



**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

**For the fiscal year ended December 31, 2005**

or

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

**For the transition period from            to**

Commission File Number: 000-28782

**Spectrum Pharmaceuticals, Inc.**

*(Exact Name of Registrant as Specified in its Charter)*

**Delaware**

*(State or other jurisdiction  
of incorporation or organization)*

**157 Technology Drive  
Irvine, California**

*(Address of principal executive offices)*

**93-0979187**

*(I.R.S. Employer  
Identification No.)*

**92618**

*(Zip Code)*

**Registrant's telephone number, including area code:**

**(949) 788-6700**

**Securities registered pursuant to Section 12(b) of the Act:**

**None**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, \$.001 par value**

**Common Stock Purchase Warrants**

**Rights to Purchase Series B Junior Participating Preferred Stock**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12B-2 of the Exchange Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2005 was \$64,185,904 based on the closing sale price of such common equity on such date.

As of March 10, 2006 there were 23,709,295 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Registrant's 2006 Annual Meeting of Stockholders, to be filed on or before May 1, 2006, are incorporated by reference into Part III of this Form 10-K.

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## FORWARD-LOOKING STATEMENTS

*Spectrum Pharmaceuticals, Inc.'s Annual Report on Form 10-K contains certain words, not limited to, "believes," "may," "will," "expects," "intends," "estimates," "anticipates," "plans," "seeks," or "continues," and also contains predictions, estimates and other 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, and in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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. Reference is made in particular to forward looking statements regarding the success of our drug candidates, product approvals, product sales, development timelines, product acquisitions, liquidity and capital resources and trends. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Spectrum Pharmaceuticals, Inc.'s actual results may differ materially from the results projected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this Report, including the "Risk Factors" in "ITEM 1A — Risk Factors", and in "ITEM 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" included in PART II. We do not plan to update any such forward-looking statements and expressly disclaim any duty to update the information contained in this filing except as required by law.*

Unless the context otherwise requires, all references to the "Company", "we", "us", "our", "Spectrum" and "Spectrum Pharmaceuticals" refer to Spectrum Pharmaceuticals, Inc. and its subsidiaries, as a consolidated entity. We primarily conduct all our activities as Spectrum Pharmaceuticals.

## PART I

### Item 1. *Business*

#### Overview

We are a specialty pharmaceutical company with an oncology focus, committed to acquiring, developing and commercializing drug products for the treatment of cancer and other unmet medical needs. Our business strategy, which strives to reduce risk while building shareholder value, is to maintain a diversified portfolio of drugs, strengthen our development and commercialization capabilities, while concurrently sharing risk through business alliances, and take advantage of near-term revenue opportunities. Our commitment is to build a successful commercial pharmaceutical company with sustainable future growth from revenue generating drug products.

Since August 2002, we have accomplished a successful turnaround by shifting our strategic focus from drug discovery, neurology drugs and genomics research, to development of a diversified drug portfolio containing primarily clinical stage oncology, or anti-cancer, drugs. During this period, we have enhanced our financial strength and capabilities by securing over \$100 million in equity financing and upfront license fees, and entering into several strategic business alliances. These actions enabled us to acquire certain rights to four new proprietary drug product candidates, strengthen our management team, enhance our developmental and regulatory capabilities, and accelerate the development timelines of our key drug product candidates.

As of the date of filing this report, we had:

- Eight proprietary drug product candidates, or drug products with respect to which we have patent rights, either directly or through licensing, under development, including one in phase 3, and four in multiple phase 2 trials;
- Three Abbreviated New Drug Applications (ANDAs) for generic drug products approved, and ten under review by the United States Food and Drug Administration (FDA); and
- Intellectual property rights to certain neurology compounds that are available for out-licensing to third parties.

#### Business Strategy

Our mission at Spectrum Pharmaceuticals, Inc. is to bring our expertise and passion for excellence to acquire, develop and commercialize pharmaceuticals for unmet medical needs while building value for our shareholders. The tenets of our business strategy to fulfill this mission are:

- Diverse Product portfolio: We believe that a diverse product portfolio increases the probability of our ultimate commercial success. Accordingly, while we continue to advance our existing product portfolio, we also evaluate additional promising proprietary drugs for acquisition or in licensing from third parties and are also selectively developing generic drugs.
- Near-term Revenues: Recognizing that new drug development is a lengthy process, as we evaluate additional promising drugs, we focus primarily on late stage proprietary compounds with the potential for generating revenues in the near-term.
- Strategic Alliances: 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 and expensive process. To mitigate such risks, to accelerate drug development timelines, and to opportunistically generate cash, we will seek to out-license rights to certain of our intellectual property and proprietary products for the development and commercialization of those products, particularly outside the United States, in exchange for upfront fees, milestones, royalties and other commercialization privileges.
- Product Commercialization: As our drugs progress through development, to the point of potential FDA approval for marketing in the United States, we plan to expand our sales and marketing

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capability. However, the costs of establishing and maintaining a sales force to effectively market proprietary drug products in the United States are significant. Accordingly, to accelerate the market penetration of our proprietary products, when approved by the FDA, we may seek collaborations with entities with proven sales, marketing and distribution capabilities in the United States. Due to the competitive environment of the generics market, we have determined that, sales can be maximized by partnering with a company with established generics distribution capabilities.

In our pursuit of the foregoing business strategy, during 2005 we licensed rights to three new proprietary compounds and filed five new ANDAs. During 2006 we are actively evaluating promising late stage proprietary compounds with the potential for near-term revenues, and we expect to file additional ANDAs in 2006 and beyond and to have multiple generic drugs FDA approved and marketed in the U.S.

### **Recent Developments**

In December 2005, our co-development partner, GPC Biotech, began the rolling submission of a New Drug Application (NDA) with the FDA for satraplatin, an orally bioavailable platinum compound, for use in combination with prednisone as a second-line chemotherapy treatment for patients with hormone-refractory prostate cancer (HRPC). Interim analysis results of the phase 3 trials in HRPC are expected to be announced in late April 2006. Satraplatin has been granted fast track designation by the FDA; therefore, if GPC Biotech completes the NDA submission filing by the end of 2006 and the FDA approves the NDA, sales of satraplatin could commence in the United States as early as late 2007, or early 2008. Commercialization rights for Europe, Turkey, the Middle East, Australia and New Zealand have been sublicensed by GPC Biotech to Pharmion Corporation, who expects to submit for European marketing authorization in the 1st quarter of 2007, pending concurrence with the European Agency for the Evaluation of Medicinal Products (EMA), the FDA's European counterpart. A successful worldwide launch of satraplatin and achievement of all regulatory and sales milestone revenues would generate revenues in excess of \$50 million for us, net of our milestone payment obligations to the original patent holder. In addition, we will receive a royalty on worldwide sales of satraplatin, reduced by royalties payable by us to the original patent holder. Also, under certain conditions, we may have co-promotion rights for satraplatin in the U.S. This would enable us to build an oncology sales force.

In February 2005, GlaxoSmithKline (GSK) commenced suit against us, alleging that our ANDA for sumatriptan succinate injection, the generic form of GSK's Imitrex® injection, infringes their patent. Imitrex® injection is used for the acute treatment of migraine attacks and of cluster headache episodes in adults, and recorded estimated U.S. revenues of approximately \$200 million in 2005. We believe that the patent that we have challenged covering GSK's Imitrex® injection, which, with pediatric exclusivity, is set to expire on February 6, 2009, is invalid, unenforceable and/or will not be infringed by our generic product candidate. Imitrex® injection is also covered by a patent which together with pediatric exclusivity does not expire until June 28, 2007, which patent is not currently being challenged by us or any third party. If the FDA approves our ANDA and we are successful in our patent challenge, and are awarded six months of generic market exclusivity because we believe that we were the first to file an ANDA for sumatriptan succinate injection, we may be able launch our sumatriptan succinate injection product immediately upon the expiry of the June 2007 patent. Further information regarding this patent challenge can be found below.

On February 22, 2006, we entered into a strategic alliance with Par Pharmaceutical Companies Inc. (Par), one of the largest generics company 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 generics, 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, the Company is responsible for the development of, and regulatory filings for, the generic drugs and the Company 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 the Company's 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, the Company has the right to request Par to make

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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, the Company 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.

### **Drug Product Candidates**

#### ***Proprietary drugs***

New drug development, which is the process whereby drug product candidates are tested for the purpose of filing a New Drug Application (NDA) (or similar filing in other countries) and eventually obtaining marketing approval from the FDA or a marketing authorization from other regulatory authorities outside of the U.S., is an inherently uncertain, lengthy and expensive process which requires several phases of clinical trials to demonstrate to the satisfaction of the FDA in the United States, and regulatory authorities in other countries, that the products are both safe and effective for their respective indications. Our proprietary drug strategy is designed to address the significant risks of drug development by focusing our acquisition and development efforts on clinical stage drug candidates (those in human trials). We do, however, also undertake the acquisition and development of promising pre-clinical drug candidates when we believe that the therapy is novel and/or when we believe the drug candidates have a higher probability of regulatory approval than that of a typical compound at a similar stage of development.

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

<b>Drug Candidate</b>	<b>Target Indication</b>	<b>Development Status</b>
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
EOquin™	Superficial Bladder Cancer	Phase 2 completed; end of phase 2 meeting held with the FDA; IND filed
Elsamitucin	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

While other indications have not yet been identified, some of our drug candidates may prove to be beneficial in additional disease indications as we continue to study and develop these drug candidates. In addition, we have intellectual property rights to neurology compounds that we may out-license to third parties for further development.

We believe our proprietary drug candidates have the potential to be effective therapeutic agents with some advantages over existing therapies. Our goal is to develop and commercialize many of these drugs in the United States and license the rights for Japan and Europe to local companies in those countries (to the extent that we have rights in those territories).

### **Overview of Indications We Are Targeting**

#### ***Cancer***

Cancer is the second leading cause of death in the United States, accounting for approximately 25% of all deaths. In its most recent annual report, the American Cancer Society reported that in the under-85 age group, cancer is the leading cause of death. In the United States, approximately 1.4 million new cancer cases are expected to be diagnosed in 2006 and over 564,000 persons are expected to die from the disease in 2006. Accordingly, there is significant demand for improved and novel cancer treatments.

Cancer occurs when abnormal cells divide without control. These cells can invade nearby tissues or spread through the bloodstream and lymphatic system to other parts of the body. Five to ten percent of all

cancers are believed to be due to inheriting a faulty gene. The remaining 90 to 95 percent are believed to be caused by damage to the genes during a person's lifetime. This damage can be caused by internal agents, such as hormones or an altered immune system, or external agents, such as viruses, exposure to chemicals or harmful ultraviolet sunrays. Sometimes ten or more years may pass between exposure and cancer detection. Cancer is currently treated by surgery, chemotherapy, radiation therapy, hormonal therapy and immunotherapy. Cancer is referred to as refractory when it has not responded or is no longer responding to a treatment.

We believe that traditional chemotherapeutic agents are likely to remain the mainstay therapy for cancer for the foreseeable future. However, we continue to seek additional novel drugs, drug delivery methods and combination therapies that address cancer or cancer related indications with significant unmet medical need. Accordingly, we are actively seeking novel and proprietary oncology drug candidates that:

- have demonstrated initial safety and efficacy in clinical trials and/or we believe have a higher probability of regulatory approval than that of a typical compound at a similar stage of development;
- target cancer indications with significant unmet medical need, where current treatments either do not exist or are not effective; and
- we believe we can acquire at a fair value based on our judgment of clinical and commercial potential.

#### ***Benign Prostatic Hypertrophy***

Benign prostatic hypertrophy (BPH) is a non-cancerous enlargement of the prostate leading to difficulty in passing urine, reduced flow of urine, discomfort or pain while passing urine and increased frequency of urination. Enlargement of the prostate is controlled by testosterone. According to the National Institutes of Health, benign prostatic hypertrophy affects more than 50% of men over age 60 and as many as 90% of men over the age of 70. Treatment options for benign prostatic hypertrophy include surgery and medications to reduce the amount of tissue and increase the flow of urine. In the 12-month period ended June 2005, the worldwide BPH treatment market was estimated to be almost \$4 billion, and grew by approximately 12% in fixed-rate U.S. dollar terms.

#### ***End-Stage Renal Disease and Chronic Kidney Disease: Hyperphosphatemia***

Hyperphosphatemia, or high phosphate levels in blood, affects patients with chronic kidney disease, especially end-stage kidney disease patients on dialysis. It can lead to significant bone disease (including pain and fractures) and cardiovascular disease, and is independently associated with increased mortality. Treatment of hyperphosphatemia is aimed at lowering blood phosphate levels by: (1) restricting dietary phosphorus intake; and (2) using, on a daily basis, and with each meal, oral phosphate binding drugs that facilitate fecal elimination of dietary phosphate before its absorption from the gastrointestinal tract into the bloodstream. Restricting dietary phosphorus intake has historically not been a successful means of serum phosphate control, and phosphate binders are the mainstay of hyperphosphatemia management.

According to the United States Renal Data System's 2005 Annual Report and the National Kidney Foundation, there are an estimated 450,000 patients with end-stage renal disease in the United States. During the past decade, the end-stage renal disease population is estimated to have grown by approximately 8% annually. We anticipate growth in the use of phosphate binders due to (1) significant room to improve patient compliance, currently as low as 40% for some phosphate binders; (2) recommendations for expanded use of phosphate binders in Stage 3 and Stage 4 chronic kidney disease (8 million patients in the United States) under the revised National Kidney Foundation Kidney Disease Outcomes Quality Initiative, or K/DOQI, clinical guidelines; (3) trends in treatment toward separating control of phosphate levels from control of calcium levels, based on K/DOQI guidelines, creating more demand for non-calcium, non-aluminum phosphate binders, including lanthanum-based agents; and (4) reimbursement for oral medications for dialysis patients under a new Medicare plan, beginning in 2006.

Currently marketed therapies for treating hyperphosphatemia include non-calcium, non-aluminum, non-magnesium phosphate binders such as polymer-based and lanthanum-based phosphate binders, aluminum-based phosphate binders, and calcium-based phosphate binders. Under the new National Kidney Foundation

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K/ DOQI guidelines, both calcium-based phosphate binders and non-calcium, non-aluminum, non-magnesium phosphate binders are recommended as first line or long-term therapy for the management of hyperphosphatemia. However, the current therapies require large number of large pills to be chewed or swallowed along with each meal, leading to problems with patient compliance with the treatment regime. Spectrum's drug, if successful, is likely to avoid some of the patient compliance-related issues.

### ***Our proprietary drug candidates***

***Satraplatin:*** Satraplatin, an orally administered platinum-derived chemotherapy agent, is being developed by our co-development partner, GPC Biotech AG (NASDAQ: GPCB), as a second-line chemotherapy treatment for its intended initial indication, hormone-refractory prostate cancer. In addition to hormone-refractory prostate cancer, satraplatin has shown indication of anti-tumor activity in solid tumors such as ovarian and lung cancer.

Prostate cancer is the second leading cause of cancer related deaths in men. According to the American Cancer Society, approximately 234,460 new cases and 27,350 deaths will occur in the U.S. during 2006. The initial treatment of prostate cancer, surgery along with radiation therapy and hormonal therapy, is often non-curative. Once the disease progresses after the initial hormonal treatment, it is considered hormone refractory. For those patients with cancer that is hormone refractory, treatment currently involves chemotherapy, which is usually non-curative but improves the symptoms of cancer with limited prolongation of survival.

Platinum compounds continue to represent one of the most widely used classes of chemotherapeutic agents in modern cancer therapy and are typically used in combination with other chemotherapeutic agents for the treatment of various types of cancer. Worldwide sales of these drugs were in excess of \$2 billion in 2005. While the platinum compounds currently on the market are intravenously administered, satraplatin is an orally administered compound. We believe an orally administered platinum-derived chemotherapeutic agent may offer important clinical and commercial advantages over platinum compounds that need to be intravenously administered in a hospital setting, including ease of administration and patient convenience. These advantages, in turn, could potentially lead to improved patient compliance as well as potential cost savings to patients and the healthcare system.

A pivotal phase 3 trial, the SPARC (Satraplatin and Prednisone Against Refractory Cancer) trial for satraplatin in HRPC, was initiated by GPC Biotech in September 2003, following completion of a Special Protocol Assessment (an assessment by a special committee of the FDA). Also in September 2003, the FDA granted "fast-track" designation to satraplatin as a second-line chemotherapy for patients with HRPC. The FDA's "fast-track" programs are intended to expedite the review of drugs to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. In particular, the rolling submission process enables companies that have been granted "fast-track" designation by the FDA to submit sections of the NDA to the agency as they become available, allowing the review process to begin before the complete dossier has been submitted.

In February 2004, GPC Biotech received a Scientific Advice Letter from the EMEA enabling the pivotal phase 3 trial on satraplatin to proceed in Europe using the SPARC protocol. Enrollment of over 900 patients, for that phase 3 study, was completed in December of 2005. Patients are now being followed-up for determination of the study primary endpoint, progression-free survival. The interim efficacy analysis, being performed by the Data Safety Monitoring Board (DSMB), is expected to be completed in late April 2006. A previous interim safety analysis performed by the DSMB did not reveal any safety concerns related to the drug.

Data showing efficacy in patients with HRPC was presented at the Annual Meeting of the American Society of Clinical Oncology (ASCO) in Chicago, in 2003. The data has since been published in the scientific journal *Oncology*, Volume 68, No. 1, pages 2-9, 2005. Additional data was presented at a prostate symposium in San Francisco in February 2006.

In December 2005, our development partner GPC Biotech began the rolling submission of a NDA with the FDA and the current plans are to complete the NDA filing by the end of 2006. We expect that, if the

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study is successful, the FDA could approve the NDA before the end of 2007 and the drug could be launched for sale soon thereafter. In December 2005, GPC Biotech licensed commercialization rights for Europe, Turkey, the Middle East, Australia and New Zealand to Pharmion Corporation, who expects to submit an application for European marketing authorization in 2007, pending concurrence with the EMEA.

Satraplatin has demonstrated anti-tumor activity in other cancers; accordingly, in order to maximize its potential, the following additional studies, in addition to the SPARC trial in HRPC, exploring other possible uses and indications are ongoing:

- satraplatin in treating metastatic breast cancer;
- satraplatin, in combination with Taxol®, in treating non-small cell lung cancer;
- satraplatin, in combination with Taxotere®, in treating advanced solid tumors; and
- satraplatin in combination with simultaneous, standard doses of radiotherapy in treating locally advanced non-small cell lung cancer.

See “Business Alliances — Johnson Matthey PLC and GPC Biotech AG” for commercial terms relating to satraplatin licensing and development.

**EOquin™:** EOquin is an anti-cancer agent that becomes activated by certain enzymes present in higher amounts in cancer cells than in normal cells. It is currently being developed for the treatment of superficial bladder cancer (SBC), which is cancer that has not invaded the muscle of the bladder wall. EOquin™ is the trademarked name for the drug substance apaziquone formulated for administration directly into the urinary bladder (“intravesical instillation”).

The American Cancer Society estimates that there will be more than 61,420 new cases of and 13,060 deaths from bladder cancer in 2006 in the United States. The estimated patient population with bladder cancer is over 400,000 in the United States and even greater in Europe. Superficial bladder cancer accounts for 75 to 80 percent of all cases of bladder cancer at first diagnosis. The initial treatment of this cancer is surgical removal of the tumor. Because of the high frequency of early recurrences of the tumor, patients are usually prescribed additional therapy to prevent or delay such recurrences. This additional therapy generally consists of immunotherapy or chemotherapy drugs instilled directly into the bladder. During the past 20 years no new drugs have been introduced in the market for treatment of superficial bladder cancer.

EOquin™ is activated to a greater degree within tumor cells than in the normal bladder lining. Also, it is not absorbed in any significant amount from the bladder wall into the bloodstream and thus carries a lesser risk of harming the rest of the body. During 2005, we completed a multi-center phase 2 clinical trial to evaluate the level of anti-tumor activity of EOquin™ as well as the safety of treatment.

The phase 2 data has confirmed anti-tumor activity against recurrent multiple superficial bladder cancer, as evidenced by thirty-one of forty-six patients (67%) showing a complete response after receiving six weekly treatments with EOquin™ instilled into the urinary bladder. In clinical trials performed to date, EOquin™ has shown to be well-tolerated, with no significant systemic toxicity, and local toxicity limited to temporary chemical cystitis (inflammation of the urinary bladder) resulting in increased urinary frequency, dysuria (painful urination) and hematuria (blood in the urine) in a few patients.

In September 2005, we initiated a multicenter clinical study in Europe, of EOquin™ in high-risk superficial bladder cancer patients who risk early relapse, sometimes in the form of invasive, life-threatening stages of bladder cancer. EOquin™ was discovered in Europe and all the clinical development, so far, has been carried out in the UK and the Netherlands.

During 2005, we also carried out additional preclinical studies that are required by the U.S. FDA before initiating clinical trials in the US. In January 2006, we had a pre-IND and end of phase 2 meeting with the FDA to discuss the results of preclinical and clinical studies carried out to date and a plan for a phase 3 registration study. We are required to complete a pilot study in about 20 patients before initiating a phase 3 registrational study. We just recently filed an IND with the FDA, so we plan to conduct the pilot study and initiate the phase 3 clinical trial before the end of 2006.

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During 2005, we completed an investigation in animal models of apaziquone (EO9) as a radiation sensitizer in the treatment of certain cancers. Many tumors grow under conditions of reduced oxygen tension (hypoxia). This makes them insensitive or resistant to treatment by X-rays. EO9 is activated in tumor cells both in normal oxygenation and in hypoxia. The results of the investigation indicate that EO9 combined with irradiation slows tumor growth more efficiently than alternative treatments.

Radiation therapy is an effective treatment for a number of tumors. Half of all cancer patients will receive radiation therapy during their course of treatment for cancer. While radiation therapy is one of the most widely used treatment modalities, many tumors are hypoxic (with insufficient oxygen supply) and are resistant to radiation therapy. There remains a need to improve the cure rate by radiation therapy, especially in hypoxic tumors. One way to enhance the effectiveness of radiation therapy is to use a radiation sensitizer, a drug that increases the effectiveness of radiation.

See “Business Alliances — NDDO Research Foundation” for commercial terms relating to EO9 licensing and development.

***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. By inhibiting the activity of these two key enzymes involved in DNA replication, elsamitrucin is thought to lead to DNA breaks that prevent the correct replication of DNA and ultimately result in cancer cell death.

Non-Hodgkin’s lymphoma is a tumor arising from the lymph nodes. According to the American Cancer Society, an estimated 58,870 new cases and 18,840 deaths will occur from Non-Hodgkin’s lymphoma in 2006 in the United States. In early stages, localized diseased lymph nodes can be treated with radiation therapy. Later stages of this disease are treated with chemotherapy or with chemotherapy plus radiation and highly specific monoclonal antibodies depending on the type of non-Hodgkin’s lymphoma. We believe elsamitrucin may prove to be an important addition to the treatment of refractory non-Hodgkin’s lymphoma patients because it has shown activity when used alone and it is generally well tolerated with minimal myelosuppression. We believe that this attribute could make it an ideal drug in combination therapy.

In April 2004, we initiated a multi-center, phase 2 trial in patients with refractory non-Hodgkin’s lymphoma. In clinical trials conducted by us and previously by Bristol-Myers Squibb, elsamitrucin has also demonstrated a favorable side effect profile. The current status of the phase 2 trial:

- In November 2005, an abstract with updated interim results was published in the proceedings of the American Society of Hematology Annual Meeting. Elsamitrucin continued to demonstrate evidence of anti-tumor activity against refractory Non-Hodgkin’s lymphoma and a safe and favorable side effect profile.
- Preliminary data is consistent with results from previous a phase 2 trial, where 25% patients showed an objective response.
- We have expanded the scope of the trial to include patients suffering from chronic lymphocytic leukemia, for which the American Cancer Society estimates 10,020 new cases, and 4,660 deaths in 2006 in the United States.

We also plan to initiate additional studies in head and neck cancer and possibly other tumor types. We are evaluating the therapeutic potential of elsamitrucin in combination with other standard agents in experimental models. The rationale for this is the fact that elsamitrucin has minimal toxicity to bone marrow, the main toxicity target of most anticancer agents; therefore, it may allow combinations with other drugs without a need to significantly reduce doses, which might result in improved therapeutic effects. If these animal studies will prove positive, we will consider evaluating these combinations in cancer patients.

See “Business Alliances — Bristol-Myers Squibb” for commercial terms relating to elsamitrucin licensing and development.

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Ozarelix (formerly SPI-153): Ozarelix, a LHRH (Luteinizing Hormone Releasing Hormone, also known as GnRH or Gonadotropin Releasing Hormone) antagonist (a substance that blocks the effects of a natural hormone found in the body) is currently being evaluated for its intended initial indications, hormone-dependent prostate cancer (HDPC) and benign prostatic hypertrophy (BPH). We also plan to evaluate the compound for the treatment of endometriosis.

As described earlier, in connection with satraplatin, prostate cancer is the second leading cause of cancer related deaths in men. The initial treatment of prostate cancer includes surgery along with radiation therapy and hormonal therapy. We believe ozarelix may prove to be an important addition in treating hormone-dependent prostate cancer patients because of its ability to induce prolonged testosterone suppression in healthy volunteers as shown in early trials. There are other LHRH antagonist and agonists (a substance that mimics the effects of a natural hormone found in the body) that are currently marketed or are being tested for the treatment of the indications we are pursuing. However, we believe that ozarelix has certain advantages over other LHRH antagonists which include improved solubility, less tendency for aggregation resulting in greater bioavailability (absorption by the body) and minimal histamine release tendency which should reduce allergic reactions. We also believe that ozarelix has advantages over LHRH agonists which include immediate and dose dependent suppression of sex hormones and no risk of testosterone surge or clinical flare up.

As described earlier, benign prostatic hypertrophy is a non-cancerous enlargement of the prostate that is caused by testosterone. Unlike GnRH-like drugs, ozarelix, which is an antagonist of GnRH, has the potential to reduce testosterone just enough to reduce both prostate size and symptoms.

Endometriosis is the displacement of endometrial tissue (the mucous lining of the uterus) to other organs outside the womb. Endometriosis is one of the most common causes of pelvic pain and infertility in women. At least 5.5 million women in North America alone have endometriosis. Based on the stage of the disease the treatment can include hormone therapy or surgery or a combination of both. Current hormonal treatment aims to stop ovulation for as long as possible. Ozarelix is an antagonist (blocker) of GnRH (gonadotropin releasing hormone), a hormone that provokes ovulation.

In 2005, we initiated two phase 2 clinical trials in HDPC and BPH in Europe, with the collaboration of AEterna Zentaris, our licensor of ozarelix.

In August 2005, we achieved complete enrollment for the phase 2 trial in HDPC, ahead of schedule by more than four months. The multicenter phase 2 trial is designed to evaluate the effects of ozarelix on hormonal levels, in particular testosterone, as well as objective anti-tumor effects. The trial involving 48 patients is being conducted in Europe. With enrollment now complete, we plan on reporting full results by the third quarter of 2006.

In November 2005, we achieved complete enrollment for the phase 2 trial for BPH. The multi-center clinical trial is designed to evaluate both objective parameters, such as improvement in urine flow and shrinkage of the prostate volume, as well as various symptoms of BPH over a period of several months. Because ozarelix is expected to have the dual effects of: shrinking the prostate and reducing the amount of testosterone, our expectation is that a single injection of ozarelix, repeated every few months, may be able to reduce the size of the prostate as well as accompanying symptoms. With enrollment now complete, we plan on reporting full results by the fourth quarter of 2006.

Also, we plan to initiate a study in healthy female volunteers for endometriosis in Europe in the 2nd or 3rd quarter of 2006.

See "Business Alliances — Zentaris GmbH" for commercial terms relating to ozarelix licensing and development.

Lucanthone: Lucanthone, an orally administered small-molecule drug, has shown promise as a radiation sensitizer. We own a license to a method of treating cancer of the central nervous system through the administration of lucanthone and radiation. Data obtained from prior studies suggests that lucanthone inhibits post-radiation DNA repair in tumor cells, and thus has the potential to improve the treatment outcomes in a number of human malignancies, specifically brain tumors, as it readily crosses the blood-brain barrier.

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Lucanthone was originally used as an antiparasitic agent for the treatment of schistosomiasis in the 1950s and 1960s. This drug was administered to 300,000 patients with no deaths or lasting side effects. It was later discontinued because better antiparasitic medications became available.

Dr. Robert Bases, the patent inventor, recently demonstrated that although lucanthone has structural and biochemical similarities to Actinomycin D, it has no haematological or gastro-intestinal toxicity at clinically tolerated doses. In trials, Lucanthone was found to be safe, practical and effective and has since been proposed for use in clinical protocols for the treatment of cancer.

