing with the FDA. Completion of a full NDA filing is expected by the end of 2006.
- *Levofolinic acid (LFA):* In April 2006, we completed the acquisition of all of the oncology product assets of Targent, Inc. The key product acquired is levofolinic acid (LFA), the pure active isomer of calcium leucovorin, a component of “standard of care” 5-fluorouracil (5-FU) containing regimens for the treatment of colorectal cancer and other malignancies, for which a new drug application is on file with the FDA.
- *EOquin*™: In early 2006, we held a pre-IND and end of phase 2 meeting with the FDA and recently filed an IND with the FDA, with the view to initiating phase 3 trials in the United States in the 2nd half of 2006 to evaluate EOquin™ in superficial bladder cancer.
- *Ozarelix:* We expect results from the HDPC and BPH phase 2 trials that completed accrual in late 2005, in the second half of 2006. Based on those results we will determine the next regulatory and clinical steps. Also, we plan to initiate a study in healthy female volunteers for endometriosis in Europe in the second half of 2006.
- *Elsamitrucin:* The multicenter, phase 2 clinical trial in refractory non-Hodgkin’s lymphoma and chronic lymphatic leukemia is on-going. Based on the results of that trial we will determine the next regulatory and clinical steps. Also, during 2006, we expect to initiate a phase 2 study of elsamitrucin in head and neck cancer, and pilot combination studies.
- We plan to continue to fund the development, including clinical trials, of lucanthone in a phase 2 clinical trial, and three preclinical drug candidates: RenaZorb™, SPI-1620 and SPI-205.
- We expect to continue to evaluate additional promising drug product candidates for acquisition or license.

We have recorded only modest revenues to date from generic product sales, due primarily to our late entry into the market for each of our approved generic drugs. We are unable at this time to reliably estimate recurring revenues or profits from these generic products in the foreseeable future. We have observed significant price declines in the marketplace for each of our marketed products, due to the FDA's approval of several competing ANDAs, and the resultant glut of product introduced on and after the generic product launch dates. We continue to explore sales opportunities for our products. If we are successful in our patent challenge for sumatriptan succinate injection, and obtain 180-day marketing exclusivity as the only generic version of this product, the resulting revenues could be significant. We recently entered into a strategic alliance with Par Pharmaceutical Companies, Inc. (Par) for the marketing of our current as well as certain future generic drugs. In addition, Par shall provide financial and legal support, including payment of legal expenses going forward, for the litigation regarding sumatriptan succinate injection. With three generic drugs already approved and additional approvals expected this year, we hope to see success from the sale of these drugs in 2006.

Financial Condition

Liquidity and Capital Resources

Our current business operations do not generate sufficient operating cash to finance the clinical development of our drug product candidates. Our cumulative losses, since inception in 1987, through March 31, 2006, have exceeded $190 million. We expect to continue to incur significant additional losses as we implement our growth strategy of developing marketable drug products for at least the next several years unless they are offset, if at all, by licensing revenues under our out-license agreement with GPC Biotech or from the out-license of any of our other proprietary products and any profits from the sale of generic products.

We believe that the approximately $60 million in cash, cash equivalents and marketable securities that we had on hand as of March 31, 2006, will allow us to fund our current planned operations for at least the next twelve months. Our long-term strategy is to generate profits from the sale and licensing of our propriety drug products. In the next several years, we anticipate supplementing our cash position with licensing and royalties revenues under our out-license agreement with GPC Biotech, licensing revenues from out-licensing our other proprietary products and milestone profits from the sale of our generic products by Par. Under the agreement with Par, not counting our share of the profits from sales of the generic drugs, the Company could receive an aggregate of over $10 million under the agreement if a specified equity investment is made and necessary the regulatory approvals are obtained. If GPC Biotech successfully completes the filing of the NDA in late 2006, as planned, we will realize revenues in 2006 from licensing milestones specified in the agreement.

However, if we are unable to generate the necessary revenues to finance our operations long-term, we may have to seek additional capital through the sale of our equity. Our operations have historically been financed by the issuance of capital stock. To this effect, we have a shelf registration statement with approximately $32 million available for the sale of our securities. In addition, we could receive a significant amount of cash from the exercise of outstanding warrants and options, if the price of our common stock appreciates. It is generally difficult to fund pharmaceutical research and development via borrowings due to the significant expenses involved, lack of revenues sufficient to service debt and the significant inherent uncertainty as to results of research and the timing of those results.

As described elsewhere in this report, including Item 1A under "Risk Factors", our drug development efforts are subject to the considerable uncertainty inherent in any new drug development. Due to the uncertainties involved in progressing through clinical trials, and the time and cost involved in obtaining regulatory approval and in establishing collaborative arrangements, among other factors, we cannot reasonably estimate the timing and ultimate aggregate cost of developing each of our drug product candidates, and are similarly unable to reasonably estimate when, if ever, we will realize material net cash inflows from our proprietary drug product candidates. Accordingly, the following discussion of our current assessment of the need for cash to fund our operations may prove too optimistic and our assessment of expenditures may prove inadequate.

Our expenditures for research and development and general and administrative expenses consist of direct product specific costs and non-product specific, or indirect, costs. We anticipate that over the next twelve months our total costs will average in a range between approximately $6 and $9 million per quarter. The following describes

our current assessment of direct, or product specific development costs, such as upfront license fees, milestone payments, active pharmaceutical ingredient (API), clinical trials, patent related legal costs, and product liability insurance, among others, for each significant proprietary product, and generics as a group, currently under development. These costs are subject to uncertainties inherent in new drug development. Additionally, we may shift our cash resources between products. Therefore, what we actually spend to develop a particular product may not fall within the estimated range and the estimated ranges may change from quarter to quarter based upon changes in priorities or strategy and/or the results of the development. While we do not receive any funding from third parties for research and development we conduct, our estimated costs could be mitigated should we enter into co-development agreements for any of our drug product candidates.

- *Satraplatin:* The costs of conducting clinical trials worldwide are being borne entirely by our co-development partner GPC Biotech and its new sublicensee, Pharmion Corporation. While we have licensed the development of satraplatin to GPC Biotech, we are not obligated to reimburse GPC Biotech for development costs they incur or to refund any license or milestone payments we receive.
- *Levofolinic acid (LFA):* In April 2006, we acquired the rights to the NDA filing pending at the FDA. In order to complete the NDA filing to the satisfaction of the FDA, we anticipate that over the next twelve to eighteen months we may incur development costs up to approximately $2 million.
- *EOquin*™: During the three-month period ended March 31, 2006, excluding indirect costs described earlier, we spent approximately $0.4 million on the development of EOquin™. Estimated expenditures for the next twelve months are subject to considerable uncertainty, and are largely dependent on the outcome of continuing discussions with the FDA regarding our planned phase 3 clinical trial. We anticipate that over the next twelve months we could incur development costs up to approximately $6 million.
- *Ozarelix:* During the three-month period ended March 31, 2006, excluding indirect costs described earlier, we spent approximately $0.4 million on the development of Ozarelix. Estimated expenditures for the next twelve months are subject to considerable uncertainty, and are largely dependent on the results from the analysis of the phase 2 study data, expected in the 2nd half of 2006, and the initiation of a study in healthy female volunteers for endometriosis in Europe in the second half of this year. We anticipate that over the next twelve months we could incur development costs up to approximately $6 million.
- *Elsamitrucin:* During the three-month period ended March 31, 2006, excluding indirect costs described earlier, we incurred less than $250,000 on the development of Elsamitrucin. Estimated expenditures for the next twelve months are subject to considerable uncertainty, and are largely dependent on the completion of enrollment in the phase 2 clinical trial and positive results from the analysis of the phase 2 study data,as well as the initiation of a phase 2 study of elsamitrucin in head and neck cancer, and other pilot combination studies.
- *Lucanthone:* During the three-month period ended March 31, 2006, excluding indirect costs described earlier, we incurred less than $250,000 on the development of lucanthone. Estimated expenditures for the next twelve months are subject to considerable uncertainty, and are largely dependent on the timing of the continuation of the phase 2 clinical trial.
- *RenaZorb*™*:* During the three-month period ended March 31, 2006, excluding indirect costs described earlier, we incurred less than $250,000 on the development of RenaZorb™. Estimated expenditures for the next twelve months are subject to considerable uncertainty, and are largely dependent on the results of our preclinical work and the initiation of any clinical trials. In addition, we are currently in a contractual dispute with Altair that is being handled under the dispute resolution process provided for in the license agreement.
- *SPI-1620:* During the three-month period ended March 31, 2006, excluding indirect costs described earlier, we incurred less than $250,000 on the development of SPI-1620. Estimated expenditures for the next twelve months are subject to considerable uncertainty, and are largely dependent on the results of our preclinical work and the initiation of any clinical trials.

- *SPI-205:* During the three-month period ended March 31, 2006, excluding indirect costs described earlier, we incurred less than $250,000 on the development of SPI-205. Estimated expenditures for the next twelve months are subject to considerable uncertainty, and are largely dependent on the results of our preclinical work and the initiation of any clinical trials.
- *Generic drugs:* During the three-month period ended March 31, 2006, excluding indirect costs described earlier, we incurred approximately $300,000 for the advancement of our generic drugs, including costs for products for which we anticipate filing ANDAs in the future. We do not receive any funding from third parties for research and development we conduct for generic products, nor do we pay our generic alliance partners for any research and development they incur in the development of ANDAs for regulatory approval.

In addition to the foregoing drug product candidates, we continually evaluate proprietary products for acquisition. If we are successful in acquiring rights to additional products, we may pay up-front licensing fees in cash and our research and development expenditures would likely increase.

Under our various existing licensing agreements, we are contingently obligated to make cash milestone payments. In connection with the development of certain in-licensed drug products, we anticipate the occurrence of certain of these milestones over the next eighteen months. Upon successful achievement of these milestones, we will likely become obligated to pay up to approximately $3 million in cash and issue approximately 200,000 restricted shares of our common stock during the eighteen-month period.

Net Cash used in Operating Activities

During the three-month period ended March 31, 2006, the net cash used in operations was approximately $3.6 million, net of interest income of approximately $0.6 million.

Based on our current plans and the scope of our activities, our anticipated use of cash for operations for all of 2006, excluding the cost of in-licensing any additional drug products, is expected to average between approximately $6 million and $9 million per quarter. Our cash expenses may increase or decrease beyond this range depending on the results of the ongoing clinical trials and research and development activity.

Net Cash provided by and used for Investing Activities

While cash preservation is our primary investment goal, in order to maximize the interest yield on our investments, we invest our cash in a variety of investments pending its use in our business. During the three-month period ended March 31, 2006, we reinvested our funds with Lehman Brothers acting as primary cash manager. This reinvestment resulted in conversion of approximately $20 million of cash and cash equivalents into marketable securities.

Net Cash provided by and used for Financing Activities

During the three-month period ended March 31, 2006, there were no financing activities.

Results of Operations

Results of Operations for the three-month period ended March 31, 2006 Compared to the three-month period ended March 31, 2005

For the three-month period ended March 31, 2006, we incurred a net loss of approximately $5.9 million compared to a net loss of approximately $5.3 million in the three-month period ended March 31, 2005. The increase of $0.6 million in the net loss was primarily due to increases in stock-based charges resulting from the adoption, effective January 1, 2006, of SFAS 123(R), and increased legal expenses, partially offset by an increase in interest income.

We had no revenues during the three-month periods ended March 31, 2006 and 2005.

Research and development expenses had a minimal increase, and were approximately $3.7 million in each of the three-month periods ended March 31, 2006 and 2005. During calendar 2005, the completion, or near-completion, of enrollment in clinical trials resulted in reduced expenditures for such trials in the three-month period ended March 31, 2006. Such cost savings were offset by increases in payroll and professional fees commensurate with the expanded scope of our research and development activities.

General and administrative expenses increased by approximately $0.3 million, from approximately $1.1 million in the three-month period ended March 31, 2005 to approximately $1.4 million in the three-month period ended March 31, 2006, primarily due to increased legal expenses.

Stock-based charges increased by approximately $0.7 million, from $0.7 million in the three-month period ended March 31, 2005 to approximately $1.4 million in the three-month period ended March 31, 2006. $1.2 million of the stock-based charge for the three-month period ended March 31, 2006 was the result of our adoption of SFAS 123(R), effective January 1, 2006. In the three-month period ended March 31, 2005, we recorded a stock-based charge of approximately $0.6 million in connection with the in-licensing of RenaZorb™ from Altair Nanotechnologies, Inc.

Other income consisted of net interest income of $0.6 million for the three-month period ended March 31, 2006 and $0.2 million for the three-month period ended March 31, 2005. The increase of $0.4 million is attributable to significantly higher average interest rates and balances of investable funds in 2006.

Off-Balance Sheet Arrangements

None.

Contractual and Commercial Obligations

The following table summarizes our contractual and other commitments, including obligations under facility and equipment leases, as of March 31, 2006:

	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Contractual Obligations (1)					
Capital Lease Obligations (2)	$ –	$ –	$ –	$ –	$ –
Operating Lease Obligations (3)	$ 1,559	$ 457	$ 971	$ 132	$ –
Purchase Obligations (4)	$ 2,146	$ 1,818	$ 320	$ 7	$ –
Contingent Milestone Obligations (5)	$ 48,774	$ 1,772	$ 6,027	$ 4,275	$ 36,700
Total	$ 52,479	$ 4,047	$ 7,318	$ 4,414	$ 36,700

(1) The table of contractual and commercial obligations excludes contingent payments that we may become obligated to pay upon the occurrence of future events whose outcome is not readily predictable. Such significant contingent obligations are described below under “Employment Agreements”.

