

CELL THERAPEUTICS INC  
Form 424B5  
December 21, 2007  
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Filed Pursuant to Rule 424(b)(5)

File No. 333-143452

**PROSPECTUS SUPPLEMENT**

(to Prospectus dated June 15, 2007)

**CELL THERAPEUTICS, INC.**

**3,469,999 Shares of Common Stock**

**Warrants to Purchase 3,469,999 Shares of Common Stock**

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We are offering 3,469,999 shares of common stock and warrants to purchase up to 3,469,999 shares of our common stock and up to 3,469,999 shares of our common stock issuable upon exercise of the warrants. We will sell our common stock and warrants to investors at the negotiated price of \$2.02 per share of common stock, and each purchaser will receive a warrant to purchase common stock equal to the same number of shares purchased. Each warrant to purchase shares of our common stock will have an exercise price of \$2.02 per share. The warrants are not exercisable for six months from the date of issuance and their exercisability is contingent upon the Company obtaining shareholder approval to increase the number of authorized shares of common stock available for issuance.

For a more detailed description of our warrants, see the section entitled "Description of Warrants" beginning on page S-7 and For a more detailed description of our common stock issuable upon exercise the warrants, see the section entitled "Description of Capital Stock" beginning on page 5 of the accompanying prospectus.

Rodman & Renshaw, LLC acted as the sole placement agent and book runner on this transaction. The placement agent is not purchasing or selling any of these securities nor is it required to sell any specific number or dollar amount of securities, but has agreed to use its best efforts to sell the securities offered by this prospectus supplement.

Our common stock is quoted on the Nasdaq Global Market and the MTAX in Italy under the symbol "CTIC". On December 19, 2007, the last reported sale price of our common stock on the Nasdaq Global Market was \$2.02.

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**Investing in our common stock and warrants involves a high degree of risk. See the section entitled "Risk Factors" beginning on page S-5 of this prospectus supplement.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.**

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	Shares of	Per Share of	
	Common Stock	Common Stock(1)	Total

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Public offering price of common stock and warrants to purchase common stock	3,469,999	\$	2.02	\$ 7,009,401
Placement agency fees(2)		\$	.1212	\$ 420,564
Total proceeds to us before other expenses(2)		\$	1.8988	\$ 6,588,837

(1) Table excludes shares of common stock issuable on exercise of warrants offered hereby.

(2) A fee equal to 6% of the aggregate proceeds raised in the offering shall be payable to the placement agent. The common stock and warrants will be issued on or about December 21, 2007.

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**This prospectus supplement is dated December 20, 2007.**

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or related prospectus or to which we have referred you. You must not rely on any unauthorized information or representations. This prospectus supplement and related prospectus is an offer to sell only the securities offered hereby but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and related prospectus is current only as of its date, and the information contained in any document incorporated by reference in this prospectus is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus supplement and related prospectus or any sale of a security.

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### **ABOUT THIS PROSPECTUS**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information about the shares of our common stock and other securities we may offer from time to time under our shelf registration statement, some of which may not apply to the securities offered by this prospectus supplement. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference therein, on the other hand, the information in this prospectus supplement shall control.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and contained or incorporated by reference in the accompanying prospectus. We have not authorized anyone, including the placement agent, and the placement agent has not authorized anyone, to provide you with different information. We are offering to sell, and seeking offers to buy, our common stock and warrants only in jurisdictions where offers and sales are permitted. The information contained or incorporated by reference in this prospectus supplement and contained, or incorporated by reference in the accompanying prospectus is accurate only as of the respective dates thereof, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus, or of any sale of our common stock. It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, in making your investment decision. You should also read and consider the information in the documents we have referred you to in *Incorporation of Certain Information by Reference* in this prospectus supplement and *Where You Can Find More Information* in the accompanying prospectus.

Unless otherwise indicated, CTI, Company, we, us, our and similar terms refer to Cell Therapeutics, Inc. and its subsidiaries. CTI and X are our proprietary marks. All other product names, trademarks and trade names referred to in this prospectus supplement and the accompanying prospectus are the property of their respective owners.

### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

In addition to the other information contained or incorporated by reference in this prospectus supplement and accompanying prospectus, you should carefully consider the risk factors contained in and incorporated by reference into this prospectus supplement and accompanying prospectus when evaluating an investment in our common stock. This prospectus supplement and accompanying prospectus and the documents incorporated by reference into this prospectus supplement and accompanying prospectus include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ( *Securities Act* ), and Section 21E of the Securities Exchange Act of 1934, as amended ( *Exchange Act* ). All statements other than statements of historical fact are forward-looking statements for purposes of these provisions, including:

any projections of earnings, revenues or other financial items;

any statements of the plans and objectives of management for future operations;

any statements concerning proposed new products or services;

any statements regarding future operations, plans, regulatory filings or approvals;

any statements on plans regarding proposed or potential clinical trials or new drug filing strategies;

any statements concerning proposed new products or services, any statements regarding pending or future mergers or acquisitions;  
and

any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing.