We plan to proceed with phase 2 trials of lucanthone as a radiation sensitizer for treatment of brain tumors. We are currently in the process of preparing new clinical supplies with newly manufactured API. When supplies are ready, we will expand on the studies previously performed.

**RenaZorb™**: RenaZorb™, a second-generation lanthanum-based nanoparticle phosphate binding agent, has the potential to address hyperphosphatemia, or high phosphate levels in blood, in patients with end-stage renal disease and chronic kidney disease. Please see the discussion of hyperphosphatemia above.

We believe that RenaZorb™ has the opportunity, because of its higher capacity for binding phosphate on an equal weight basis, to significantly improve patient compliance by offering the lowest-in-class dosage (potentially one or two small tablets per meal) to achieve the same therapeutic benefit as other phosphate binders.

In December 2005, we met with the FDA to discuss the data and registrational development plans for RenaZorb™ and we continue to perform preclinical development work.

See “Business Alliances — Altair Nanotechnologies” for commercial terms relating to licensing and development.

**SPI-1620**: SPI-1620 is an endothelinB agonist, which can stimulate receptors on endothelial cells, the innermost, simple layer of cells lining the blood vessels to selectively and transiently increase blood flow to the tumor and thereby selectively increase the delivery of anti-cancer drugs to cancer tissue. This technology takes advantage of the fact that there is differential blood supply to the tumors. Tumors get their blood supply from blood vessels which are different from normal blood vessels and which mostly lack the surrounding smooth muscle cells, and associated innervations, found in healthy tissue’s blood vessels.

Chemotherapy is one of the mainstays of therapy for solid carcinomas, including breast, lung, and prostate. Chemotherapy uses drugs called cytotoxic agents that are poisonous to cells to kill cancerous cells. Chemotherapy often fails because adequate and uniform distribution of the cytotoxic agents is not achieved in the tumor, while serious side effects can result from toxicity to normal cells. Consequently, any means to increase the delivery of a cytotoxic agent selectively to tumors, while minimizing its concentration in normal tissues may be very beneficial.

When anti-cancer drugs, such as paclitaxel injection, are administered shortly after SPI-1620, the anti-cancer drug concentration in the tumor is increased several fold. This results in increased antitumor efficacy at a given dose of a cytotoxic agents, and might allow physicians to maximize efficacy with reduced cytotoxic agent doses with resultant decreased toxicity to the normal organs.

Animal studies to date have shown that SPI-1620:

- Increases significantly blood flow in the tumor with no significant effect on blood flow in normal tissues;
- Increases delivery of paclitaxel to tumors in experimental animals;
- Does not affect the concentration of paclitaxel in normal tissues, nor does it slow the healthy tissues’ elimination of paclitaxel; and
- Increases efficacy of paclitaxel and other drugs in a number of animal models.

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During December 2005, we met with the FDA to discuss preclinical data and development plans for SPI-1620.

See “Business Alliances — Chicago Labs” for commercial terms relating to licensing and development.

**SPI-205:** SPI-205, a lipid suspension of leteprinim, has demonstrated, in experimental models, benefits in treating chemotherapy induced peripheral neuropathy (nerve damage). During 2006, we plan to continue preclinical evaluation of SPI-205 and perform all necessary tests to bring it expeditiously to clinical trials in humans.

### **Generic drugs**

The Drug Price Competition and Patent Term Restoration Act of 1984 created an Abbreviated New Drug Application, or ANDA, approval process to accelerate the approval of generic drugs and foster generic competition. While an ANDA application is subject to significant regulatory review and scrutiny before approval by the FDA, the costs and timelines associated with the development of a generic drug and the overall timelines associated with the completion of regulatory review and subsequent commercialization of the generic drug product can be significantly shorter than the New Drug Application, or NDA, approval process, and can be relatively less uncertain and less expensive.

As a result of the number of branded pharmaceutical products coming off patent over the next decade, combined with the aging U.S. population and cost-containment efforts by the U.S. Federal Government and private insurance payers, we believe the U.S. market for generic drugs will continue to grow. We plan to capitalize on this growth by focusing our effort in niche categories such as injectable products and oncology drugs where the competition is not as intense and where we can leverage our resources and those of our strategic partners to create synergies with the proprietary drugs we develop.

To date, we have filed twelve ANDAs with the FDA, including those for ciprofloxacin tablets, fluconazole tablets and carboplatin injection, which received FDA approval in September 2004, September 2005 and June 2005, respectively. We are awaiting the approval by the FDA of ten ANDAs, including one ANDA for sumatriptan succinate injection, the generic form of GlaxoSmithKline (GSK) Imitrex® injection. We believe we are the first-to-file for our ANDA, for sumatriptan succinate injection, with Paragraph IV certification, and are currently in litigation with GSK over their patent for Imitrex®. In addition, we plan to file additional ANDAs in 2006 and beyond that will mostly include oncology injectables.

As mentioned above, we have entered into a strategic alliance with Par to market our current, as well as certain future, generic drugs. In addition, Par shall provide both legal and financial support for the litigation with GSK regarding sumatriptan succinate injection. We believe that this alliance completes our generic 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 portfolio.

### **Business Alliances and Licensing Agreements**

Strategic business alliances are an important part of the execution of our business strategy. We currently do not own any manufacturing or distribution capabilities. We generally 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 and address our manufacturing and distribution needs, we enter into alliances where we believe 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. We have entered into product development and manufacturing, and sales, marketing and distribution alliances, for some of our drug candidates and intend to enter into additional alliances in the future. The following represent our key business alliances:

#### **Product Development and Manufacturing**

**GPC Biotech AG (GPC Biotech):** In 2002, in exchange for an upfront license fee and future milestones and royalties, we entered into a Co-Development and License Agreement with GPC Biotech for worldwide

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rights for further development and commercialization of satraplatin. Under the terms of this agreement, GPC Biotech agreed to fully fund the development expenses for satraplatin. A joint development committee establishes the development plans for satraplatin, with members from both GPC Biotech and Spectrum. GPC Biotech, however, represents a majority of the committee and the final procedures are effectively decided and implemented by GPC Biotech. We have the ability to perform additional studies, if so desired, at our expense. In December 2005, GPC Biotech licensed commercialization rights for Europe, Turkey, the Middle East, Australia and New Zealand to Pharmion Corporation. To date, we have received \$3,000,000 in milestone payments and \$129,000 in commissions on the sale of satraplatin product to GPC Biotech. In addition, during 2003, pursuant to the license agreement, GPC Biotech made an equity investment of \$1,000,000 to purchase 128,370 shares of our common stock at \$7.79 per share. We are entitled to additional revenues upon: achievement of specified milestones by GPC Biotech and Pharmion, which are generally based on developmental or regulatory events; and royalties on worldwide sales, if any, of the product. The term of the agreement expires on a product-by-product and country-by-country basis upon the expiration of the last to expire patents granted in each country covering such product, although some obligations, such as provisions relating to confidentiality and indemnification, survive termination. In addition, the agreement may be terminated earlier by either party (in some cases either in whole or on a product-by-product and/or country-by-country basis), based upon material breach or the commencement of bankruptcy or insolvency proceedings involving the other, or by GPC Biotech upon six months' notice to us.

Johnson Matthey PLC: In 2001, we in-licensed exclusive worldwide rights to satraplatin from its developer, Johnson Matthey, in exchange for an upfront fee, additional payments to be made based upon achievement of certain milestones and royalties based on any net sales, if any, if and when a commercial drug is approved and sales are initiated. Each of our contingent future cash payment milestone obligations to Johnson Matthey is generally matched by a corresponding, greater milestone receivable from GPC Biotech. We did not have to make any cash payments to Johnson Matthey for the upfront fees, milestone payments and equity investments we have received so far from GPC Biotech. Johnson Matthey currently supplies GPC Biotech with satraplatin for clinical trials, however, we, and therefore, GPC Biotech, are under no contractual obligation to purchase satraplatin from Johnson Matthey. The term of the agreement expires on a country-by-country basis upon the expiration of the last to expire patents granted in each country, although some obligations, such as provisions relating to confidentiality, survive termination. In addition, the agreement may be terminated earlier, by Johnson Matthey if we fail to make any milestone or royalty payments on the date due, by us at any time upon sixty days' notice, or by either party upon breach of the agreement or commencement of bankruptcy or insolvency proceedings involving the other.

NDDO Research Foundation (NDDO): In 2001, we in-licensed exclusive worldwide rights to EOquin™ and numerous related derivatives from the NDDO in the Netherlands, in exchange for an up front fee, additional payments based upon achievement of certain milestones and a royalty based on net sales, if any, if and when a commercial drug is approved and sales are initiated.

Bristol-Myers Squibb: We in-licensed exclusive worldwide rights to elsamitucin from its developer, Bristol-Myers Squibb, in 2001, in exchange for an upfront fee, additional payments based upon achievement of milestones and a royalty based on net sales, if any, if and when a commercial drug is approved and sales are initiated.

Zentaris GmbH (Zentaris): In 2004, we entered into a license agreement with Zentaris, whereby we acquired an exclusive license to develop and commercialize ozarelix in North America and India. Our agreement also provides for 50% profit sharing from any potential sales or licensing revenue earned by Zentaris in Japan. We paid Zentaris an upfront payment of \$1.8 million in cash and equity, and we are required to make payments upon achievement of certain development and regulatory milestones, in addition to royalties on any net sales. Zentaris retains exclusive rights to the rest of world, but will share with Spectrum upfront and milestone payments, royalties or profits from potential sales in Japan. In the event Zentaris, or another licensee, independently develops ozarelix for territories not licensed to us, we are entitled to receive and utilize the results of those development efforts. With certain exceptions, we are required to purchase all finished drug product from Zentaris for the clinical development of ozarelix at a set price. The parties agreed to discuss entering into a joint supply agreement for commercial supplies of finished drug product.

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Altair Nanotechnologies, Inc.: In January 2005, we entered into a license agreement with Altair Nanotechnologies, Inc., whereby we acquired an exclusive worldwide license to develop and commercialize RenaZorb™ for all human therapeutic and diagnostic uses. We paid Altair an upfront payment of 100,000 shares of restricted Spectrum common stock and made an equity investment of \$200,000 for 38,314 shares of Altair common stock, and we are obligated to make future payments contingent upon the successful achievement of certain development and regulatory milestones. In addition, we will pay royalties and sales milestones on net sales, if any, if marketing approval is obtained from regulatory authorities. Under the terms of the agreement, Altair has agreed to work to establish FDA certified cGMP facilities for the manufacture of the active pharmaceutical ingredient contained in this product. During 2005, we conducted certain animal tests, as specified in the license agreement, upon one of the compounds licensed from Altair. Prior to conclusion of those tests we became aware of certain facts that have made it difficult to conduct the development of RenaZorb™ as expeditiously as planned and will require us to conduct additional tests which will cause delays in the development of the drug candidate. Upon the successful conclusion of the specified tests we are obligated to issue to Altair 100,000 shares of our common stock as a milestone payment. We have a contractual dispute with Altair that is in the early stages of a dispute resolution process under the auspices of the American Arbitration Association.

Chicago Labs: In February 2005, we entered into a license agreement with Chicago Labs, Inc., whereby we acquired an exclusive worldwide license to develop and commercialize SPI-1620 for the prevention and treatment of cancer. We paid Chicago Labs an upfront fee of \$100,000, and we are obligated to make future payments contingent upon the successful achievement of certain development and regulatory milestones. In addition we will pay royalties and sales milestones on net sales, if any, after marketing approval is obtained from the FDA and other regulatory authorities. Chicago Labs may terminate the agreement if we do not meet certain development deadlines that may be extended by Chicago Labs upon our request if we demonstrate good faith efforts to meet the deadlines.

J.B. Chemicals & Pharmaceuticals Ltd. (JBCPL): In 2002, we formed a joint venture, NeoJB, LLC, with JBCPL, an India based pharmaceutical manufacturer, with a view to utilizing JBCPL's existing manufacturing capabilities to produce selected oral prescription drug products for marketing in the United States. JBCPL operates 11 manufacturing facilities in India, which produce active pharmaceutical ingredients, intermediates ("building blocks" in chemical compounds), finished dosage form pharmaceuticals and herbal remedies. We own an 80% interest in NeoJB, LLC. Through the date of this report, we have filed four ANDAs on behalf of the joint venture. In September 2004 and 2005, the FDA approved our ANDAs for ciprofloxacin tablets and fluconazole tablets, respectively, which are manufactured by JBCPL. The joint venture purchases product from JBCPL based on market prices prevailing at the time of purchase, and does not have long-term volume or price commitments.

In 2002, JBCPL granted NeoJB an exclusive license to obtain regulatory approval to market and distribute certain products within the United States, including ciprofloxacin tablets and fluconazole tablets. The agreement provides that we, or NeoJB, will bear all costs of regulatory approvals for the products and that JBCPL will manufacture and supply to NeoJB the products in such quantities as NeoJB may require at prices reasonably acceptable to both parties. The agreement provides that JBCPL shall not enter into any distribution or sale arrangement or grant any license with respect to any product covered by the agreement in the United States unless it first offers to enter into a supply agreement with NeoJB pursuant to certain procedures and conditions. In addition, the agreement provides that NeoJB shall not, for 5 years from the later of the termination of the agreement or expiration of the applicable patents, market in the United States any products which would compete with the distribution, marketing or sale of the products covered by the agreement. The agreement continues so long as JBCPL or any of its affiliates is a member of NeoJB or until jointly terminated by the parties.

FDC Limited (FDC): In 2003, we entered into an agreement with FDC, an India based pharmaceutical manufacturer, with a view to marketing in the United States certain ophthalmic drugs manufactured by FDC. Among other products, FDC manufactures active pharmaceutical ingredients and certain oral, ophthalmic and otic drugs at their manufacturing facilities in India, and is engaged in selling certain active pharmaceutical ingredients produced at their FDA approved facilities in India into the United States market. Through the

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date of this report, we have filed four ANDAs for ophthalmic drugs under this alliance. We do not have long-term volume or price commitments for any products, and we anticipate negotiating transfer prices for each product only after FDA approval of the corresponding ANDA is accomplished. Either party may terminate the agreement upon failure to agree to a mutually satisfactory supply price with respect to the products, in which case FDC is prohibited from selling such products within the United States for a price less than that offered to us under the agreement. The agreement continues until jointly terminated by the parties. However, either party may terminate the agreement upon the failure to reach certain milestones within specified time periods.

*Shantha Biotechnics Pvt. Ltd. (Shantha)*: In 2004, we entered into an alliance with Shantha, an Indian biopharmaceutical company engaged in the development, manufacture and commercialization of human healthcare products produced by recombinant technology for the detection and treatment of cancer and infectious diseases. We are responsible for all regulatory, marketing and distribution matters in the United States for certain products currently marketed by Shantha elsewhere in the world and certain other products under development by Shantha. The product candidates under evaluation for development include oncology biologics, cancer diagnostics, as well as vaccines. However, there are no current U.S. regulatory guidelines that allow for generic equivalents to branded biologics to be filed with the FDA using an abbreviated application and review process. The FDA is working with the pharmaceutical industry at-large to better understand the position of the biotech and biopharmaceutical companies regarding the issue of equivalence of biogenerics to the branded products and the equivalence of the processes used to manufacture the active biological ingredient. Until such time that the FDA adopts clear guidelines covering biogenerics and/or Congress creates new laws and regulations that would allow for an abbreviated application, review and approval process for biogenerics we will not be in a position to move forward in the United States on the product candidates covered under this agreement.

### **Sales, Marketing and Distribution**

Through the date of this report, we have received FDA approval for the marketing of three generic products. Prior to receiving such approvals, we entered into sales and distribution agreements, in 2003 and 2005, respectively, with The Lannett Company and Cura Pharmaceuticals Company. Lannett distributed our first approved drug product, ciprofloxacin tablets, and Cura distributes carboplatin injection. The agreement with Lannett expired on March 10, 2006, and Cura continues to distribute carboplatin as a semi-exclusive distributor.

In the first quarter of 2006, we entered into a strategic alliance with Par Pharmaceutical Inc. (Par), one of the largest generic pharmaceutical companies in the United States, to distribute generic drugs developed by us, including sumatriptan succinate injection. In addition to the three previously approved generics, ciprofloxacin tablets, fluconazole tablets and carboplatin injection, we expect to receive FDA approval for additional ANDAs during 2006. The agreement also covers additional ANDAs currently being developed by us. Pursuant to the terms of the agreement, the Company is responsible for the development of and regulatory filings for the generic drugs and the Company 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 the Company's generic products. In addition, Par shall 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, the Company has 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, if any, from sales of the generic drugs, the Company 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.

We have a vice president of marketing and sales and, in light of the progress of our proprietary drug candidates, we may hire additional sales and marketing personnel, as needs dictate. We may also seek alliances with other third parties to assist us in the marketing and sale of our proprietary drug candidates.

## **Competition**

The pharmaceutical industry is characterized by rapidly evolving biotechnology and intense competition. We expect biotechnological developments and improvements in the fields of our business to continue to occur at a rapid rate and, as a result, expect competition to remain intense. Many companies are engaged in research and development of compounds that are similar to our research. Biotechnologies under development by these and other pharmaceutical companies could result in treatments for the diseases and disorders for which we are developing our own treatments. In the event that one or more of those programs are successful, the market for some of our drug candidates could be reduced or eliminated. Any product for which we obtain FDA approval must also compete for market acceptance and market share.

### ***Competition for Proprietary Products***

Competing in the branded product business requires us to identify and quickly bring to market new products embodying therapeutic innovations. Successful marketing of branded products depends primarily on the ability to communicate the effectiveness, safety and value of the products to healthcare professionals in private practice, group practices, hospitals and academic institutions, and managed care organizations. Competition for branded 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. Unless our proprietary products are shown to have better a better safety profile, efficacy and are as cost effective, if not more cost effective, than other alternatives, they may not gain acceptance by medical professionals and therefore never be successful commercially.

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., Novartis Pharmaceuticals Corporation, Ferring Pharmaceuticals, NeoRx Corporation, Genentech, Inc., 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, MGI Pharma, Inc., Millennium Pharmaceuticals, 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.

### ***Competition for Generic Products***

The generic drug market is price competitive and revenues and gross profit derived from the sales of generic drug products tend to follow a pattern based on certain regulatory and competitive factors. As patents and regulatory exclusivity for brand name products expire, if a generic manufacturer has "first-to-file" status (as described below under "Paragraph IV Certification") or has an authorized generic, such generic manufacturer generally enjoys a period of exclusivity with respect to other manufacturers of the generic drug, and can achieve significant market penetration. However, as competing generic manufacturers receive regulatory approvals on similar products, market share, revenues and gross profit typically decline, in some cases, dramatically. Accordingly, the level of market share, revenues and gross profit attributable to a particular generic product is normally related to the number of competitors in that product's market and the timing of that product's regulatory approval and launch, in relation to competing approvals and launches. Consequently, we must develop and introduce new generic products in a timely and cost-effective manner to achieve and maintain significant revenues and gross profit. In addition to competition from other generic drug manufacturers, we face competition from brand name companies in the generic market. Many of these companies seek to participate in sales of generic products by, among other things, collaborating with other

generic pharmaceutical companies through authorized generic programs or by marketing their own generic equivalent to their branded products.

Companies that have a significant generic presence include American Pharmaceutical Partners, Bedford Laboratories, Mayne, Barr Laboratories, Sicom, Inc., Teva Pharmaceuticals, Par Pharmaceutical, Dr. Reddy's Laboratories, Ranbaxy Laboratories, Mylan Laboratories, Inc., Sandoz, and Watson Pharmaceuticals, Inc. Some additional competitors in the generics market include Actavis Pharmaceuticals, Pliva, Inc., Impax Laboratories, Inc. and Akorn, Inc., Falcom Pharmaceuticals and Hi Tech Pharmacal Co. Inc., the latter three who are competitors particularly in the field of generic ophthalmic drugs.

Please also read our discussion of competition matters in the "RISK FACTORS" section of this report.

## **Research and Development**

From our inception through August 2002, we devoted substantially all of our resources and efforts to early stage drug research and development. Commencing with the launch of our new business strategy in August 2002, we eliminated early stage drug research and development and focused our research and development efforts on development of later stage drug product candidates that are already in or about to enter human clinical trials. 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. Research and development expenditures, including related stock-based charges, are expensed as we incur them and were approximately \$13.5 million in 2005, \$7.6 million in 2004, and \$4.7 million in 2003.

## **Patents and Proprietary Rights**

### ***Our Patent, Proprietary Rights and ANDAs***

We in-license from third parties certain patent and related intellectual property rights related to our proprietary products. In particular, we have licensed patent rights with respect to satraplatin, EOquin™, elsamitucin, ozarelix, lucanthone, RenaZorb™ and SPI-1620, in each case for the remaining life of the applicable patents. Except for ozarelix, our agreements generally provide us with exclusive worldwide rights to, among other things, develop, sublicense, and sell the drug candidates. Under these license arrangements, we are generally responsible for all development, patent filing and maintenance costs, sales, marketing and liability insurance costs related to the drug candidates. In addition, these licenses and agreements may require us to make royalty and other payments and to reasonably exploit the underlying technology of applicable patents. If we fail to comply with these and other terms in these licenses and agreements, we could lose the underlying rights to one or more of our potential products, which would adversely affect our product development and harm our business.

The protection, preservation and infringement-free commercial exploitation of these patents and related intellectual property rights is very important to the successful execution of our proprietary drug strategy. However, the issuance of a patent is not conclusive as to its validity nor as to the enforceable scope of the claims of the patent. Accordingly, our patents and the patents we have in-licensed may not prevent other companies from developing similar or functionally equivalent products or from successfully challenging the validity of our patents. If our patent applications are not approved or, even if approved, if our patents or the patents we have in-licensed, are circumvented or not upheld by the courts, our ability to competitively exploit our patented products and technologies may be significantly reduced. Also, such patents may or may not provide competitive advantages for their respective products or they may be challenged or circumvented by competitors, in which case our ability to commercially exploit these products may be diminished.

From time to time, we may need to obtain licenses to patents and other proprietary rights held by third parties to develop, manufacture and market our products. If we are unable to timely obtain these licenses on commercially reasonable terms, our ability to commercially exploit such products may be inhibited or prevented.

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As mentioned above, we have in-licensed from third parties certain patent rights related to our proprietary products. We believe that our patents and licenses are important to our business, but that with the exception of the United States and European patents discussed in this paragraph, relating to our proprietary products, no one patent or license is currently of material importance to our business. There are two U.S. patents covering satraplatin, a compound patent that expires in 2008 and a medical use patent that expires in 2010, and an issued compound patent in Europe that expires in various countries between 2008 and 2009. There is a possibility, under the Hatch-Waxman Act, to obtain up to a 5-year extension of one of the U.S. patents for the time spent during the FDA regulatory process. There are similar extension possibilities in Europe. For EOquin™, in the U.S. there is a compound patent that expires in 2009 and a formulation patent that expires in 2022 both for use in the treatment of superficial bladder cancer. We also have a patent application on file for its use as a radiation sensitizer. In Europe, there is an issued compound patent that expires in various countries in 2007 and a patent application pending for the formulation patent. For elsamitrucin, the U.S. and Europe patents have already expired, however, we anticipate filing future U.S. and European patent applications covering new formulations and/or uses for this product. For ozarelix, there is a U.S. compound patent issued that will expire in 2020. For lucanthone, there is a U.S. method of use patent that expires in 2019. For RenaZorb™, there are compound patents pending in the United States and Europe. For SPI-1620, we have filed method of use patent applications in the U.S. and Europe. For SPI-205, there is a U.S. compound patent that expires in 2010 and U.S. method of use patent that expires in 2021. The U.S. compound patent's foreign counterpart in Europe expires in various countries in 2010. We are constantly evaluating our patent portfolio and considering new patent applications in order to maximize the life cycle of each of our products.

While the United States and the European Union are currently the largest potential markets for most our proprietary product candidates, we also have patents issued and patent applications pending outside of the United States and Europe. Limitations on patent protection in these countries, and the differences in what constitutes patentable subject matter in countries outside the United States, may limit the protection we have on patents issued or licensed to us outside of the United States. In addition, laws of foreign countries may not protect our intellectual property to the same extent as would laws in the United States. To minimize our costs and expenses and to maintain effective protection, we usually focus our patent and licensing activities within the United States, the European Union, Canada and Japan. In determining whether or not to seek a patent or to license any patent in a certain foreign country, we weigh the relevant costs and benefits, and consider, among other things, the market potential and profitability, the scope of patent protection afforded by the law of the jurisdiction and its enforceability, and the nature of terms with any potential licensees. Failure to obtain adequate patent protection for our proprietary drugs and technology would impair our ability to be commercially competitive in these markets.

In addition to the specific intellectual property subjects discussed above, we have trademark protection for EOquin™ and RenaZorb™. We will likely register trademarks for the branded names of our proprietary drug products if any are approved for marketing.

In conducting our business generally, we rely upon trade secrets, know-how, and licensing arrangements and use customary practices for the protection of our confidential and proprietary information such as confidentiality agreements. It is possible that these agreements will be breached or 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 or know-how will otherwise become known or independently developed by competitors. The protection of know-how is particularly important because the know-how is often the necessary or useful information that allows us to practice the claims in the patents related to our proprietary product candidates.

We may find it necessary to initiate litigation to enforce our patent rights, to protect our trade secrets or know-how or to determine the scope and validity of the proprietary rights of others. Litigation concerning patents, trademarks, copyrights and proprietary technologies can often be protracted and expensive and, as with litigation generally, the outcome is inherently uncertain. See "Risk Factors" for more information.

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In connection with ANDAs filed on behalf of JBCPL and FDC, we have the exclusive license to market and distribute those drugs within the United States, if and when approved by the FDA. We own the ANDAs for carboplatin, sumatriptan succinate injection and our other ANDAs.

### ***The Patent Process***

The United States Constitution provides Congress with the authority to provide inventors the exclusive right to their discoveries. Congress codified this right in United States Code Title 35, which gave the patent office the right to grant patents to inventors and defined the process for securing a U.S. patent. This process involves the filing of a patent application that teaches a person having ordinary skill in the respective art how to make and use the invention in clear and concise terms. The invention must be novel (not previously known) and non-obvious (not an obvious extension of what is already known). The patent application concludes with a series of claims that specifically describe the subject matter that the patent applicant considers his invention.

The patent office undertakes an examination process that can take from one to five years, or more, depending on the complexity of the patent and the problems encountered during examination. Generally, the less novel an invention is, the longer the examination process will last.

In exchange for disclosing the invention to the public, the successful patent applicant is provided a right to exclude others from making, using or selling the claimed invention for a period of 20 years from the filing date of the patent application.

Under certain circumstances a patent term may be extended. Patent extensions are most frequently granted in the pharmaceutical and medical device industries under the Drug Price Competition and Pricing Term Restoration Act of 1984, or commonly known as the Hatch-Waxman Act, to recover some of the time lost during the FDA regulatory process, subject to a number of limitations and exceptions. The patent term may be extended up to a maximum of five years, however, as a general rule, the average extension period granted for a new drug is approximately three years and approximately 18 months for a new medical device. Only one patent can be extended per FDA approved product and a patent can only be extended once.

### ***Regulatory Exclusivities***

The FDA has provided for certain regulatory exclusivities for products whereby the FDA will not approve of the sale of any generic form of the drug until the end of the prescribed period. The FDA will grant a 5-year period of exclusivity for a product that contains a chemical entity never previously approved by the FDA either alone or in combination with other drugs. In addition, the FDA will grant a 3-year period of exclusivity to a new drug product that contains the same active drug substance that has been previously approved such as a new formulation of an old drug product. Also, as an incentive for pharmaceutical companies to research the safety and efficacy of their brand name drugs for use in pediatric populations, Congress enacted the Food & Drug Administration Modernization Act of 1997, which included a pediatric exclusivity for brand name drugs. This pediatric exclusivity protects drug products from generic competition for six months after their patents expire in exchange for research on children. For example, if a pharmaceutical company owns a patent covering a brand name drug they can only exclude third parties from selling generic versions of that drug until that patent expires. However, if the FDA grants a brand named drug pediatric exclusivity the FDA will not approve a generic drug company's ANDA and thus not allow the sale of a generic drug for six months beyond the patent term covering the brand name drug. Thus, the pediatric exclusivity effectively extends the brand named company's patent protection for six months. This extension applies to all dosage forms and uses that the original patent covered.