(2) As of March 31, 2006, we had no capital lease obligations.

(3) The operating lease obligations are primarily the facility lease for our corporate office, which extends through June 2009.

(4) Purchase Obligations represent the amount of open purchase orders and contractual commitments to vendors, for products and services that have not been delivered, or rendered, as of March 31, 2006.

(5) Milestone Obligations are payable contingent upon successfully reaching certain development and regulatory milestones as further described below under “Licensing Agreements”. While the amounts included in the table above represent all of our potential cash development and regulatory milestone obligations as of March 31, 2006, given the unpredictability of the drug development process, and the impossibility of predicting the success of current and future clinical trials, the timelines estimated above do not represent a forecast of when payment

milestones will actually be reached, if at all. Rather, they assume that all development and regulatory milestones under all of our license agreements are successfully met, and represent our best estimates of the timelines. In the event that the milestones are met, we believe it is likely that the increase in the potential value of the related drug product will significantly exceed the amount of the milestone obligation.

Licensing Agreements

Each of our proprietary drug product candidates is being developed pursuant to license agreements, which provide us with exclusive rights to certain territories to, among other things, develop, sublicense, and sell the drug product candidates. With regard to one of our drug product candidates, satraplatin, we have out licensed our rights to GPC Biotech AG. We are required to use commercially reasonable efforts to develop the drug product candidates, are generally responsible for all development, patent filing and maintenance costs, sales, marketing and liability insurance costs, and are contingently obligated to make milestone payments to the licensors if we successfully reach the development and regulatory milestones specified in the agreements. In addition, we are obligated to pay royalties and milestone payments based on net sales, if any, after marketing approval is obtained from regulatory authorities. We have no similar milestone or other payment obligations in connection with our generic drug products.

The potential contingent development and regulatory milestone obligations, under all our licensing agreements, are generally tied to progress through the FDA approval process, which approval significantly depends on positive clinical trial results. The following list is typical of milestone events: commencement of phase 3 clinical trials, filing of new drug applications in the United States, Europe and Japan, and approvals from those regulatory agencies.

Given the uncertainty of the drug development process, we are unable to predict with any certainty when any of the milestones will occur and, accordingly, the milestone payments represent contingent obligations that will be recorded as expense when the milestone is achieved. In connection with the development of in-licensed drug products, we anticipate certain milestones will be achieved over the next eighteen months. If the anticipated milestones are achieved, we will likely become obligated to issue approximately 325,000 restricted shares of our common stock and pay up to approximately $3 million in cash during the eighteen-month period. If all of our contingent milestones were achieved, our potential contingent development and regulatory milestone obligations, aggregating approximately $49 million as of March 31, 2006, would be due approximately as follows: $1.8 million in less than 1 year; $6 million between 1 and 3 years; $4.3 million between 3 and 5 years; and $36.7 million after 5 years.

If we reach a milestone, it will likely occur prior to revenues being generated from the related compound. However, in connection with the milestone obligations related to satraplatin, each of our contingent future payment obligations is generally matched by a corresponding, greater milestone payment obligation of GPC Biotech to us.

Service Agreements

In connection with the research and development of our drug products, we have entered into contracts with numerous third party service providers, such as clinical trial centers, clinical research organizations, data monitoring centers, and with drug formulation, development and testing laboratories. The financial terms of these agreements vary and generally obligate us to pay in stages, depending on achievement of certain events specified in the agreements, such as contract execution, reservation of service or production capacity, actual performance of service, or the successful accrual and dosing of patients. As of each period end, we accrue for all non-cancelable installment amounts that we are likely to become obligated to pay.

Employment Agreements

We have entered into employment agreements with two of our Executive Officers, Dr. Shrotriya, Chief Executive Officer, and Dr. Lenaz, Chief Scientific Officer, expiring December 31, 2006 and July 1, 2007, respectively. The employment agreements automatically renew for a one-year term unless either party gives written notice at least 90 days prior to the commencement of the next year of such party’s intent not to renew the agreement. The agreements require each executive to devote his full working time and effort to the business and affairs of the Company during the term of the agreement. The agreements provide for an annual base salary with annual increases, periodic bonuses and option grants as determined by the Compensation Committee of our Board of Directors.

Each officer's employment may be terminated by us with or without cause, as defined in the agreement. The agreements provide for certain guaranteed severance payments and benefits if the officer's employment is terminated without cause, if the officer's employment is terminated due to a change in control or is adversely affected due to a change in control and the officer resigns or if the officer decides to terminate his employment due to a disposition of a significant amount of assets or business units. The guaranteed severance payment includes a payment equal to the officer's annual base salary and other cash compensation, and any approved bonus. The officer is also entitled to medical, dental and other benefits for two years following termination. In addition, all options held by the officer shall immediately vest and will be exercisable for one year from the date of such termination. However, if the Board determines that the officer's employment is being terminated for the reason that the shared expectations of the officer and the Board are not being met, then the options currently held by the officer will vest in accordance with their terms for up to one year after the date of termination, with the right to exercise those options, when they vest, for approximately thirteen (13) months after the date of termination. The agreements also provide that, upon his retirement, all options held by the officer will become fully vested.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The estimation process requires assumptions to be made about future events and conditions, and as such, is inherently subjective and uncertain. Actual results could differ materially from our estimates. On an on-going basis, we evaluate our estimates, including cash requirements, by assessing: planned research and development activities and general and administrative requirements, required clinical trial activity, market need for our drug candidates and other major business assumptions.

The SEC defines critical accounting policies as those that are, in management's view, most important to the portrayal of our financial condition and results of operations and most demanding of our judgment. We consider the following policies to be critical to an understanding of our consolidated financial statements and the uncertainties associated with the complex judgments made by us that could impact our results of operations, financial position and cash flows.

Stock-Based Charges

In estimating the fair value of stock-based compensation, we use the quoted market price of our common stock for stock awards, and the Black Scholes Option Pricing Model for stock options and warrants. We estimate future volatility based on past volatility of our common stock; and we estimate the expected length of the option on several criteria, including the vesting period of the grant, and the expected volatility. In estimating the fair value of restricted common stock we issue in connection with licensing transactions, we apply a discount for the marketability restrictions calculated after considering past volatility of our common stock as well as the term of restriction and the cost of risk free capital for a period that is comparable with the term of the restriction on the shares.

Cash, Cash Equivalents and Marketable Securities

Cash, cash equivalents and marketable securities primarily consist of bank checking deposits, short-term treasury securities, and institutional money market funds, corporate debt and equity, municipal obligations, including market auction debt securities, government agency notes, and certificates of deposit. We classify highly liquid short-term investments, with insignificant interest rate risk and maturities of 90 days or less at the time of acquisition, as cash and cash equivalents. Other investments, which do not meet the above definition of cash equivalents, are classified as either "held-to-maturity" or "available-for-sale" marketable securities, in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Investments that we intend to hold for more than one year are classified as long-term investments.

Patents and Licenses

We own or license all the intellectual property that forms the basis of our business model. We expense all licensing and patent application costs as they are incurred.

Revenue Recognition

License fees representing non-refundable payments received upon the execution of license agreements are recognized as revenue upon execution of the license agreements where we have no significant future performance obligations and collectibility of the fees is assured. Milestone payments, which are generally based on developmental or regulatory events, are recognized as revenue when the milestones are achieved, collectibility is assured, and we have no significant future performance obligations in connection with the milestones. In those instances where we have collected fees or milestone payments but have ongoing future obligations related to the development of the drug product, revenue recognition is deferred and amortized ratably over the period of our future obligations.

Revenue from sales of product is recognized upon shipment of product when title and risk of loss have transferred to the customer, and provisions for estimates, including promotional adjustments, price adjustments, returns, and other potential adjustments are reasonably determinable. Such revenue is recorded, net of such estimated provisions, at the minimum amount of the customer's obligation to us. We state the related accounts receivable at net realizable value, with any allowance for doubtful accounts charged to general operating expenses.

Research and Development

Research and development expenses are comprised of the following types of costs incurred in performing research and development activities: personnel expenses, facility costs, contract services, license fees and milestone payments, costs of clinical trials, laboratory supplies and drug products, and allocations of corporate costs. We expense all research and development activity costs in the period incurred.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks associated with interest rate fluctuations and credit risk on our cash equivalents and marketable securities, which investments are entered into for purposes other than trading. The primary objective of our investment activities is to preserve principal, while at the same time maximizing yields without significantly increasing risk. We do not utilize hedging contracts or similar instruments.

Our primary exposures relate to (1) interest rate risk on our investment portfolio, and (2) credit risk of the companies' bonds in which we invest. We manage interest rate risk on our investment portfolio by matching scheduled investment maturities with our cash requirements.

Our investments as of March 31, 2006 are primarily in floating rate securities, short-term government securities and money market accounts. Because of our ability to redeem these investments at par with short notice, changes in interest rates would have an immaterial effect on the fair value of these investments. If a 10% change in interest rates were to have occurred on March 31, 2006, any decline in the fair value of our investments would not be material. In addition, we are exposed to certain market risks associated with credit ratings of corporations whose corporate bonds we may purchase from time to time. If these companies were to experience a significant detrimental change in their credit ratings, the fair market value of such corporate bonds may significantly decrease. If these companies were to default on these corporate bonds, we may lose part or all of our principal. We believe that we effectively manage this market risk by diversifying our investments, and selecting securities that generally have third party insurance coverage in the event of default by the issuer.

In addition, we are exposed to foreign currency exchange rate fluctuations relating to payments we make to vendors and suppliers using foreign currencies. In particular, we have foreign expenses associated with our ongoing clinical studies in Europe, where some of our obligations are incurred in Euros. Although fluctuations in exchange rates have an effect on our payment obligations, such fluctuations have not had a material impact on our financial condition or results of operations as of or for the three-month period ended March 31, 2006. In the past, we have not

hedged against this foreign currency risk; however, we expect to do so in the future as a greater portion of our expenditures are expected to be stated in foreign currency.

ITEM 4. Controls and Procedures

We have established disclosure controls and procedures (as such terms are defined in Rules 13(a)-15(e) and 15(d)-15(e)) under the Securities Exchange Act of 1934), as amended (the "Exchange Act") that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (our principal executive officer) and Vice President Finance (our principal financial officer), as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching our desired disclosure control objectives.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Vice President Finance, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2006, the end of the period covered by this report (Evaluation Date). Based on the foregoing, our Chief Executive Officer and Vice President Finance concluded that our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

Sumatriptan succinate injection Paragraph IV Litigation

In October 2004, we filed with the FDA an ANDA for sumatriptan succinate injection 6mg/0.5mL seeking approval to engage in the commercial manufacture, sale, and use of the sumatriptan succinate injection product in the United States. Sumatriptan succinate injection is marketed by GlaxoSmithKline under the brand name Imitrex® injection and is used for the acute treatment of migraine attacks with or without aura and the acute treatment of cluster headache episodes in adults.

GlaxoSmithKline has two patents for sumatriptan succinate injection listed in the FDA's Orange Book, which is the FDA's listing of approved drug products. The exclusivity afforded the two patents listed in the Orange Book for Imitrex® injection will expire on June 28, 2007 and February 6, 2009, respectively, in each case including extensions for pediatric exclusivity. Our ANDA includes a "Paragraph IV" certification that the later to expire patent associated with GlaxoSmithKline's Imitrex® injection, is invalid, unenforceable and will not be infringed by our generic product candidate.

On February 18, 2005, GlaxoSmithKline filed a lawsuit against us in the United States District Court for the District of Delaware, alleging infringement of the patent on Imitrex® injection. Pursuant to the Hatch-Waxman Act, the FDA is stayed from approving our ANDA until the earlier of a final, non-appealed or non-appealable court decision finding the patent invalid, unenforceable or not infringed or the expiration of the 30 month period that began with GlaxoSmithKline's receipt of our notice of ANDA acceptance. Often more than one company will file an ANDA that includes a Paragraph IV certification. However, the Hatch-Waxman Act provides that such subsequent ANDA applications will not be approved until 180 days after the earlier of (1) the date of the first commercial marketing of the first-filed ANDA applicant's generic drug or (2) the date of a decision of a court in an action holding the relevant patent invalid, unenforceable, or not infringed. Thus, the Hatch-Waxman Act effectively grants the first-filed ANDA holder 180 days of marketing exclusivity for the generic product. We believe that our

ANDA was the first filed ANDA containing a Paragraph IV certification in connection with sumatriptan succinate injection 6mg/0.5mL. If the filing of our ANDA is found to infringe a valid and enforceable patent, GlaxoSmithKline could seek an injunction to block the launch of our generic product until the patent expires.

While it is not possible to determine with any degree of certainty the ultimate outcome of the foregoing legal proceedings, we believe that we have substantial meritorious basis for our Paragraph IV challenge of GlaxoSmithKline patent for sumatriptan succinate injection 6mg/0.5mL. Fact discovery is complete and expert discovery is scheduled to be completed on May 12, 2006. Trial is set on November 14, 2006. Pursuant to our agreement with Par, Par shall provide financial and legal support, including payment of legal expenses going forward, for the sumatriptan litigation.