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In some cases, forward-looking statements can be identified by the use of terminology such as may, will, expects, plans, anticipates, estimates, potential, or continue or the negative thereof or other comparable terminology. There can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from these projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, but not limited to, the risk factors set forth in this prospectus. All forward-looking statements and reasons why results may differ included in this prospectus are made as of the date hereof, and we do not intend to update any such forward-looking statement or reason why actual results might differ.

This prospectus contains and incorporates by reference market data, industry statistics and other data that have been obtained from, or compiled from, information made available by third parties. We have not independently verified their data.

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**SUMMARY**

*The following summary highlights information contained elsewhere, or incorporated by reference, in this prospectus supplement and the related prospectus. The following summary does not contain all the information that you should consider before investing in our common stock. To understand this offering fully, you should read this entire prospectus supplement and related prospectus carefully, including the financial statements and the documents that we have incorporated by reference into this prospectus.*

**Our Company**

We develop, acquire and commercialize novel treatments for cancer. Our goal is to build a leading biopharmaceutical company with a diversified portfolio of proprietary oncology drugs. Our research, development, acquisition and in-licensing activities concentrate on identifying and developing new, less toxic and more effective ways to treat cancer.

We are developing XYOTAX, paclitaxel poliglumex, for the treatment of non-small cell lung cancer, or NSCLC, and ovarian cancer. As announced in March and May of 2005, our STELLAR 2, 3, and 4 phase III clinical studies for XYOTAX did not meet their primary endpoints of superior overall survival. However, we believe a pooled analysis of STELLAR 3 and 4 studies for treatment of first-line NSCLC patients who have poor performance status, or PS2, demonstrates a statistically significant survival advantage among women receiving XYOTAX when compared to women or men receiving standard chemotherapy. A survival advantage for women over men was also demonstrated in a first-line phase II clinical trial of XYOTAX and carboplatin, known as the PGT202 trial, supporting the potential benefit observed in the STELLAR 3 and 4 trials. In December 2005, we initiated a phase III clinical trial, known as the PIONEER, or PGT305, study, for XYOTAX as first-line monotherapy in PS2 women with NSCLC. In November 2006, we suspended enrollment in the PIONEER trial to allow data related to recently enrolled patients to mature and to assess the differences in early cycle deaths observed between arms of the study. In December 2006, we agreed with the recommendation of the Data Safety Monitoring Board to close the PIONEER lung cancer clinical trial due, in part, to the diminishing utility of the PIONEER trial given our plans to submit a new protocol to the U.S. Food and Drug Administration, or FDA. In early 2007, we submitted two new protocols under a Special Protocol Assessment, or SPA, to the FDA. The new trials, known as PGT306 and PGT307, focus exclusively on NSCLC in women with pre-menopausal estrogen levels, the subset of patients where XYOTAX demonstrated the greatest potential survival advantage in the STELLAR trials. We believe the lack of safe and effective treatment for women with advanced first-line NSCLC who have pre-menopausal estrogen levels, represents an unmet medical need. We initiated the PGT307 trial in September 2007. Although the FDA has established the requirement that two adequate and well-controlled pivotal studies demonstrating a statistically significant improvement in overall survival will be required for approval of XYOTAX in the NSCLC setting, we believe that compelling results from PGT307, along with supporting evidence from prior clinical trials, will enable us to submit a new drug application, or NDA, in the United States. In Europe, we plan to submit a marketing authorization application, or MAA, for first-line treatment of patients with advanced NSCLC who are PS2, based on a non-inferior survival and improved side effect profile which we believe was demonstrated in our STELLAR clinical trials. The basis for this filing has been reviewed by the Scientific Advice Working Party, or SAWP, at the European Medicines Agency, or EMEA; the EMEA agreed that switching the primary endpoint from superiority to noninferiority is feasible if the retrospective justification provided in the marketing application is adequate. The discussions with the SAWP focused on using the STELLAR 4 study as primary evidence of non-inferiority and the STELLAR 3 study as supportive.