### ***Paragraph IV Certification***

In 1984, Congress enacted the Hatch-Waxman Act in part to establish a streamlined approval process for the FDA to use in approving generic versions of previously approved branded drugs. Under the Hatch-Waxman Act, for each patent listed in the FDA Orange Book, where branded companies are required to list their patents for branded products, for the relevant branded drug, an ANDA applicant must certify one of the following claims: (1) that there is no patent information listed; (2) that such patent has expired; (3) that the

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proposed drug will not be marketed until expiration of the patent; or (4) that either the proposed generic drug does not infringe the patent or the patent is invalid, otherwise known as paragraph IV certification. If an ANDA applicant files a paragraph IV certification, the Hatch-Waxman Act requires the applicant to provide the patent holder with notice of that certification and provides the patent holder with a 45-day window, during which it may bring suit against the applicant for infringement. If patent litigation is initiated during this period, the FDA may not approve the ANDA until the earlier of (1) 30 months from the patent holder's receipt of the notice (the 30-month stay) or (2) the issuance of a final, non-appealed, or non-appealable court decision finding the patent invalid, unenforceable or not infringed. If the patent is found to be infringed by the filing of the ANDA, the patent holder could seek an injunction to block the launch of the generic product until the patent expires.

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.

For more information on our ANDA with paragraph IV certification for sumatriptan succinate injection, please see "Item 3 Legal Proceedings" below.

Please also read our discussion of patent and intellectual property matters in the "RISK FACTORS" section of this report.

### ***Orphan Drug Designation***

Some jurisdictions, including Europe and the United States, may designate drugs for relatively small patient populations as "orphan" drugs. The FDA grants orphan drug designation to drugs intended to treat a rare disease or condition that affects fewer than 200,000 individuals in the United States or more than 200,000 individuals in the United States and for which there is no reasonable expectation that the cost of developing and making available in the United States a drug for this type of disease or condition will be recovered from sales in the United States for that drug. In the United States, orphan drug designation must be requested before submitting an application for marketing approval. Orphan drug designation does not convey any advantage in, or shorten the duration of, the regulatory review and approval process. If a product which has an orphan drug designation subsequently receives the first FDA approval for the indication for which it has such designation, the product is entitled to orphan drug exclusivity, which means the FDA may not approve any other application to market the same drug for the same indication for a period of seven years, except in limited circumstances, such as a showing of clinical superiority to the product with orphan exclusivity. Also, competitors may receive approval of different drugs or biologics for the indications for which the orphan product has exclusivity.

Under European Union medicines laws, criteria for designation as an "orphan medicine" are similar but somewhat different from those in the United States. Orphan medicines are entitled to ten years of market exclusivity, except under certain limited circumstances comparable to United States law. During this period of market exclusivity, no "similar" product, whether or not supported by full safety and efficacy data, will be approved unless a second applicant can establish that its product is safer, more effective or otherwise clinically superior. This period may be reduced to six years if the conditions that originally justified orphan designation change or the sponsor makes excessive profits.

### **Governmental Regulation**

The production and marketing of our proprietary and generic drug products are subject to regulation for safety, efficacy and quality by numerous governmental authorities in the United States and other countries. In the United States, drugs are subject to rigorous regulation. The Federal Food, Drug and Cosmetics Act, as amended from time to time, and the regulations promulgated thereunder, as well as other federal and state statutes and regulations, govern, among other things, the testing, manufacture, safety, efficacy, labeling,

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storage, record keeping, approval, advertising and promotion of our proposed products. Product development and approval within this regulatory framework, including for drugs already at a clinical stage of development, can take many years and require the expenditure of substantial resources. In addition to obtaining FDA approval for each product, each drug-manufacturing establishment must be registered with, and approved by, the FDA. Domestic manufacturing establishments are subject to regular inspections by the FDA and must comply with Good Manufacturing Practices. To supply products for use in the United States, foreign manufacturing establishments must also comply with Good Manufacturing Practices and are subject to periodic inspection by the FDA or by regulatory authorities in certain of such countries under reciprocal agreements with the FDA.

### **General Information about the Drug Approval Process**

The United States system of new drug approval is one of the most rigorous in the world. Only a small percentage of compounds that enter the pre-clinical testing stage are ever approved for commercialization. Our proprietary drug strategy focuses on in-licensing clinical stage drug candidates that are already in or about to enter human clinical trials. This strategic focus on clinical stage drug candidates (those eligible for human trials) is designed to address certain risks of drug development by shortening the timeline to marketability and reducing the risk of failure, both of which are higher with an early stage product.

The following general comments about the drug approval process are relevant to the development activities we are undertaking with our proprietary drugs.

*Pre-clinical Testing:* During the pre-clinical testing stage, laboratory and animal studies are conducted to show biological activity of a drug compound against the targeted disease and the compound is evaluated for safety.

*Investigational New Drug Exemption:* After pre-clinical testing, an application for Investigation New Drug Exemption is submitted to the FDA to begin human testing of the drug.

*Phase 1 Clinical Trials:* After an Investigational New Drug Exemption becomes effective, phase 1 human clinical trials can begin. These trials, involving small numbers of healthy volunteers or patients usually define a drug candidate's safety profile, including the safe dosage range.

*Phase 2 Clinical Trials:* In phase 2 clinical trials, studies of volunteer human patients with the targeted disease are conducted to assess the drug's effectiveness. These studies are designed primarily to determine the appropriate dose levels, dose schedules and route(s) of administration, and to evaluate the effectiveness of the drug on humans, as well as to determine if there are any side effects on humans to expand the safety profile following phase 1.

*Phase 3 Clinical Trials:* This phase usually involves large numbers of patients with the targeted disease. During the phase 3 clinical trials, physicians monitor the patients to determine the drug candidate's efficacy and to observe and report any adverse reactions that may result from long-term use of the drug on a large, more widespread, patient population. During the phase 3 clinical trials, the drug candidate is compared to either a placebo or a standard treatment for the target disease.

*New Drug Application:* After completion of all three clinical trial phases, if the data indicates that the drug is safe and effective, a New Drug Application is filed with the FDA. We estimate that approval of a New Drug Application for a cancer drug generally takes six months to three years.

*Fast Track Review:* The FDA has established procedures for accelerating the approval of drugs to be marketed for serious life threatening diseases for which the manufacturer can demonstrate the potential to address unmet medical needs. One of our drug candidates, satraplatin, has been given a fast track designation for the hormone refractory prostate cancer indication.

*Phase 4 Clinical Trials:* After a drug has been approved by the FDA, phase 4 studies are conducted to explore additional patient populations, compare the drug to a competitor, or to further study the risks, benefits and optimal use of a drug. These studies may be a requirement as a condition of the initial approval of the NDA.

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*Abbreviated New Drug Application (ANDA):* An ANDA is the abbreviated review and approval process created by the Drug Price Competition and Patent Term Restoration Act of 1984 signed into law in part for the accelerated approval of generic drugs. When a company files an ANDA, it must make a patent certification if there are any patents covering the branded product listed in the FDA's Orange Book. An ANDA applicant must make one of four certifications: (1) that there is no patent information listed in the Orange Book; (2) that the listed patent has expired; (3) that the listed patent will expire on a stated date and the applicant will not market the product until the patent expires; or (4) that the listed patent is invalid or will not be infringed by the generic product. The ANDA must also demonstrate both chemical equivalence and bio-equivalence (the rate and extent of absorption of the generic drug in the body is substantially equivalent to the brand name product), unless a bio-equivalence waiver is granted by the FDA as is normally the case with an injectable generic drug to the brand name product. The ANDA drug development and approval process generally takes less time than the NDA drug development and approval process since the ANDA process does not require new clinical trials establishing the safety and efficacy of the drug product. We estimate that approval of an Abbreviated New Drug Application generally takes one to two years.

*Approval:* If the FDA approves the New Drug Application, the drug becomes available for physicians to prescribe to patients for treatment. The marketing of a drug after FDA approval is subject to substantial continuing regulation by the FDA, including regulation of adverse event reporting, manufacturing practices and the advertising and promotion of the drug.

Failure to comply with FDA and other governmental regulations can result in fines, unanticipated compliance expenditures, recall or seizure of products, total or partial suspension of production and/or distribution, suspension of the FDA's review of NDAs, ANDAs or other product applications enforcement actions, injunctions and criminal prosecution. Under certain circumstances, the FDA also has the authority to revoke previously granted drug approvals. Although we have internal compliance programs, if these programs do not meet regulatory agency standards or if our compliance is deemed deficient in any significant way, it could have a material adverse effect on our business. See "Risks Factors — Our failure to comply with extensive governmental regulation to which we are subject may delay or prevent approval of our product candidates and/or may subject us to penalties."

The Generic Drug Enforcement Act of 1992 established penalties for wrongdoing in connection with the development or submission of an ANDA. Under this Act, the FDA has the authority to permanently or temporarily bar companies or individuals from submitting or assisting in the submission of an ANDA, and to temporarily deny approval and suspend applications to market generic drugs. The FDA may also suspend the distribution of all drugs approved or developed in connection with certain wrongful conduct and/or withdraw approval of an ANDA and seek civil penalties. The FDA can also significantly delay the approval of any pending NDA, ANDA or other regulatory submissions under its Fraud, Untrue Statements of Material Facts, Bribery and Illegal Gratuities Policy.

As part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, 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.

Continuing studies of the proper utilization, safety and efficacy of pharmaceuticals and other health care products are being conducted by industry, government agencies and others. Such studies, which increasingly employ sophisticated methods and techniques, can call into question the utilization, safety and efficacy of previously marketed products and in some cases have resulted, and may in the future result, in the discontinuance of their marketing.

### ***Foreign Regulation***

Whether or not we obtain FDA approval for a product, we must obtain approval of a product by the comparable regulatory authorities of foreign countries before we can commence clinical trials or marketing of the product in those countries. The approval process varies from country to country, and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement also vary greatly from country to country.

Under European Union regulatory systems, we may submit marketing authorization applications either under a centralized or decentralized procedure. The centralized procedure which is available for medicines produced by biotechnology or which are highly innovative, provides for the grant of a single marketing authorization that is valid for all European Union member states. This authorization is a marketing authorization approval, or MAA. The decentralized procedure provides for mutual recognition of national approval decisions. Under this procedure, the holder of a national marketing authorization, which is granted by a single European Union member state, may submit an application to the remaining member states. Within 90 days of receiving the applications and assessment report, each member state must decide whether to recognize approval. This procedure is referred to as the mutual recognition procedure, or MRP.

In addition, regulatory approval of prices is required in most countries other than the United States. We face the risk that the resulting prices would be insufficient to generate an acceptable return to our collaborators or us.

### ***Third Party Reimbursement and Pricing Controls***

In the United States and elsewhere, sales of pharmaceutical products depend in significant part on the availability of reimbursement to the consumer from third-party payers, such as government and private insurance plans. Third-party payers are increasingly challenging the prices charged for medical products and services. It will be time-consuming and expensive for us to go through the process of seeking reimbursement from Medicare and private payers. Our products may not be considered cost effective, and coverage and reimbursement may not be available or sufficient to allow us to sell our products on a competitive and profitable basis. The passage of the Medicare Prescription Drug and Modernization Act of 2003 imposes new requirements for the distribution and pricing of prescription drugs, which may affect the marketing of our products.

In many foreign markets, including the countries in the European Union, pricing of pharmaceutical products is subject to governmental control. In the United States, there have been, and we expect that there will continue to be, a number of federal and state proposals to implement similar governmental pricing control. While we cannot predict whether such legislative or regulatory proposals will be adopted, the adoption of such proposals could have a material adverse effect on our business, financial condition and profitability.

### **Employees**

The efforts of our employees are critical to our success. We believe we have assembled a strong management team with the experience and expertise needed to execute our business strategy. We anticipate hiring additional personnel as needs dictate to implement our growth strategy. As of December 31, 2005, we had 34 employees, of which five held a M.D. degree and five held a Ph.D. degree. We cannot assure you that we will be able to attract and retain qualified personnel in sufficient numbers to meet our needs. Our employees are not subject to any collective bargaining agreements, and we regard our relations with our employees to be good.

### **Corporate Background and Available Information**

Spectrum Pharmaceuticals, Inc. is a Delaware corporation that was originally incorporated in Colorado as Americus Funding Corporation in December 1987, became NeoTherapeutics, Inc. in August 1996, was reincorporated in Delaware in June 1997, and was renamed Spectrum Pharmaceuticals, Inc. in December 2002.

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We also maintain a website located at <http://www.spectrumpharm.com>, and electronic copies of our periodic and current reports, and any amendments to those reports, are available, free of charge, under the “Investor Relations” link on our website as soon as practicable after such material is filed with, or furnished to, the SEC.

For financial information regarding our business activities, please see “Item 8 — Financial Statements.”

### **Item 1A. 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 Annual Report. Failure to satisfactorily achieve any of our objectives or avoid any of the risks below 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 December 31, 2005 were in excess of \$180 million. We lost approximately \$19 million in 2005, \$12 million in 2004, and \$10 million in 2003. 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

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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:

<b>Drug Candidate</b>	<b>Target Indication</b>	<b>Development Status</b>
Satraplatin	Hormone Refractory Prostate Cancer Metastatic breast cancer With Taxol® in Non-small Cell Lung Cancer With radiation therapy in Non-small Cell Lung Cancer With Taxotere® in advanced solid tumors	Late phase 3; rolling NDA submission has begun Phase 2 Phase 2 Phase 1/2 Phase 1
EOquin™	Superficial Bladder Cancer	Phase 2 completed; end of phase 2 meeting held with the FDA; IND filed
Elsamitruicin	Refractory non-Hodgkin's Lymphoma	Phase 2
Ozarelix (formerly SPI-153)	Hormone Dependent Prostate Cancer Benign Prostatic Hypertrophy	Phase 1/2 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. GPC Biotech 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.

***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, 2006, 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 marketing 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 conduct such activities. 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

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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 eight 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 all of 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 API's 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 (CMO's) 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 CMO's. 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 CMO's 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

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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

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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. While we believe that we are currently in compliance with applicable

FDA regulations, 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
- 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 candidate, 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
- disruption in the distribution of products and loss of sales until compliance with the FDA's position is obtained.

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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 March 10, 2006, there were approximately 23.7 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 14.7 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 warranties. 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 6 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 March 10, 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.

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***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;
- 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.

### **Item 1B. *Unresolved Staff Comments***

None.

### **Item 2. *Properties***

Our corporate administrative offices are located in a two-story 34,320 square foot facility containing office and laboratory space, constructed for us in Irvine, California. The lease on this facility was renewed effective July 1, 2004 for a five-year period through June 30, 2009, at an average base monthly rental rate of approximately \$33,000 over the five-year term, plus taxes, insurance and common area maintenance. At the end of the lease term we have one five-year renewal option. This facility is suitable and adequate to undertake our current and anticipated future operations. Currently we have sub-leased, through November 2007, approximately half the facility consisting of laboratory space. We also lease a small administrative office in Zurich, Switzerland on an expense-sharing basis. The financial and other terms of this lease are not material to our business.

**Item 3. 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 is marketed by GlaxoSmithKline under the brand name Imitrex® 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®. 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 discover 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.

[Table of Contents](#)**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the quarter ended December 31, 2005.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Common Stock**

As of March 10, 2006 there were 23,709,295 shares of common stock outstanding and 368 shareholders of record. On March 10, 2006, the closing sale price of our common stock was \$5.22 per share.

**Market for Securities**

Our common stock is traded on the NASDAQ National Market under the symbol "SPPI." The high and low sale prices of our common stock reported by NASDAQ during each quarter ended in 2005 and 2004 were as follows:

	<u>High</u>	<u>Low</u>
<b>Year 2005</b>		
Quarter Ended		
March 31	\$ 7.50	\$ 5.78
June 30	\$ 6.50	\$ 4.06
September 30	\$ 5.73	\$ 4.12
December 31	\$ 5.07	\$ 3.51
<b>Year 2004</b>		
Quarter Ended		
March 31	\$ 10.13	\$ 7.53
June 30	\$ 8.50	\$ 5.15
September 30	\$ 7.64	\$ 3.92
December 31	\$ 6.68	\$ 5.10

The high and low sales prices of our common stock reported by NASDAQ reflect inter-dealer prices, without retail mark-ups, markdowns or commissions, and may not represent actual transactions.

**Dividends**

We have never paid cash dividends on our common stock and we do not intend to pay cash dividends in the foreseeable future. We currently intend to retain our earnings, if any, to finance future growth.

**Unregistered Sales of Equity Securities**

On February 24, 2006, we issued 128,212 shares of our common stock upon conversion of 30.13 shares of our Series D Preferred Stock, at a conversion price of \$2.35 per share. The shares of our common stock were issued without registration under the Securities Act of 1933 in reliance upon the exemption from registration provided under Section 3(a)(9) of the Securities Act. The Company did not pay or give, directly or indirectly, any commission or other remuneration for soliciting such conversion.

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**Item 6. Selected Financial Data**

The following table presents our selected financial data. Financial data for the years ended December 31, 2005, 2004 and 2003 and as of December 31, 2005 and 2004 has been derived from our audited financial statements included elsewhere in this Form 10-K, and should be read in conjunction with those financial statements and accompanying notes and with “Item 7. — Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Financial data for the years ended December 31, 2002 and 2001 and as of December 31, 2003, 2002 and 2001 has been derived from our audited financial statements not included herein.

**CONSOLIDATED FINANCIAL INFORMATION**

<b>Statement of Operations Data For the Years Ended December 31:</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
	(In thousands, except Share data)				
Revenues	\$ 577	\$ 258	\$ 1,000	\$ 2,371	\$ 41
Operating expenses:					
Cost of product sold	\$ 397	\$ 123	\$ –	\$ –	\$ –
Research and development	12,600	6,954	3,683	11,706	20,611
General and administrative	6,490	5,096	5,049	3,691	5,475
Stock-based charges (see supplement below)	1,012	885	2,573	1,431	2,105
Restructuring expenses	–	–	163	3,050	–
Loss from operations	(19,922)	(12,800)	(10,468)	(17,507)	(28,150)
Other income (expense)	1,280	514	78	(127)	315
Net loss	\$ (18,642)	\$ (12,286)	\$ (10,390)	\$ (17,634)	\$ (27,835)
Basic and diluted net loss per share	\$ (1.06)	\$ (0.98)	\$ (4.83)	\$ (12.34)	\$ (36.50)
Cash Dividends on common stock	\$ –	\$ –	\$ –	\$ –	\$ –
<b>Supplemental Information</b>					
Stock-based charges — Components:					
Research and development	\$ 883	\$ 634	\$ 1,000	\$ 1,020	\$ –
General and administrative	129	251	1,573	411	2,105
Total stock based charges	\$ 1,012	\$ 885	\$ 2,573	\$ 1,431	\$ 2,105
<b>Balance Sheet Data at December 31:</b>					
Cash, cash equivalents and marketable securities	\$ 63,667	\$ 39,206	\$ 26,351	\$ 1,578	\$ 7,157
Property and equipment, net	\$ 562	\$ 687	\$ 560	\$ 802	\$ 4,689
Total assets	\$ 65,075	\$ 40,758	\$ 27,389	\$ 3,453	\$ 12,825
Current liabilities	\$ 3,828	\$ 2,666	\$ 3,108	\$ 2,522	\$ 5,212
Long-term debt, less current portion	\$ –	\$ –	\$ –	\$ 158	\$ 464
Other non-current-liabilities	\$ 241	\$ 178	\$ –	\$ 101	\$ 362
Minority interest in consolidated subsidiaries	\$ 23	\$ 24	\$ –	\$ –	\$ –
Total stockholders’ equity	\$ 60,983	\$ 37,890	\$ 24,281	\$ 672	\$ 6,787

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion of the financial condition, changes in financial condition and results of our operations in conjunction with the financial statements and the notes to those statements included elsewhere in this report. The discussion in this report contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Reference is made in particular to forward-looking statements regarding the success of our drug candidates, product approvals, product sales, development timelines, product acquisitions, liquidity and capital resources and trends. The cautionary statements made in this report should be read as applying to all related forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed here. Factors that might cause such a difference include, but are not limited to, those discussed below and elsewhere, including under Item 1A "Risk Factors" 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 United States Food and Drug Administration, or 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 eight proprietary drug product candidates under development: satraplatin, EOquin™, elsamitucin, 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. Interim analysis of the phase 3 data is anticipated to be announced in late April 2006. 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.
- **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 2<sup>nd</sup> half of 2006 to evaluate EOquin™ in superficial bladder cancer.

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- *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 proceeding as planned. 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 lucanthon 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 and believe that after the market absorbs the initial product glut, we may be in a position to realize at least modest revenues from these 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 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 December 31, 2005, have exceeded \$180 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 \$64 million in cash, cash equivalents and marketable securities that we had on hand as of December 31, 2005, 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 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 the equity investment is made and all the regulatory approvals are obtained. If GPC Biotech successfully completed the filing of the NDA in late 2006, as planned, we will realize significant 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

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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 "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.
- EOquin™: Through December 31, 2005, excluding indirect costs described earlier, we have spent approximately \$2.7 million on the development of EOquin™, including approximately \$1.4 million during the year ended December 31, 2005. 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 may incur development costs up to approximately \$6 million.
- Ozarelix: Through December 31, 2005, excluding indirect costs described earlier, we have spent approximately \$1.8 million in cash and equity on the acquisition of ozarelix in 2004, and approximately \$2.3 million on the development of the compound in 2005. 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 2<sup>nd</sup> half of 2006, and the initiation of a study in healthy female volunteers for endometriosis in Europe in the 2<sup>nd</sup> or 3<sup>rd</sup> quarter of this year. We anticipate that over the next twelve months we may incur development costs up to approximately \$6 million.
- Elsamitrucin: Through December 31, 2005, excluding indirect costs described earlier, we have spent approximately \$2.0 million on the development of Elsamitrucin, including approximately \$1.0 million during the year ended December 31, 2005. 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, expected in the first half of 2006 as well as the initiation of a phase 2 study of elsamitrucin in head and neck cancer,

and other pilot combination studies. We anticipate that over the next twelve months we may incur development costs up to approximately \$1.5 million.

- **Lucanthone**: Through December 31, 2005, excluding indirect costs described earlier, we incurred less than \$250,000 on the development of lucanthone in the year ended December 31, 2005. 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. We anticipate that over the next twelve months we may incur development costs up to approximately \$1.5 million.
- **RenaZorb**<sup>™</sup>: Through December 31, 2005, excluding indirect costs described earlier, we have spent approximately \$1.2 million in cash and equity on the acquisition and development of RenaZorb<sup>™</sup> in 2005. 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. We anticipate that over the next twelve months we may incur development costs up to approximately \$1.5 million.
- **SPI-1620**: Excluding indirect costs described earlier, we have spent less than \$500,000 in cash on the acquisition and development of SPI-1620 in 2005. 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. We anticipate that over the next twelve months we may incur development costs up to approximately \$2.0 million.
- **SPI-205**: Excluding indirect costs described earlier, we have spent less than \$250,000 in cash on the development of SPI-205 in 2005. 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. We anticipate that over the next twelve months we may incur development costs up to approximately \$2.0 million.
- **Generic drugs**: During the year ended December 31, 2005, we spent approximately \$2.8 million for the advancement of our generic drugs, including costs for products for which we anticipate filing ANDAs in the future. Over the next twelve months we expect to incur additional costs up to approximately \$2.5 million. 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 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 years ended December 31, 2005 and 2004, the net cash used in operations was approximately \$16.0 and 11.8 million, net of interest income of approximately \$1.3 and \$0.5 million, respectively. The increase of approximately \$4.2 million is due to an increase in 2005 in operating expenses, primarily research and development, substantially offset by increases in interest income, accrued clinical study costs and revenues.

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

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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*

During the year ended December 31, 2005, we invested our funds primarily in short-term treasury securities and money market accounts resulting in conversion of approximately \$18 million of marketable securities into cash and cash equivalents. We also paid Altair Nanotechnologies, Inc. \$200,000 in cash in license fees and an equity investment in connection with the in-licensing of Renazorb™. The fair value of Altair common stock received, approximately \$104,000 at the time of the investment, was recorded as a long-term investment and the remaining amount of \$96,000 was charged as research and development expense for the year ended December 31, 2005.

### *Net Cash provided by and used for Financing Activities*

Net cash provided by financing activities, approximately \$40.7 million, for the year ended December 31, 2005, was comprised of approximately \$39.3 million from the sale of 8,000,000 shares of our common stock in our September financing, \$1.1 million from the exercise of outstanding warrants for 300,963 shares of our common stock, and from the exercise of stock options for 16,450 shares of our common stock, and \$750,000 received as an equity investment for the issuance of 119,617 restricted shares of our common stock upon our achievement of a milestone under our joint venture agreement with J.B. Chemicals & Pharmaceuticals Ltd. offset by \$420,000 paid to repurchase warrants to acquire 420,000 shares of our stock.

## **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, but from time to time also include 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.

### ***Accounting for Stock-Based Employee Compensation***

At December 31, 2005, we had three stock-based employee compensation plans, which are described more fully in Note 9 to the Financial Statements included in this Annual Report on Form 10-K. As permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*, we account for grants pursuant to those plans 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 recognize stock-based compensation expense for all grants to consultants, and for those grants to employees where the exercise prices are below the market price of the underlying stock at the measurement date of the grant.

### ***New Accounting Pronouncements***

In December 2004, the FASB issued Statement No. 123(R), *Share-Based Payment*. This Statement eliminates the use of the intrinsic value method described in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. We expect to adopt the provisions of Statement No. 123(R) when it becomes a mandatory requirement, currently expected to be January 1, 2006. The adoption of this statement is expected to result in significantly higher reported operating expenses in our future financial statements. Had we adopted the provisions of Statement No. 123(R) as of January 1, 2005, our reported loss for the year-ended December 31, 2005 would have been approximately \$4.4 million higher, or approximately \$23.0 million, as disclosed above in Note 2, *Accounting for Stock-Based Employee Compensation*.

### **Results of Operations**

#### ***Results of Operations for Fiscal 2005 Compared to Fiscal 2004***

In 2005, we incurred a net loss of approximately \$18.6 million compared to a net loss of approximately \$12.3 million in 2004. The increase of approximately \$6.3 million in the net loss was primarily due to an increase of approximately \$5.6 million in research and development expense.

As of December 31, 2005, the FDA has approved three of our generic products, ciprofloxacin tablets, fluconazole tablets and carboplatin injection, for sale in the United States. We recorded \$521,000 and \$185,000 of product sales during the years ended December 31, 2005 and 2004, respectively, with cost of product sold being approximately \$397,000 and \$123,000, respectively. The profit margin earned during the period is not considered representative of future margins, if any. Future product sales are dependent on our distributors reordering the product from us. In view of the extremely competitive market for each of our currently approved products and future approved products, we are unable to assess their future revenue potential. Also, during 2005 and 2004, we recorded \$56,000 and \$73,000, respectively, of revenues representing amounts received from the GPC Biotech under our license agreement for commissions on drug products used by GPC Biotech in clinical trials. We had no performance obligations or incurred costs in connection with this revenue. The timing and amount of future commissions is neither predictable nor assured.

Research and development expenses increased by approximately \$5.6 million, from approximately \$7.0 million in 2004 to approximately \$12.6 million in 2005, primarily due to the increasing scope of our drug development activities. During 2004, the principal clinical study costs related to a phase 2 trial on EOquin™. In 2005, we incurred costs related to multiple phase 2 clinical trials on EOquin™, elsamitrucin and ozarelix, and costs in advancing the development of SPI-205 and newly acquired compounds, RenaZorb™, SPI-1620 and Lucanthone. We expect continued increases in research and development expenses in 2006 and beyond as we develop and expand our product portfolio. Principal components of the increase in 2005 are:

- an increase of \$4.5 million in direct development expenses, resulting from an expansion in the number and scope of our clinical trials and other research and development activity.
- an increase of \$0.9 million in R&D personnel costs; and
- an increase of \$0.2 million in patent-related legal expenses.

General and administrative expenses increased by approximately \$1.4 million, from approximately \$5.1 million in 2004 to approximately \$6.5 million in 2005, primarily due to an increase in legal expense in connection with the litigation regarding our patent challenge of GlaxoSmithKline's Imitrex® injection, described elsewhere in this report.

Stock-based charges increased by approximately \$127,000, from \$885,000 in 2004 to \$1,012,000 in 2005, primarily due to an increase in the amortization of stock-based deferred compensation. We believe the use of stock options and similar equity-based awards is crucial for an early stage company like ours, as a means to conserve cash and to retain and motivate high-performance employees and consultants. We believe that such

equity awards foster an alignment of employee and consultant interests with those of our stockholders. We expect stock-based charges to become increasingly significant to us. In December 2004, the FASB issued Statement No. 123(R), "*Share-Based Payment*". The adoption of this statement will result in significantly higher reported operating expenses in our future financial statements. Had we adopted the provisions of Statement No. 123(R) as of January 1, 2005, our reported loss for the year-ended December 31, 2005 would have been approximately \$4.4 million higher, or approximately \$23.0 million. We intend to adopt the provisions of Statement No. 123(R) when it becomes a mandatory requirement, currently expected to be January 1, 2006.

Other income consisted of net interest income of approximately \$1.3 million for 2005 and approximately \$0.5 for 2004. The increase of approximately \$0.8 million is attributable to significantly higher investable funds and increasing interest rates in 2005.