Other

We are sometimes involved in matters of litigation that we consider ordinary routine litigation incidental to our business. We are not aware of any pending litigation matters that will materially affect our financial statements.

ITEM IA. Risk Factors

RISK FACTORS

An investment in our common stock involves a high degree of risk. Our business, financial condition, operating results and prospects can be impacted by a number of factors, any one of which could cause our actual results to differ materially from recent results or from our anticipated future results. As a result, the trading price of our common stock could decline, and you could lose a part or all of your investment. You should carefully consider the risks described below with all of the other information included in this Quarterly Report. Failure to satisfactorily achieve any of our objectives or avoid any of the risks described below or other risks listed in our Annual Report on Form 10-K would likely have a material adverse effect on our business and results of operations.

Risks Related to Our Business

Our losses will continue to increase as we expand our development efforts, and our efforts may never result in profitability.

Our cumulative losses since our inception in 1987 through March 31, 2006 were in excess of $190 million. We lost approximately $19 million in 2005, $12 million in 2004, and $10 million in 2003, and approximately $6 million in the three-month period ended March 31, 2006. We expect to continue to incur losses in the future, particularly as we continue to invest in the development of our drug product candidates, acquire additional drug candidates and expand the scope of our operations. We have received FDA approval to market three generic drug products, ciprofloxacin tablets, fluconazole tablets and carboplatin injection, in the United States and recorded modest revenue in 2004 and 2005. However, we may never achieve significant revenues from sales of products or become profitable. Even if we eventually generate significant revenues from sales, we will likely continue to incur losses over the next several years.

Our business does not generate the cash needed to finance our ongoing operations and therefore, we may need to continue to raise additional capital.

Our current business operations do not generate sufficient operating cash to finance the clinical development of our drug product candidates. We have historically relied primarily on raising capital through the sale of our securities and out-licensing our drug candidates and technology to meet our financial needs. While anticipated profits from the sale of generic drugs, if we are successful in generating significant revenues from generics, may help defray some of the expenses of operating our business, we believe that in order to prepare the Company for continued future drug product development and acquisition, and to capitalize on growth opportunities, we may need to continue to raise funds through public or private financings.

We may not be able to raise additional capital on favorable terms, if at all. Accordingly, we may be forced to significantly change our business plans and restructure our operations to conserve cash, which would likely involve

out-licensing or selling some or all of our intellectual, technological and tangible property not presently contemplated and at terms that we believe would not be favorable to us, and/or reducing the scope and nature of our currently planned drug development activities. An inability to raise additional capital would also impact our ability to expand operations.

Clinical trials may fail to demonstrate the safety and efficacy of our proprietary drug candidates, which could prevent or significantly delay obtaining regulatory approval.

Prior to receiving approval to commercialize any of our proprietary drug candidates, we must demonstrate with substantial evidence from well-controlled clinical trials, and to the satisfaction of the FDA and other regulatory authorities in the United States and other countries, that each of the products is both safe and effective. For each product candidate, we will need to demonstrate its efficacy and monitor its safety throughout the process. If such development is unsuccessful, our business and reputation would be harmed and our stock price would be adversely affected.

All of our product candidates are prone to the risks of failure inherent in drug development. The results of pre-clinical studies and early-stage clinical trials of our product candidates do not necessarily predict the results of later-stage clinical trials. Later-stage clinical trials may fail to demonstrate that a product candidate is safe and effective despite having progressed through initial clinical testing. Even if we believe the data collected from clinical trials of our drug candidates are promising, such data may not be sufficient to support approval by the FDA or any other United States or foreign regulatory approval. Pre-clinical and clinical data can be interpreted in different ways.

Accordingly, FDA officials could interpret such data in different ways than we or our partners do, which could delay, limit or prevent regulatory approval. The FDA, other regulatory authorities, our institutional review boards, our contract research organizations, or we may suspend or terminate our clinical trials for our drug candidates. Any failure or significant delay in completing clinical trials for our product candidates, or in receiving regulatory approval for the sale of any drugs resulting from our drug candidates, may severely harm our business and reputation. Even if we receive FDA and other regulatory approvals, our product candidates may later exhibit adverse effects that may limit or prevent their widespread use, may cause the FDA to revoke, suspend or limit their approval, or may force us to withdraw products derived from those candidates from the market.

Our proprietary drug candidates, their target indications, and status of development are summarized in the following table:

Drug Candidate	Target Indication	Development Status
Satraplatin	Hormone Refractory Prostate Cancer	Late phase 3; rolling NDA submission has begun
	Metastatic breast cancer	Phase 2
	With Taxol® in Non-small Cell Lung Cancer	Phase 2
	With radiation therapy in Non-small Cell Lung Cancer	Phase 1/2
	With Taxotere® in advanced solid tumors	Phase 1
Levofolinic acid (LFA),	Osteogenic Sarcoma	NDA on file with FDA; CMC responses pending
	Colorectal Cancer	
EOquin™	Superficial Bladder Cancer	Phase 2 completed; end of phase 2 meeting held with the FDA; IND filed
Elsamitrucin	Refractory non-Hodgkin’s Lymphoma	Phase 2
Ozarelix (formerly SPI-153)	Hormone Dependent Prostate Cancer	Phase 1/2
	Benign Prostatic Hypertrophy	Phase 2
Lucanthone	Radiation Sensitizer for Brain Tumors and Brain Metastases	Phase 2
RenaZorb™	Hyperphosphatemia in End-stage Renal Disease	Pre-clinical
SPI-1620	Adjunct to Chemotherapy	Pre-clinical
SPI-205	Chemotherapy Induced Neuropathy	Pre-clinical

The development of our drug candidate, satraplatin, depends on the efforts of a third party and, therefore, its eventual success or commercial viability is largely beyond our control.

In 2002, we entered into a co-development and license agreement with GPC Biotech AG for the worldwide development and commercialization of our lead drug candidate, satraplatin. GPC Biotech has agreed to fully fund development and commercialization expenses for satraplatin. We do not have control over the drug development process and therefore the success of our lead drug candidate depends upon the efforts of GPC Biotech and its new sublicensee, Pharmion Corporation. GPC Biotech and Pharmion Corporation may not be successful in the clinical development of the drug, the achievement of any additional milestones such as the acceptance of a New Drug Application, or NDA, filing by the FDA, or the eventual commercialization of satraplatin.

We may not be able to obtain co-promotion rights in the United States with regard to our drug candidate, satraplatin, under our co-development and license agreement with GPC Biotech AG which may adversely affect our ability to timely establish our own sales force in the United States, if and when we choose to do so.

Pursuant to the terms of our co-development and license agreement with GPC Biotech, in the event GPC Biotech determines to market satraplatin itself within the United States, we will have the right to co-promote satraplatin in the United States with GPC Biotech pursuant to terms to be negotiated by both parties. If GPC Biotech grants rights to a third party to market satraplatin in the United States, then GPC Biotech is only obligated to use commercially reasonable efforts to obtain co-promotion rights for us with such third party. Therefore, we may not be able to obtain co-promotion rights for satraplatin in the United States, which may adversely affect our ability to timely establish our own sales force in the United States, if and when we choose to do so.

The development of our drug candidate, ozarelix, may be adversely affected if the development efforts of Zentaris GmbH who retained certain rights to the product, are not successful.

Zentaris GmbH licensed the rights to us to develop and market ozarelix in the United States, Canada, Mexico and India. Zentaris may conduct their own clinical trials on ozarelix for regulatory approval in other parts of the world. We will not have control over Zentaris' efforts in this area. and our own development efforts for ozarelix may be adversely impacted if their efforts are not successful.

The eventual FDA approval and subsequent marketing and sale of our drug candidate LFA, may be adversely affected by the marketing and sale efforts of third parties who sell LFA outside North America.

We have only licensed the rights to develop, market and sell LFA in North America. Other companies, such as Wyeth and Sanofi-Aventis Inc., market and sell LFA in other parts of the world. If, as a result of their actions, negative publicity is associated with LFA, our own efforts to successfully receive FDA approval for, and subsequently, market and sell LFA, may be adversely impacted.

From time to time we may need to license patents, intellectual property and proprietary technologies from third parties, which may be difficult or expensive to obtain.

We may need to obtain licenses to patents and other proprietary rights held by third parties to successfully develop, manufacture and market our drug products. As an example, it may be necessary to use a third party's proprietary technology to reformulate one of our drug products in order to improve upon the capabilities of the drug product. If we are unable to timely obtain these licenses on reasonable terms, our ability to commercially exploit our drug products may be inhibited or prevented.

The inability to retain and attract key personnel could significantly hinder our growth strategy and might cause our business to fail.

Our success depends upon the contributions of our key management and scientific personnel, especially Dr. Rajesh C. Shrotriya, our Chairman, President and Chief Executive Officer and Dr. Luigi Lenaz, our Chief Scientific Officer. Dr. Shrotriya has been President since 2000 and Chief Executive Officer since 2002, and has spearheaded the major changes in our business strategy and coordinated our structural reorganization. Dr. Lenaz has been President of our Oncology Division from November 2000 to February 2005 and Chief Scientific Officer since February 2005, and has played a key role in the identification and development of our proprietary drug candidates. The loss of the services of Dr. Shrotriya, Dr. Lenaz or any other key personnel could delay or preclude us from achieving our business objectives. Dr. Shrotriya has an employment agreement with us that will expire on December 31, 2006, with automatic one-year renewals thereafter unless we, or Dr. Shrotriya, give notice of intent not to renew at least 90 days in advance of the renewal date. Dr. Lenaz has an employment agreement with us that will expire on

July 1, 2007, with automatic one-year renewals thereafter unless we, or Dr. Lenaz, give notice of intent not to renew at least 90 days in advance of the renewal date.

We also may need substantial additional expertise in marketing, pharmaceutical drug development and other areas in order to achieve our business objectives. Competition for qualified personnel among pharmaceutical companies is intense, and the loss of key personnel, or the delay or inability to attract and retain the additional skilled personnel required for the expansion of our business, could significantly damage our business.

Our collaborations with outside scientists may be subject to change, which could limit our access to their expertise.

We work with scientific advisors and collaborators at academic research institutions. These scientists are not our employees and may have other commitments that would limit their availability to us. If a conflict of interest between their work for us and their work for another entity arises, we may lose their services. Although our scientific advisors and academic collaborators sign agreements not to disclose our confidential information, it is possible that some of our valuable proprietary knowledge may become publicly known through them.

We are dependent on third parties for manufacturing and may be for the marketing of our proposed proprietary products. If we are not able to secure favorable arrangements with such third parties, our business and financial condition could be harmed.

We will not manufacture any of our proposed proprietary products for commercial sale nor do we have the resources necessary to do so. In addition, we currently do not have the capability to market our drug products ourselves. We intend to contract with larger pharmaceutical companies to manufacture our proposed proprietary products. In connection with our efforts to commercialize our proposed proprietary products, we may seek to secure favorable arrangements with third parties to promote and market our proposed proprietary products. If we are not able to secure favorable commercial terms or arrangements with third parties for marketing and promotion of our proposed proprietary products, we may choose to retain promotional and marketing rights and seek to develop the commercial resources necessary to promote or co-promote or co-market certain or all of our proprietary drug candidates to the appropriate channels of distribution in order to reach the specific medical market that we are targeting. We may not be able to enter into any partnering arrangements on this or any other basis. If we are not able to secure favorable partnering arrangements, or are unable to develop the appropriate resources necessary for the commercialization of our proposed proprietary products, our business and financial condition could be harmed. In addition, we will have to hire additional employees or consultants, since our current employees have limited experience in these areas. Sufficient employees with relevant skills may not be available to us. Any increase in the number of our employees would increase our expense level, and could have an adverse effect on our financial position.

In addition, we, or our potential commercial partners, may not successfully introduce our proposed proprietary products or our proposed proprietary products may not achieve acceptance by patients, health care providers and insurance companies. Further, it is possible that we may not be able to secure arrangements to manufacture and market our proposed proprietary products at favorable commercial terms that would permit us to make a profit. To the extent that corporate partners conduct clinical trials, we may not be able to control the design and conduct of these clinical trials.

We may rely on contract research organizations and other third parties to conduct clinical trials and, in such cases, we are unable to directly control the timing, conduct and expense of our clinical trials.

We may rely, in full or in part, on third parties to conduct our clinical trials. In such situations, we have less control over the conduct of our clinical trials, the timing and completion of the trials, the required reporting of adverse events and the management of data developed through the trial than would be the case if we were relying entirely upon our own staff. Communicating with outside parties can also be challenging, potentially leading to mistakes as well as difficulties in coordinating activities. Outside parties may have staffing difficulties, may undergo changes in priorities or may become financially distressed, adversely affecting their willingness or ability to conduct our trials. We may experience unexpected cost increases that are beyond our control. Problems with the timeliness or quality of the work of a contract research organization may lead us to seek to terminate the relationship and use

an alternative service provider. However, making this change may be costly and may delay our trials, and contractual restrictions may make such a change difficult or impossible. Additionally, it may be impossible to find a replacement organization that can conduct our trials in an acceptable manner and at an acceptable cost.

We may have conflicts with our partners that could delay or prevent the development or commercialization of our product candidates.