We are developing pixantrone, a novel anthracycline derivative, for the treatment of non-Hodgkin's lymphoma, or NHL. An interim analysis of our ongoing phase III study of pixantrone, known as the EXTEND or PIX301 study, was performed by the independent Data Monitoring Committee in the third quarter of 2006. Based on their review, the study will continue. Pixantrone is also being studied in a phase II study, known as RAPID or PIX203, in which pixantrone is being substituted for doxorubicin in the R-CHOP regimen compared to the standard R-CHOP regimen in patients with previously untreated diffuse large B-cell lymphoma. An interim analysis of the RAPID study was reported in July 2007. The interim analysis of the study showed that to date a majority of the patients on both arms of the study achieved a major objective anti-tumor response (complete response or partial response). Patients on the pixantrone arm of the study had clinically significant reductions in the incidence of severe heart damage, infections, and thrombocytopenia (a reduction in the platelets in the blood) as well as significant reduction in febrile neutropenia. The study, which is targeting enrollment of 280 patients, is expected to complete enrollment in 2009.

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In September 2007, we announced that we decided to conduct a full analysis of the EXTEND trial, instead of an interim analysis as previously planned. We currently anticipate completing enrollment in the EXTEND trial in the fourth quarter of this year or first half of 2008 with primary endpoint data and expect the final results to be reported in the first half of 2008. The FDA agreed that randomized safety data from the RAPID study (CHOP-R vs. CPOP-R) could be used to support the EXTEND results in an NDA submission for pixantrone. In addition, we launched a phase III trial of pixantrone in indolent NHL, the PIX303 trial in September 2007, which will evaluate the combination of fludarabine, pixantrone, and rituximab versus fludarabine and rituximab in patients who have received at least one prior treatment for relapsed or refractory indolent NHL. The target enrollment for the trial is 300 patients. In May 2007, we received fast track designation from the FDA for pixantrone for the treatment of relapsed or refractory indolent NHL.

We are developing brostallicin, which is a small molecule, anti-cancer drug with a novel, unique mechanism of action and composition of matter patent coverage. Data on more than 200 patients treated with brostallicin in phase I/II clinical trials reveal evidence of activity in patients with refractory cancer and patient/physician-friendly dosage and administration. A phase II study of brostallicin in relapsed/refractory soft tissue sarcoma met its pre-defined activity and safety hurdles and resulted in a first-line phase II study that is currently being conducted by the European Organization for Research and Treatment of Cancer (EORTC). Additionally, CTI plans to initiate a phase II/III myxoid liposarcoma trial in 2008. Brostallicin also has demonstrated synergism with new targeted agents as well as established treatments in pre-clinical trials.

Due to resource constraints, we are currently focusing our efforts on near-term products in our pipeline, XYOTAX, pixantrone and brostallicin, and have no immediate plans to conduct additional CT-2106, polyglutamate camptothecin, studies.

On July 31, 2007, we completed our acquisition of Systems Medicine, Inc. (SMi), a privately held oncology company, in a stock for stock merger valued at \$20 million. Pursuant to the terms of the Merger Agreement regarding that transaction dated July 24, 2007, if certain FDA regulatory approval milestones are met, the former shareholders of SMi could also receive a maximum of \$15 million in additional consideration, payable in either cash or shares of our common stock at our election, provided that we cannot make any payments in shares of our common stock if such payment would mean that the total number of shares issued as consideration under the agreement exceeds 19.9% of our outstanding common stock on (measured as of July 31, 2007, the date the transaction closed) without first obtaining shareholder approval for such issuance as required under NASDAQ rules. SMi continues to operate under the name Systems Medicine LLC, as a wholly-owned subsidiary of CTI. SMi holds worldwide rights to use, develop, import and export brostallicin, a DNA minor groove binding agent that has demonstrated anti-tumor activity and a favorable safety profile in clinical trials in which more than 200 patients have been treated to date. Brostallicin is currently in phase II clinical studies. SMi currently uses a genomic-based platform to guide development of brostallicin; we expect to use that platform to guide development of our licensed oncology products in the future.

SMi also has a strategic affiliation with the Translational Genomics Research Institute, or TGen, and has the ability to use TGen's extensive genomic platform and high throughput capabilities to target a cancer drug's context-of-vulnerability, which is intended to guide clinical trials toward patient populations where the highest likelihood of success should be observed, thereby potentially lowering risk and shortening time to market.

As of September 30, 2007, we had incurred aggregate net losses of approximately \$1,070.4 million since inception. We expect to continue to incur additional operating losses for at least the next several years.