#### ***Results of Operations for Fiscal 2004 Compared to Fiscal 2003***

In 2004, we incurred a net loss of approximately \$12.3 million compared to a net loss of approximately \$10.4 million in 2003. The increase of approximately \$1.9 million was primarily due to an increase of approximately \$3.3 million in research and development expenses including approximately \$1.2 million in cash for the acquisition of ozarelix and a decrease of \$1 million in licensing revenues from 2003. These increases in net loss were offset by the non-recurrence in 2004 of a non-cash charge in 2003 of approximately \$2.5 million stock options expense, which charge arose due to timing delays in awarding stock options to employees as a result of our compliance with state securities laws during a period where our stock price rose rapidly.

We recorded \$258,000 of revenues in 2004 and \$1.0 million revenues in the year ended December 31, 2003. The revenue in 2004 primarily represents \$185,000 of product sales revenue, recorded from the first shipment of ciprofloxacin tablets, after receipt of FDA approval in September 2004, and represents the cash received by us. The cost of the product sold was \$123,000. Also, in 2004 we received \$73,000 from GPC Biotech under our co-development license agreement, representing commissions on drug products used by GPC Biotech in clinical trials. In connection with the revenue from GPC Biotech, we had no performance obligations or incurred costs. The revenue in 2003 was derived from the second licensing fee of \$1 million under the licensing agreement with GPC Biotech, which became due in September 2003 upon dosing of the first patient in a registrational study. Future revenues from GPC Biotech are dependent upon the occurrence of milestones specified in the agreement. No milestone event occurred during 2004.

Research and development expenses increased by approximately \$3.3 million, from approximately \$3.7 million in 2003 to approximately \$7.0 million in 2004, primarily due to a cash payment of \$1.2 million for the up-front licensing fee for ozarelix; and an approximate \$1.6 million increase in drug product expense as a result of the investigation and development of additional new products, and increased clinical trials activity for EOquin™ and elsamitricin. Other notable increases in expenses over the comparative reporting period in 2003, were personnel costs of approximately \$200,000, insurance costs of approximately \$200,000, and patent-related legal expenses of approximately \$150,000, which were partially offset by a reduction in rent expense of approximately \$150,000 due to the termination of a lease on a research facility. These cost increases were the result of the increasing scope of our drug development activities.

General and administrative expenses increased by approximately \$47,000, from approximately \$5.0 million in 2003 to approximately \$5.1 million in 2004, primarily due to:

- Legal and professional fees, excluding financing related fees charged against the proceeds of the financing, and SEC reporting and compliance costs increased by approximately \$200,000 in 2004 due primarily to the changes in our organization, compliance with new NASDAQ, SEC and Sarbanes-Oxley Act of 2002 rules and regulations, and evaluation of business alliances and opportunities in conjunction with expanding our product portfolio;
- Personnel costs, excluding the 2003 severance charge of approximately \$500,000, increased by approximately \$400,000, due to the hiring of additional personnel to enable us to implement our planned growth; and

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- Partially offsetting the foregoing increased costs were reductions in rent expense primarily as a result of a more favorable facility lease effective July 1, 2004.

Stock-based charges, which are non-cash charges, decreased by approximately \$1.7 million, from approximately \$2.6 million in 2003 to approximately \$885,000 in 2004. The following describe the components of the charges in 2003 and 2004:

- Approximately \$634,000 of the 2004 charge arose from recording the fair value of 251,896 shares of restricted common stock issued to Zentaris GmbH in connection with the in licensing of ozarelix;
- The remainder of the 2004 relates to amortization of the fair value of warrants granted to consultants, primarily in 2003 and 2004; and
- The 2003 charge arose due to timing delays in awarding stock options to employees as a result of our compliance with state securities laws during a period where our stock price rose rapidly.

Other income, net for 2004 compared to 2003 increased by approximately \$436,000 primarily due to interest income earned on significantly higher average cash, cash equivalents and marketable securities balances and rising short term interest rates during 2004.

### **Off-Balance Sheet Arrangements**

None.

### **Contractual and Commercial Obligations**

The following table summarizes our contractual and other commitments, including obligations under a facility lease and equipment leases, as of December 31, 2005:

#### **Payment Due by Period**

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>After 5 Years</u>
	<u>Amounts In Thousands</u>				
<b>Contractual Obligations(1)</b>					
Capital Lease Obligations(2)	\$ –	\$ –	\$ –	\$ –	\$ –
Operating Lease Obligations(3)	\$ 1,667	\$ 452	\$ 962	\$ 253	\$ –
Purchase Obligations(4)	\$ 2,140	\$ 1,784	\$ 355	\$ –	\$ –
Contingent Milestone Obligations(5)	\$ 48,774	\$ 1,772	\$ 6,027	\$ 4,275	\$ 36,700
<b>Total</b>	<u>\$ 52,581</u>	<u>\$ 4,008</u>	<u>\$ 7,344</u>	<u>\$ 4,528</u>	<u>\$ 36,700</u>

- (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 December 31, 2005, 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 December 31, 2005.
- (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 December 31, 2005, 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

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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 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, aggregating approximately \$49 million as of December 31, 2005, 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 200,000 restricted shares of our common stock and pay up to approximately \$3 million in cash during the eighteen-month period.

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 are varied 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, 2006, 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.

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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.

### **Item 7A. 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 December 31, 2005 are primarily in 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 December 31, 2005, 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 for 2005, 2004 and 2003. In the past, we have not hedged against this foreign currency risk; however, expect to do so in future as a greater portion of our expenditures are expected to be stated in foreign currency.

**Item 8. Financial Statements and Supplementary Data**

Our annual consolidated financial statements are included in Item 15 of this report.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures.**

**(i) Disclosure 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 December 31, 2005, 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.

**(ii) Internal Control Over Financial Reporting.**

**(a) Management's annual report on internal control over financial reporting.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f).

Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Due to the small size of our company and the limited number of employees, it is not possible for us to fully segregate duties associated with the financial reporting process; accordingly, we rely on mitigating controls to reduce the risks from such lack of segregation of duties. Further, all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of such inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of the Evaluation Date.

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Our management's assessment of the effectiveness of our internal control over financial reporting as of the Evaluation Date has been audited by Kelly & Company, an independent registered public accounting firm, as stated in their report which is included herein.

### **(b) Attestation report of the registered public accounting firm.**

The integrated attestation report of Kelly & Company, the Company's independent registered public accounting firm, is set forth on page F-3. Presented below is an extract from that attestation report as to their audit of management's assessment of the effectiveness of our internal control over financial reporting:

"We have completed integrated audits of the 2005 and 2004 consolidated financial statements of Spectrum Pharmaceuticals, Inc. and Subsidiaries (the "Company") and of its annual report on internal control over financial reporting as of December 31, 2005 and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

#### ***Internal Control Over Financial Reporting***

... in our opinion, management's assessment, included in the accompanying "Management's Report on Internal Control Over Financial Reporting" appearing in Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate."

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**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

The information concerning our directors and executive officers required under this item is incorporated by reference from our definitive proxy statement related to our 2006 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A, on or before May 1, 2006 ("2006 Proxy Statement").

**Item 11. Executive Compensation**

The information required under this item is incorporated by reference from our 2006 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required under this item is incorporated by reference from our 2006 Proxy Statement.

**Item 13. Certain Relationships and Related Transactions**

The information required under this item is incorporated by reference from our 2006 Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required under this item is incorporated by reference from our 2006 Proxy Statement.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a)(1) *Consolidated Financial Statements:*

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Report of Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheets as of December 31, 2005 and 2004	F-5
Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003	F-6
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2005, 2004 and 2003	F-7
Consolidated Statements of Cash Flow for the years ended December 31, 2005, 2004 and 2003	F-8
Notes to Consolidated Financial Statements	F-10

(a)(2) *Financial Statement Schedules:* All financial statement schedules are omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

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### (a)(3) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
3.1	Certificate of Incorporation of the Registrant, as filed on May 7, 1997. (Filed as Exhibit B to the Definitive Proxy Statement dated May 8, 1997, for the Annual Meeting of Shareholders of Spectrum Pharmaceuticals Colorado, the predecessor to Registrant, held on June 17, 1997, as filed with the Securities and Exchange Commission on May 9, 1997, and incorporated herein by reference.)
3.1.1	Certificate of Amendment to the Certificate of Incorporation of the Registrant. (Filed as Exhibit 3.1.1 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)
3.1.2	Certificate of Designation of 5% Series A Preferred Stock with Conversion Features. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on February 9, 1999, and incorporated herein by reference.)
3.1.3	Certificate of Designation of Rights, Preferences and Privileges of Series B Junior Participating Preferred Stock of the Registrant. (Filed as Exhibit 3.1 to Form 8-A12G, as filed with the Securities and Exchange Commission on December 26, 2000, and incorporated herein by reference.)
3.1.4	Certificate of Designations of the Series C Preferred Stock of the Registrant. (Filed as Exhibit 4.7 to the Registration Statement on Form S-3, as amended (No. 333-64432), as filed with the Securities and Exchange Commission on July 2, 2001, and incorporated herein by reference.)
3.1.5	Certificate of Amendment of Certificate of Incorporation filed on September 5, 2002 (Filed as Exhibit 4.1 to Form 10-Q for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on November 13, 2002, and incorporated herein by reference.)
3.1.6	Certificate of Designations, Rights and Preference of the Series D 8% Cumulative Convertible Voting Preferred Stock. (Filed as Exhibit 3.1 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
3.1.7	Certificate of Increase. (Filed as Exhibit 3.2 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
3.1.8	Certificate of Designations, Rights and Preference of the Series E Convertible Voting Preferred Stock (Filed as Exhibit 3.1 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)
3.2	Form of Amended and Restated Bylaws of the Registrant. (Filed as Exhibit 3.1 to Form 10-Q, as filed with the Securities and Exchange Commission on August 16, 2004, and incorporated herein by reference.)
4.1	Form of Warrants issued by the Registrant to Brighton Capital, Ltd., dated between April 17, 2001 and May 18, 2001. (Filed as Exhibit 4.32 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)
4.2	Rights Agreement, dated as of December 13, 2000, between the Registrant and U.S. Stock Transfer Corporation, as Rights Agent, which includes as Exhibit A thereto the form of Certificate of Designation for the Series B Junior Participating Preferred Stock, as Exhibit B thereto the Form of Rights Certificate and as Exhibit C thereto a Summary of Terms of Stockholder Rights Plan. (Filed as Exhibit 4.1 to Form 8-A12G, as filed with the Securities and Exchange Commission on December 26, 2000, and incorporated herein by reference.)
4.3	Warrant issued by the Registrant to Montrose Investments Ltd., dated as of May 18, 2001. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on May 21, 2001, and incorporated herein by reference.)
4.4	Warrant issued by the Registrant to Strong River Investments, Inc., dated as of May 18, 2001. (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on May 21, 2001, and incorporated herein by reference.)
4.5	Form of Warrant issued by the Registrant to Gruntal & Co., L.L.C., dated as of August 10, 2001 (Filed as Exhibit 4.44 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)

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<u>Exhibit No.</u>	<u>Description</u>
4.6	Form of Warrants issued by the Registrant to Cantor Fitzgerald & Co, dated as of December 6, 2001 and December 13, 2001. (Filed as Exhibit A to Schedule 1 to Exhibit 1.1 to Form 8-K, as filed with the Securities and Exchange Commission on October 24, 2001, and incorporated herein by reference.)
4.7	Warrant issued by the Registrant to Jefferies & Company, Inc., dated as of December 13, 2001. (Filed as Exhibit 4.46 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)
4.8	Form of Warrant issued by the Registrant to certain purchasers, dated as of March 13, 2002. (Filed as Exhibit 4.47 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)
4.9	Form of Warrant issued by the Registrant to certain purchasers, dated as of June 5, 2002. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on June 7, 2002, and incorporated herein by reference.)
4.10	Form of Warrant issued by the Registrant to certain purchasers, dated as of June 7, 2002. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on June 19, 2002, and incorporated herein by reference.)
4.11	Warrant Repurchase Agreement by and between the Registrant and BNC Bach International, Ltd., dated as of July 31, 2002. (Filed as Exhibit 10.3 to Form 10-Q for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on November 13, 2002, and incorporated herein by reference.)
4.12*	Form of Warrant issued by the Registrant to five purchasers, dated as of November 21, 2002, to purchase up to an aggregate of 107,870 shares of our common stock. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on November 26, 2002, and incorporated herein by reference.)
4.13	Form of Warrant issued by the Registrant to certain purchasers, dated as of December 13, 2002, to purchase up to an aggregate of 65,550 shares of our common stock. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on December 13, 2002, and incorporated herein by reference.)
4.14	Form of Warrant issued by the Registrant to three purchasers, dated as of January 16, 2003, to purchase up to an aggregate of 55,555 shares of our common stock. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on January 17, 2003, and incorporated herein by reference.)
4.15	Form of Series D-1 Warrant. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
4.16	Form of Series D-2 Warrant. (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
4.17	Series D-3 Warrant. (Filed as Exhibit 4.3 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
4.18	Registration Rights Agreement dated as of May 7, 2003, by and among the Registrant and the persons listed on Schedule 1 attached thereto. (Filed as Exhibit 4.4 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
4.19	Amendment No. 1 to the Rights Agreement dated as of December 13, 2000 by and between the Registrant and U.S. Stock Transfer Corporation. (Filed as Exhibit 4.1 to Form 10-Q, as filed with the Securities and Exchange Commission on August 14, 2003, and incorporated herein by reference.)
4.20*	Registration Rights Agreement dated as of August 13, 2003, by and among the Registrant and the persons listed on Schedule 1 attached thereto. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2003, and incorporated herein by reference.)
4.21*	Form of Series 2003-1 Warrant (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2003, and incorporated herein by reference.)
4.22	Form of Series E-1 Warrant (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)

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<u>Exhibit No.</u>	<u>Description</u>
4.23	Form of Series E-2 Warrant (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)
4.24	Series E-3 Warrant (Filed as Exhibit 4.3 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)
4.25	Registration Rights Agreement dated as of September 26, 2003, by and among the Registrant and the persons listed on Schedule 1 attached thereto. (Filed as Exhibit 4.4 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)
4.26	Investor Rights Agreement, dated as of April 20, 2004, by and among the Registrant and the persons listed on Schedule 1 attached thereto. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on April 23, 2004, and incorporated herein by reference.)
4.27	Form of Warrant, dated as of April 21, 2004. (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on April 23, 2004, and incorporated herein by reference.)
4.28	Amendment No. 2 to the Rights Agreement dated as of December 13, 2000 by and between the Registrant and U.S. Stock Transfer Corporation. (Filed as Exhibit 4.1 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
4.29	Amendment No. 3 to the Rights Agreement dated as of December 13, 2000 by and between the Registrant and U.S. Stock Transfer Corporation. (Filed as Exhibit 4.2 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
4.30	Warrant issued by the Registrant to a consultant, dated as of September 17, 2003. (Filed as Exhibit 4.3 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
4.31	Warrant issued by the Registrant to a consultant, dated as of April 21, 2004. (Filed as Exhibit 4.4 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
4.32	Form of Warrant, dated as of September 30, 2004. (Filed as Exhibit 4.1 to Form 10-Q, as filed with the Securities and Exchange Commission on November 15, 2004, and incorporated herein by reference.)
4.33	Amendment No. 1 dated as of November 2, 2005, to Warrant issued by the Registrant to a consultant, dated as of September 17, 2003. (Filed as Exhibit 4.2 to Form 10-Q, as filed with the Securities and Exchange Commission on November 4, 2005, and incorporated herein by reference.)
4.34	Warrant issued by the Registrant to a Consultant, dated as of September 20, 2005. (Filed as Exhibit 4.3 to Form 10-Q, as filed with the Securities and Exchange Commission on November 4, 2005, and incorporated herein by reference.)
4.35+	Form of Warrant dated September 15, 2005.
10.1*	1991 Stock Incentive Plan. (Filed as Exhibit 10.2 to the Registration Statement on Form SB-2, as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.2	Industrial Lease Agreement dated as of January 16, 1997, between the Registrant and the Irvine Company. (Filed as Exhibit 10.11 to the Form 10-KSB for the fiscal year ended December 31, 1996, as filed with the Securities and Exchange Commission on March 31, 1997, and incorporated herein by reference.)
10.3*	Employee Stock Purchase Plan. (Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (No. 333-54246), and incorporated herein by reference.)
10.4*	Amendment 2001-1 to the Employee Stock Purchase Plan effective as of June 21, 2001. (Filed as Exhibit 10.22 to the Annual Report on Form 10-K, as amended, as filed with the Securities and Exchange Commission on April 25, 2001, and incorporated herein by reference.)

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<u>Exhibit No.</u>	<u>Description</u>
10.5*	Executive Employment Agreement for Rajesh C. Shrotriya, M.D., dated as of December 1, 2000. (Filed as Exhibit 10.35 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)
10.6	License Agreement dated as of June 29, 2001, by and between the Registrant and NDDO Research Foundation. (Filed as Exhibit 10.4 to Form 10-Q, as filed with the Securities and Exchange Commission on November 14, 2001, and incorporated herein by reference.)
10.7	License Agreement dated as of August 28, 2001, by and between the Registrant and Johnson Matthey PLC. (Filed as Exhibit 10.5 to Form 10-Q, as filed with the Securities and Exchange Commission on November 14, 2001, and incorporated herein by reference.)
10.8	License Agreement dated as of October 24, 2001, by and between the Registrant and Bristol-Myers Squibb Company. (Filed as Exhibit 10.6 to Form 10-Q, as filed with the Securities and Exchange Commission on November 14, 2001, and incorporated herein by reference.)
10.9	Settlement Agreement and Release by and between the Registrant and Merck Eprova AG dated as of September 30, 2002. (Filed as Exhibit 10.7 to Form 10-Q for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on November 13, 2002, and incorporated herein by reference.)
10.10#	First Amendment to License Agreement dated August 28, 2001 by and between the Registrant and Johnson Matthey PLC dated as of September 30, 2002. (Filed as Exhibit 10.8 to Form 10-Q for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on November 13, 2002, and incorporated herein by reference.)
10.11	Letter of Agreement by and between the Registrant and LEKAR Pharma Limited, dated as of March 26, 2003, for an investment of \$1 million in the Registrant's common stock. (Filed as Exhibit 10.48 to Form 10-K, as filed with the Securities and Exchange Commission on March 28, 2003, and incorporated herein by reference.)
10.12	Limited Liability Agreement of NeoJB LLC, a Delaware limited liability company effective as of April 17, 2002. (Filed as Exhibit 10.1 to Form 10-Q, as filed with the Securities and Exchange Commission on May 14, 2003, and incorporated herein by reference.)
10.13	Supply Agreement dated April 16, 2002 by and between J.B. Chemicals & Pharmaceuticals Ltd. and NeoJB LLC. (Filed as Exhibit 10.2 to Form 10-Q, as filed with the Securities and Exchange Commission on May 14, 2003, and incorporated herein by reference.)
10.14	Management Agreement dated April 16, 2002 by and between NeoTherapeutics, Inc. and NeoJB LLC. (Filed as Exhibit 10.3 to Form 10-Q, as filed with the Securities and Exchange Commission on May 14, 2003, and incorporated herein by reference.)
10.15	Preferred Stock and Warrant Purchase Agreement dated as of April 29, 2003, by and among the Registrant and the purchasers listed on Schedule 1 attached thereto. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
10.16	Amendment No. 1 of the Preferred Stock and Warrant Purchase Agreement and Registration Rights Agreement dated as of May 13, 2003 by and among the Registrant and the persons listed on Schedule 1B attached thereto. (Filed as Exhibit 10.2 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
10.17*	Spectrum Pharmaceuticals, Inc. Amended and Restated 1997 Stock Incentive Plan. (Filed as Annex A to our Definitive Proxy Statement, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
10.18*	Common Stock and Warrant Purchase Agreement dated as of August 13, 2003, by and among the Registrant and the purchasers listed on Schedule 1 attached thereto. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2003, and incorporated herein by reference.)
10.19	Preferred Stock and Warrant Purchase Agreement dated as of September 26, 2003, by and among the Registrant and the purchasers listed on Schedule 1 attached thereto. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)

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<u>Exhibit No.</u>	<u>Description</u>
10.20	Exclusive Supply, Marketing and Distribution Agreement between Lannett Company, Inc. and the Registrant dated August 15, 2003. (Filed as Exhibit 10.5 to Form 10-Q, as filed with the Securities and Exchange Commission on November 13, 2003, and incorporated herein by reference.)
10.21	Separation Agreement and General Release dated November 13, 2003 by and between Spectrum and John L. McManus. (Filed as Exhibit 10.6 to Form 10-Q, as filed with the Securities and Exchange Commission on November 13, 2003, and incorporated herein by reference.)
10.22	Separation Agreement and General Release dated November 7, 2003 by and between Spectrum and Michael P. McManus. (Filed as Exhibit 10.7 to Form 10-Q, as filed with the Securities and Exchange Commission on November 13, 2003, and incorporated herein by reference.)
10.23#	Exclusive Supply, Marketing and Distribution Agreement between FDC, Ltd. and the Registrant dated November 20, 2003. (Filed as Exhibit 10.44 to Form 10-K, as filed with the Securities and Exchange Commission on March 29, 2004, and incorporated herein by reference.)
10.24*	Executive Employment Agreement for Luigi Lenaz, M.D., dated as of October 22, 2001. (Filed as Exhibit 10.45 to Form 10-K, as filed with the Securities and Exchange Commission on March 29, 2004, and incorporated herein by reference.)
10.25	First Amendment dated March 25, 2004 to Industrial Lease Agreement dated as of January 16, 1997 by and between the Registrant and the Irvine Company. (Filed as Exhibit 10.1 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
10.26*	2003 Amended and Restated Incentive Award Plan. (Filed as Exhibit 10.2 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
10.27*	Form of Indemnity Agreement of the Registrant. (Filed as Exhibit 10.1 to Form 10-Q, as filed with the Securities and Exchange Commission on August 16, 2004, and incorporated herein by reference.)
10.28	Settlement Agreement and General Release By and Among NeoGene Technologies, Inc., the Registrant and The Regents of the University of California Dated as of March 26, 2004. (Filed as Exhibit 10.2 to Form 10-Q, as filed with the Securities and Exchange Commission on August 16, 2004, and incorporated herein by reference.)
10.29	Common Stock and Warrant Purchase Agreement, dated as of April 20, 2004, by and among Spectrum and the purchasers listed on Schedule 1 attached thereto. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on April 23, 2004, and incorporated by reference.)
10.30#	Co-Development and License Agreement by and between the Registrant and GPC Biotech AG, dated as of September 30, 2002. (Filed as Exhibit 10.1 to Form 10-Q, as filed with the Securities and Exchange Commission on November 15, 2004, and incorporated by reference.)
10.31#	Diagnostic and Drug Product Manufacturing, Supply and Marketing Agreement dated as of May 10, 2004 by and between the Registrant and Shantha Biotechnics Pvt. Ltd. (Filed as Exhibit 10.2 to Form 10-Q, as filed with the Securities and Exchange Commission on November 15, 2004, and incorporated by reference.)
10.32#	License and Collaboration Agreement by and between the Registrant and Zentaris GmbH, dated as of August 12, 2004. (Filed as Exhibit 10.1 to Form S-3/ A, as filed with the Securities and Exchange Commission on January 21, 2005, and incorporated by reference.)
10.33	Settlement Agreement and Release by and between the Registrant and SCO Financial Group, LLC, dated as of September 30, 2004. (Filed as Exhibit 10.4 to Form 10-Q, as filed with the Securities and Exchange Commission on November 15, 2004, and incorporated by reference.)
10.34	Sublease Agreement dated September 28, 2004 by and between the Registrant and Concurrent Pharmaceuticals, Inc., and The Irvine Company. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on November 8, 2004, and incorporated herein by reference.)

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<u>Exhibit No.</u>	<u>Description</u>
10.35*	Form of Stock Option Agreement under the 2003 Amended and Restated Incentive Award Plan. (As filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on December 17, 2004, and incorporated herein by reference.)
10.36#	License Agreement by and between the Registrant and Altair Nanomaterials, Inc. and Altair Nanotechnologies, Inc. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on February 3, 2005, and incorporated herein by reference.)
10.37#	License Agreement by and between the Registrant and Chicago Labs, Inc. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on February 25, 2005, and incorporated herein by reference.)
10.38#	Distribution and Supply Agreement by and between the Registrant and Cura Pharmaceutical Co. Inc. dated as of April 13, 2005. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on April 19, 2005, and incorporated herein by reference.)
10.39*	Form of Non-Employee Director Stock Option Agreement under the 2003 Amended and Restated Incentive Award Plan. (Filed as Exhibit 10.5 to Form 10-Q with the Securities and Exchange Commission on May 10, 2005, and incorporated herein by reference.)
10.40#	License Agreement between Registrant and Dr. Robert Bases. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on May 20, 2005, and incorporated herein by reference.)
10.41	Form Securities Purchase Agreement dated September 14, 2005. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on September 15, 2005, and incorporated herein by reference.)
10.42	Letter Agreement between the Registrant and Rodman and Renshaw, LLC. (Filed as Exhibit 10.2 to Form 8-K, as filed with the Securities and Exchange Commission on September 15, 2005, and incorporated herein by reference.)
10.43	Summary of Director Compensation. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on September 22, 2005, and incorporated herein by reference.)
10.44*+	Restricted Stock Award Grant Notice and Restricted Stock Award Agreement under the Amended and Restated Incentive Award Plan.
10.45+	First Amendment to the Distribution and Supply Agreement between Registrant and Cura Pharmaceutical Co., Inc. dated February 28, 2006.
21+	Subsidiaries of Registrant.
23.1+	Consent of Kelly & Company.
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.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

SPECTRUM PHARMACEUTICALS, INC.

By: /s/ RAJESH C. SHROTRIYA, M.D.

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Rajesh C. Shrotriya, M.D.  
*Chief Executive Officer and President*

Date: March 15, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <u>/s/ RAJESH C. SHROTRIYA, M.D.</u> Rajesh C. Shrotriya, M.D.	Chairman of the Board, Chief Executive Officer President and Director (Principal Executive Officer)	March 15, 2006
<hr/> <u>/s/ SHYAM K. KUMARIA</u> Shyam K. Kumaria	Vice President Finance (Principal Financial and Accounting Officer)	March 15, 2006
<hr/> <u>/s/ RICHARD D. FULMER</u> Richard D. Fulmer	Director	March 15, 2006
<hr/> <u>/s/ STUART M. KRASSNER, Sc.D., Psy.D.</u> Stuart M. Krassner, Sc.D., Psy.D.	Director	March 15, 2006
<hr/> <u>/s/ ANTHONY E. MAIDA, III</u> Anthony E. Maida, III	Director	March 15, 2006
<hr/> <u>/s/ DILIP J. MEHTA, M.D., Ph.D.</u> Dilip J. Mehta, M.D., Ph.D.	Director	March 15, 2006
<hr/> <u>/s/ JULIUS A. VIDA, Ph.D.</u> Julius A. Vida, Ph.D.	Director	March 15, 2006

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Consolidated Financial Statements**  
**As of December 31, 2005 and 2004 and**  
**For Each of the Three Years in the Period Ended December 31, 2005**

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

**INDEX TO FINANCIAL STATEMENTS**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Spectrum Pharmaceuticals, Inc.

We have completed integrated audits of the 2005 and 2004 consolidated financial statements of Spectrum Pharmaceuticals, Inc. and Subsidiaries (the “Company”) and of its annual report on internal control over financial reporting as of December 31, 2005 and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

### *Consolidated Financial Statements*

In our opinion, the accompanying consolidated financial statements listed in the accompanying index present fairly, in all material respects, the consolidated financial position of Spectrum Pharmaceuticals, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

### *Internal Control Over Financial Reporting*

Also, in our opinion, management’s assessment, included in the accompanying “Management’s Report on Internal Control Over Financial Reporting” appearing in Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by COSO. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management’s assessment and on the effectiveness of the Company’s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation

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of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Kelly & Company

Costa Mesa, California  
March 10, 2006

## Spectrum Pharmaceuticals, Inc. and Subsidiaries

## Consolidated Balance Sheets

	December 31	
	2005	2004
(In thousands, except share and per share data)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 28,750	\$ 3,241
Marketable securities	34,917	35,965
Accounts receivable	287	199
Inventory	58	224
Prepaid expenses and other current assets	373	372
Total current assets	64,385	40,001
Property and equipment, net	562	687
Other assets	128	70
<b>Total assets</b>	<b>\$ 65,075</b>	<b>\$ 40,758</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,220	\$ 1,235
Accrued compensation	683	662
Clinical study costs	1,925	769
Total current liabilities	3,828	2,666
Deferred rent and deposit	241	178
<b>Total liabilities</b>	<b>4,069</b>	<b>2,844</b>
Commitments and contingencies (Note 7)		
Minority interest	23	24
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, \$1.884 million aggregate liquidation value, 157 shares issued and outstanding at December 31, 2005 and 2004	747	747
Series E Convertible Voting Preferred Stock, 2,000 shares authorized, stated value \$10,000 per share, \$3.492 million aggregate liquidation value, 291 shares issued and outstanding at December 31, 2005 and 2004	1,795	1,795
Common stock, par value \$0.001 per share, 50,000,000 shares authorized; 23,503,157 and 14,825,558 shares issued and outstanding at December 31, 2005 and 2004, respectively	24	15
Additional paid-in capital	243,656	201,218
Deferred stock-based compensation	(783)	(97)
Accumulated other comprehensive loss, unrealized loss on securities held for investment	(26)	-
Accumulated deficit	(184,430)	(165,788)
<b>Total stockholders' equity</b>	<b>60,983</b>	<b>37,890</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 65,075</b>	<b>\$ 40,758</b>

The accompanying notes are an integral part of the financial statements.