We may have conflicts with our partners, such as conflicts concerning the interpretation of preclinical or clinical data, the achievement of milestones, the interpretation of contractual obligations, payments for services, development obligations or the ownership of intellectual property developed during our collaboration. If any conflicts arise with any of our partners, such partner may act in a manner that is adverse to our best interests. Any such disagreement could result in one or more of the following, each of which could delay or prevent the development or commercialization of our product candidates, and in turn prevent us from generating revenues:

- unwillingness on the part of a partner to pay us milestone payments or royalties we believe are due to us under a collaboration;
- uncertainty regarding ownership of intellectual property rights arising from our collaborative activities, which could prevent us from entering into additional collaborations;
- unwillingness by the partner to cooperate in the development or manufacture of the product, including providing us with product data or materials;
- unwillingness on the part of a partner to keep us informed regarding the progress of its development and commercialization activities or to permit public disclosure of the results of those activities;
- initiating of litigation or alternative dispute resolution options by either party to resolve the dispute; or
- attempts by either party to terminate the agreement.

Our efforts to acquire or in-license and develop additional proprietary drug candidates may fail, which would limit our ability to grow our proprietary business.

The long-term success of our strategy depends in part on our ability to acquire or in-license drug candidates in addition to those drug candidates currently in our existing portfolio. We are actively seeking to acquire, or in-license, additional proprietary drug candidates that demonstrate the potential to be both medically and commercially viable. We have certain criteria that we are looking for in any drug candidate acquisition and we may not be successful in locating and acquiring, or in-licensing, additional desirable drug candidates on acceptable terms. In addition, many other large and small companies within the pharmaceutical and biotechnology industry seek to establish collaborative arrangements for product research and development, or otherwise acquire products in late-stage clinical development, in competition with us. We face additional competition from public and private research organizations, academic institutions and governmental agencies in establishing collaborative arrangements for product candidates in late-stage clinical development. Many of the companies and institutions that compete against us have substantially greater capital resources, research and development staffs and facilities than we have, and greater experience in conducting business development activities. These entities represent significant competition to us as we seek to expand our pipeline through the in-license or acquisition of compounds. Moreover, while it is not feasible to predict the actual cost of acquiring additional product candidates, that cost could be substantial and we may need to raise additional financing or issue additional equity securities, either of which may further dilute existing stockholders, in order to acquire new product candidates.

We are a small company relative to our principal competitors and our limited financial resources may limit our ability to develop and market our drug products.

Many companies, both public and private, including well-known pharmaceutical companies and smaller niche-focused companies, are developing products to treat many if not all of the diseases we are pursuing; or are currently distributing or may be developing generic drug products directly competitive to the generic drugs we intend to develop, market and distribute. Many of these companies have substantially greater financial, research and

development, manufacturing, marketing and sales experience and resources than us. As a result, our competitors may be more successful than us in developing their products, obtaining regulatory approvals and marketing their products to consumers.

Competition for branded or proprietary drugs is less driven by price and is more focused on innovation in treatment of disease, advanced drug delivery and specific clinical benefits over competitive drug therapies. We have nine proprietary drug candidates currently under development. We may not be successful in any or all of these studies; or if successful, and if one or more of our proprietary drug candidates is approved by the FDA, we may encounter direct competition from other companies who may be developing products for similar or the same indications as our drug candidates. Companies that have products on the market or in research and development that target the same indications as our products target include Ardana Bioscience, Astra Zeneca LP, Amgen, Inc., Bayer AG, Bioniche Life Sciences Inc., Eli Lilly and Co., Ferring Pharmaceuticals, NeoRx Corporation, Genentech, Inc., Novartis Pharmaceuticals Corporation, Bristol-Myers Squibb Company, GlaxoSmithKline, Biogen-IDEC Pharmaceuticals, Inc., OSI Pharmaceuticals, Inc., Cephalon, Inc., Sanofi-Aventis Inc., Pfizer, Inc., AVI Biopharma, Inc., Chiron Corp., Genta Inc., Genzyme Corporation, Imclone Systems Incorporated, Millennium Pharmaceuticals, MGI Pharma, Inc., SuperGen, Inc., Shire Pharmaceuticals, TAP Pharmaceuticals, Inc., QLT Inc., Threshold Pharmaceuticals, Inc., Roche Pharmaceuticals, Schering-Plough, Johnson & Johnson and others who may be more advanced in development of competing drug candidates or are more established and are currently marketing products for the treatment of various indications that our drug candidates target. Many of our competitors are large and well capitalized companies focusing on a wide range of diseases and drug indications, and have substantially greater financial, research and development, marketing, human and other resources than we do. Furthermore, large pharmaceutical companies have significantly more experience than we do in pre-clinical testing, human clinical trials and regulatory approval procedures, among other things.

Our proprietary drug candidates may not be more effective, safer or more cost efficient than competing drugs and otherwise may not have any competitive advantage, which could hinder our ability to successfully commercialize our drug candidates.

Any proprietary product for which we obtain FDA approval must compete for market acceptance and market share. Drugs produced by other companies are currently on the market for each disease type we are pursuing. Even if one or more of our drug candidates ultimately received FDA approval, our drug candidates may not have better efficacy in treating the target indication than a competing drug, may not have a more favorable side-effect profile than a competing drug, may not be more cost efficient to manufacture or apply, or otherwise may not demonstrate a competitive advantage over competing therapies. Accordingly, even if FDA approval is obtained for one or more of our drug candidates, they may not gain acceptance by the medical field or become commercially successful.

We are dependent on a third party to market, sell and distribute our generic products.

In February 2006, we entered into a development and marketing agreement with Par Pharmaceutical Companies, Inc., whereby Par has agreed to market, sell and distribute our current and certain of our future generic products. While we have responsibility for all development activities associated with the generic drugs selected, we have certain input into the overall product selection, API supplier selection, quality and manufacturing, marketing and selling decisions for our generic drugs. Par has the ultimate responsibility for the selling and marketing of the generic drug products and therefore the success of our generic products depends upon the specific selling and marketing efforts undertaken by Par. Par may not be successful in the marketing of any of our generic products, which may adversely affect our ability to commercially exploit our generic drug products.

Intense competition from a large number of generic companies may make the marketing and sale of our generic drugs not commercially feasible and not profitable.

We will be competing against generic companies such as Teva Pharmaceuticals, Sandoz, Barr Laboratories, Mylan Laboratories Inc., Watson Pharmaceuticals, Inc., Genpharm, Dr. Reddy’s, Ranbaxy, American Pharmaceutical Partners, Bedford Laboratories, Mayne Pharmaceuticals and others. In addition, we anticipate that many foreign manufacturers will continue to enter the generic market due to low barriers to entry. These companies may have greater economies of scale in the production of their products and, in certain cases, may produce their own product supplies, such as active pharmaceutical ingredients, or can procure product supplies on more favorable

terms which may provide significant cost and supply advantages to customers in the retail prescription market. We expect that the generic market will be competitive and will be largely dominated by the competitors listed above who will target many, if not all, of the same products for development as us.

Price and other competitive pressures may make the marketing and sale of our generic drugs not commercially feasible and not profitable.

The generic drug market in the United States is extremely competitive, characterized by many domestic and foreign participants and constant downward price pressure on generic drug prices. Consequently, margins are continually reduced and it is necessary to continually introduce new products to achieve and maintain profitability. We have only obtained regulatory approval for three of our generic drug candidates. While we have entered into agreements with third parties to manufacture the drug products for us, given the price volatility of the generic market, we believe it is imprudent to enter into definitive agreements on transfer prices with the manufacturers of our generic drug product candidates prior to FDA approval, and we do not expect to do so until we receive FDA approval and are ready to begin selling the generic drug products. Our ability to compete effectively in the generic drug market depends largely on our ability to obtain transfer price agreements that ensure a supply of our generic drug products at favorable prices. Even if we obtain regulatory approval to market our generic drug candidates in the United States, we may not be able to complete a transfer price arrangement with the manufacturers of the drug candidates that will allow us to market the generic drug products in the United States on terms favorable to us, or at all.

Failure to obtain timely approval of our generic product candidates by regulatory agencies, including the Food and Drug Administration, may make it difficult to capture enough market share to make a profit.

If we fail to obtain approval of our ANDAs from the FDA in a timely manner, preferably before the patent and any additional exclusivity granted by the FDA to the branded drug product expire, our profitability will be significantly affected due to the significant price erosion caused by the typically large number of the generic companies entering the market. We did not obtain approval of our ANDAs for ciprofloxacin tablets, fluconazole tablets and carboplatin injection prior to the expirations of the patents and exclusivities granted by the FDA to the corresponding branded products. Many other companies had received timely approval from the FDA to market the products, and, therefore, there was a significant reduction in the market price for the products by the time we entered the market. The patents and all exclusivities for our four ophthalmic products and three of our undisclosed products have previously expired (two are still covered by a patent), and a number of other companies are currently selling their own generic versions of the products. Our ability to achieve a profit may be significantly harmed as we have observed significant reductions in the market prices for these products as well. The patents for sumatriptan succinate injection, the generic version of Imitrex®, marketed by GlaxoSmithKline, for which we filed an ANDA with paragraph IV certification in October 2004, have not yet expired.

We may not be successful in establishing additional active pharmaceutical ingredient or finished dose generic drug supply relationships, which would limit our ability to grow our generic drug business.

Long-term success in the marketing of generic drugs depends in part upon our ability to maintain, expand and enhance our existing relationships and establish new sources of supply for active pharmaceutical ingredients (API) or for the manufacture of our finished dose generic drug products. We do not presently intend to focus our research and development efforts on developing active pharmaceutical ingredients or manufacturing of dosage form for generic drugs. In addition, we currently have no capacity to manufacture APIs or finished dose generic drug products and do not intend to spend our capital resources to develop the capacity to do so. Therefore, we must rely on relationships with API suppliers and other contract manufacturing organizations (CMOs) to supply our active pharmaceutical ingredients and finished dose generic drug products. We may not be successful in maintaining, expanding or enhancing our existing relationships or in securing new relationships with API suppliers or CMOs. If we fail to maintain or expand our existing relationships or secure new relationships, our ability to sustain and expand our generic drug business will be harmed.

Our supply of drug products will be dependent upon the production capabilities of contract manufacturing organizations (CMO's) and component and packaging supply sources, which may limit our ability to meet demand for our products and ensure regulatory compliance.

We have no internal manufacturing capacity for our drug product candidates, and, therefore, we have entered into agreements with CMOs to supply us with active pharmaceutical ingredients and our finished dose drug products, subject to further agreement on pricing for particular drug products. Consequently, we will be dependent on our CMO partners for our supply of drug products. Some of these manufacturing facilities are located outside the United States. The manufacture of finished drug products, including the acquisition of compounds used in the manufacture of the finished drug product, may require considerable lead times. Further, with regard to our generic drug products, sales of a new generic drug product may be difficult to forecast. We will have little or no control over the production process. Accordingly, while we do not currently anticipate shortages of supply, there could arise circumstances in which market demand for a particular generic product could outstrip the ability of our supply source to timely manufacture and deliver the product, thereby causing us to lose sales.

Reliance on CMO's entails risks to which we would not be subject if we manufactured products ourselves, including reliance on the third party for regulatory compliance and adhering to FDA's current Good Manufacturing Practices, or cGMP, requirements, the possible breach of the manufacturing agreement by the CMO because of factors beyond our control and the possibility of termination or non-renewal of the agreement by the CMO, based on its own business priorities, at a time that is costly or inconvenient for us. Before we can obtain marketing approval for our product candidates, our CMO facilities must pass an FDA pre-approval inspection. In order to obtain approval, all of the facility's manufacturing methods, equipment and processes must comply with cGMP requirements. The cGMP requirements govern all areas of record keeping, production processes and controls, personnel and quality control. Any failure of our third party manufacturers or us to comply with applicable regulations, including an FDA pre-approval inspection and cGMP requirements, could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of our products, delay, suspension or withdrawal of approvals, license revocation, seizures or recalls of product, operation restrictions and criminal prosecutions, any of which could significantly and adversely affect our business.

GlaxoSmithKline filed suit in United States federal court asserting that we have infringed one of their patents for Imitrex® injection by filing our ANDA for sumatriptan injection, the generic form of Imitrex® injection. This challenge may prevent us from commercializing sumatriptan until after the patent has expired and may require us to incur the significant effort of technical and management personnel.

On February 18, 2005, GlaxoSmithKline filed suit in United States federal court to prevent us from proceeding with the commercialization of our generic form of sumatriptan injection. Since patent litigation has been initiated, the FDA will not approve our ANDA until the earlier of 30 months from GlaxoSmithKline's receipt of our notice of ANDA acceptance (the 30-month stay) or the issuance of a final non-appealed, or non-appealable court decision finding the Imitrex® patent we are currently challenging invalid, unenforceable or not infringed. If the patent is found to be infringed by the filing of our ANDA, GlaxoSmithKline could seek an injunction to block the launch of our generic product until the patent expires. This would prohibit us from obtaining the 180-day marketing exclusivity afforded by the FDA to companies who are the first to file an ANDA with a paragraph IV certification for a generic equivalent to a brand name product. We believe we are the first to file an ANDA with a paragraph IV certification for sumatriptan injection.

Our continued defense against the charge of infringement by GlaxoSmithKline could require us to divert significant effort of our technical and management personnel away from their regular activities in our business, which could substantially hinder our ability to conduct, advance and grow our business.