## Spectrum Pharmaceuticals, Inc. and Subsidiaries

## Consolidated Statements of Operations

	Years Ended December 31		
	2005	2004	2003
	(In thousands, except share and per share data)		
<b>Revenues:</b>			
Licensing fees	\$ 56	\$ 73	\$ 1,000
Product sales	521	185	—
Total revenues	577	258	1,000
<b>Operating expenses:</b>			
Cost of product sold	397	123	—
Research and development	12,600	6,954	3,683
General and administrative	6,490	5,096	5,049
Stock-based charges	1,012	885	2,573
Restructuring expenses	—	—	163
Total operating expenses	20,499	13,058	11,468
Loss from operations	(19,922)	(12,800)	(10,468)
Other income, net	1,279	518	78
Net loss before minority interest in consolidated subsidiary	(18,643)	(12,282)	(10,390)
Minority interest in net income of consolidated subsidiary	1	(4)	—
<b>Net loss</b>	<b>\$ (18,642)</b>	<b>\$ (12,286)</b>	<b>\$ (10,390)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (1.06)</b>	<b>\$ (0.98)</b>	<b>\$ (4.83)</b>
<b>Basic and diluted weighted average common shares outstanding</b>	<b>17,659,602</b>	<b>12,674,506</b>	<b>4,169,374</b>
<b>Supplemental Information:</b>			
Stock-based charges — components:			
Research and development	\$ 883	\$ 634	\$ 1,000
General and administrative	\$ 129	\$ 251	\$ 1,573
<b>Total stock-based charges</b>	<b>\$ 1,012</b>	<b>\$ 885</b>	<b>\$ 2,573</b>

The accompanying notes are an integral part of the financial statements.

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)**

	Preferred Stock		Common Stock		Additional Paid-In Capital (In thousands, except share data)	Deferred Compensation (In thousands, except share data)	Accumulated Other Comprehensive Income(Loss)	Deficit	Accumulated Total
	Shares	Amount	Shares	Amount					
<b>Balance at December 31, 2002</b>	–	–	2,726,019	\$ 3	\$ 143,831	\$ (56)	\$ 6	\$ (143,112)	\$ 672
Net loss	–	–	–	–	–	–	–	(10,390)	(10,390)
Total comprehensive loss	–	–	–	–	–	–	–	(10,390)	(10,390)
Issuance of Series D Preferred Stock and common stock warrants, net	600	2,856	–	–	2,300	–	–	–	5,156
Issuance of Series E Preferred Stock and common stock warrants, net	2,000	11,269	–	–	6,919	–	–	–	18,188
Conversion of Series D Preferred Stock into common stock	(335)	(1,595)	1,425,532	2	1,593	–	–	–	–
Conversion of Series E Preferred Stock into common stock	(685)	(4,224)	1,370,000	1	4,223	–	–	–	–
Issuance of common stock and warrants for cash, net of issuance costs	–	–	1,211,578	1	4,536	–	–	–	4,537
Issuance of common stock upon exercise of warrants	–	–	1,169,070	1	3,303	–	–	–	3,304
Issuance of common stock to employees as compensation	–	–	105,700	–	547	–	–	–	547
Issuance of common stock upon exercise of employee stock options	–	–	61,550	–	173	–	–	–	173
Intrinsic value of stock options granted to employees	–	–	–	–	1,749	–	–	–	1,749
Fair value of warrants and options issued to consultants	–	–	–	–	516	(240)	–	–	276
Amortization of deferred compensation and services	–	–	–	–	–	104	–	–	104
Recognition of beneficial conversion feature on preferred stock	–	(8,447)	–	–	8,447	–	–	–	–
Preferred dividends:									
Deemed dividend related to beneficial conversion features on preferred stock	–	8,447	–	–	(8,447)	–	–	–	–
Deemed dividend related to issuance costs	–	1,065	–	–	(1,065)	–	–	–	–
Series D Preferred Stock dividend paid with common stock	–	–	28,478	–	–	–	–	–	–
Series D Preferred Stock dividends paid in cash	–	–	–	–	(35)	–	–	–	(35)
<b>Balance at December 31, 2003</b>	<u>1,580</u>	<u>\$ 9,371</u>	<u>8,097,927</u>	<u>\$ 8</u>	<u>\$ 168,590</u>	<u>\$ (192)</u>	<u>\$ 6</u>	<u>\$ (153,502)</u>	<u>\$ 24,281</u>
Net loss	–	–	–	–	–	–	–	(12,286)	(12,286)
Realized loss on available-for-sale securities	–	–	–	–	–	–	(6)	–	(6)
Total comprehensive loss, net	–	–	–	–	–	–	(6)	(12,286)	(12,292)
Conversion of Series D Preferred Stock into common stock	(108)	(514)	459,574	1	513	–	–	–	–
Conversion of Series E Preferred Stock into common stock	(1,024)	(6,315)	2,048,000	2	6,313	–	–	–	–
Issuance of common stock for cash, net of issuance costs	–	–	3,220,005	3	22,576	–	–	–	22,579
Fair value of common stock issued in connection with drug license	–	–	251,896	–	634	–	–	–	634
Issuance of common stock upon exercise of warrants	–	–	516,994	1	2,020	–	–	–	2,021
Issuance of common stock upon exercise of employee stock options	–	–	199,150	–	415	–	–	–	415
Fair value of warrants issued to consultants	–	–	–	–	157	(157)	–	–	–
Amortization of deferred compensation and services	–	–	–	–	–	252	–	–	252
Series D Preferred Stock dividends paid with common stock	–	–	32,012	–	–	–	–	–	–
<b>Balance at December 31, 2004</b>	<u>448</u>	<u>2,542</u>	<u>14,825,558</u>	<u>15</u>	<u>201,218</u>	<u>(97)</u>	<u>–</u>	<u>(165,788)</u>	<u>37,890</u>
Net loss	–	–	–	–	–	–	–	(18,642)	(18,642)
Unrealized loss on securities held for investment	–	–	–	–	–	–	(26)	–	(26)
Total comprehensive loss, net	–	–	–	–	–	–	(26)	(18,642)	(18,668)
Issuance of common stock and warrants for cash, net of issuance costs	–	–	8,119,617	9	40,087	–	–	–	40,096
Fair value of common stock issued in connection with drug license	–	–	100,000	–	594	–	–	–	594
Issuance of common stock upon exercise of warrants	–	–	300,963	–	1,052	–	–	–	1,052

Issuance of common stock upon exercise of employee stock options	-	-	16,450	-	21	-	-	-	21
Repurchase/ Issuance of common stock upon exercise of warrants	-	-	-	-	(420)	-	-	-	(420)
Issuance of common stock to employees as compensation	-	-	115,000	-	490	(490)	-	-	-
Fair value of warrants issued to consultants, net of forfeitures	-	-	-	-	614	(614)	-	-	-
Amortization of deferred compensation and services Series D Preferred Stock dividend paid with common stock	-	-	-	-	-	418	-	-	418
	-	-	25,569	-	-	-	-	-	-
<b>Balance at December 31, 2005</b>	<u>448</u>	<u>\$ 2,542</u>	<u>23,503,157</u>	<u>\$ 24</u>	<u>\$ 243,656</u>	<u>\$ (783)</u>	<u>\$ (26)</u>	<u>\$ (184,430)</u>	<u>\$ 60,983</u>

## Spectrum Pharmaceuticals, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

	Years Ended December 31		
	2005	2004	2003
	(In thousands, except share and per share data)		
<i>Cash flows from operating activities:</i>			
Net loss	\$ (18,642)	\$ (12,286)	\$ (10,390)
Adjustments to reconcile net loss to net cash used in operating activities:			
Non-cash items included in net loss:			
Depreciation and amortization	264	173	242
Amortization of deferred stock-based compensation	418	252	104
Fair value of common stock issued in connection with drug license	594	634	-
Minority interest in net income of consolidated subsidiary	(1)	4	-
Fair value of common shares and warrants issued to employees and consultants	-	-	823
Intrinsic value of stock options granted to employees	-	-	1,749
Impairment on property and equipment	-	-	130
Changes in operating assets and liabilities:			
Increase in accounts receivable	(88)	(199)	-
(Increase) decrease in inventory	166	(224)	-
(Increase) decrease in other current assets	19	(64)	76
Increase (decrease) in accounts payable and accrued expenses	1,141	79	(89)
Increase (decrease) in accrued compensation and related taxes	21	(376)	836
Increase (decrease) in other non-current liabilities	63	178	(101)
<b>Net cash used in operating activities</b>	<b>(16,045)</b>	<b>(11,829)</b>	<b>(6,620)</b>
<i>Cash flows from investing activities:</i>			
Sales of marketable securities	\$ 60,115	\$ 10,314	\$ -
Purchases of marketable securities	(59,067)	(44,515)	(1,704)
Purchases of Held for Investment securities	(104)	-	-
Purchases of property and equipment	(139)	(200)	-
Proceeds from sale of equipment	-	-	390
<b>Net cash provided by (used in) investing activities</b>	<b>805</b>	<b>(34,401)</b>	<b>(1,314)</b>
<i>Cash flows from financing activities:</i>			
Proceeds from issuance of common stock and warrants, net of related offering costs and expenses	\$ 40,096	\$ 22,579	\$ 4,537
Proceeds from sale of preferred stock, net of issuance costs	-	-	23,344
Proceeds from the exercise of warrants	1,052	2,021	3,304
Repurchase of warrants	(420)	-	-
Proceeds from exercise of stock options	21	415	173
Payments made on capital lease and loan obligations	-	(145)	(320)
Minority investment in subsidiary	-	20	-
Cash dividends paid on preferred stock	-	-	(35)
<b>Net cash provided by financing activities</b>	<b>40,749</b>	<b>24,890</b>	<b>31,003</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>25,509</b>	<b>(21,340)</b>	<b>23,069</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>3,241</b>	<b>24,581</b>	<b>1,512</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 28,750</b>	<b>\$ 3,241</b>	<b>\$ 24,581</b>

The accompanying notes are an integral part of the financial statements.

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Consolidated Statement of Cash Flows**

**SUPPLEMENTAL CASH FLOW INFORMATION**

	Years Ended December 31		
	2005	2004	2003
	(In thousands, except share and per share data)		
Interest paid	–	\$ 3	\$ 17
Income taxes paid	\$ 1	\$ 1	\$ 1

**SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES**

	Years Ended December 31		
	2005	2004	2003
	(In thousands, except share and per share data)		
Fair value of common stock issued in connection with drug license	\$ 594	\$ 634	–
Preferred stock dividends paid with issuance of common stock	\$ 127	\$ 162	\$ 206
Fair value of restricted stock granted employees and directors	\$ 490	–	\$ 547
Fair value of warrants issued to consultants for services (net of forfeitures)	\$ 614	\$ 157	\$ 240
Fair value of warrants issued to placement agents	–	\$ 542	\$ 1,764
Reclass of equipment previously held-for-sale to fixed assets	–	\$ 100	–
Deemed dividends on beneficial conversion features on preferred stock	–	–	\$ 8,447
Conversion of preferred stock and convertible debentures into shares of common stock	–	–	\$ 5,819
Deemed dividends related to preferred stock related to issuance costs	–	–	\$ 1,065

The accompanying notes are an integral part of the financial statements.

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**1. Nature of Business**

***Overview***

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 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.

**2. Summary of Significant Accounting Policies and Estimates**

***Principles of Consolidation and Basis of Presentation***

The consolidated financial statements include the accounts of the Company and of our wholly owned and majority owned subsidiaries. As of December 31, 2005, we had three subsidiaries: NeoJB LLC (NeoJB), 80% owned, organized in Delaware in April 2002; Spectrum Pharmaceuticals GmbH, wholly owned inactive subsidiary, 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.

***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.

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements — (Continued)**

***Reclassification of Accounts***

Certain reclassifications have been made to the December 31, 2004 financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

***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, but from time to time also include 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 two 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 December 31, 2005, we had a bank account with a balance that exceeded the amount insured by the Federal Deposit Insurance Corporation by \$660,000. We believe this concentration risk is mitigated by the financial strength of the bank that maintains the account.

During each of 2005 and 2004, all of our product sales were of carboplatin injection and ciprofloxacin tablets, respectively, and were to our distributors, Cura Pharmaceuticals and Lannett Company, respectively. Further, pursuant to our strategic alliance agreements, described in Note 3, and the nature of the FDA approvals, these products can only be sourced from the companies named in the approval.

***Inventory***

Inventory is stated at the lower of cost (first-in, first-out method) or market. As of December 31, 2005 and 2004, 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. and Subsidiaries**  
**Notes to the Consolidated Financial Statements — (Continued)**

***Property and Equipment***

We carry property and equipment at historical cost. Equipment is depreciated on a straight-line basis over its estimated useful life (generally 5 to 7 years). Leasehold improvements are amortized over the shorter of the estimated useful life or lease term. Maintenance and repairs are expensed as incurred. Major renewals and improvements that extend the life of the property are capitalized.

We review long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. If impairment is indicated, we reduce the carrying value of the asset to fair value.

***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.

***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 net losses in each of the periods 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 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

**Spectrum Pharmaceuticals, Inc. and Subsidiaries****Notes to the Consolidated Financial Statements — (Continued)**

of December 31, 2005, 2004 and 2003, such potentially dilutive common stock equivalents amounted to approximately 15 million, 10 million and 11 million shares, respectively.

The following data show the amounts used in computing basic loss per share for each of the three years in the period ended December 31, 2005.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net loss	\$ (18,642)	\$ (12,286)	\$ (10,390)
Less:			
Preferred dividends paid in cash or stock	(127)	(162)	(241)
Loss attributable to stockholders before deemed dividend	(18,769)	(12,448)	(10,631)
Deemed dividend related to beneficial conversion feature on preferred stock	—	—	(8,447)
Deemed dividends related to preferred stock issuance costs	—	—	(1,065)
Loss attributable to common stockholders, after consideration of deemed dividends, used in computing basic earnings per share	\$ (18,769)	\$ (12,448)	\$ (20,143)
Weighted average shares	17,659,602	12,674,506	4,169,374
Basic and diluted net loss per share	<u>\$ (1.06)</u>	<u>\$ (0.98)</u>	<u>\$ (4.83)</u>

***Accounting for Stock-Based Employee Compensation***

At December 31, 2005, we had three stock-based employee compensation plans, which are described more fully in Note 9. As permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation, we account for grants pursuant to those plans 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 recognize stock-based compensation expense for all grants to consultants and for those grants to employees where the exercise prices are below the market price of the underlying stock at the measurement date of the grant.

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements — (Continued)**

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 each of the three years ended December 31, 2005.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(In thousands, except share and per share data)		
Net loss, as reported	\$ (18,642)	\$ (12,286)	\$ (10,390)
Add: stock-based employee compensation included in the reported net loss	—	—	2,296
Less: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(4,387)	(2,571)	(5,077)
Pro forma net loss	<u>\$ (23,029)</u>	<u>\$ (14,857)</u>	<u>\$ (13,171)</u>
Loss per share:			
Basic and diluted — as reported	<u>\$ (1.06)</u>	<u>\$ (0.98)</u>	<u>\$ (4.83)</u>
Basic and diluted — pro forma	<u>\$ (1.31)</u>	<u>\$ (1.18)</u>	<u>\$ (5.50)</u>

### **Income Taxes**

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement bases and tax bases of existing assets and liabilities. However, we have recorded a valuation allowance to fully offset the net deferred tax assets as of December 31, 2005 and 2004, because realization of such assets is uncertain.

### **Comprehensive Loss**

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

### **New Accounting Pronouncements**

In December 2004, the FASB issued Statement No. 123(R), Share-Based Payment. This Statement eliminates the use of the intrinsic value method described in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. We expect to adopt the provisions of Statement No. 123(R) when it becomes a mandatory requirement, currently expected to be January 1, 2006. The adoption of this statement is expected to result in significantly higher reported operating expenses in our future financial statements. Had we adopted the provisions of Statement No. 123(R) as of January 1, 2005, our reported loss for the year-ended December 31, 2005 would have been approximately \$4.3 million higher, or approximately \$23.0 million, as disclosed above in Note 2, Accounting for Stock-Based Employee Compensation.

### **3. Products and Strategic Alliances**

As of December 31, 2005, we had eight proprietary drug product candidates under development: satraplatin, EOquin™, elsamitrucin, ozarelix (formerly SPI-153), lucanthone, RenaZorb™, SPI-1620 and SPI-205. We are developing our proprietary drug product candidates for the treatment of a variety of cancers

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements — (Continued)**

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. Through December 31, 2005, we had filed twelve Abbreviated New Drug Applications, or ANDAs, with the FDA, including those for ciprofloxacin tablets, and fluconazole tablets, and carboplatin injection, which have been approved by the FDA. In addition, we have intellectual property rights to certain 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.

The following is a brief description of the products under development, and related strategic alliances, as of December 31, 2005:

**Satraplatin:** Satraplatin is an orally administered chemotherapeutic agent that is being studied for treating hormone refractory prostate cancer. As of December 31, 2005, 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.

In 2001, we in-licensed satraplatin from Johnson Matthey PLC. In 2002, in exchange for an upfront license fee, and future milestones and royalties, we entered into a Co-Development and License Agreement with GPC Biotech for further development and commercialization of satraplatin. Under the terms of this agreement, GPC Biotech agreed to fully fund the development expenses for satraplatin. A development committee with members from both GPC Biotech and Spectrum establishes the development plans for satraplatin. GPC Biotech, however, represents a majority of the committee and the final procedures are effectively decided and implemented by GPC Biotech. We have the ability to perform additional studies, if so desired, at our expense. Licensing fees, including upfront fees and milestone payments, received in 2005, 2004, and 2003 amounted to \$56,000, \$73,000, and \$1,000,000, respectively. In addition, during 2003, pursuant to the license agreement, GPC Biotech made an equity investment of \$1,000,000 in 128,370 shares of our common stock at \$7.79 per share. We are entitled to additional revenues upon achievement of specified milestones, which are generally based on developmental or regulatory events; and royalties, if any, on worldwide sales of the product. Each of our contingent future cash payment milestone obligations to Johnson Matthey is generally matched by a corresponding, greater milestone receivable from GPC Biotech. We did not have to make any cash payments to Johnson Matthey for the upfront fees, milestone payments and equity investments we have received so far from GPC Biotech.

**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. As of December 31, 2005, a phase 2 clinical trial had 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 2001, we in-licensed exclusive worldwide rights to EOquin™ from the New Drug Development Office in the Netherlands. We paid an up-front fee, and are contingently obligated to pay additional amounts based upon achievement of specified milestones and royalties based on any future net sales.

**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

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements — (Continued)**

indication, refractory non-Hodgkin's lymphoma. As of December 31, 2005, a phase 2 clinical trial was proceeding in accordance with plans.

In 2001, we in-licensed exclusive worldwide rights to elsamitruicin from Bristol-Myers Squibb. We paid an up-front fee, and are contingently obligated to pay additional amounts based upon achievement of milestones and a royalty based on any future net sales.

***Ozarelix***: Ozarelix (formerly SPI-153), 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. As of the December 31, 2005, phase 2 clinical trials in each of those indications were proceeding in Europe in accordance with plans.

In 2004, we entered into a license agreement with Zentaris, whereby we acquired an exclusive license to develop and commercialize Ozarelix in North America (including Canada and Mexico) and India. In addition, we have a financial interest in any income Zentaris derives from Ozarelix in Japan. With certain exceptions, we are required to purchase all finished drug product from Zentaris for the clinical development of Ozarelix at a set price. We paid an up-front fee, and are contingently obligated to pay additional amounts based upon achievement of milestones and a royalty based on any future net sales.

***Lucanthon***: We own a license to a method of treating cancer of the central nervous system through the administration of lucanthon and radiation. Lucanthon, an orally active radiation sensitizer, has the potential to improve the treatment outcomes in a number of human malignancies, specifically brain tumors, as it readily crosses the blood brain barrier. Lucanthon is currently in a phase 2 clinical trial.

***RenaZorb***<sup>TM</sup>: RenaZorb<sup>TM</sup>, a second-generation lanthanum-based phosphate-binding agent, has the potential to treat hyperphosphatemia, or high phosphate levels in blood, in patients with end-stage and chronic kidney disease. RenaZorb<sup>TM</sup> is currently in pre-clinical development.

In January 2005, we entered into a license agreement with Altair Nanotechnologies, Inc., whereby we acquired an exclusive worldwide license to develop and commercialize RenaZorb<sup>TM</sup>. We paid Altair an upfront payment of 100,000 shares of restricted Spectrum common stock and made a payment of \$200,000 for 38,314 shares of Altair common stock of which \$104,000 (the fair value of the Altair shares at the time of purchase) was recorded as an equity investment with the remainder recognized as a charge to research and development expense. The Company will be obligated to make future payments contingent upon the successful achievement of certain development and regulatory milestones. In addition we will pay royalties on potential net sales, if any, after marketing approval is obtained from regulatory authorities.

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***: We believe SPI-1620, an endothelinB agonist, may selectively increase blood flow in tumor blood vessels and thereby selectively increase the delivery of anti-cancer drugs to cancer tissue for the treatment of cancer. SPI-1620 is currently in pre-clinical development.

In February 2005, we entered into a license agreement with Chicago Labs, Inc., whereby we acquired an exclusive worldwide license to develop and commercialize SPI-1620. We paid Chicago Labs, Inc. an upfront fee of \$100,000, which was charged as an expense to research and development and are obligated to make future payments contingent upon the successful achievement of certain development and regulatory milestones. In addition we will pay royalties and sales milestones on potential net sales, if any, after marketing approval is obtained from regulatory authorities.

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements — (Continued)**

SPI-205: SPI-205, a lipid suspension of leteprinin, has demonstrated, in experimental models, benefits treating chemotherapy induced peripheral neuropathy. During 2006, we plan to continue preclinical evaluation of SPI-205 and perform all necessary tests to bring expeditiously to clinical trials in humans.

***Product Development and Manufacturing***

As of December 31, 2005, we had also entered into the following additional business alliances:

J.B. Chemicals & Pharmaceuticals Ltd. (JBCPL): In 2002, we formed a subsidiary, NeoJB, with JBCPL, an India based pharmaceutical manufacturer, which has a minority interest in NeoJB. This subsidiary expects to utilize the existing manufacturing capabilities of JBCPL to produce selected oral prescription drug products for marketing in the United States. Through December 31, 2005, we filed four ANDAs on behalf of NeoJB. In September 2005 and 2004, respectively, the FDA approved for marketing fluconazole tablets and ciprofloxacin tablets manufactured by JBCPL. NeoJB purchases product from JBCPL based on market prices prevailing at the time of purchase, and at this time does not have long-term volume or price commitments.

FDC Limited (FDC): In 2003, we entered into an agreement with FDC, an India based pharmaceutical manufacturer, with a view to marketing in the United States certain ophthalmic drugs manufactured by FDC. Through December 31, 2005, we have filed four ANDAs pursuant to this alliance. We do not have long-term volume or price commitments.

Shantha Biotechnics Pvt. Ltd. (Shantha): In 2004, we entered into an alliance with Shantha, a leading Indian biopharmaceutical company engaged in the development, manufacture and commercialization of human healthcare products produced by recombinant technology for the detection and treatment of cancer and infectious diseases. We are responsible for all regulatory, marketing and distribution matters in the United States for certain products currently marketed by Shantha elsewhere in the world and certain other products under development by Shantha. As of December 31, 2005, the product candidates under consideration for development of ANDAs include certain oncology biologics and cancer diagnostics, as well as certain vaccines. However, there are no current U.S. regulatory guidelines that allow for generic equivalents to branded biologics to be filed with the FDA using an abbreviated application and review process. The FDA is working with the pharmaceutical industry at-large to better understand the position of the biotech and biopharmaceutical companies regarding the issue of equivalence of biogenerics to the branded products and the equivalence of the processes used to manufacture the active biological ingredient. Until such time that the FDA adopts clear guidelines covering biogenerics and/or Congress creates new laws and regulations that would allow for an abbreviated application, review and approval process for such biogenerics, we will not be in a position to move forward in the United States on a number of product candidates covered under this agreement.

***Sales, Marketing and Distribution***

The Lannett Company (Lannett): In 2003, we entered into a sales and distribution agreement with Lannett, a Philadelphia based pharmaceutical company engaged in the marketing and distribution of prescription drugs. Under the agreement Lannett is our exclusive distributor for ciprofloxacin tablets in the United States, and we are obligated to distribute ciprofloxacin tablets only through Lannett. During the 4th quarter of 2004, after receipt of FDA approval, we sold ciprofloxacin tablets to Lannett. We had no sales of ciprofloxacin tablets in 2005. Our agreement with Lannett terminates in March 2006.

Cura Pharmaceuticals Co., Inc (Cura): In April 2005, we entered into an exclusive agreement with Cura Pharmaceuticals Co. Inc. for the marketing and distribution in the United States of carboplatin injection, which was approved by the FDA in June 2005. Under the terms of this agreement, we sell the product to Cura at prices specified in the agreement. In addition, we are entitled to share in the profit, if any,

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**Notes to the Consolidated Financial Statements — (Continued)**

between such specified prices and the selling prices ultimately realized by Cura. In February 2006, this agreement was amended to be semi-exclusive.

We anticipate entering into additional sales, marketing and distribution alliances during 2006.

**4. Marketable Securities**

A summary of marketable securities and short-term investments at December 31, 2005 and 2004 is as follows:

	2005	2004
	(In thousands, except share and per share data)	
Type of investment:		
“Held-to-maturity” — bank certificates of deposits	\$ —	\$ 1,015
“Available-for-sale” — corporate and municipal bonds	34,917	34,950
<b>Total marketable securities</b>	<b>\$ 34,917</b>	<b>\$ 35,965</b>

“Held-to-maturity” marketable securities are carried at cost, which approximates fair value because of their short-term maturities and insignificant interest rate risk. “Available-for-sale” marketable securities are carried at fair value, with any unrealized gains and losses included as a component of accumulated other comprehensive income (loss) in stockholders’ equity.

Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities, as well as interest income and dividends on investments, are included in other income and expense. The cost of securities sold is determined by specific identification. Unrealized and realized gains or losses were not significant as of December 31, 2005 and 2004, or for the three years in the period ended December 31, 2005.

As of December 31, 2004, the maturities of our “available for sale securities”, primarily 28-day auction rate notes, were in excess of 10 years. These securities are classified as current assets based on our intent and ability to use any and all of these securities as necessary to satisfy our cash needs as they arise, by redeeming them at par within a 28-day period.

In connection with the licensing of RenaZorb™ (Note 3), we acquired 38,314 shares of Altair Common Stock at its fair market value of \$104,000. The shares are being held for investment and are recorded on the balance sheet as an “other asset”. As of December 31, 2005, the value of the Altair stock was \$78,000. The loss of \$26,000 has been included in other comprehensive income as an unrealized loss.

**5. Property and Equipment**

As of December 31, 2005 and 2004, property and equipment consisted of:

	2005	2004
	(Amounts in thousands)	
Equipment	\$ 1,033	\$ 1,411
Leasehold improvements	506	575
Total property and equipment	1,539	1,986
Less: accumulated depreciation and amortization	(977)	(1,299)
<b>Property and equipment, net</b>	<b>\$ 562</b>	<b>\$ 687</b>

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements — (Continued)**

For the years ended December 31, 2005, 2004 and 2003, the Company recorded depreciation expense of \$264,000, \$173,000 and \$242,000, respectively.

**6. Income Taxes**

Significant components of the income tax expense for each of the three years in the period ended December 31, 2005 are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(Amounts in thousands)		
<b>Current:</b>			
Federal	-	-	-
State	\$ 4	\$ 4	\$ 3
Foreign	-	-	-
	<u>4</u>	<u>4</u>	<u>3</u>
<b>Deferred:</b>			
Federal	-	-	-
State	-	-	-
Foreign	-	-	-
	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ 3</u>

The following is a reconciliation from the statutory federal income tax rate to our effective tax rate for income taxes:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(Amounts in thousands)		
Computed at statutory tax rate	\$ (7,675)	\$ (5,208)	\$ (4,091)
Non-utilization of net operating losses	<u>7,675</u>	<u>5,208</u>	<u>4,091</u>
<b>Tax expense at the effective tax rate</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Significant components of our deferred tax assets and liabilities as of December 31, 2005 and 2004 are shown below. A valuation allowance has been recognized to fully offset the net deferred tax assets as of December 31, 2005 and 2004 as realization of such assets is uncertain.

	<u>2005</u>	<u>2004</u>
	(Amounts in Thousands)	
<b>Deferred tax assets:</b>		
Net operating loss and business credit carryforwards	\$ 58,453	\$ 51,214
Depreciation and amortization differences	<u>240</u>	<u>255</u>
Total deferred tax assets	<u>58,693</u>	<u>51,469</u>
<b>Deferred tax liabilities:</b>		
Net deferred tax assets	58,693	51,469
Valuation allowance for deferred tax assets	<u>(58,693)</u>	<u>(51,469)</u>
<b>Total deferred tax assets</b>	<u>-</u>	<u>-</u>

At December 31, 2005 we had federal and California income tax loss carryforwards of approximately \$117 million and \$69 million, respectively. The federal and California tax loss carryforwards will begin to expire in 2009 and 2006, respectively. At December 31, 2005 we had research and development credit

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**Notes to the Consolidated Financial Statements — (Continued)**

carryforwards of approximately \$6 million. The research and development credit carryforwards will begin to expire in 2007. The Tax Reform Act of 1986 limits the use of net operating loss and research and development credit carryforwards in the case of an “ownership change” of a corporation. We believe an “ownership change” may have occurred due to our issuances of equity securities over the past several years. Any ownership changes, as defined by the tax code, may severely restrict utilization of our carryforwards to the point that they may never be utilized. As of December 31, 2005, we had foreign loss carryforwards of approximately \$41 million.

## 7. Commitments and Contingencies

### *Facility and Equipment Leases*

As of December 31, 2005 we were obligated under a facility lease and operating equipment leases. During 2004 we renewed our facility lease for five years through June 2009, at which time we will have the option to renew for one additional five-year term. During 2004, we subleased a portion of our leased facility for a three-year term through September 2007, with a renewal option through the remaining term of our underlying lease.

Minimum lease requirements for each of the next five years and thereafter, under the property and equipment operating leases, are as follows:

	<u>Lease Commitments</u>	<u>Sub-Lease Commitments</u>
	(Amounts in thousands)	
Year ending December 31:		
2006	\$ 452	\$ 225
2007	471	171
2008	491	—
2009	250	—
2010	3	—
Thereafter	—	—
	<u>\$ 1,667</u>	<u>\$ 396</u>

Rent expense for the years ended December 31, 2005, 2004 and 2003 amounted to approximately \$328,000, \$435,000 and \$1,058,000, respectively, and was net of sub-lease rent income of \$216,000, \$100,000 and \$64,000, respectively.

### *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, aggregating approximately \$49 million as of December 31, 2005, under all our licensing agreements, are generally tied to progress through

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements — (Continued)**

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 200,000 restricted shares of our common stock and pay up to approximately \$3 million in cash during the eighteen month period.

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 are varied 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, 2006, 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.

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**Notes to the Consolidated Financial Statements — (Continued)**

**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 December 31, 2005, 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) (see Note 11), Par shall provide financial and legal support, including the payment of all legal expenses going forward, for this patent challenge.

**8. Stockholders' Equity**

**Preferred Stock**

The following table describes the preferred stock transactions by series issuance for each of the three years in the period ended December 31, 2005:

	Series D Convertible Preferred Stock		Series E Convertible Preferred Stock		Total
	Shares	Amount	Shares	Amount	
	(Amounts in thousands, except share data)				
<b>Balance, December 31, 2002</b>	—	—	—	—	—
Issuance of preferred stock and common stock warrants, for cash	600	\$ 2,856	2,000	\$ 11,269	\$ 14,125
Conversion of preferred stock into common stock	(335)	(1,595)	(685)	(4,224)	(5,819)
Recognition of beneficial conversion features on preferred stock	—	(2,247)	—	(6,200)	(8,447)
Deemed dividend related to beneficial conversion features	—	2,247	—	6,200	8,447
Deemed dividend related to issuance costs	—	—	—	1,065	1,065
<b>Balance, December 31, 2003</b>	265	1,261	1,315	8,110	9,371
Conversion of preferred stock into common stock	(108)	(514)	(1,024)	(6,315)	(6,829)
<b>Balance, December 31, 2004 and 2005</b>	157	\$ 747	291	\$ 1,795	\$ 2,542

In December 2000, we adopted a Stockholder Rights Plan and declared a dividend of one right to purchase shares of our Series B Junior Participating Preferred Stock ("Series B Preferred Stock") for each outstanding share of common stock, which became 25 rights per share of common stock following our 25 for one reverse stock split completed in September 2002. In addition, each share of common stock issued by us following the adoption of the Stockholders Rights Plan is accompanied by 25 rights (as adjusted for the reverse stock split). A right may be exercised under certain circumstances to purchase one one-hundredth of a share of Series B Preferred Stock at an exercise price of \$75.00 per right, subject to certain anti-dilution adjustments. The rights become exercisable if and when a person (or group of affiliated or associated persons) acquires 20% or more of our outstanding common stock, or announces an offer that would result in such person acquiring 20% or more of our outstanding common stock. Five days after the rights become exercisable, each right, other than rights held by the person or group of affiliated persons whose acquisition of more than 20% of our outstanding common stock caused the rights to become exercisable, will entitle its holder to buy, in lieu of shares of Series B Preferred Stock, a number of shares of our common stock having a market value of

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**Notes to the Consolidated Financial Statements — (Continued)**

twice the exercise price of the rights. After the rights become exercisable, if we are a party to certain merger or business combination transactions or transfers 50% or more of our assets or earnings power (as defined), each right will entitle its holder to buy a number of shares of common stock of the acquiring or surviving entity having a market value of twice the exercise price of the right. The rights expire on December 13, 2010 and may be redeemed by us at one tenth of one cent per right at any time up to ten days after a person has announced that they have acquired 20% or more of our outstanding common stock. Amendments to this plan have been made to exclude shares issued pursuant to the Series D and Series E Preferred Stock offerings in the determination of an Acquiring Group.

In May 2003, we received gross cash proceeds of \$6,000,000 in exchange for the issuance of 600 shares of our Series D 8% Cumulative Convertible Voting Preferred Stock (Series D Preferred Stock), convertible into 2,553,191 shares of common stock, and Series D Warrants, exercisable for five years, to purchase up to a total of 1,276,595 shares of our common stock at an exercise price of \$3.00 per share and up to a total of 1,276,595 shares of our common stock at an exercise price of \$3.50 per share. Dividends on the Series D Preferred Stock are payable quarterly at an annual rate of 8 percent either in cash or shares of our common stock at our discretion. In addition to cash fees we issued, to placement agents, five-year warrants to purchase up to a total of 255,319 shares of our common stock at an exercise price of \$3.00 per share. Offering costs of this transaction were \$1,240,000, including cash and equity commissions paid to placement agents. The fair value of the placement agent warrants, \$396,000, was computed using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 92.2%; risk free interest rate of 2.9%; and an expected life of five years.

In September 2003, we received gross cash proceeds of \$20,000,000 in exchange for the issuance of 2,000 shares of our Series E Convertible Voting Preferred Stock (Series E Preferred Stock), convertible into 4,000,000 shares of common stock, and Series E Warrants, exercisable for five years, to purchase up to a total of 2,800,000 shares of our common stock at an exercise price of \$6.50 per share. No dividends are payable on the Series E Preferred Stock. In addition to cash fees, we issued to placement agents five-year warrants to purchase up to a total of 400,000 shares of our common stock at an exercise price of \$6.50 per share. Offering costs of this transaction were \$3,180,000, including cash and equity commissions paid to placement agents. The fair value of the placement agent warrants was estimated to be \$1,368,000 using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 95.64%; risk free interest rate of 3.2%; and an expected life of five years. Certain provisions of the Certificate of Designation, Rights and Preferences of the Series E Preferred Stock provided, at the option of the holder, a right to redeem up to one half of the Series E Preferred Stock on or before January 27, 2004. No stockholder exercised the redemption right prior to its expiration. Pursuant to certain provisions of the Certificate of Designation, Rights and Preferences of the Series E Preferred Stock, we have the option to redeem all of the unconverted Series E Preferred Stock outstanding at the end of a 20-day trading period if, among other things, in that period the common stock of the Company trades above \$12.00 per share.

During the year ended December 31, 2003, a deemed dividend of \$8,447,000 was recorded. Such amount, which is a non-cash transaction impacting equity, represents the beneficial conversion feature of convertible preferred stock issued with warrants during the 2003 fiscal year and was computed in accordance with requirements of Emerging Issues Task Force Issue No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments.

During the year ended December 31, 2003, the Company recorded a charge to additional paid-in capital related to the issuance expenses for preferred stock with redemption features of \$1,065,000. This amount has been treated as a preferred dividend for the earnings per share calculation.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, before any distribution of assets of the Corporation shall be made to the common stockholders, the holders of

**Spectrum Pharmaceuticals, Inc. and Subsidiaries****Notes to the Consolidated Financial Statements — (Continued)**

the Series D and Series E Preferred Stock shall be entitled to receive a liquidation preference in an amount equal to 120% of the stated value per share plus any declared and unpaid dividends thereon.

**Common Stock Issuances for Cash**

During the three years ended December 31, 2005, we issued common stock and warrants for cash as follows:

	2005	2004	2003
	(In thousands, except share and per share data)		
Shares of common stock	8,119,617	3,220,005	1,211,578
Weighted average price per share	\$ 5.27	\$ 7.75	\$ 3.94
Amount of financing	\$ 42,750	\$ 24,955	\$ 4,771
Less: cash offering costs	2,654	2,376	234
Proceeds from common stock and warrants issued for cash	\$ 40,096	\$ 22,579	\$ 4,537
Range of issuance prices on common stock sold	\$ 5.25 to \$6.27	\$ 7.75	\$ 1.99 to \$7.79
Warrants issued	4,000,000	1,252,005	463,379
Average exercise price per share on warrants	\$ 6.62	\$ 10.03	\$ 4.57

In April 2004, we sold 3,220,005 shares of our common stock at a purchase price of \$7.75 per share and five-year warrants to purchase up to a total of 1,127,005 shares of our common stock at an exercise price of \$10.00 per share, for gross proceeds of approximately \$24,955,000, before offering costs of approximately \$2,918,000, which includes cash commissions to placement agents, the fair value of placement agent warrants to purchase up to a total of 125,000 shares of our common stock at an exercise price of \$10.00 per share, and the printing and legal costs of the offering. The fair value of the placement agent warrants, \$542,000, charged to the costs of the offering was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected volatility of 97.8%; risk free interest rate of 3.6%; and an expected life of five years.

In February 2005, in connection with the FDA approval of the ciprofloxacin tablets ANDA in September 2004, an entity affiliated with J.B. Chemical & Pharmaceuticals Ltd., our joint venture partner for ciprofloxacin tablets, invested \$750,000 in our common stock. We issued 119,617 restricted shares of common stock to that entity, based on the closing price of our common stock, \$6.27, on the day prior to the FDA approval.

In September 2005, we sold 8,000,000 shares of our common stock at a purchase price of \$5.25 per share and six-year warrants purchasing up to a total of 4,000,000 shares of our common stock at an exercise price of \$6.62 per share, for net cash proceeds of approximately \$39.3 million after offering costs of approximately \$2.7 million.

**Other Equity Transactions**

In August 2004, in connection with the license agreement with Zentaris GmbH, we issued 251,896 shares of common stock, restricted from resale until December 31, 2005, as partial payment for the upfront license fee. The fair value of the common stock, \$634,000, was charged as a research and development component of stock-based charges. The fair value was based on the quoted price of our common stock on the date of the transaction, less a discount for the restrictions on the marketability of the stock, which discount (48%) was

## Spectrum Pharmaceuticals, Inc. and Subsidiaries

## Notes to the Consolidated Financial Statements — (Continued)

estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%; expected volatility of 97.8%; risk free interest rate of 1.4%; and a 17-month period of restriction.

In January 2005, in connection with the license agreement with Altair Nanotechnologies, Inc, we issued 100,000 restricted shares of Spectrum common stock to Altair. The fair value of the stock, \$594,000, was recorded as a stock-based charge for the year ended December 31, 2005.

**Common Stock Reserved for Future Issuance**

As of December 31, 2005, 14,830,076 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	665,691
Conversion of Series E preferred shares	582,000
Exercise of outstanding stock options	3,661,682
Exercise of outstanding warrants	9,920,703
<b>Total shares of common stock reserved for future issuances</b>	<b>14,830,076</b>

**Warrants Activity, Primarily in Connection with Financing Transactions**

Warrants are typically issued by the Company to investors as part of a financing transaction, or in connection with services rendered by placement agents and outside consultants and expire at varying dates through September 2013. A summary of warrant activity follows:

	2005		2004		2003	
	Common Stock Warrants	Weighted Average Exercise Price	Common Stock Warrants	Weighted Average Exercise Price	Common Stock Warrants	Weighted Average Exercise Price
Outstanding at beginning of year	6,561,789	\$ 9.71	5,918,926	\$ 10.10	490,060	\$ 65.83
Granted	4,120,000	\$ 6.58	1,252,005	\$ 10.03	6,601,888	\$ 4.94
Repurchased	(420,000)	\$ 6.50	-	-	-	-
Exercised	(300,963)	\$ 3.50	(516,994)	\$ 4.35	(1,169,070)	\$ 2.83
Forfeited	-	-	(69,140)	\$ 3.00	-	-
Expired	(40,123)	\$ 388.06	(23,008)	\$ 308.03	(3,952)	\$ 450.12
<b>Outstanding, at end of year</b>	<b>9,920,703</b>	<b>\$ 7.20</b>	<b>6,561,789</b>	<b>\$ 9.71</b>	<b>5,918,926</b>	<b>\$ 10.10</b>
<b>Exercisable at the end of year</b>	<b>9,800,703</b>	<b>\$ 7.23</b>	<b>5,309,784</b>	<b>\$ 9.64</b>	<b>5,845,780</b>	<b>\$ 10.24</b>

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements — (Continued)**

The following table summarizes information about warrants outstanding at December 31, 2005:

<u>Range of Exercise Price</u>	<u>Warrants Outstanding 12/31/2005</u>	<u>Weighted Average Remaining Life</u>	<u>Weighted Average Exercise Price</u>	<u>Warrants Exercisable at 12/31/2005</u>	<u>Weighted Average Exercise Price</u>
\$ 3.00 to \$ 5.00	1,853,651	2.40	\$ 3.63	1,853,651	\$ 3.63
\$ 5.01 to \$ 10.00	7,954,165	4.23	\$ 7.09	7,834,165	\$ 7.12
\$10.01 to \$375.00	112,887	0.86	\$ 73.81	112,887	\$ 73.81
	<u>9,920,703</u>			<u>9,800,703</u>	

**9. Stock-Based Compensation**

**Stock Incentive Plans**

We have 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). As of December 31, 2005, 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 incentive awards, including stock options, for the purchase of up to a total of 30% of our issued and outstanding stock at the time of grant. As of December 31, 2005, approximately 3 million incentive awards were available for grant under the 2003 Plan.

Except as described below, all of the options granted under the Plans have been made at fair market values on the dates originally authorized by the Board of Directors, or the Compensation committee.

A summary of activity, for all Plans, for each of the three years in the period ended December 31, 2005, is as follows:

	<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<u>Common Stock Options</u>	<u>Weighted Average Exercise Price</u>	<u>Common Stock Options</u>	<u>Weighted Average Exercise Price</u>	<u>Common Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year	2,370,026	\$ 7.97	1,401,694	\$ 10.83	601,799	\$ 37.27
Granted	1,415,202	\$ 5.95	1,179,000	\$ 6.15	1,093,200	\$ 3.48
Exercised	(16,450)	\$ 1.32	(199,150)	\$ 2.08	(167,250)	\$ 2.57
Forfeited	(49,392)	\$ 6.25	(1,630)	\$ 13.12	(20,884)	\$ 81.06
Expired	(57,704)	\$ 24.62	(9,888)	\$ 312.71	(105,171)	\$ 96.58
<b>Outstanding, at end of year</b>	<u>3,661,682</u>	<u>\$ 6.98</u>	<u>2,370,026</u>	<u>\$ 7.97</u>	<u>1,401,694</u>	<u>\$ 10.83</u>
<b>Exercisable at the end of year</b>	<u>2,003,257</u>	<u>\$ 7.58</u>	<u>1,282,923</u>	<u>\$ 9.07</u>	<u>808,509</u>	<u>\$ 14.60</u>

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements — (Continued)**

The following table summarizes information about stock options outstanding under all plans at December 31, 2005:

<u>Range of Exercise Price</u>	<u>Options Outstanding 12/31/2005</u>	<u>Weighted Average Remaining Life</u>	<u>Weighted Average Exercise Price</u>	<u>Options Exercisable at 12/31/2005</u>	<u>Weighted Average Exercise Price</u>
\$ 1.00 to \$ 2.50	606,250	7.31	\$ 1.58	606,250	\$ 1.58
\$ 2.51 to \$ 5.00	811,600	8.67	\$ 4.52	420,050	\$ 4.72
\$ 5.01 to \$ 10.00	2,190,132	8.75	\$ 6.36	927,257	\$ 6.29
\$10.01 to \$325.00	53,700	4.50	\$ 130.75	49,700	\$ 129.07
	<u>3,661,682</u>			<u>2,003,257</u>	

During the year ended December 31, 2003, we recorded a non-cash stock-based employee compensation expense of \$2,296,000, primarily because certain grants made in 2003 had later measurement dates than originally contemplated by the Board.

We apply APB Opinion No. 25 and related interpretations in accounting for stock options granted to employees, and do not recognize compensation expense when the exercise price of the options equals or exceeds the fair market value of the underlying shares at the date of grant. Directors' stock options are treated in the same manner as employee stock options for accounting purposes. Under Statement No. 123, we are required to present certain pro forma earnings information determined as if employee stock options were accounted for under the fair value method of that statement and is disclosed in Note 2 to the Consolidated Financial Statements.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2005, 2004, and 2003, respectively: risk-free interest rates of 3.87% (2005); 3.59% (2004); and 3.16% (2003); zero expected dividend yields; expected lives of 5 years; expected volatility of 90.0% (2005); 93.4% (2004); and 95.23% (2003). The weighted average fair value of stock options, using the Black-Scholes option pricing model, that were granted in 2005, 2004, and 2003, was \$4.27, \$4.48, and \$3.50, respectively.

#### ***Deferred Stock-Based Compensation***

During the years ended December 31, 2005 and 2004, we granted stock options and warrants to consultants, at exercise prices equal to or greater than the quoted price of our common stock on the grant dates. The fair value of options and warrants granted to nonemployees were valued using the Black-Scholes option pricing model, with the following assumptions: dividend yield of 0%; expected volatility of 90% (2005) and 96% (2004); risk free interest rate of 4.0% (2005) and 3.1% (2004); and an expected life of five years; and is being amortized to expense, net of forfeitures, over the vesting period of the related grants. In addition, during 2005, we issued 115,000 shares of restricted stock to employees and directors, with vesting over a period of three years, valued at the quoted market price of our common stock on the issue date.

The fair values of these grants and awards have an estimated value of \$1,183,000 and \$157,000 in 2005 and 2004, respectively and are recorded as deferred compensation.

Amortization of deferred compensation for the years ended December 31, 2005, 2004, and 2003 was \$418,000, \$252,000, and \$104,000, respectively, net of \$79,000 forfeiture in 2005.

**Spectrum Pharmaceuticals, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements — (Continued)**

**10. Quarterly Financial Information (Unaudited)**

The following is a summary of the unaudited quarterly results of operations for each of the calendar quarters ended in the two-year period ended December 31, 2005:

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
		<small>(Amounts in thousands except share and per share data)</small>		
Fiscal 2005 Revenues	\$ —	\$ 240	\$ 184	\$ 153
Total operating expenses	\$ 5,484	\$ 5,067	\$ 5,676	\$ 4,273
Net loss	\$ (5,268)	\$ (4,550)	\$ (5,228)	\$ (3,597)
Basic and diluted loss per share	\$ (0.35)	\$ (0.30)	\$ (0.32)	\$ (0.15)
Shares used in calculation	15,133,000	15,354,000	16,667,000	23,405,000
Fiscal 2004 Revenues	\$ —	\$ 73	\$ —	\$ 185
Total operating expenses	\$ 2,217	\$ 2,732	\$ 4,247	\$ 3,862
Net loss	\$ (2,168)	\$ (2,572)	\$ (4,069)	\$ (3,477)
Basic and diluted loss per share	\$ (0.24)	\$ (0.20)	\$ (0.29)	\$ (0.24)
Shares used in calculation	9,304,000	12,767,000	14,063,000	14,528,000

**11. Subsequent Events**

On February 22, 2006, we entered into a strategic alliance with Par Pharmaceutical Companies Inc. (Par), one of the ten largest generics companies in the United States, to distribute the generic drugs for which we have filed ANDAs, including sumatriptan succinate injection. In addition to the three previously approved generics, ciprofloxacin tablets and fluconazole tablets and carboplatin injection, we expect that we will receive FDA approval for additional ANDAs during 2006. The agreement also covers additional ANDAs currently being developed by us. Pursuant to the terms of the agreement, the Company is responsible for the development of, and regulatory filings for, the generic drugs and the Company 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 the Company's generic products. In addition, Par shall 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, the Company has 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, the Company 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.

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Certificate of Incorporation of the Registrant, as filed on May 7, 1997. (Filed as Exhibit B to the Definitive Proxy Statement dated May 8, 1997, for the Annual Meeting of Shareholders of Spectrum Pharmaceuticals Colorado, the predecessor to Registrant, held on June 17, 1997, as filed with the Securities and Exchange Commission on May 9, 1997, and incorporated herein by reference.)
3.1.1	Certificate of Amendment to the Certificate of Incorporation of the Registrant. (Filed as Exhibit 3.1.1 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)
3.1.2	Certificate of Designation of 5% Series A Preferred Stock with Conversion Features. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on February 9, 1999, and incorporated herein by reference.)
3.1.3	Certificate of Designation of Rights, Preferences and Privileges of Series B Junior Participating Preferred Stock of the Registrant. (Filed as Exhibit 3.1 to Form 8-A12G, as filed with the Securities and Exchange Commission on December 26, 2000, and incorporated herein by reference.)
3.1.4	Certificate of Designations of the Series C Preferred Stock of the Registrant. (Filed as Exhibit 4.7 to the Registration Statement on Form S-3, as amended (No. 333-64432), as filed with the Securities and Exchange Commission on July 2, 2001, and incorporated herein by reference.)
3.1.5	Certificate of Amendment of Certificate of Incorporation filed on September 5, 2002 (Filed as Exhibit 4.1 to Form 10-Q for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on November 13, 2002, and incorporated herein by reference.)
3.1.6	Certificate of Designations, Rights and Preference of the Series D 8% Cumulative Convertible Voting Preferred Stock. (Filed as Exhibit 3.1 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
3.1.7	Certificate of Increase. (Filed as Exhibit 3.2 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
3.1.8	Certificate of Designations, Rights and Preference of the Series E Convertible Voting Preferred Stock (Filed as Exhibit 3.1 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)
3.2	Form of Amended and Restated Bylaws of the Registrant. (Filed as Exhibit 3.1 to Form 10-Q, as filed with the Securities and Exchange Commission on August 16, 2004, and incorporated herein by reference.)
4.1	Form of Warrants issued by the Registrant to Brighton Capital, Ltd., dated between April 17, 2001 and May 18, 2001. (Filed as Exhibit 4.32 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)
4.2	Rights Agreement, dated as of December 13, 2000, between the Registrant and U.S. Stock Transfer Corporation, as Rights Agent, which includes as Exhibit A thereto the form of Certificate of Designation for the Series B Junior Participating Preferred Stock, as Exhibit B thereto the Form of Rights Certificate and as Exhibit C thereto a Summary of Terms of Stockholder Rights Plan. (Filed as Exhibit 4.1 to Form 8-A12G, as filed with the Securities and Exchange Commission on December 26, 2000, and incorporated herein by reference.)
4.3	Warrant issued by the Registrant to Montrose Investments Ltd., dated as of May 18, 2001. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on May 21, 2001, and incorporated herein by reference.)
4.4	Warrant issued by the Registrant to Strong River Investments, Inc., dated as of May 18, 2001. (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on May 21, 2001, and incorporated herein by reference.)
4.5	Form of Warrant issued by the Registrant to Gruntal & Co., L.L.C., dated as of August 10, 2001 (Filed as Exhibit 4.44 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)

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<u>Exhibit No.</u>	<u>Description</u>
4.6	Form of Warrants issued by the Registrant to Cantor Fitzgerald & Co, dated as of December 6, 2001 and December 13, 2001. (Filed as Exhibit A to Schedule 1 to Exhibit 1.1 to Form 8-K, as filed with the Securities and Exchange Commission on October 24, 2001, and incorporated herein by reference.)
4.7	Warrant issued by the Registrant to Jefferies & Company, Inc., dated as of December 13, 2001. (Filed as Exhibit 4.46 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)
4.8	Form of Warrant issued by the Registrant to certain purchasers, dated as of March 13, 2002. (Filed as Exhibit 4.47 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)
4.9	Form of Warrant issued by the Registrant to certain purchasers, dated as of June 5, 2002. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on June 7, 2002, and incorporated herein by reference.)
4.10	Form of Warrant issued by the Registrant to certain purchasers, dated as of June 7, 2002. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on June 19, 2002, and incorporated herein by reference.)
4.11	Warrant Repurchase Agreement by and between the Registrant and BNC Bach International, Ltd., dated as of July 31, 2002. (Filed as Exhibit 10.3 to Form 10-Q for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on November 13, 2002, and incorporated herein by reference.)
4.12*	Form of Warrant issued by the Registrant to five purchasers, dated as of November 21, 2002, to purchase up to an aggregate of 107,870 shares of our common stock. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on November 26, 2002, and incorporated herein by reference.)
4.13	Form of Warrant issued by the Registrant to certain purchasers, dated as of December 13, 2002, to purchase up to an aggregate of 65,550 shares of our common stock. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on December 13, 2002, and incorporated herein by reference.)
4.14	Form of Warrant issued by the Registrant to three purchasers, dated as of January 16, 2003, to purchase up to an aggregate of 55,555 shares of our common stock. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on January 17, 2003, and incorporated herein by reference.)
4.15	Form of Series D-1 Warrant. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
4.16	Form of Series D-2 Warrant. (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
4.17	Series D-3 Warrant. (Filed as Exhibit 4.3 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
4.18	Registration Rights Agreement dated as of May 7, 2003, by and among the Registrant and the persons listed on Schedule 1 attached thereto. (Filed as Exhibit 4.4 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
4.19	Amendment No. 1 to the Rights Agreement dated as of December 13, 2000 by and between the Registrant and U.S. Stock Transfer Corporation. (Filed as Exhibit 4.1 to Form 10-Q, as filed with the Securities and Exchange Commission on August 14, 2003, and incorporated herein by reference.)
4.20*	Registration Rights Agreement dated as of August 13, 2003, by and among the Registrant and the persons listed on Schedule 1 attached thereto. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2003, and incorporated herein by reference.)
4.21*	Form of Series 2003-1 Warrant (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2003, and incorporated herein by reference.)
4.22	Form of Series E-1 Warrant (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)
4.23	Form of Series E-2 Warrant (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)

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<u>Exhibit No.</u>	<u>Description</u>
4.24	Series E-3 Warrant (Filed as Exhibit 4.3 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)
4.25	Registration Rights Agreement dated as of September 26, 2003, by and among the Registrant and the persons listed on Schedule 1 attached thereto. (Filed as Exhibit 4.4 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)
4.26	Investor Rights Agreement, dated as of April 20, 2004, by and among the Registrant and the persons listed on Schedule 1 attached thereto. (Filed as Exhibit 4.1 to Form 8-K, as filed with the Securities and Exchange Commission on April 23, 2004, and incorporated herein by reference.)
4.27	Form of Warrant, dated as of April 21, 2004. (Filed as Exhibit 4.2 to Form 8-K, as filed with the Securities and Exchange Commission on April 23, 2004, and incorporated herein by reference.)
4.28	Amendment No. 2 to the Rights Agreement dated as of December 13, 2000 by and between the Registrant and U.S. Stock Transfer Corporation. (Filed as Exhibit 4.1 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
4.29	Amendment No. 3 to the Rights Agreement dated as of December 13, 2000 by and between the Registrant and U.S. Stock Transfer Corporation. (Filed as Exhibit 4.2 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
4.30	Warrant issued by the Registrant to a consultant, dated as of September 17, 2003. (Filed as Exhibit 4.3 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
4.31	Warrant issued by the Registrant to a consultant, dated as of April 21, 2004. (Filed as Exhibit 4.4 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
4.32	Form of Warrant, dated as of September 30, 2004. (Filed as Exhibit 4.1 to Form 10-Q, as filed with the Securities and Exchange Commission on November 15, 2004, and incorporated herein by reference.)
4.33	Amendment No. 1 dated as of November 2, 2005, to Warrant issued by the Registrant to a consultant, dated as of September 17, 2003. (Filed as Exhibit 4.2 to Form 10-Q, as filed with the Securities and Exchange Commission on November 4, 2005, and incorporated herein by reference.)
4.34	Warrant issued by the Registrant to a Consultant, dated as of September 20, 2005. (Filed as Exhibit 4.3 to Form 10-Q, as filed with the Securities and Exchange Commission on November 4, 2005, and incorporated herein by reference.)
4.35+	Form of Warrant dated September 15, 2005.
10.1*	1991 Stock Incentive Plan. (Filed as Exhibit 10.2 to the Registration Statement on Form SB-2, as amended (No. 333-05342-LA), and incorporated herein by reference.)
10.2	Industrial Lease Agreement dated as of January 16, 1997, between the Registrant and the Irvine Company. (Filed as Exhibit 10.11 to the Form 10-KSB for the fiscal year ended December 31, 1996, as filed with the Securities and Exchange Commission on March 31, 1997, and incorporated herein by reference.)
10.3*	Employee Stock Purchase Plan. (Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (No. 333-54246), and incorporated herein by reference.)
10.4*	Amendment 2001-1 to the Employee Stock Purchase Plan effective as of June 21, 2001. (Filed as Exhibit 10.22 to the Annual Report on Form 10-K, as amended, as filed with the Securities and Exchange Commission on April 25, 2001, and incorporated herein by reference.)
10.5*	Executive Employment Agreement for Rajesh C. Shrotriya, M.D., dated as of December 1, 2000. (Filed as Exhibit 10.35 to Form 10-K, as filed with the Securities and Exchange Commission on April 2, 2002, and incorporated herein by reference.)
10.6	License Agreement dated as of June 29, 2001, by and between the Registrant and NDDO Research Foundation. (Filed as Exhibit 10.4 to Form 10-Q, as filed with the Securities and Exchange Commission on November 14, 2001, and incorporated herein by reference.)