In addition, through our strategic alliance with Par, Par will provide us with financial and legal support and therefore, the success of our defense is dependent on their efforts as well.

Risks Related to Our Industry

Rapid bio-technological advancement may render our drug candidates obsolete before we recover expenses incurred in connection with their development. As a result, our drug products may never become profitable.

The pharmaceutical industry is characterized by rapidly evolving biotechnology. Biotechnologies under development by other pharmaceutical companies could result in treatments for diseases and disorders for which we are developing our own treatments. Several other companies are engaged in research and development of compounds that are similar to our research. A competitor could develop a new biotechnology, product or therapy that has better efficacy, a more favorable side-effect profile or is more cost effective than one or more of our drug candidates and thereby cause our drug candidate to become commercially obsolete. Some of our drug candidates may become obsolete before we recover the expenses incurred in their development. As a result, such products may never become profitable.

Competition for patients in conducting clinical trials may prevent or delay product development and strain our limited financial resources.

Many pharmaceutical companies are conducting clinical trials in patients with the disease indications that our drug candidates target. As a result, we must compete with them for clinical sites, physicians and the limited number of patients who fulfill the stringent requirements for participation in clinical trials. Also, due to the confidential nature of clinical trials, we do not know how many of the eligible patients may be enrolled in competing studies and consequently not available to us. Our clinical trials may be delayed or terminated due to the inability to enroll enough patients to complete our clinical trials. Patient enrollment depends on many factors, including the size of the patient population, the nature of the trial protocol, the proximity of patients to clinical sites and the eligibility criteria for the study. The delay or inability to meet planned patient enrollment may result in increased costs and delays or termination of the trial, which could have a harmful effect on our ability to develop products.

The ability of branded competitors to successfully limit or delay competition for certain generic products through legislative, regulatory and litigation efforts, may limit our ability to generate revenue from the sale of our generic products.

In addition to competitive pressures related to price, we may face opposition from the producers of the branded versions of the generic drugs for which we obtain approval. Branded pharmaceutical companies have aggressively sought to prevent generic competition, including the extensive use of litigation. On February 18, 2005, GlaxoSmithKline filed suit in United States federal court to prevent us from proceeding with the commercialization of our generic version of Imitrex® injection which action formally initiates our challenge of one of the patents listed by GlaxoSmithKline in connection with Imitrex® injection. For information regarding the risks of this litigation, please see the risk factor below.

In addition, many branded pharmaceutical companies increasingly have used state and federal legislative and regulatory means to delay generic competition. These efforts have included:

- pursuing new patents for existing products which may be granted just before the expiration of one patent, which could extend patent protection for a number of years or otherwise delay the launch of generics;
- using the citizen petition process, a process by which any person can submit a petition to the Commissioner of the FDA to issue, amend or revoke a regulation or order or take or refrain from taking any other administrative action, to request amendments to FDA standards;
- seeking changes to the United States Pharmacopoeia, an organization, which publishes industry, recognized compendia of drug standards;
- attaching patent extension amendments to non-related federal legislation; and
- obtaining regulatory approval of new dosage strengths, dosage forms and/or formulations to try and obtain regulatory exclusivities or move consumers away from the generic product.

Also, branded pharmaceutical companies are selling generic versions of their own branded drugs, or authorizing other companies to sell generic versions. This could hurt our ability to capture market share and generate profits, especially if we are granted 180 days marketing exclusivity for one of our generic drugs.

We may not be successful in obtaining regulatory approval to market and sell our proprietary or generic drug candidates.

Before our proprietary drug candidates can be marketed and sold, regulatory approval must be obtained from the FDA and comparable foreign regulatory agencies. We must demonstrate to the FDA and other regulatory authorities in the United States and abroad that our product candidates satisfy rigorous standards of safety and efficacy. We will need to conduct significant additional research, pre-clinical testing and clinical testing, before we can file applications with the FDA for approval of our product candidates. The process of obtaining FDA and other regulatory approvals is time consuming, expensive, and can be difficult to design and implement. The review and approval, or denial, process for an application can take years. The FDA, or comparable foreign regulatory agencies, may not timely, or ever, approve an application. Among the many possibilities, the FDA may require substantial additional testing or clinical trials or find our drug candidate is not sufficiently safe or effective in treating the targeted disease.

This could result in the denial or delay of product approval. Our product development costs will increase if we experience delays in testing or approvals. Further, a competitor may develop a competing drug or therapy that impairs or eliminates the commercial feasibility of our drug candidates.

In order to obtain approval for our generic drug candidates, we will need to scientifically demonstrate that our drug product is safe and bioequivalent to the innovator drug. The FDA may not agree that our safety and bioequivalence studies provide sufficient support for approval. This could result in denial or delay of FDA approval of our generic products. Generic drugs generally have a relatively short window in which they can be profitable before other manufacturers introduce competing products that impose downward pressure on prices and reduce market share for other versions of the generic drug. Consequently, delays in obtaining FDA approval may also significantly impair our ability to compete.

Our failure to comply with governmental regulations may delay or prevent approval of our product candidates and/or subject us to penalties.

The FDA and comparable agencies in foreign countries impose many requirements on the introduction of new drugs through lengthy and detailed clinical testing and data collection procedures, and other costly and time consuming compliance procedures. If partners, our contract research organizations, or we fail to comply with the regulations applicable to our clinical testing, the FDA may delay, suspend or cancel our clinical trials, or the FDA might not accept the test results. The FDA, an institutional review board at our clinical trial sites, our third party investigators, any comparable regulatory agency in another country, or we, may suspend clinical trials at any time if the trials expose subjects participating in such trials to unacceptable health risks. Further, human clinical testing may not show any current or future product candidate to be safe and effective to the satisfaction of the FDA or comparable regulatory agencies or the data derived from the clinical tests may be unsuitable for submission to the FDA or other regulatory agencies.

Once we submit a drug candidate for commercial sale approval, the FDA or other regulatory agencies may not issue their approvals on a timely basis, if at all. If we are delayed or fail to obtain these approvals, our business and prospects may be significantly damaged. Even if we obtain regulatory approval for our product candidates, we, our partners, our manufacturers, and other contract entities will continue to be subject to extensive requirements by a number of national, foreign, state and local agencies. These regulations will impact many aspects of our operations, including testing, research and development, manufacturing, safety, effectiveness, labeling, storage, quality control, adverse event reporting, record keeping, approval, advertising and promotion of our future products. Failure to comply with applicable regulatory requirements could, among other things, result in:

- fines;
- changes in advertising;
- revocation or suspension of regulatory approvals of products;
- product recalls or seizures;

- delays, interruption, or suspension of product distribution, marketing and sale;
- civil or criminal sanctions; and/or
- refusals to approve new products.

The discovery of previously unknown problems with drug products approved to go to market may raise costs or prevent us from marketing such product.

The later discovery of previously unknown problems with our products may result in restrictions of the product, including withdrawal from manufacture. In addition, the FDA may revisit and change its prior determinations with regard to the safety and efficacy of our future products. If the FDA's position changes, we may be required to change our labeling or to cease manufacture and marketing of the challenged products. Even prior to any formal regulatory action, we could voluntarily decide to cease the distribution and sale or recall any of our future products if concerns about their safety or effectiveness develop.

Our failure to comply with advertising regulations enforced by the FDA and the Federal Trade Commission may subject us to sanctions, damage our reputation and adversely affect our business condition.

In their regulation of advertising, the FDA and the Federal Trade Commission from time to time issue correspondence alleging that some advertising or promotional practices are false, misleading or deceptive. The FDA has the power to impose a wide array of sanctions on companies for such advertising practices, and the receipt of correspondence from the FDA alleging these practices could result in any of the following:

- incurring substantial expenses, including fines, penalties, legal fees and costs to comply with the FDA's requirements;
- changes in the methods of marketing and selling products;
- taking FDA-mandated corrective action, which may include placing advertisements or sending letters to physicians, rescinding previous advertisements or promotions; and/or
- disruption in the distribution of products and loss of sales until compliance with the FDA's position is obtained.

If we were to become subject to any of the above requirements, it could be damaging to our reputation, and our business condition could be adversely affected.

Physicians may prescribe pharmaceutical products for uses that are not described in a product's labeling or differ from those tested by us and approved by the FDA. While such "off-label" uses are common and the FDA does not regulate physicians' choice of treatments, the FDA does restrict a manufacturer's communications on the subject of off-label use. Companies cannot actively promote FDA-approved pharmaceutical products for off-label uses, but they may disseminate to physicians articles published in peer-reviewed journals. If our promotional activities fail to comply with the FDA's regulations or guidelines, we may be subject to warnings from, or enforcement action by, the FDA.

Legislative or regulatory reform of the healthcare system and pharmaceutical industry may hurt our ability to sell our products profitably or at all.

In both the United States and certain foreign jurisdictions, there have been and may continue to be a number of legislative and regulatory proposals to change the healthcare system and pharmaceutical industry in ways that could impact upon our ability to sell our products profitably. Sales of our products depend in part on the availability of reimbursement from third party payers such as government health administration authorities, private health insurers, health maintenance organizations including pharmacy benefit managers and other health care-related organizations. Both the federal and state governments in the United States and foreign governments continue to propose and pass

new legislation, rules and regulations designed to contain or reduce the cost of health care, including, the Medicare Prescription Drug, Improvement and Modernization Act of 2003, or the Medicare Modernization Act, was recently enacted. This legislation provides a new Medicare prescription drug benefit beginning in 2006 and mandates other reforms. Also, the passage of the Medicare Modernization Act reduces reimbursement for certain drugs used in the treatment of cancer. The new benefit, which will be managed by private health insurers, pharmacy benefit managers and other managed care organizations, may result in decreased reimbursement for prescription drugs, which may further exacerbate industry-wide pressure to reduce the prices charged for prescription drugs. This could harm our ability to market our products and generate revenues.

It is possible that other proposals will be adopted or existing regulations that affect the price of pharmaceutical and other medical products may also change before any of our products are approved for marketing. Cost control initiatives could decrease the price that we receive for any of our products we are developing. In addition, third party payers are increasingly challenging the price and cost-effectiveness of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved pharmaceutical products. Our products may not be considered cost effective, or adequate third party reimbursement may not be available to enable us to maintain price levels sufficient to realize a return on our investments.

In addition, new court decisions, FDA interpretations, and legislative changes have modified the rules governing eligibility for and the timing of 180-day market exclusivity periods, a period of marketing exclusivity that the FDA may grant to an ANDA applicant who is the first to file a legal challenge to patents of branded drugs. We believe we were the first to file an ANDA for sumatriptan succinate injection, the generic form of GlaxoSmithKline's Imitrex® injection, and are currently in litigation with GlaxoSmithKline regarding the patent that covers this product. However, it is difficult to predict the effects such changes may have on our business or our current case. Any changes in FDA regulations, procedures, or interpretations may make ANDA approvals of generic drugs more difficult or otherwise limit the benefits available to us through the granting of 180-day marketing exclusivity. If we are not able to exploit the 180-day exclusivity period for our sumatriptan succinate injection ANDA or one of our generic product candidates that we were first to file, for any reason, our product may not gain market share, which could materially adversely affect our results of operations.

As part of the Medicare Modernization Act, companies are now required to file with the Federal Trade Commission and the Department of Justice certain types of agreements entered into between branded and generic pharmaceutical companies related to the manufacture, marketing and sale of generic versions of branded drugs. This new requirement could affect the manner in which generic drug manufacturers resolve intellectual property litigation and other disputes with branded pharmaceutical companies, and could result generally in an increase in private-party litigation against pharmaceutical companies. The impact of this new requirement, and the potential private-party lawsuits associated with arrangements between brand name and generic drug manufacturers, is uncertain and could adversely affect our business.

Additional government regulations, legislation, or policies may be enacted which could prevent or delay regulatory approval of our product candidates. We cannot predict the likelihood, nature or extent of adverse government action that may arise from future legislation or administrative action, either in the United States or abroad. If we are not able to maintain regulatory compliance, we might not be permitted to market our products and our business could suffer.

Our corporate compliance program may not ensure that we are in compliance with all applicable "fraud and abuse" laws and regulations, and a failure to comply with such regulations or prevail in litigation related to noncompliance could harm our business.

Pharmaceutical and biotechnology companies have faced lawsuits and investigations pertaining to violations of health care "fraud and abuse" laws, such as the federal false claims act, the federal anti-kickback statute, and other state and federal laws and regulations. While we have developed and implemented a corporate compliance program based upon what we believe are the relevant current best practices, we cannot guarantee that this program will protect us from future lawsuits or investigations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

If we are unable to adequately protect our technology or enforce our patent rights, our business could suffer.

Our success with proprietary products that we develop will depend, in part, on our ability to obtain and maintain patent protection for these products. We currently have a number of United States and foreign patents issued and pending, however, we primarily rely on patent rights licensed from others. These patents generally give us the right and/or obligation to maintain and enforce the subject patents. We cannot be sure that we will receive patents for any of our pending patent applications or any patent applications we may file in the future. If our pending and future patent applications are not approved or, if approved, if such patents and the patents we have licensed are not upheld in a court of law, our ability to competitively exploit our proprietary products would be substantially harmed. Also, such patents may or may not provide competitive advantages for their respective products or they may be challenged or circumvented by our competitors, in which case our ability to commercially exploit these products may be diminished.