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<u>Exhibit No.</u>	<u>Description</u>
10.7	License Agreement dated as of August 28, 2001, by and between the Registrant and Johnson Matthey PLC. (Filed as Exhibit 10.5 to Form 10-Q, as filed with the Securities and Exchange Commission on November 14, 2001, and incorporated herein by reference.)
10.8	License Agreement dated as of October 24, 2001, by and between the Registrant and Bristol-Myers Squibb Company. (Filed as Exhibit 10.6 to Form 10-Q, as filed with the Securities and Exchange Commission on November 14, 2001, and incorporated herein by reference.)
10.9	Settlement Agreement and Release by and between the Registrant and Merck Eprova AG dated as of September 30, 2002. (Filed as Exhibit 10.7 to Form 10-Q for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on November 13, 2002, and incorporated herein by reference.)
10.10#	First Amendment to License Agreement dated August 28, 2001 by and between the Registrant and Johnson Matthey PLC dated as of September 30, 2002. (Filed as Exhibit 10.8 to Form 10-Q for the quarterly period ended September 30, 2002, as filed with the Securities and Exchange Commission on November 13, 2002, and incorporated herein by reference.)
10.11	Letter of Agreement by and between the Registrant and LEKAR Pharma Limited, dated as of March 26, 2003, for an investment of \$1 million in the Registrant's common stock. (Filed as Exhibit 10.48 to Form 10-K, as filed with the Securities and Exchange Commission on March 28, 2003, and incorporated herein by reference.)
10.12	Limited Liability Agreement of NeoJB LLC, a Delaware limited liability company effective as of April 17, 2002. (Filed as Exhibit 10.1 to Form 10-Q, as filed with the Securities and Exchange Commission on May 14, 2003, and incorporated herein by reference.)
10.13	Supply Agreement dated April 16, 2002 by and between J.B. Chemicals & Pharmaceuticals Ltd. and NeoJB LLC. (Filed as Exhibit 10.2 to Form 10-Q, as filed with the Securities and Exchange Commission on May 14, 2003, and incorporated herein by reference.)
10.14	Management Agreement dated April 16, 2002 by and between NeoTherapeutics, Inc. and NeoJB LLC. (Filed as Exhibit 10.3 to Form 10-Q, as filed with the Securities and Exchange Commission on May 14, 2003, and incorporated herein by reference.)
10.15	Preferred Stock and Warrant Purchase Agreement dated as of April 29, 2003, by and among the Registrant and the purchasers listed on Schedule 1 attached thereto. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
10.16	Amendment No. 1 of the Preferred Stock and Warrant Purchase Agreement and Registration Rights Agreement dated as of May 13, 2003 by and among the Registrant and the persons listed on Schedule 1B attached thereto. (Filed as Exhibit 10.2 to Form 8-K, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
10.17*	Spectrum Pharmaceuticals, Inc. Amended and Restated 1997 Stock Incentive Plan. (Filed as Annex A to our Definitive Proxy Statement, as filed with the Securities and Exchange Commission on May 16, 2003, and incorporated herein by reference.)
10.18*	Common Stock and Warrant Purchase Agreement dated as of August 13, 2003, by and among the Registrant and the purchasers listed on Schedule 1 attached thereto. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2003, and incorporated herein by reference.)
10.19	Preferred Stock and Warrant Purchase Agreement dated as of September 26, 2003, by and among the Registrant and the purchasers listed on Schedule 1 attached thereto. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on September 30, 2003, and incorporated herein by reference.)
10.20	Exclusive Supply, Marketing and Distribution Agreement between Lannett Company, Inc. and the Registrant dated August 15, 2003. (Filed as Exhibit 10.5 to Form 10-Q, as filed with the Securities and Exchange Commission on November 13, 2003, and incorporated herein by reference.)
10.21	Separation Agreement and General Release dated November 13, 2003 by and between Spectrum and John L. McManus. (Filed as Exhibit 10.6 to Form 10-Q, as filed with the Securities and Exchange Commission on November 13, 2003, and incorporated herein by reference.)

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<u>Exhibit No.</u>	<u>Description</u>
10.22	Separation Agreement and General Release dated November 7, 2003 by and between Spectrum and Michael P. McManus. (Filed as Exhibit 10.7 to Form 10-Q, as filed with the Securities and Exchange Commission on November 13, 2003, and incorporated herein by reference.)
10.23#	Exclusive Supply, Marketing and Distribution Agreement between FDC, Ltd. and the Registrant dated November 20, 2003. (Filed as Exhibit 10.44 to Form 10-K, as filed with the Securities and Exchange Commission on March 29, 2004, and incorporated herein by reference)
10.24*	Executive Employment Agreement for Luigi Lenaz, M.D., dated as of October 22, 2001. (Filed as Exhibit 10.45 to Form 10-K, as filed with the Securities and Exchange Commission on March 29, 2004, and incorporated herein by reference).
10.25	First Amendment dated March 25, 2004 to Industrial Lease Agreement dated as of January 16, 1997 by and between the Registrant and the Irvine Company. (Filed as Exhibit 10.1 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
10.26*	2003 Amended and Restated Incentive Award Plan. (Filed as Exhibit 10.2 to Form 10-Q, as filed with the Securities and Exchange Commission on May 17, 2004, and incorporated herein by reference.)
10.27*	Form of Indemnity Agreement of the Registrant. (Filed as Exhibit 10.1 to Form 10-Q, as filed with the Securities and Exchange Commission on August 16, 2004, and incorporated herein by reference.)
10.28	Settlement Agreement and General Release By and Among NeoGene Technologies, Inc., the Registrant and The Regents of the University of California Dated as of March 26, 2004. (Filed as Exhibit 10.2 to Form 10-Q, as filed with the Securities and Exchange Commission on August 16, 2004, and incorporated herein by reference.)
10.29	Common Stock and Warrant Purchase Agreement, dated as of April 20, 2004, by and among Spectrum and the purchasers listed on Schedule 1 attached thereto. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on April 23, 2004, and incorporated by reference.)
10.30#	Co-Development and License Agreement by and between the Registrant and GPC Biotech AG, dated as of September 30, 2002. (Filed as Exhibit 10.1 to Form 10-Q, as filed with the Securities and Exchange Commission on November 15, 2004, and incorporated by reference.)
10.31#	Diagnostic and Drug Product Manufacturing, Supply and Marketing Agreement dated as of May 10, 2004 by and between the Registrant and Shantha Biotechnics Pvt. Ltd. (Filed as Exhibit 10.2 to Form 10-Q, as filed with the Securities and Exchange Commission on November 15, 2004, and incorporated by reference.)
10.32#	License and Collaboration Agreement by and between the Registrant and Zentaris GmbH, dated as of August 12, 2004. (Filed as Exhibit 10.1 to Form S-3/ A, as filed with the Securities and Exchange Commission on January 21, 2005, and incorporated by reference.)
10.33	Settlement Agreement and Release by and between the Registrant and SCO Financial Group, LLC, dated as of September 30, 2004. (Filed as Exhibit 10.4 to Form 10-Q, as filed with the Securities and Exchange Commission on November 15, 2004, and incorporated by reference.)
10.34	Sublease Agreement dated September 28, 2004 by and between the Registrant and Concurrent Pharmaceuticals, Inc., and The Irvine Company. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on November 8, 2004, and incorporated herein by reference.)
10.35*	Form of Stock Option Agreement under the 2003 Amended and Restated Incentive Award Plan. (As filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on December 17, 2004, and incorporated herein by reference.)
10.36#	License Agreement by and between the Registrant and Altair Nanomaterials, Inc. and Altair Nanotechnologies, Inc. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on February 3, 2005, and incorporated herein by reference.)
10.37#	License Agreement by and between the Registrant and Chicago Labs, Inc. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on February 25, 2005, and incorporated herein by reference.)

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<u>Exhibit No.</u>	<u>Description</u>
10.38#	Distribution and Supply Agreement by and between the Registrant and Cura Pharmaceutical Co. Inc. dated as of April 13, 2005. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on April 19, 2005, and incorporated herein by reference.)
10.39*	Form of Non-Employee Director Stock Option Agreement under the 2003 Amended and Restated Incentive Award Plan. (Filed as Exhibit 10.5 to Form 10-Q with the Securities and Exchange Commission on May 10, 2005, and incorporated herein by reference.)
10.40#	License Agreement between Registrant and Dr. Robert Bases. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on May 20, 2005, and incorporated herein by reference.)
10.41	Form Securities Purchase Agreement dated September 14, 2005. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on September 15, 2005, and incorporated herein by reference.)
10.42	Letter Agreement between the Registrant and Rodman and Renshaw, LLC. (Filed as Exhibit 10.2 to Form 8-K, as filed with the Securities and Exchange Commission on September 15, 2005, and incorporated herein by reference.)
10.43	Summary of Director Compensation. (Filed as Exhibit 10.1 to Form 8-K, as filed with the Securities and Exchange Commission on September 22, 2005, and incorporated herein by reference.)
10.44*+	Restricted Stock Award Grant Notice and Restricted Stock Award Agreement under the Amended and Restated Incentive Award Plan
10.45+	First Amendment to the Distribution and Supply Agreement between Registrant and Cura Pharmaceutical Co., Inc. dated February 28, 2006.
21+	Subsidiaries of Registrant.
23.1+	Consent of Kelly & Company.
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.

Warrant No. \_\_\_\_\_

**COMMON STOCK PURCHASE WARRANT**

To Purchase \_\_\_\_\_ Shares of Common Stock of

**SPECTRUM PHARMACEUTICALS, INC.**

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, \_\_\_ (the "Holder"), is entitled to subscribe for and purchase from Spectrum Pharmaceuticals, Inc., a Delaware corporation (the "Company"), upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the date hereof (the "Initial Exercise Date"), and on or prior to the close of business on September 15, 2011 (the "Expiration Date") but not thereafter, up to \_\_\_ shares (the "Warrant Shares") of Common Stock, par value \$6.62 per share, of the Company (the "Common Stock"). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the "Purchase Agreement"), dated September 14, 2005, among the Company and the purchasers signatory thereto.

Section 2. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made at any time or times, in whole or in part, on or after the Initial Exercise Date until 5:00 P.M. (New York City time), on the Expiration Date by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of such Holder appearing on the books of the Company); provided, however, within 5 Trading Days (a day on which the Nasdaq Stock Market is open for ordinary trading) of the date said Notice of Exercise is delivered to the Company, the Holder shall have surrendered this Warrant to the Company and the Company shall have received payment of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank.

b) Exercise Price. The exercise price of the Common Stock under this Warrant shall be \$6.62, subject to adjustment under Section 3 hereof (the "Exercise Price").

c) Net Exchange. If at the time of exercise of this Warrant there is no effective registration statement permitting the sale of the Warrant Shares by the Company to the Holder, then this Warrant may also be exchanged at such time and from time to time, in whole or in part, for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

- (A) = the closing bid price on the Trading Day immediately preceding the date of such election as reported by Bloomberg, L.P.;
- (B) = the Exercise Price of this Warrant, as adjusted; and
- (X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a net exchange.

d) Exercise Limitations.

i. Holder's Restrictions. The Holder shall not have the right to exercise any portion of this Warrant to the extent that after giving effect to such issuance after exercise, the Holder (together with the Holder's affiliates), as set forth on the applicable Notice of Exercise, would beneficially own in excess of 9.99% of the number of shares of

the Common Stock outstanding immediately after giving effect to such issuance (such limitation being referred to herein as the “Beneficial Ownership Cap”). For purposes of the Beneficial Ownership Cap, the number of shares of Common Stock beneficially owned by the Holder and its affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which the determination of such sentence is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its affiliates and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other Shares or Warrants) subject to a limitation on conversion or exercise analogous to the Beneficial Ownership Cap beneficially owned by the Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(c), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act, it being acknowledged by Holder that the Company is not representing to Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the Beneficial Ownership Cap applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder) and of which a portion of this Warrant is exercisable shall be in the sole discretion of such Holder, and the submission of a Notice of Exercise shall be deemed to be such Holder’s representation to the Company that its Warrant is exercisable (in relation to other securities owned by such Holder) and of which portion of this Warrant is exercisable, in each case subject to such aggregate percentage limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. For purposes of this Section 2(d), in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in (x) the Company’s most recent Form 10-Q or Form 10-K, as the case may be, (y) a more recent public announcement by the Company or (z) any other notice by the Company or the Company’s Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of the Holder, the Company shall within two Trading Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its affiliates since the date as of which such number of outstanding shares of Common Stock was reported.

e) Mechanics of Exercise.

i. Authorization of Warrant Shares. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

ii. Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the transfer agent of the Company to the Holder by crediting the account of the Holder’s prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission (“DWAC”) system if the Company is a participant in such system, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise within 3 Trading Days from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant and payment of the aggregate Exercise Price as set forth above (“Warrant Share Delivery Date”). This Warrant shall be deemed to have been exercised on the date the Exercise Price is received by the Company. The Warrant Shares shall be deemed to have been issued, and Holder

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or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised by payment to the Company of the Exercise Price and all taxes required to be paid by the Holder, if any, pursuant to Section 2(e)(v) prior to the issuance of such shares, have been paid.

iii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iv. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which Holder would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price.

v. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

vi. Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

### Section 3. Certain Adjustments.

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company pursuant to this Warrant), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Fundamental Transactions. If any capital reorganization, reclassification of the capital stock of the Company, consolidation or merger of the Company with another corporation in which the Company is not the survivor, or sale, transfer or other disposition of all or substantially all of the Company's assets to another corporation shall be effected, then the Company shall use its best efforts to ensure that lawful and adequate provision shall be made whereby each Holder shall thereafter continue to

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have the right to purchase and receive upon the basis and upon the terms and conditions herein specified and in lieu of the Warrant Shares issuable upon exercise of this Warrant, such shares of stock, securities or assets as would have been issuable or payable with respect to or in exchange for a number of Warrant Shares equal to the number of Warrant Shares issuable upon exercise of the Warrant, had such reorganization, reclassification, consolidation, merger, sale, transfer or other disposition not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of each Holder to the end that the provisions hereof (including, without limitation, provision for adjustment of the Exercise Price) shall thereafter be applicable, as nearly equivalent as may be practicable in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise thereof. The Company shall not effect any such consolidation, merger, sale, transfer or other disposition unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger, or the corporation purchasing or otherwise acquiring such assets or other appropriate corporation or entity shall assume by written instrument, reasonably deemed by both the Board of Directors of the Company and Holders representing at least a majority of the Warrant Shares issuable upon exercise of all Warrants issued in the same offering as this Warrant to be satisfactory in form and substance, such affirmative assessment not to be unreasonably withheld, the obligation to deliver to the holder of the Warrant, at the last address of such holder appearing on the books of the Company, such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to purchase, and the other obligations of the Company under this Warrant. The provisions of this section shall similarly apply to successive reorganizations, reclassifications, consolidations, mergers, sales, transfers or other dispositions. If the Company, in spite of using its best efforts, is unable to cause this Warrant to continue in full force and effect until the Expiration Date in connection with any capital reorganization, reclassification of the capital stock of the Company, consolidation or merger of the Company with another corporation in which the Company is not the survivor, or sale, transfer or other disposition of all or substantially all of the Company's assets to another corporation, then the Company shall pay the Holder an amount calculated in accordance with the Black-Scholes Option Pricing formula set forth in the appendix hereto.

c) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. The number of shares of Common Stock outstanding at any given time shall not include shares of Common Stock owned or held by or for the account of the Company, and the description of any such shares of Common Stock shall be considered on issue or sale of Common Stock. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

d) Notice to Holders.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to this Section 3, the Company shall promptly mail to each Holder a notice setting forth the Exercise Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution) on the Common Stock; (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, of any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property; (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then, in each case, the Company shall cause to be mailed to the Holder at its last addresses as it shall appear upon the Warrant Register of the Company, at least twenty (20) calendar days prior to the applicable record or effective date hereinafter

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specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to exercise this Warrant during the 20-day period commencing the date of such notice to the effective date of the event triggering such notice.

Section 4. Transfer of Warrant.

a) Right of First Refusal. Should the Holder propose to sell or transfer this Warrant to a non-affiliate of Holder in response to a bona fide offer to purchase, the Holder shall promptly deliver a written notice to the Company. The notice shall describe in reasonable detail the proposed sale or transfer, including, without limitation, the number of Warrant Shares to be sold or transferred, the consideration to be paid, the name and address of each prospective purchaser or transferee, and any other material terms and conditions upon which such sale or transfer is to be made, along with copies of all material proposed agreements relating to such sale, including purchase agreements and other agreements or documents requested by the Company. The Company shall have the option, exercisable upon written notice to the Holder within two (2) business days after delivery of the notice, to purchase some or all of the Warrant Shares on the same terms as the proposed sale or transfer. Upon such purchase by the Company, this Warrant shall promptly be cancelled and the Company shall issue to the Holder a new Warrant evidencing the portion of this Warrant not purchased by the Company, if any. If the Company does not exercise its option to purchase this warrant, the Holder may sell or transfer this Warrant to the purchaser or transferee identified in the notice, on the same terms as identified in the notice or otherwise.

b) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Section 4(a) hereof, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

c) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Sections 4(a) and (b), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

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d) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

Section 5. Miscellaneous.

a) Title to Warrant. Prior to the Expiration Date and subject to compliance with applicable laws and Section 4 of this Warrant, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed. The transferee shall sign an investment letter in form and substance reasonably satisfactory to the Company.

b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price (or by means of a cashless exercise), the Warrant Shares so purchased shall be and be deemed to be issued to such Holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

e) Authorized Shares.

The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the trading markets upon which the Common Stock may be listed.

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the

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foregoing, the Company will (a) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (b) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant, and (c) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant.

f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

h) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Expiration Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant or purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

k) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

l) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder or holder of Warrant Shares but nothing in this Warrant shall be construed to give any person or Company or other entity, other than the Company and the Holder and their respective successor and assigns, any legal or equitable right, remedy or cause under this Warrant.

m) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

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n) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

o) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

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## APPENDIX

**Black Scholes Option Pricing formula to be used when calculating the amount per Warrant Share shall be:**

**$C = S e^{-l(T-t)} N(d_1) - K e^{-r(T-t)} N(d_2)$ , where**

**C** = warrant value

**S** = price of Company stock as determined by reference to the average of the closing prices on the securities exchange or Nasdaq National Market over the 20-day period ending three trading days prior to the closing of the capital reorganization, reclassification of the capital stock of the Company, consolidation or merger of the Company with another corporation in which the Company is not the survivor, or sale, transfer or other disposition of all or substantially all of the Company's assets to another corporation described in Section 3(b) if the Company's stock is then traded on such exchange or system, or the average of the closing bid or sale prices (whichever is applicable) in the over-the-counter market over the 20-day period ending three trading days prior to the closing of the transaction if the Company's stock is then actively traded in the over-the-counter market, or the then most recently completed financing if the Company's stock is not then traded on a securities exchange or system or in the over-the-counter market.

**T** = 9/14/2011

**t** = **date of public announcement of the capital reorganization, reclassification of the capital stock of the Company, consolidation or merger of the Company with another corporation in which the Company is not the survivor, or sale, transfer or other disposition of all or substantially all of the Company's assets to another corporation described in Section 3(b).**

**T-t** = time until warrant expiration = \_\_\_ years

**N** = standard normal cumulative distribution function.

**$\sigma$**  = volatility = annualized average of the daily price changes on the securities exchange or Nasdaq National Market over the 20-day period ending three trading days prior to the public announcement of the capital reorganization, reclassification of the capital stock of the Company, consolidation or merger of the Company with another corporation in which the Company is not the survivor, or sale, transfer or other disposition of all or substantially all of the Company's assets to another corporation described in Section 3(b) if the Company's stock is then traded on such exchange or system, or the average of the daily change in the closing bid or sale prices (whichever is applicable) in the over-the-counter market over the 20-day period ending three trading days prior to the public announcement of the transaction if the Company's stock is then actively traded in the over-the-counter market, or 0.6 if the Company's stock is not then traded on a securities exchange or system or in the over-the-counter market.

**$d_1 = (\ln(S/K) + (r-l + \sigma^2/2)(T-t)) \div (\sigma \sqrt{T-t})$**

**ln** = natural logarithm

**l** = dividend rate for the most recent 12-month period at the time of closing of the capital reorganization, reclassification of the capital stock of the Company, consolidation or merger of the Company with another corporation in which the Company is not the survivor, or sale, transfer or other disposition of all or substantially all of the Company's assets to another corporation.

**K** = \$6.62

**r** = the 90-day Treasury Bill rate from the most recent auction reported on the website: [www.publicdebt.treas.gov](http://www.publicdebt.treas.gov)

**$d_2 = d_1 - \sigma \sqrt{T-t}$**

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**IN WITNESS WHEREOF**, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: September 15, 2005

**Spectrum Pharmaceuticals, Inc.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Attest:**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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**NOTICE OF EXERCISE**

TO: SPECTRUM PHARMACEUTICALS, INC.

(1) The undersigned hereby elects:

o to purchase \_\_\_ Warrant Shares, Warrant Number \_\_\_, of the Company pursuant to the terms of the attached Warrant and tenders herewith payment of the exercise price in full in lawful money of the United States, together with all applicable transfer taxes, if any.

o to exchange this Warrant for the number of Warrant Shares determined pursuant to the net exchange procedure set forth in subsection 2(c).

(2) Please issue said Warrant Shares in the name of the undersigned or in such other name as is specified below:

\_\_\_\_\_

The Warrant Shares shall be delivered to the following address:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**OR**

DWAC the shares to:

DTC # \_\_\_\_\_

Account # \_\_\_\_\_

Reference # \_\_\_\_\_

**SIGNATURE OF HOLDER**

\_\_\_\_\_

Name of Investing Entity

\_\_\_\_\_

Signature of Authorized Signatory of Investing Entity

\_\_\_\_\_

Date

\_\_\_\_\_

Name of Authorized Signatory

\_\_\_\_\_

Title of Authorized Signature

\_\_\_\_\_

**ASSIGNMENT FORM**

(To assign the foregoing warrant, execute this form and supply required information. Do not use this form to exercise the warrant.)

**Warrant Number:** \_\_\_\_\_

**Warrant Shares:** \_\_\_\_\_

**FOR VALUE RECEIVED**, the foregoing Warrant and all rights evidenced thereby are hereby assigned to:

\_\_\_\_\_ whose address is  
\_\_\_\_\_ .

Dated: \_\_\_\_\_, \_\_\_\_

Holder's Signature: \_\_\_\_\_

Holder's Address: \_\_\_\_\_  
\_\_\_\_\_

Signature Guaranteed: \_\_\_\_\_

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

**RESTRICTED STOCK AWARD GRANT NOTICE  
AND  
RESTRICTED STOCK AWARD AGREEMENT**

Spectrum Pharmaceuticals, Inc., a Delaware corporation (the “*Company*”), pursuant to its 2003 Amended and Restated Incentive Award Plan (the “*Plan*”), hereby grants to the holder listed below (“*Holder*”) the number of shares of the Company’s Stock set forth below (the “*Shares*”). This Restricted Stock award is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Award Agreement attached hereto as Exhibit A (the “*Restricted Stock Agreement*”) and the Plan, each of which are incorporated herein by reference. Except as otherwise provided below, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Restricted Stock Agreement.

**Holder:** \_\_\_\_\_

**Grant Date:** \_\_\_\_\_

**Total Number of Shares of** \_\_\_\_\_

**Restricted Stock:** \_\_\_\_\_

**Vesting Schedule:** \_\_\_\_\_

Subject to the terms and conditions of the Plan, this Grant Notice and the Restricted Stock Agreement, the Company’s Forfeiture Restriction (as defined in the Restricted Stock Agreement) shall lapse as to:

- (i) \_\_\_\_\_,
- (ii) \_\_\_\_\_,
- (iii) \_\_\_\_\_, and
- (iv) \_\_\_\_\_.

In no event, however, shall the Forfeiture Restriction (as defined in the Restricted Stock Agreement) lapse as to any additional Shares after the termination of the Holder’s Continuous Service. As used herein, the term “Continuous Service” shall have the meaning set forth in Section 3.5 of the Restricted Stock Agreement.

By his or her signature below, Holder agrees to be bound by the terms and conditions of the Plan, the Restricted Stock Agreement and this Grant Notice. Holder has reviewed the Restricted Stock Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Restricted Stock Agreement and the Plan. Holder hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan, this Grant Notice or the Restricted Stock Agreement. If Holder is married, his or her spouse has signed the Consent of Spouse attached to this Grant Notice as Exhibit B. **Holder acknowledges that Holder has been advised to consult Holder’s personal tax advisor as to the specific tax consequences of this Restricted Stock Award and whether an election of Section 83(b) of the Internal Revenue Code, as amended, with respect to this Restricted Stock Award will be in Holder’s best interests in light of Holder’s personal tax situation.**

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**SPECTRUM PHARMACEUTICALS, INC.**

**HOLDER:**

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: 157 Technology Drive  
Irvine, California 92618

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Address: \_\_\_\_\_

Attachments: Restricted Stock Award Agreement (**Exhibit A**)  
Consent of Spouse (**Exhibit B**)  
Stock Assignment (**Exhibit C**)  
Joint Escrow Instructions (**Exhibit D**)  
Form of Internal Revenue Code Section 83(b) Election and Instructions (**Exhibit E**)  
- Election under Internal Revenue Code Section 83(b) (**Attachment 1 to Exhibit E**)  
- Sample Cover Letter to Internal Revenue Service (**Attachment 2 to Exhibit E**)

**EXHIBIT A**  
**TO RESTRICTED STOCK AWARD GRANT NOTICE**  
**RESTRICTED STOCK AWARD AGREEMENT**

Pursuant to the Restricted Stock Award Grant Notice (“**Grant Notice**”) to which this Restricted Stock Award Agreement (this “**Agreement**”) is attached, Spectrum Pharmaceuticals, Inc., (the “**Company**”) has granted to Holder the number of shares of Restricted Stock under the Company’s 2003 Amended and Restated Incentive Award Plan (the “**Plan**”) indicated in the Grant Notice.

**ARTICLE I**

**GENERAL**

1.1 Defined Terms. Capitalized terms not specifically defined herein shall have the meanings specified in the Grant Notice or, if not defined therein, the Plan.

1.2 Incorporation of Terms of Plan. The Shares are subject to the terms and conditions of the Plan which are incorporated herein by reference.