We also rely on trade secret protection and contractual protections for our unpatented, confidential and proprietary technology. Trade secrets are difficult to protect. While we enter into proprietary information agreements with our employees, consultants and others, these agreements may not successfully protect our trade secrets or other confidential and proprietary information. It is possible that these agreements will be breached, or that they will not be enforceable in every instance, and that we will not have adequate remedies for any such breach. It is also possible that our trade secrets will become known or independently developed by our competitors.

If we are unable to adequately protect our technology, trade secrets or proprietary know-how, or enforce our patents, our business, financial condition and prospects could suffer.

Intellectual property rights are complex and uncertain and therefore may subject us to infringement claims.

The patent positions related to our proprietary and generic drug candidates are inherently uncertain and involve complex legal and factual issues. Although we are not aware of any infringement by any of our drug candidates on the rights of any third party, there may be third party patents or other intellectual property rights relevant to our drug candidates of which we are not aware. Third parties may assert patent or other intellectual property infringement claims against us with respect to our proprietary drug candidates or our generic drug products. This could draw us into costly litigation as well as result in the loss of our use of the intellectual property that is critical to our business strategy.

Intellectual property litigation is increasingly common and increasingly expensive and may result in restrictions on our business and substantial costs, even if we prevail.

Patent and other intellectual property litigation is becoming more common in the pharmaceutical industry. Litigation is sometimes necessary to defend against or assert claims of infringement, to enforce our patent rights, including those we have licensed from others, to protect trade secrets or to determine the scope and validity of proprietary rights of third parties. Other than the lawsuit filed against us by GlaxoSmithKline related to our ANDA for sumatriptan injection, currently no third party has asserted that we are infringing upon their patent rights or other intellectual property, nor are we aware or believe that we are infringing upon any third party's patent rights or other intellectual property. We may, however, be infringing upon a third party's patent rights or other intellectual property, and litigation asserting such claims might be initiated in which we would not prevail or we would not be able to obtain the necessary licenses on reasonable terms, if at all. All such litigation, whether meritorious or not, as well as litigation initiated by us against third parties, is time consuming and very expensive to defend or prosecute and to resolve. In addition, if we infringe the intellectual property rights of others, we could lose our right to develop, manufacture or sell our products or could be required to pay monetary damages or royalties to license proprietary rights from third parties. An adverse determination in a judicial or administrative proceeding or a failure to obtain necessary licenses could prevent us from manufacturing or selling our products, which could harm our business, financial condition and prospects.

If our competitors prepare and file patent applications in the United States that claim technology we also claim, we may have to participate in interference proceedings required by the Patent and Trademark Office to determine priority of invention, which could result in substantial costs, even if we ultimately prevail. Results of interference proceedings are highly unpredictable and may result in us having to try to obtain licenses in order to continue to develop or market certain of our drug candidates.

We may be subject to product liability claims, and may not have sufficient product liability insurance to cover any such claims, which may expose us to substantial liabilities.

We may be exposed to product liability claims from patients who participate in our clinical trials or from consumers of our products. Although we currently carry product liability insurance in the amount of at least $10 million in the aggregate, it is possible that this coverage will be insufficient to protect us from future claims.

Further, we may not be able to maintain our existing insurance or obtain or maintain additional insurance on acceptable terms for our clinical and commercial activities or that such additional insurance would be sufficient to cover any potential product liability claim or recall. Failure to maintain sufficient insurance coverage could have a material adverse effect on our business, prospects and results of operations if claims are made that exceed our coverage.

The use of hazardous materials in our research and development efforts imposes certain compliance costs on us and may subject us to liability for claims arising from the use or misuse of these materials.

Our research and development efforts involved and currently involves the use of hazardous materials. We are subject to federal, state and local laws and regulations governing the storage, use and disposal of these materials and some waste products. We believe that our safety procedures for the storage, use and disposal of these materials comply with the standards prescribed by federal, state and local regulations. However, we cannot completely eliminate the risk of accidental contamination or injury from these materials. If there were to be an accident, we could be held liable for any damages that result, which could exceed our financial resources. We currently maintain insurance coverage for injuries resulting from the hazardous materials we use, and for pollution clean up and removal; however, future claims may exceed the amount of our coverage. Currently the costs of complying with federal, state and local regulations are not significant, and consist primarily of waste disposal expenses.

Risks Related to Our Stock

There are a substantial number of shares of our common stock eligible for future sale in the public market. The sale of these shares could cause the market price of our common stock to fall. Any future equity issuances by us may have dilutive and other effects on our existing stockholders.

As of May 1, 2006, there were approximately 24 million shares of our common stock outstanding, and in addition, security holders held restricted stock, options, warrants and preferred stock which, if vested, exercised or converted, would obligate us to issue up to approximately 15 million additional shares of common stock. However, we will receive over $80 million from the issuance of all the shares of common stock upon exercise of all of the option and warrants. A substantial number of those shares, when we issue them upon vesting, conversion or exercise, will be available for immediate resale in the public market. In addition, we have filed a shelf registration statement that allows us to sell up to $100 million of our securities in which approximately $32 million remains available for issuance, some or all of which may be shares of our common stock or securities convertible into or exercisable for shares of our common stock, and all of which would be available for resale in the market. If we were to sell the remaining $32 million available under the registration statement as common stock at a price approximately equal to the current market price of our common stock, we would issue approximately 7 million new shares of our common stock. The market price of our common stock could fall as a result of resales of any of these shares of common stock due to the increased number of shares available for sale in the market.

We have financed our operations, and we anticipate that we will have to finance a large portion of our operating cash requirements, primarily by issuing and selling our common stock or securities convertible into or exercisable for shares of our common stock. Any issuances by us of equity securities may be at or below the prevailing market price of our common stock and may have a dilutive impact on our other stockholders. These issuances would also cause our net income, if any, per share to decrease or our loss per share to decrease in future periods. As a result, the market price of our common stock could drop.

The market price and volume of our common stock fluctuate significantly and could result in substantial losses for individual investors.

The stock market from time to time experiences significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These broad market fluctuations may cause the market price and volume of our common stock to decrease. In addition, the market price and volume of our common stock is highly volatile. Factors that may cause the market price and volume of our common stock to decrease include fluctuations in our results of operations, timing and announcements of our bio-technological innovations or new products or those of our competitors, FDA and foreign regulatory actions, developments with respect to patents and proprietary rights, public concern as to the safety of products developed by us or others, changes in health care policy in the United States and in foreign countries, changes in stock market analyst recommendations regarding our common stock, the pharmaceutical industry generally and general market conditions. In addition, the market price and volume of our common stock may decrease if our results of operations fail to meet the expectations of stock market analysts and investors. Also, certain dilutive securities such as warrants can be used as hedging tools which may increase volatility in our stock and cause a price decline. While a decrease in market price could result in direct economic loss for an individual investor, low trading volume could limit an individual investor's ability to sell our common stock, which could result in substantial economic loss as well. During 2005, the price of our common stock ranged between $3.51 and $7.50, and the daily trading volume was as high as 1,368,400 shares and as low as 16,700 shares. During 2006 through May 1, 2006, the price of our common stock has ranged between $4.14 and $5.69, and the daily trading volume has been as high as 1,343,800 shares and as low as 30,300 shares.

Provisions of our charter, bylaws and stockholder rights plan may make it more difficult for someone to acquire control of us or replace current management even if doing so would benefit our stockholders, which may lower the price an acquirer or investor would pay for our stock.

Provisions of our certificate of incorporation, as amended, and bylaws may make it more difficult for someone to acquire control of us or replace our current management. These provisions include:

- the ability of our board of directors to amend our bylaws without stockholder approval;
- the inability of stockholders to call special meetings;
- the ability of members of the board of directors to fill vacancies on the board of directors;
- the inability of stockholders to act by written consent, unless such consent is unanimous; and
- the establishment of advance notice requirements for nomination for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

These provisions may make it more difficult for stockholders to take certain corporate actions and could delay, discourage or prevent someone from acquiring our business or replacing our current management, even if doing so would benefit our stockholders. These provisions could limit the price that certain investors might be willing to pay for shares of our common stock.

In December 2000, we adopted a stockholder rights plan pursuant to which we distributed rights to purchase units of our series B junior participating preferred stock. The rights become exercisable upon the earlier of ten days after a person or group of affiliated or associated persons has acquired 20% or more of the outstanding shares of our common stock or ten business days after a tender offer has commenced that would result in a person or group beneficially owning 20% or more of our outstanding common stock. These rights could delay or discourage someone from acquiring our business, even if doing so would benefit our stockholders. We currently have no stockholders who own 20% or more of the outstanding shares of our common stock.

We do not anticipate declaring any cash dividends on our common stock.

We have never declared or paid cash dividends on our common stock and do not plan to pay any cash dividends in the near future. Our current policy is to retain all funds and any earnings for use in the operation and expansion of our business.

SPECTRUM PHARMACEUTICALS, INC.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 5. Other Information (not previously reported in a Form 8-K)

None

ITEM 6. Exhibits

Exhibit No.	Description
2.1 #	Asset Purchase Agreement by and between the Registrant, Targent Inc. and Certain Stockholders of Targent, Inc., dated March 17 2006. (Filed as Exhibit 2.1 to Form 10-K/A, Amendment No. 1, as filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference.)
4.1	Form of Warrant dated September 15, 2005. (Filed as Exhibit 4.35 to Form 10-K, as filed with the Securities and Exchange Commission on March 15, 2006, and incorporated herein by reference.)
4.2 +	Registration Rights Agreement dated as of April 20, 2006, by and among the Registrant and Targent, Inc.
10.1 #	Development and Marketing Agreement between the Registrant and Par Pharmaceutical, Inc. dated February 22, 2006. (Filed as Exhibit 10.1 to Form 10-K/A, Amendment No. 1, as filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference.)
10.2	Voting Agreement by and Among the Registrant and Certain Stockholders of Targent, Inc. dated March 17, 2006. (Filed as Exhibit 10.2 to Form 10-K/A, Amendment No. 1, as filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference.)
10.3 *	Summary of Director Compensation. (Filed as Exhibit 10.3 to Form 10-K/A, Amendment No. 1, as filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference.)
10.4	Restricted Stock Award Grant Notice and Restricted Stock Award Agreement under the Amended and Restated Incentive Award Plan. (Filed as Exhibit 10.44 to Form 10-K, as filed with the Securities and Exchange Commission on March 15, 2006, and incorporated herein by reference.)
10.5	First Amendment to the Distribution and Supply Agreement between Registrant and Cura Pharmaceutical Co., Inc. dated February 28, 2006. (Filed as Exhibit 10.45 to Form 10-K, as filed with the Securities and Exchange Commission on March 15, 2006, and incorporated herein by reference.)
31.1+	Certification of Chief Executive Officer, pursuant to Rule 13a-14 promulgated under the Exchange Act, as created by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Vice President Finance, pursuant to Rule 13a-14 promulgated under the Exchange Act, as created by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certification of Vice President Finance, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates a management contract or compensatory plan or arrangement.

\+ Filed herewith.

\# Confidential portions omitted and filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.

SPECTRUM PHARMACEUTICALS, INC.
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.

SPECTRUM PHARMACEUTICALS, INC.

Date: May 8, 2006

By: /s/ Shyam K. Kumaria
Shyam K. Kumaria, Vice President, Finance
(Authorized Signatory and Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
2.1 #	Asset Purchase Agreement by and between the Registrant, Targent Inc. and Certain Stockholders of Targent, Inc., dated March 17 2006. (Filed as Exhibit 2.1 to Form 10-K/A, Amendment No. 1, as filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference.)
4.1	Form of Warrant dated September 15, 2005. (Filed as Exhibit 4.35 to Form 10-K, as filed with the Securities and Exchange Commission on March 15, 2006, and incorporated herein by reference.)
4.2 +	Registration Rights Agreement dated as of April 20, 2006, by and among the Registrant and Targent, Inc.
10.1 #	Development and Marketing Agreement between the Registrant and Par Pharmaceutical, Inc. dated February 22, 2006. (Filed as Exhibit 10.1 to Form 10-K/A, Amendment No. 1, as filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference.)
10.2	Voting Agreement by and Among the Registrant and Certain Stockholders of Targent, Inc. dated March 17, 2006. (Filed as Exhibit 10.2 to Form 10-K/A, Amendment No. 1, as filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference.)
10.3 *	Summary of Director Compensation. (Filed as Exhibit 10.3 to Form 10-K/A, Amendment No. 1, as filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference.)
10.4	Restricted Stock Award Grant Notice and Restricted Stock Award Agreement under the Amended and Restated Incentive Award Plan. (Filed as Exhibit 10.44 to Form 10-K, as filed with the Securities and Exchange Commission on March 15, 2006, and incorporated herein by reference.)
10.5	First Amendment to the Distribution and Supply Agreement between Registrant and Cura Pharmaceutical Co., Inc. dated February 28, 2006. (Filed as Exhibit 10.45 to Form 10-K, as filed with the Securities and Exchange Commission on March 15, 2006, and incorporated herein by reference.)
31.1+	Certification of Chief Executive Officer, pursuant to Rule 13a-14 promulgated under the Exchange Act, as created by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Vice President Finance, pursuant to Rule 13a-14 promulgated under the Exchange Act, as created by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certification of Vice President Finance, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates a management contract or compensatory plan or arrangement.

\+ Filed herewith.

\# Confidential portions omitted and filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.

Exhibit 4.2

REGISTRATION RIGHTS AGREEMENT

by and between

Targent, Inc.

and

Spectrum Pharmaceuticals, Inc.

Dated as of April 20, 2006

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of April 20, 2006, among Spectrum Pharmaceuticals, Inc., a Delaware corporation (the "Company"), and Targent, Inc., a Delaware corporation ("Stockholder").

This Agreement is being entered into pursuant to the Asset Purchase Agreement, dated as of the date hereof, by and among the Company, Stockholder and certain stockholders of Stockholder (the "Asset Purchase Agreement").

The Company and the other parties hereto hereby agree as follows:

1. Definitions.

Capitalized terms used and not otherwise defined herein shall have the meanings given such terms in the Asset Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Advice" shall have the meaning set forth in Section 3(m).

"Affiliate" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Exchange Act.

"Blackout Period" shall have the meaning set forth in Section 3(n).

"Board" shall have the meaning set forth in Section 3(n).

"Business Day" means any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the state of New York generally are authorized or required by law or other government actions to close.

"Commission" means the Securities and Exchange Commission.

"Common Stock" means the Company's Common Stock, par value $0.001 per share.

"Earn-Out Shares" means one-third of any shares of Common Stock issued and delivered by the Company pursuant to Section 2.3(b), (c), (d), (e), (f), (g) or (h) of the Asset Purchase Agreement.

"Effectiveness Date" means, with respect to the Registration Statement, the 120th day following the Closing Date.

"Effectiveness Period" shall have the meaning set forth in Section 2.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Filing Date" means the 60th day following the Closing Date.

"Holder" or "Holders" means the holder or holders, as the case may be, from time to time of Registrable Securities, including without limitation Stockholder and its assignees.

"Indemnified Party" shall have the meaning set forth in Section 5(c).

"Indemnifying Party" shall have the meaning set forth in Section 5(c).

"Losses" shall have the meaning set forth in Section 5(a).

"NASDAQ" shall mean the NASDAQ National Market.

"Person" means an individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind.

"Piggy-Back Registrable Securities" means all shares of Common Stock issued by the Company pursuant to Section 2.3 of the Asset Purchase Agreement, including any shares issued upon any stock split, stock dividend, recapitalization or similar event with respect to such shares.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Prospectus" means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference in such Prospectus.

"Registrable Securities" means (i) the Shares, (ii) the Earn-Out Shares, and (iii) any shares issued upon any stock split, stock dividend, recapitalization or similar event with respect to the Shares and Earn-Out Shares.

"Registration Statement" means the registration statements and any additional registration statements contemplated by Section 2, including (in each case) the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference into such registration statement.

"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 158" means Rule 158 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Securities Act" means the Securities Act of 1933, as amended.

"Shares" means 200,000 of the 600,000 shares of Common Stock delivered pursuant to Section 2.3(a) of the Asset Purchase Agreement.

"Special Counsel" means (i) Drinker Biddle & Reath LLP or (ii) any other one special counsel to the Holders selected by a majority in interest of the Holders with notice of such selection given to the Company.

2. Registration. As soon as reasonably practicable, but in any case on or prior to the Filing Date, the Company shall prepare and file with the Commission a "shelf" Registration Statement covering all Registrable Securities for a secondary or resale offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form S-3 (or on another form appropriate for such registration in accordance herewith). The Company shall use its commercially reasonable efforts to cause the Registration Statement to be declared effective under the Securities Act (including filing with the Commission a request for acceleration of effectiveness in accordance with Rule 12dl-2 promulgated under the Exchange Act) by the earlier of (i) five (5) Business Days after the date that the Company is notified (orally or in writing, whichever is earlier) by the Commission that a Registration Statement will not be "reviewed," or not be subject to further review or (ii) the Effectiveness Date, and to keep such Registration Statement continuously effective under the Securities Act until such date as is the earlier of (A) the date when all Registrable Securities covered by such Registration Statement have been sold or (B) as to any particular Holder, the date on which all such Holder's Registrable Securities may be sold without any restriction pursuant to Rule 144(k) (the "Effectiveness Period"); provided, however, that if notwithstanding the Company's commercially reasonable efforts, a Registration Statement has not become effective on or before the Effectiveness Date, the Company shall continue to use its commercially reasonable efforts after the Effectiveness Date to cause a Registration Statement to become effective.

3. Registration Procedures.

In connection with the Company's registration obligations hereunder, the Company shall:

(a) Prepare and file with the Commission on or prior to the Filing Date a Registration Statement on Form S-3 (or on another form appropriate for such registration in accordance herewith) which shall include a Plan of Distribution substantially in the form of Exhibit A attached hereto, and cause the Registration Statement to become effective and remain effective as provided herein; provided, however, that not less than five (5) Business Days prior to the filing of the Registration Statement or any related Prospectus and not less than two (2) Business Days prior to the filing of any amendment or supplement thereto (including any document that would be incorporated therein by reference), the Company shall furnish to the Special Counsel, copies of all such documents proposed to be filed, which documents (other than those incorporated by reference) will be subject to the review of the Special Counsel. The Company shall not file the Registration Statement or any such Prospectus or any amendments or supplements thereto to which the Special Counsel shall reasonably object in writing within two (2) Business Days after its receipt thereof.

(b) (i) If necessary to keep such Registration Statement accurate and complete, prepare and file with the Commission such amendments, including post-effective amendments, to the Registration Statement as may be necessary to keep the Registration Statement continuously (but for the filing of such post-effective amendment) effective as to the applicable Registrable Securities for the Effectiveness Period and prepare and file with the Commission such additional Registration Statements as may be necessary in order to register for resale under the Securities Act all of the Registrable Securities; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424 (or any similar provisions then in force) promulgated under the Securities Act; (iii) respond as promptly as reasonably practicable to any comments received from the Commission with respect to the Registration Statement or any amendment thereto and as promptly as reasonably practicable provide the Holders true and complete copies of all correspondence from and to the Commission relating to the Registration Statement, provided, however, that the Company shall not be required to provide to the Holders any correspondence containing confidential or commercially sensitive material, as determined by the Company in its sole discretion; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by the Registration Statement during the Effectiveness Period in accordance with the intended methods of disposition by the Holders thereof set forth in the Registration Statement as so amended or in such Prospectus as so supplemented.

(c) (i) Notify the Special Counsel as promptly as reasonably practicable (A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement is proposed to be filed; (B) when the Commission notifies the Company whether there will be a "review" of such Registration Statement; and (C) whenever the Commission comments in writing on such Registration Statement; and (ii) notify the Holders of the Registrable Securities to be sold and the Special Counsel as promptly as reasonably practicable

with respect to the Registration Statement or any post-effective amendment, when the same has become effective, and thereafter: (A) of any request by the Commission or any other Federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information; (B) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (C) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (D) of the occurrence of any event that makes any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(d) Use its commercially reasonable efforts to avoid the issuance of, or, if issued, obtain the withdrawal of, (i) any order suspending the effectiveness of the Registration Statement or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction within the United States, at the earliest practicable moment.

(e) If requested by the Holders of a majority in interest of the Registrable Securities, (i) promptly incorporate in a Prospectus supplement or post-effective amendment to the Registration Statement such information regarding a Holder or the plan of distribution as such majority of Holders may request, provided that such information is true and complete in all material respects, and (ii) make all required filings of such Prospectus supplement or such post-effective amendment as soon as practicable after the Company has received notification of the matters to be incorporated in such Prospectus supplement or post-effective amendment.

(f) Furnish to each Holder and the Special Counsel, without charge, at least one conformed copy of each Registration Statement and each amendment thereto, including financial statements and schedules, all documents incorporated or deemed to be incorporated therein by reference, and all exhibits to the extent requested by such Person (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the Commission.

(g) Promptly deliver to each Holder and the Special Counsel, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Persons may request.

(h) Prior to any public offering of Registrable Securities, use its commercially reasonable efforts to register or qualify or cooperate with the Holders and the Special Counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky

laws of such jurisdictions within the United States as any Holder requests in writing, to keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; provided, however, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action that would subject the Company to general service of process in any jurisdiction were it is not then so subject.

(i) Cooperate with the Holders to facilitate the timely preparation and delivery of certificates representing Registrable Securities sold pursuant to a Registration Statement, which certificates shall be free of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names as any Holder may request within three (3) Business Days after receipt of such request in connection with a sale of such Registrable Securities.

(j) Upon the occurrence of any event contemplated by Section 3(c)(ii)(D), as promptly as possible, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(k) Use its commercially reasonable efforts to cause all Registrable Securities relating to such Registration Statement to be listed on NASDAQ and any other securities exchange, quotation system, market or over-the-counter bulletin board, if any, on which similar securities issued by the Company are then listed.

(l) Comply in all material respects with all applicable rules and regulations of the Commission and make generally available to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 not later than 45 days after the end of any 3-month period (or 90 days after the end of any 12-month period if such period is a fiscal year) commencing on the first day of the first fiscal quarter of the Company after the effective date of the Registration Statement, which statement shall conform to the requirements of Rule 158.

(m) (i) Require each Holder to furnish to the Company information regarding such Holder and the distribution of such Registrable Securities as is required by law to be disclosed in the Registration Statement, Prospectus, supplemented Prospectus and/or amended Registration Statement, including any information necessary to allow the Company to fulfill its undertakings made in accordance with Item 512 of Regulation S-K, and the Company may exclude from such registration the Registrable Securities of any such Holder who fails to furnish such information within a reasonable time prior to the filing of each Registration Statement, Prospectus, supplemented Prospectus and/or amended Registration Statement.

(ii) If the Registration Statement refers to any Holder by name or otherwise as the holder of any securities of the Company, then such Holder shall have the right to require (if such reference to such Holder by name or otherwise is not required by the Securities Act or any similar federal statute then in force) the deletion of the reference to such Holder in any amendment or supplement to the Registration Statement filed at a time when such reference is not required.

(iii) Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Section 3(c)(ii)(B), 3(c)(ii)(C), 3(c)(ii)(D) or 3(n), such Holder will forthwith discontinue disposition of such Registrable Securities under the Registration Statement until such Holder's receipt of copies of the supplemented Prospectus and/or amended Registration Statement contemplated by Section 3(j), or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide stop orders to enforce the provisions of this paragraph.

(n) If (i) there is material non-public information regarding the Company which the Company's Board of Directors (the "Board") reasonably determines not to be in the Company's best interest to disclose and which the Company is not otherwise required to disclose, or (ii) there is a significant business opportunity (including, but not limited to, the acquisition or disposition of assets (other than in the ordinary course of business) or any merger, consolidation, tender offer or other similar transaction) available to the Company which the Board reasonably determines not to be in the Company's best interest to disclose and which the Company would be required to disclose under the Registration Statement, then, notwithstanding anything to the contrary in this Agreement, the Company may, upon delivery of notice to each Holder, postpone or suspend filing or effectiveness of a Registration Statement for a period not to exceed 30 consecutive days, provided that the Company may not postpone or suspend its obligation under this Section 3(n) for more than 90 days in the aggregate during any 12 month period (each, a "Blackout Period").

4. Registration Expenses

All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company whether or not the Registration Statement is filed or becomes effective and whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with NASDAQ or any other securities exchange, quotation system, market or over-the-counter bulletin board on which Registrable Securities are required hereunder to be listed, (B) with respect to filings required to be made with the Commission, and (C) in compliance with state securities or Blue Sky laws), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses if the printing of prospectuses is requested by the Holders of a majority of the Registrable Securities included in the Registration Statement), (iv) fees and expenses of all other Persons retained by the Company in connection with the

consummation of the transactions contemplated by this Agreement, including, without limitation, the Company's independent public accountants and legal counsel, and (v) fees and expenses of the Special Counsel up to $5,000.

5. Indemnification

(a) Indemnification by the Company. The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, agents, brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of Common Stock), investment advisors and employees of each of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, costs of preparation and attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained or incorporated by reference in (i) the Registration Statement, (ii) any Prospectus or any form of prospectus, (iii) any amendment or supplement thereto, or (iv) any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in the light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that (A) such untrue statements or omissions are based upon information (1) regarding such Holder furnished in writing to the Company by such Holder expressly for use therein, or (2) that relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto, or (B) in the case of an occurrence of an event of the type described in Section 3(c)(ii)(B), 3(c)(ii)(C), 3(c)(ii)(D) or 3(n), the Loss resulted from the use by a Holder of an outdated or defective Prospectus after the delivery to the Holder of written notice from the Company that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 3(m). The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement.

(b) Indemnification by Holders. Each Holder shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons to the fullest extent permitted by applicable law, from and against all Losses, as incurred, arising out of or based upon any untrue statement of a material fact contained in the Registration Statement, any Prospectus, or any form of prospectus, or arising out of or based upon any omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in the light of the circumstances under which they were made) not misleading, to the extent, but only to the extent, that (i) such untrue statement or omission is contained in or omitted from any information

(A) furnished in writing by such Holder to the Company specifically for inclusion in the Registration Statement or such Prospectus or (B) that relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder for use in the Registration Statement, such Prospectus or such form of Prospectus Supplement, or (ii) in the case of an occurrence of an event of the type described in Section 3(c)(ii)(B), 3(c)(ii)(C), 3(c)(ii)(D) or 3(n), the Loss resulted from the use by a Holder of an outdated or defective Prospectus after the delivery to the Holder of written notice from the Company that the Prospectus is outdated or defective and prior to the receipt by such Holder of the Advice contemplated in Section 3(m).