**ARTICLE II**

**GRANT OF RESTRICTED STOCK**

2.1 Grant of Restricted Stock. In consideration of Holder’s past and/or continued employment with or service to the Company or its Subsidiaries and for other good and valuable consideration, effective as of the Grant Date set forth in the Grant Notice (the “**Grant Date**”), the Company hereby agrees to issue to Holder the number of shares of Stock set forth in the Grant Notice (the “**Shares**”), upon the terms and conditions set forth in the Plan and this Agreement.

2.2 Issuance of Shares. The issuance of the Shares under this Agreement shall occur at the principal office of the Company simultaneously with the execution of this Agreement by the parties or on such other date as the Company and Holder shall agree (the “**Issuance Date**”). Subject to the provisions of Article IV, the Company shall issue the Shares (which shall be issued in Holder’s name) on the Issuance Date.

2.3 Conditions to Issuance of Stock. The Shares, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable, and may be issued in either certificated or book entry form. The Company shall not be required to issue or deliver any Shares prior to fulfillment of all of the following conditions:

- (a) The admission of such Shares to listing on all stock exchanges on which such Stock is then listed;

(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable;

(d) The lapse of such reasonable period of time following the Issuance Date as the Committee may from time to time establish for reasons of administrative convenience; and

(e) The receipt by the Company of full payment for such shares, including payment of all amounts which, under federal, state or local tax law, the Company (or other employer corporation) is required to withhold upon issuance of such Shares.

2.4 Rights as Stockholder. Except as otherwise provided herein, upon delivery of the Shares to the escrow agent pursuant to Article IV, Holder shall have all the rights of a stockholder with respect to said Shares, subject to the restrictions herein, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to the Shares; *provided, however*, that any and all cash dividends paid on such Shares and any and all shares of Stock, capital stock or other securities or property received by or distributed to Holder with respect to the Shares as a result of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or similar change in the capital structure of the Company shall also be subject to the Forfeiture Restriction (as defined in Section 3.1) and the restrictions on transfer in Section 3.4 until such restrictions on the underlying Shares lapse or are removed pursuant to this Agreement (or, if such Shares are no longer outstanding, until such time as such Shares would have been released from the Forfeiture Restriction pursuant to this Agreement). In addition, in the event of any merger, consolidation, share exchange or reorganization affecting the Shares, including, without limitation, a Change of Control, then any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) that is by reason of any such transaction received with respect to, in exchange for or in substitution of the Shares shall also be subject to the Forfeiture Restriction (as defined in Section 3.1) and the restrictions on transfer in Section 3.4 until such restrictions on the underlying Shares lapse or are removed pursuant to this Agreement (or, if such Shares are no longer outstanding, until such time as such Shares would have been released from the Forfeiture Restriction pursuant to this Agreement). Any such assets or other securities received by or distributed to Holder with respect to, in exchange for or in substitution of any Unreleased Shares (as defined in Section 3.3) shall be immediately delivered to the Company to be held in escrow pursuant to Section 4.1.

### ARTICLE III

#### RESTRICTIONS ON SHARES

3.1 Forfeiture Restriction. Subject to the provisions of Section 3.2, if Holder ceases to remain in Continuous Service (as defined in Section 3.5) for any or no reason, all of the

Unreleased Shares (as defined in Section 3.3) shall thereupon be forfeited immediately and without any further action by the Company (the "**Forfeiture Restriction**"). Upon the occurrence of such a forfeiture, the Company shall become the legal and beneficial owner of the Shares being forfeited and all rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of Shares being forfeited by Holder. In the event any of the Unreleased Shares are forfeited under this Section 3.1, any cash, cash equivalents, assets or securities received by or distributed to Participant with respect to, in exchange for or in substitution of such Shares and held by the escrow agent pursuant to Section 4.1 and the Joint Escrow Instructions shall be promptly transferred by the escrow agent to the Company.

3.2 Release of Shares from Forfeiture Restriction. The Shares shall be released from the Forfeiture Restriction as indicated in the Grant Notice. Any of the Shares released from the Forfeiture Restriction shall thereupon be released from the restrictions on transfer under Section 3.4. In the event any of the Shares are released from the Forfeiture Restriction, any dividends or other distributions paid on such Shares and held by the escrow agent pursuant to Section 4.1 and the Joint Escrow Instructions shall be promptly paid by the escrow agent to Holder.

3.3 Unreleased Shares. Any of the Shares which, from time to time, have not yet been released from the Forfeiture Restriction are referred to herein as "**Unreleased Shares**."

3.4 Restrictions on Transfer. Unless otherwise permitted by the Committee pursuant to the Plan, no Unreleased Shares or any dividends or other distributions thereon or any interest or right therein or part thereof, shall be liable for the debts, contracts or engagements of Holder or his or her successors in interest or shall be subject to sale or other disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such sale or other disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted sale or other disposition thereof shall be null and void and of no effect.

3.5 Definition of Continuous Service. For purposes of this Agreement, the term "**Continuous Service**" means (i) employment by either the Company or any Subsidiary, or any survivor or successor entity, which is uninterrupted except for vacations, illness (except for Disability), or leaves of absence which are approved in writing by the Company or such other employer corporation, (ii) service as a member of the Board of Directors of the Company until Holder dies, resigns, is removed from office, or Holder's term of office expires and he or she is not reelected, or (iii) so long as Holder is engaged as a consultant or service provider to the Company or other corporation referred to in clause (i) above.

#### ARTICLE IV

#### ESCROW OF SHARES

4.1 Escrow of Shares. To insure the availability for delivery of Holder's Unreleased Shares in the event of forfeiture of such Shares by Holder pursuant to Section 3.1, Holder hereby appoints the Secretary of the Company, or any other person designated by the Committee as escrow agent, as his or her attorney-in-fact to assign and transfer unto the Company, such

Unreleased Shares, if any, forfeited by Holder pursuant to Section 3.1 and any dividends or other distributions thereon, and shall, upon execution of this Agreement, deliver and deposit with the Secretary of the Company, or such other person designated by the Committee, any share certificates representing the Unreleased Shares, together with the stock assignment duly endorsed in blank, attached as Exhibit C to the Grant Notice. The Unreleased Shares and stock assignment shall be held by the Secretary of the Company, or such other person designated by the Committee, in escrow, pursuant to the Joint Escrow Instructions of the Company and Holder attached as Exhibit D to the Grant Notice, until the Unreleased Shares are forfeited by Holder as provided in Section 3.1, until such Unreleased Shares are released from the Forfeiture Restriction, or until such time as this Agreement no longer is in effect. Upon release of the Unreleased Shares from the Forfeiture Restriction, the escrow agent shall deliver to Holder the certificate or certificates representing such Shares in the escrow agent's possession belonging to Holder in accordance with the terms of the Joint Escrow Instructions attached as Exhibit D to the Grant Notice, and the escrow agent shall be discharged of all further obligations hereunder; *provided, however*, that the escrow agent shall nevertheless retain such certificate or certificates as escrow agent if so required pursuant to other restrictions imposed pursuant to this Agreement. If the Shares are held in book entry form, then such entry will reflect that the Shares are subject to the restrictions of this Agreement. If any dividends or other distributions are paid on the Unreleased Shares held by the escrow agent pursuant to this Section 4.1 and the Joint Escrow Instructions, such dividends or other distributions shall also be subject to the restrictions set forth in this Agreement and held in escrow pending release of the Unreleased Shares with respect to which such dividends or other distributions were paid from the Forfeiture Restriction.

4.2 Transfer of Forfeited Shares. Holder hereby authorizes and directs the Secretary of the Company, or such other person designated by the Committee, to transfer the Unreleased Shares which have been forfeited by Holder to the Company.

4.3 No Liability for Actions in Connection with Escrow. The Company, or its designee, shall not be liable for any act it may do or omit to do with respect to holding the Shares in escrow while acting in good faith and in the exercise of its judgment.

## ARTICLE V

### OTHER PROVISIONS

5.1 Adjustment for Stock Split. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or similar change in the capital structure of the Company, the Committee shall make appropriate and equitable adjustments in the Unreleased Shares subject to the Forfeiture Restriction and the number of Shares, consistent with any adjustment under Section 11.1 of the Plan. The provisions of this Agreement shall apply, to the full extent set forth herein with respect to the Shares, to any and all shares of capital stock or other securities, property or cash which may be issued in respect of, in exchange for, or in substitution of the Shares, and shall be appropriately adjusted for any stock dividends, splits, reverse splits, combinations, recapitalizations and the like occurring after the date hereof.

5.2 Taxes. Holder has reviewed with Holder's own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by the Grant Notice and this Agreement. Holder is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Holder understands that Holder (and not the Company) shall be responsible for Holder's own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement. Holder understands that Holder will recognize ordinary income for federal income tax purposes under Section 83 of the Code as the restrictions applicable to the Unreleased Shares lapse. In this context, "restriction" includes the Forfeiture Restriction. Holder understands that Holder may elect to be taxed for federal income tax purposes at the time the Shares are issued rather than as and when the Forfeiture Restriction lapses by filing an election under Section 83(b) of the Code with the Internal Revenue Service no later than thirty days following the date of purchase. A form of election under Section 83(b) of the Code is attached to the Grant Notice as Exhibit E.

HOLDER ACKNOWLEDGES THAT IT IS HOLDER'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO TIMELY FILE THE ELECTION UNDER SECTION 83(b), EVEN IF HOLDER REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HOLDER'S BEHALF.

5.3 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Holder is subject to Section 16 of the Exchange Act, the Plan, the Shares and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

5.4 Administration. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be binding, conclusive and final upon Holder, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Shares. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan and this Agreement.

5.5 Restrictive Legends and Stop-Transfer Orders.

(a) Any share certificate(s) evidencing the Shares issued hereunder shall be endorsed with the following legend and any other legend(s) that may be required by any applicable federal or state securities laws:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO FORFEITURE IN FAVOR OF THE COMPANY AND MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A RESTRICTED STOCK AWARD AGREEMENT BETWEEN THE COMPANY

AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(b) Holder agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate “stop transfer” instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) The Company shall not be required: (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement, or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such shares shall have been so transferred.

#### 5.6 Tax Withholding.

(a) The Company shall be entitled to require payment of any sums required by federal, state or local tax law to be withheld with respect to the transfer of the Shares or the lapse of the Forfeiture Restriction with respect to the Shares, or any other taxable event related thereto. The Company may permit Holder to make such payment in one or more of the forms specified below:

(i) by cash or check made payable to the Company;

(ii) by the deduction of such amount from other compensation payable to Holder;

(iii) by tendering Shares which are not subject to the Forfeiture Restriction and which have a then current Fair Market Value not greater than the amount necessary to satisfy the Company’s withholding obligation based on the minimum statutory withholding rates for federal, state and local income tax and payroll tax purposes; or

(iv) in any combination of the foregoing.

(b) In the event Holder fails to provide timely payment of all sums required by the Company pursuant to Section 5.6(a), the Company shall have the right and option, but not obligation, to treat such failure as an election by Holder to provide all or any portion of such required payment by means of tendering Shares in accordance with Section 5.6(a)(iii).

5.7 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company, and any notice to be given to Holder shall be addressed to Holder at the address given beneath Holder’s signature on the Grant Notice. By a notice given pursuant to this Section 5.7, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

5.8 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

5.9 Governing Law; Severability. This Agreement shall be administered, interpreted and enforced under the laws of the State of Delaware without regard to conflicts of laws thereof. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

5.10 Conformity to Securities Laws. Holder acknowledges that the Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, and state securities laws and regulations. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Shares are to be issued, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

5.11 Amendments. This Agreement may not be modified, amended or terminated except by an instrument in writing, signed by Holder and by a duly authorized representative of the Company.

5.12 No Employment Rights. If Holder is an employee, nothing in the Plan or this Agreement shall confer upon Holder any right to continue in the employ of the Company or any Subsidiary or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are expressly reserved, to discharge Holder at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company and Holder.

5.13 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Holder and his or her heirs, executors, administrators, successors and assigns.

**EXHIBIT B**  
**TO RESTRICTED STOCK AWARD GRANT NOTICE**  
**CONSENT OF SPOUSE**

I, \_\_\_\_\_, spouse of \_\_\_\_\_, have read and approve the foregoing Agreement. In consideration of issuing to my spouse the shares of the common stock of Spectrum Pharmaceuticals, Inc., a Delaware corporation (the "**Company**"), set forth in the Restricted Stock Award Grant Notice and Restricted Stock Award Agreement, I hereby appoint my spouse as my attorney-in-fact in respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares of the common stock of the Company issued pursuant thereto under the community property laws or similar laws relating to marital property in effect in the state of our residence as of the date of the signing of the foregoing Agreement.

Dated: \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_

Signature of Spouse

**EXHIBIT C**

**TO RESTRICTED STOCK AWARD GRANT NOTICE**

**STOCK ASSIGNMENT**

FOR VALUE RECEIVED, the undersigned, \_\_\_\_\_, hereby sells, assigns and transfers unto SPECTRUM PHARMACEUTICALS, INC., a Delaware corporation (the "**Company**"), \_\_\_\_\_ shares of the common stock of the Company, standing in its name of the books of said corporation represented by Certificate No. \_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer the said stock on the books of the within named corporation with full power of substitution in the premises.

This Stock Assignment may be used only in accordance with the Restricted Stock Award Agreement between the Company and the undersigned dated \_\_\_\_\_, \_\_\_\_\_.

Dated: \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
Signature of Holder

**INSTRUCTIONS:** Please do not fill in the blanks other than the signature line. The purpose of this assignment is to enable the Company to enforce the Forfeiture Restriction as set forth in the Agreement, without requiring additional signatures on the part of Holder.

**EXHIBIT D**  
**TO RESTRICTED STOCK AWARD GRANT NOTICE**  
**JOINT ESCROW INSTRUCTIONS**

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Secretary  
Spectrum Pharmaceuticals, Inc.  
157 Technology Drive  
Irvine, California 92618

Ladies and Gentlemen:

As escrow agent (the “*Escrow Agent*”) for both Spectrum Pharmaceuticals, Inc., a Delaware corporation (“*Spectrum*”), and the undersigned recipient of stock of the Company (the “*Holder*”), you are hereby authorized and directed to hold in escrow the documents delivered to you pursuant to the terms of that certain Restricted Stock Award Agreement (“*Agreement*”) between the Company and the undersigned (the “*Escrow*”), including the stock certificate, if any, and the Assignment in Blank, in accordance with the following instructions:

1. In the event of forfeiture by Holder of any of the shares owned by Holder pursuant to the Forfeiture Restriction set forth in the Agreement, Spectrum and/or any assignee of Spectrum (referred to collectively for convenience herein as the “*Company*”) shall give to Holder and you a written notice specifying the number of shares of stock forfeited and the date of forfeiture. Holder and the Company hereby irrevocably authorize and direct you to effect the forfeiture contemplated by such notice in accordance with the terms of said notice.

2. As of the date of forfeiture indicated in such notice, you are directed (a) to date the stock assignments necessary for the forfeiture and transfer in question, (b) to fill in the number of shares being forfeited and transferred, and (c) to deliver the same, together with the certificate, if any, evidencing the shares of stock to be forfeited and transferred, to the Company or its assignee. If the shares are held in book entry form, you are directed to all actions necessary to cause the Company’s transfer agent to reflect such forfeiture and transfer in the Company’s stock records.

3. Holder irrevocably authorizes the Company to deposit with you any certificates evidencing shares of stock to be held by you hereunder and any additions and substitutions to said shares as defined in the Agreement. Holder does hereby irrevocably constitute and appoint you as Holder’s attorney-in-fact and agent for the term of this escrow to execute with respect to such securities all documents necessary or appropriate to make such securities negotiable and to complete any transaction herein contemplated, including but not limited to the filing with any applicable state blue sky authority of any required applications for consent to, or notice of transfer of, the securities. Subject to the provisions of this paragraph 3, Holder shall exercise all rights and privileges of a stockholder of the Company while the stock is held by you.

4. Upon written request of Holder, but no more than once per calendar year, unless the Forfeiture Restriction has been enforced, you will deliver to Holder, or cause the Company’s

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transfer agent to deliver to Holder, a certificate or certificates representing so many shares of stock as are not then subject to the Forfeiture Restriction. Within one hundred twenty (120) days after any voluntary or involuntary termination of Holder's services to the Company for any or no reason, you will deliver to Holder, or cause the Company's transfer agent to deliver to Holder, a certificate or certificates representing the aggregate number of shares held or issued pursuant to the Agreement and not forfeited pursuant to the Forfeiture Restriction set forth in Section 2 of the Agreement.

5. If at the time of termination of this escrow you should have in your possession any documents, securities, or other property belonging to Holder, you shall deliver all of the same to Holder and shall be discharged of all further obligations hereunder.

6. Your duties hereunder may be altered, amended, modified or revoked only by a writing signed by all of the parties hereto.

7. You shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by you to be genuine and to have been signed or presented by the proper party or parties. You shall not be personally liable for any act you may do or omit to do hereunder as Escrow Agent or as attorney-in-fact for Holder while acting in good faith, and any act done or omitted by you pursuant to the advice of your own attorneys shall be conclusive evidence of such good faith.

8. You are hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law and are hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case you obey or comply with any such order, judgment or decree, you shall not be liable to any of the parties hereto or to any other person, firm or corporation by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

9. You shall not be liable in any respect on account of the identity, authorities or rights of the parties executing or delivering or purporting to execute or deliver the Agreement or any documents or papers deposited or called for hereunder.

10. You shall not be liable for the expiration of any rights under any applicable state, federal or local statute of limitations or similar statute or regulation with respect to these Joint Escrow Instructions or any documents deposited with you.

11. You shall be entitled to employ such legal counsel and other experts as you may deem necessary properly to advise you in connection with your obligations hereunder, may rely upon the advice of such counsel, and may pay such counsel reasonable compensation therefor.

12. Your responsibilities as Escrow Agent hereunder shall terminate if you shall cease to be an officer or agent of the Company or if you shall resign by written notice to each party. In the event of any such termination, the Company shall appoint a successor Escrow Agent.

13. If you reasonably require other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

14. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities held by you hereunder, you are authorized and directed to retain in your possession without liability to anyone all or any part of said securities until such disputes shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but you shall be under no duty whatsoever to institute or defend any such proceedings.

15. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally or sent by facsimile transmission, overnight air courier, or first class certified or registered mail, postage prepaid, and addressed to the parties at the addresses of the parties set forth at the end of these Joint Escrow Instructions or such other address as a party may designate by five (5) days' advance written notice to the other parties hereto. All notices and communications shall be deemed to have been received unless otherwise set forth herein: (i) in the case of personal delivery, on the date of such delivery; (ii) in the case of facsimile transmission, on the date on which the sender receives electronic confirmation that such notice was received by the addressee; (iii) in the case of overnight air courier, on the second business day following the day sent, with receipt confirmed by the courier; and (iv) in the case of mailing by first class certified or registered mail, postage prepaid, return receipt requested, on the fifth business day following such mailing.

16. By signing these Joint Escrow Instructions, you become a party hereto only for the purpose of said Joint Escrow Instructions; you do not become a party to the Agreement.

17. This instrument shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and permitted assigns.

18. These Joint Escrow Instructions shall be governed by, and construed and enforced in accordance with, the laws of the State of California, excluding that body of law pertaining to conflicts of law.

(Signature Page Follows)

IN WITNESS WHEREOF, the parties have executed these Joint Escrow Instructions as of the date first written above.

Very truly yours,

**SPECTRUM PHARMACEUTICALS, INC.**

By: \_\_\_\_\_

Name:

Title:

Address: 157 Technology Drive  
Irvine, California 92618

**HOLDER:**

\_\_\_\_\_

Address \_\_\_\_\_  
\_\_\_\_\_

**ESCROW AGENT:**

By: \_\_\_\_\_

Secretary  
Spectrum Pharmaceuticals, Inc.

Address 157 Technology Drive  
Irvine, California 92618

**EXHIBIT E**  
**TO RESTRICTED STOCK AWARD GRANT NOTICE**  
**FORM OF 83(B) ELECTION AND INSTRUCTIONS**

These instructions are provided to assist you if you choose to make an election under Section 83(b) of the Internal Revenue Code, as amended, with respect to the shares of common stock, par value \$0.001, of Spectrum Pharmaceuticals, Inc. transferred to you. **Please consult with your personal tax advisor as to whether an election of this nature will be in your best interests in light of your personal tax situation.**

**The executed original of the Section 83(b) election must be filed with the Internal Revenue Service not later than 30 days after the date the shares were transferred to you. PLEASE NOTE: There is no remedy for failure to file on time. The steps outlined below should be followed to ensure the election is mailed and filed correctly and in a timely manner. ALSO, PLEASE NOTE: If you make the Section 83(b) election, the election is irrevocable.**

1. Complete Section 83(b) election form (attached as Attachment 1) and make four (4) copies of the signed election form. (Your spouse, if any, should sign the Section 83(b) election form as well.)
2. Prepare the cover letter to the Internal Revenue Service (sample letter attached as Attachment 2).
3. Send the cover letter with the originally executed Section 83(b) election form and one (1) copy via certified mail, return receipt requested to the Internal Revenue Service at the address of the Internal Revenue Service where you file your personal tax returns. We suggest that you have the package date-stamped at the post office. The post office will provide you with a white certified receipt that includes a dated postmark. Enclose a self-addressed, stamped envelope so that the Internal Revenue Service may return a date-stamped copy to you. However, your postmarked receipt is your proof of having timely filed the Section 83(b) election if you do not receive confirmation from the Internal Revenue Service.
4. One (1) copy must be sent to Spectrum Pharmaceuticals, Inc. for its records and one (1) copy must be attached to your federal income tax return for the applicable calendar year.
5. Retain the Internal Revenue Service file stamped copy (when returned) for your records.

Please consult your personal tax advisor for the address of the office of the Internal Revenue Service to which you should mail your election form.

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**ATTACHMENT 1 TO EXHIBIT E**  
**TO RESTRICTED STOCK AWARD GRANT NOTICE**  
**ELECTION UNDER INTERNAL REVENUE CODE SECTION 83(B)**

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in taxpayer's gross income for the current taxable year the amount of any compensation taxable to taxpayer in connection with taxpayer's receipt of shares (the "Shares") of common stock, par value \$0.001 per share, of Spectrum Pharmaceuticals, Inc., a Delaware corporation (the "Company").

1. The name, address and taxpayer identification number of the undersigned taxpayer are:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
SSN: \_\_\_\_\_

The name, address and taxpayer identification number of the taxpayer's spouse are (complete if applicable):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
SSN: \_\_\_\_\_

2. Description of the property with respect to which the election is being made:

\_\_\_\_\_ shares of common stock, par value \$0.001 per share, of the Company.

3. The date on which the property was transferred was December 5, 2005.

4. The taxable year to which this election relates is calendar year 2005.

5. Nature of restrictions to which the property is subject:

The Shares may not be transferred and are subject to forfeiture if taxpayer's employment or service with the Company and its subsidiaries terminates for any reason. The Forfeiture Restriction will lapse in a series of four cumulative annual installments of 25% each on January 1, 2006, January 1, 2007, January 1, 2008 and January 1, 2009.

6. The fair market value at the time of transfer (determined without regard to any lapse restrictions, as defined in Treasury Regulation Section 1.83-3(a)) of the Shares was \$0.001 per Share.

7. The amount paid by the taxpayer for the Shares was \$0.001 per Share.

8. A copy of this statement has been furnished to the Company.

Dated: \_\_\_\_\_, 2006 Taxpayer Signature \_\_\_\_\_

The undersigned spouse of Taxpayer joins in this election. (Complete if applicable).

Dated: \_\_\_\_\_, 2006 Spouse's Signature \_\_\_\_\_

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**ATTACHMENT 2 TO EXHIBIT E  
TO RESTRICTED STOCK AWARD GRANT NOTICE  
SAMPLE COVER LETTER TO INTERNAL REVENUE SERVICE**

[Date]

**VIA CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Internal Revenue Service  
[Address where taxpayer files returns]

Re: Election under Section 83(b) of the Internal Revenue Code of 1986

Taxpayer: \_\_\_\_\_

Taxpayer's Social Security Number: \_\_\_\_\_

Taxpayer's Spouse: \_\_\_\_\_

Taxpayer's Spouse's Social Security Number: \_\_\_\_\_

Ladies and Gentlemen:

Enclosed please find an original and one copy of an Election under Section 83(b) of the Internal Revenue Code of 1986, as amended, being made by the taxpayer referenced above. Please acknowledge receipt of the enclosed materials by stamping the enclosed copy of the Election and returning it to me in the self-addressed stamped envelope provided herewith.

Very truly yours,

\_\_\_\_\_

Enclosures

cc: Spectrum Pharmaceuticals, Inc.

**FIRST AMENDMENT TO THE DISTRIBUTION AND SUPPLY AGREEMENT**

This First Amendment (“Agreement”) to the Distribution and Supply Agreement (“Distribution Agreement”) dated April 13, 2005 (“Effective Date”) by and between Spectrum Pharmaceuticals, Inc. (“Spectrum”) and CURA Pharmaceutical Co., Inc. (“CURA”) is entered into and is effective as of February 28, 2006, hereinafter referred to as “Party” and collectively as “Parties”.

**WHEREAS**, the Parties wish to amend certain terms of the Distribution Agreement, as set forth below.

**NOW, THEREFORE**, in consideration of the mutual covenants, promises and agreements set forth herein, the Parties hereby agree as follows:

1. The second and third recitals shall be deleted and replaced in their entirety with the following:

**WHEREAS**, CURA is a distributor and seller of pharmaceutical products in the Territory and desires to obtain a semi-exclusive right to, distribute, promote and sell the product supplied by SPECTRUM in the Territory;

**WHEREAS**, SPECTRUM has agreed, subject to the terms and conditions of the Agreement, to grant CURA the semi-exclusive right to distribute the Product in the Territory and to supply to CURA on an semi-exclusive basis in the Territory all of CURA’s requirements of the Product;

2. Section 2.1 shall be deleted and replaced in its entirety with the following:

SPECTRUM hereby grants to CURA and CURA hereby accepts, the semi-exclusive right to distribute, promote and sell the Product in the Territory subject to the terms and conditions of this Agreement. CURA hereby grants to SPECTRUM and SPECTRUM accepts, the exclusive right to supply the Product to CURA for sale in the Territory subject to the terms and conditions of this Agreement. For purposes of this Agreement, “semi-exclusive right” shall mean that Spectrum shall be able to grant the same rights to a third party.

Except as provided herein, all other terms and conditions of the Distribution Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the first date written above.

**SPECTRUM PHARMACEUTICALS, INC.**

**CURA PHARMACEUTICAL CO., INC.**

By: /s/ Shyam Kumaria  
Shyam Kumaria

By: /s/ Fabio Lanzieri  
Fabio Lanzieri

Its: V.P., Finance

Its: CEO and President

## SUBSIDIARIES OF REGISTRANT

<u>SUBSIDIARY NAME</u>	<u>INCORPORATION</u>	<u>DATE</u>
Spectrum Pharmaceuticals GmbH	Switzerland	04/26/97
NeoGene Technologies, Inc.	California	10/01/99
NeoJB LLC	Delaware	4/3/02

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

As independent public accountants, we hereby consent to the incorporation by reference into the Company's previously filed Registration Statements on Form S-3 (Nos. 333-125208, 333-121612, 333-115759, 333-110103, 333-108658, 333-105814, 333-102587, 333-64444, 333-64432, 333-60966, 333-53108, 333-51388, 333-42852, 333-38710, 333-37180, 333-92855, 333-73009, 333-52331, 333-37585) and Form S-8 (Nos. 333-119833, 333-106427, 333-54246, 333-30345, 333-30321), of our reports on the consolidated financial statements and on internal control over financial reporting both dated March 10, 2006, included in Spectrum Pharmaceuticals, Inc.'s Form 10-K for the year ended December 31, 2005.

/s/ Kelly & Company

Kelly & Company  
Costa Mesa, California  
March 10, 2006

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Rajesh C. Shrotriya, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: March 15, 2006

/s/ RAJESH C. SHROTRIYA  
\_\_\_\_\_  
Rajesh C. Shrotriya, M.D.  
Chairman, Chief Executive Officer and President  
(Principal Executive Officer)

## CERTIFICATION OF VICE PRESIDENT FINANCE

I, Shyam K. Kumaria, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: March 15, 2006

/s/ SHYAM K. KUMARIA

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Shyam K. Kumaria  
Vice President Finance  
(Principal Financial Officer)

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, the undersigned officer of Spectrum Pharmaceuticals, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2005 (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: March 15, 2006

/s/ RAJESH C. SHROTRIYA

Rajesh C. Shrotriya, M.D.

Chairman, Chief Executive Officer and President

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, the undersigned officer of Spectrum Pharmaceuticals, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2005 (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: March 15, 2006

/s/ SHYAM K. KUMARIA

Shyam K. Kumaria  
Vice President Finance