(c) Conduct of Indemnification Proceedings. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party promptly shall notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall diligently assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; (2) the Indemnifying Party shall have failed promptly, diligently and appropriately to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; (3) the Indemnified Party shall reasonably determine that there may be legal defenses available to it which are not available to the Indemnifying Party; or (4) the Indemnified Party shall reasonably determine that there is an actual or potential conflict of interest between it and the Indemnifying Party, including, without limitation, situations in which there are one or more legal defenses available to the Indemnified Party that are antithetical or in opposition to those available to the Indemnifying Party, and in any of such cases, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party. The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding and does not impose any monetary or other obligation or restriction on the Indemnified Party.

All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party,

as incurred, within ten (10) Business Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

(d) Contribution. If a claim for indemnification under Section 5(a) or 5(b) is unavailable to an Indemnified Party because of a failure or refusal of a governmental authority to enforce such indemnification in accordance with its terms (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms. Notwithstanding anything to the contrary contained herein, the Holder shall be liable or required to contribute under this Section 5(c) for only that amount as does not exceed the net proceeds to such Holder as a result of the sale of Registrable Securities pursuant to such Registration Statement.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties. The indemnity and contribution agreements herein are in addition to and not in diminution or limitation of any indemnification provisions under the Asset Purchase Agreement.

6. Rule 144.

As long as any Holder owns the Shares, the Company covenants to timely file all reports required to be filed by the Company after the date hereof pursuant to Section 13(a) or 15(d) of the Exchange Act. As long as any Holder owns the Shares, if the Company is not required to file reports pursuant to Section 13(a) or 15(d) of the Exchange Act, it will prepare and furnish to the

Holders and make publicly available in accordance with Rule 144(c) promulgated under the Securities Act annual and quarterly financial statements, together with a discussion and analysis of such financial statements in form and substance substantially similar to those that would otherwise be required to be included in reports required by Section 13(a) or 15(d) of the Exchange Act, as well as any other information required thereby, in the time period that such filings would have been required to have been made under the Exchange Act. The Company further covenants that it will take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Person to sell the Shares without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 promulgated under the Securities Act, including compliance with the provisions of the Asset Purchase Agreement relating to the transfer of the Shares. Upon the request of any Holder, the Company shall deliver to such Holder a written certification of a duly authorized officer as to whether it has complied with such requirements.

7. Miscellaneous.

(a) Remedies. In the event of a breach by the Company or by a Holder of any of their obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company and each Holder agree that monetary damages would not provide adequate compensation for any losses incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agrees that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

(b) Piggy-Back Registrations. If at any time when there is not an effective Registration Statement covering all of the Piggy-Back Registrable Securities, the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, the Company shall send to each holder of Piggy-Back Registrable Securities written notice of such determination and, if within twenty (20) days after receipt of such notice, any such Holder shall so request in writing (which request shall specify the Piggy-Back Registrable Securities intended to be disposed of by the Holders), the Company will cause the registration under the Securities Act of all Piggy-Back Registrable Securities which the Company has been so requested to register by the Holder, to the extent required to permit the disposition of the Piggy-Back Registrable Securities so to be registered, provided that if at any time after giving written notice of its intention to register any securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register or to delay registration of such securities, the Company may, at its election, give written notice of such determination to such Holders and, thereupon, (i) in the case of a determination not to register, shall be relieved of its obligation to register any Piggy-Back Registrable Securities in connection with such registration (but not from its obligation to pay expenses in accordance with Section 4 hereof), and (ii) in the case of a determination to delay

registering, shall be permitted to delay registering any Piggy-Back Registrable Securities being registered pursuant to this Section 7(b) for the same period as the delay in registering such other securities. The Company shall include in such registration statement all or any part of such Piggy-Back Registrable Securities such Holder requests to be registered; provided, however, that the Company shall not be required to register any Piggy-Back Registrable Securities pursuant to this Section 7(b) that are eligible for sale pursuant to Rule 144(k) of the Securities Act. In the case of an underwritten public offering, if the managing underwriter(s) should reasonably object to the inclusion of the Piggy-Back Registrable Securities in such registration statement, then if the Company after consultation with the managing underwriter should reasonably determine that the inclusion of such Piggy-Back Registrable Securities would materially adversely affect the offering contemplated in such registration statement, and based on such determination recommends inclusion in such registration statement of fewer or none of the Piggy-Back Registrable Securities of the Holders, then (x) the number of Piggy-Back Registrable Securities of the Holders to be included in such registration statement shall be reduced pro-rata among such Holders (based upon the number of Piggy-Back Registrable Securities requested to be included in the registration), if the Company after consultation with the underwriter(s) recommends the inclusion of fewer Piggy-Back Registrable Securities, or (y) none of the Piggy-Back Registrable Securities of the Holders shall be included in such registration statement, if the Company after consultation with the underwriter(s) recommends the inclusion of none of such Piggy-Back Registrable Securities; provided, however, that if securities are being offered for the account of other persons or entities as well as the Company, such reduction shall not represent a greater fraction of the number of Piggy-Back Registrable Securities intended to be offered by the Holders than the fraction of similar reductions imposed on such other persons or entities (other than the Company). The right of any Holder to participate in an underwritten public offering hereunder shall be conditioned upon such Holder's entering into the underwriting agreement and lock-up agreement with the representative of the underwriter or underwriters on the same terms as required of other selling securities holders in such offering.

(c) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and each of the Holders. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of certain Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(d) Notices. Any notices or other communications required or permitted under, or otherwise in connection with, this Agreement shall be given in writing and shall be deemed to have been duly given (i) when delivered in person, (ii) upon confirmation of receipt when transmitted by facsimile transmission (but only if followed by transmittal by internationally recognized overnight courier (providing proof of delivery) or hand, (iii) on receipt after being sent, postage prepaid, by registered or certified mail, or (iv) when delivered if transmitted by internationally recognized overnight courier (providing proof of delivery), in each case as follows.

The addresses for such communications shall be with respect to each Holder at its address set forth under its name on Schedule 1 attached hereto, or with respect to the Company, addressed to:

Spectrum Pharmaceuticals, Inc.
157 Technology Drive
Irvine, California 92618
Attention: CEO
Facsimile No.: 949-788-6706

or to such other address or addresses or facsimile number or numbers as any such party may most recently have designated in writing to the other parties hereto by such notice. Copies of notices to the Company shall be sent to Latham & Watkins LLP, 650 Town Center Drive, 20th Floor, Costa Mesa, California 92626, Att'n: Cary K. Hyden, Esq., Fax No. 714-755-8290. Notices to the Special Counsel shall be sent to Drinker Biddle & Reath LLP, 105 College Road East, Princeton, NJ 08542, Attn: John E. Stoddard III, Esq., Facsimile No.: 609-799-7000.

(e) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns and shall inure to the benefit of each Holder and its successors and assigns. No party may assign this Agreement or any of its rights or obligations hereunder without the prior written consent of each other party, except that Stockholder may, without the consent of the Company, assign its rights hereunder to any stockholder of Stockholder as of the Closing Date upon written notice of such assignment to the Company, provided that such stockholder agrees in writing to be bound by all provisions of this Agreement. Notwithstanding anything to the contrary contained herein, the Company may assign its rights hereunder in a merger, consolidation or sale of all or substantially all of its assets.

(f) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties hereto and delivered to the other party.

(g) Governing Law. This Agreement and any claim arising from or in connection with this Agreement shall be governed by and construed in accordance with the domestic laws of the State of California without giving effect to any choice or conflict of law provision or rule (whether of the State of California or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of California.

(h) Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the parties shall negotiate in good faith with a view to the substitution therefor of a suitable and equitable solution in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid provision; provided, however, that the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be in any way impaired thereby, it being intended that all of the rights and privileges of the parties hereto shall be enforceable to the fullest extent permitted by Law.

(i) Headings. The headings herein are inserted for convenience only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

(k) Securities Act Compliance. Stockholder hereby covenants and agrees it (i) will not sell or otherwise dispose of such Stockholder's Registrable Securities except in compliance with the Securities Act, (ii) if selling under a Registration Statement, will sell such Stockholder's Registrable Securities only in accordance with the plan of distribution, which shall be substantially in the form of Exhibit A attached hereto, set forth in the Prospectus forming a part of the Registration Statement, and (iii) will comply with the requirements of the Securities Act when selling or otherwise disposing of the Registrable Securities, including, but not limited to, the prospectus delivery requirements of the Securities Act.

[Signature Pages Follow]

In Witness Whereof, the parties hereto have caused this Registration Rights Agreement to be duly executed by their respective authorized persons as of the date first indicated above.

THE COMPANY:

Spectrum Pharmaceuticals, Inc.

By: _____
Name: Rajesh C. Shrotriya, M.D.
Title: Chairman, Chief Executive Officer and President

Stockholder:

Targent, Inc.

By: _____
Name:
Title:

EXHIBIT A

PLAN OF DISTRIBUTION

We are registering the shares of common stock on behalf of the selling stockholder(s). Sales of shares may be made by selling stockholder(s), including their respective donees, transferees, pledgees or other successors-in-interest directly to purchasers or to or through underwriters, broker-dealers or through agents. Sales may be made from time to time on the NASDAQ National Market or otherwise, at market prices prevailing at the time of sale, at prices related to market prices, or at negotiated or fixed prices. The shares may be sold by one or more of, or a combination of, the following:

- a block trade in which the broker-dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction (including crosses in which the same broker acts as agent for both sides of the transaction);
- purchases by a broker-dealer as principal and resale by such broker-dealer, including resales for its account, pursuant to this prospectus;
- ordinary brokerage transactions and transactions in which the broker solicits purchases;
- through options, swaps or derivatives;
- in privately negotiated transactions;
- in making short sales or in transactions to cover short sales; and
- put or call option transactions relating to the shares.

The selling stockholder(s) may effect these transactions by selling shares directly to purchasers or to or through broker-dealers, which may act as agents or principals. These broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholder(s) and/or the purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principals, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions). The selling stockholder(s) have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their securities.

The selling stockholder(s) may enter into hedging transactions with broker-dealers or other financial institutions. In connection with those transactions, the broker-dealers or other financial institutions may engage in short sales of the shares or of securities convertible into or exchangeable for the shares in the course of hedging positions they assume with the selling stockholder(s). The selling stockholder(s) may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery of shares offered by this prospectus to those broker-dealers or other financial institutions. The broker-dealer or other financial institution may then resell the shares pursuant to this prospectus (as amended or supplemented, if required by applicable law, to reflect those transactions).

The selling stockholder(s) and any broker-dealers that act in connection with the sale of shares may be deemed to be “underwriters” within the meaning of Section 2(11) of the Securities Act of 1933, and any commissions received by broker-dealers or any profit on the resale of the shares sold by them while acting as principals may be deemed to be underwriting discounts or commissions under the Securities Act. The selling stockholder(s) may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares against liabilities, including liabilities arising under the Securities Act. We have agreed to indemnify the selling stockholder(s) and each selling stockholder has agreed, severally and not jointly, to indemnify us against some liabilities in connection with the offering of the shares, including liabilities arising under the Securities Act.

The selling stockholder(s) will be subject to the prospectus delivery requirements of the Securities Act. We have informed the selling stockholder(s) that the anti-manipulative provisions of Regulation M promulgated under the Securities Exchange Act of 1934 may apply to their sales in the market.

Selling stockholder(s) also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act, provided they meet the criteria and conform to the requirements of Rule 144.

Upon being notified by a selling stockholder that a material arrangement has been entered into with a broker-dealer for the sale of shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, we will file a supplement to this prospectus, if required pursuant to Rule 424(b) under the Securities Act, disclosing:

- the name of each such selling stockholder and of the participating broker-dealer(s);
- the number of shares involved;
- the initial price at which the shares were sold;
- the commissions paid or discounts or concessions allowed to the broker-dealer(s), where applicable;
- that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus; and
- other facts material to the transactions.

In addition, if required under applicable law or the rules or regulations of the Commission, we will file a supplement to this prospectus when a selling stockholder notifies us that a donee or pledgee intends to sell more than 500 shares of common stock.

We are paying all expenses and fees customarily paid by the issuer in connection with the registration of the shares. The selling stockholder(s) will bear all brokerage or underwriting discounts or commissions paid to broker-dealers in connection with the sale of the shares.

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Rajesh C. Shrotriya, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spectrum Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2006

/s/ RAJESH C. SHROTRIYA
Rajesh C. Shrotriya
Chairman, Chief Executive Officer and President

EXHIBIT 31.2

Certification of Vice President, Finance
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Shyam K. Kumaria, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spectrum Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2006

/s/ SHYAM K. KUMARIA
Shyam K. Kumaria
Vice President, Finance

EXHIBIT 32.1

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Spectrum Pharmaceuticals, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 8, 2006

/s/ RAJESH C. SHROTRIYA

Rajesh C. Shrotriya
Chairman, Chief Executive Officer and President

EXHIBIT 32.2

Certification of Vice President, Finance

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Spectrum Pharmaceuticals, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 8, 2006

/s/ SHYAM K. KUMARIA

Shyam K. Kumaria
Vice President, Finance