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### **Recent Developments**

#### **Agreement to Acquire ZEVALIN®**

On August 15, 2007, we entered into an Asset Purchase Agreement with Biogen Idec Inc. (BIIB) for the purchase of BIIB's radiopharmaceutical product ZEVALIN® (ibritumomab tiuxetan) for development, marketing and sale in the United States. Under the terms of that agreement, we would acquire ZEVALIN and certain assets related to ZEVALIN for an initial purchase price of \$10 million, ongoing royalty payment obligations based on the net sales of ZEVALIN in the United States, and up to two additional payments of \$10 million each due upon reaching certain FDA approval milestones. The royalty payments under the agreement would be paid from the time the transaction closes until the latest of (a) the expiration of the last to expire of any patents related to ZEVALIN, (b) the first date on which any person sells a biosimilar product in the United States or (c) December 31, 2015. The transaction has been approved by our board of directors and the board of directors of BIIB and is subject to customary closing conditions, including receipt of third party consents. The transaction is expected to close before the end of 2007. At the closing, we will also enter into certain licensing, supply and services agreements, in addition to a security agreement for the benefit of BIIB.

If the transaction is completed, the acquisition would mark our return to the marketplace with a commercialized oncology product. The FDA approved Zevalin in 2002 to treat patients with relapsed indolent non-Hodgkin's lymphoma. In 2006, Biogen Idec reported \$16.4 million in U.S. Zevalin sales.

#### **Corporate Integrity Agreement**

In anticipation of our proposed acquisition of ZEVALIN®, we entered into a Corporate Integrity Agreement with the Office of Inspector General of the United States Department of Health and Human Services (OIG-HHS). This agreement was part of the condition of our settlement with the United States Attorney General regarding certain litigation over TRISENOX, as disclosed in the prospectus accompanying this prospectus supplement. The agreement is intended to promote compliance with statutes, regulations and written directives of Medicare, Medicaid and all other federal health care programs and FDA requirements through the creation of a compliance committee and compliance program and the adoption of a formal code of conduct. The agreement will become effective on the earlier of the closing of the ZEVALIN acquisition or the date on which we first begin to manufacture, market, sell, or distribute any product reimbursed by federal health care programs and shall remain in effect for five years from that date.

#### **Debt Restructuring**

We have a substantial amount of debt outstanding, and our annual interest expense with respect to our debt is significant. We recently completed a partial restructuring of our 2008 convertible notes in December 2007, which retired a portion of such debt and extended the maturity date on certain such debt to 2011. However, approximately \$19.8 million of such 2008 convertible notes remain outstanding and are due on June 15, 2008. We expect to continue to review alternatives to restructure our remaining outstanding 2008 convertible notes.

### **Other Information**

We were incorporated in Washington in 1991. Our principal executive offices are located at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119. Our telephone number is (206) 282-7100. Our website can be found at [www.cticseattle.com](http://www.cticseattle.com). Information contained in, or accessible through, our website does not constitute a part of this prospectus supplement.

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**The Offering**

*The following is a brief summary of some of the terms of the offering and is qualified in its entirety by reference to the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus. For a more complete description of our common stock, see the Description of Capital Stock section in the accompanying prospectus. For a more complete description of the warrants, see the Description of Warrants section in this prospectus supplement.*

Securities we are offering	3,469,999 shares of common stock, warrants to purchase up to 3,469,999 shares of common stock and 3,469,999 shares of common stock issuable upon exercise of the warrants. We will sell our common stock and warrants in this offering at a negotiated price of \$2.02 per share of common stock. Each purchaser will receive a warrant to purchase approximately one share of common stock at an exercise price of \$2.02 per share for each share of common stock they purchase in the offering.
Description of warrants	<p>Each purchaser of our common stock will receive a warrant to purchase one share of common stock for each share of common stock they purchase in the offering. The warrants are exercisable at an exercise price of \$2.02 per share of our common stock at any time on or after June 20, 2008 for a period of three years from the date the warrants become exercisable. The exercisability of the warrants is also contingent upon our obtaining shareholder approval to increase the number of authorized shares of common stock available for issuance.</p> <p>For more information on the warrants, see Description of Warrants in this prospectus supplement.</p>
Use of proceeds after expenses	We intend to use the proceeds from this offering towards the closing of our anticipated acquisition of ZEVALIN from Biogen Idec and for general corporate purposes including, without limitation, research and development, preclinical and clinical trials, the preparation and filing of new drug applications and general working capital. See Use of Proceeds in this prospectus supplement.
Market for the common stock and warrants	Our common stock is quoted and traded on the Nasdaq Global Market and the MTAX in Italy under the symbol CTIC. However, there is no established public trading market for the offered warrants, and we do not expect a market to develop. In addition, we do not intend to apply for listing the warrants on any securities exchange.

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**RISK FACTORS**

You should carefully consider the risks described below and other information in this prospectus supplement and in the documents incorporated by reference into this prospectus supplement before deciding to invest in our common stock. Additional risks and uncertainties that we do not presently know or that we currently deem immaterial may also impair our business, financial condition, operating results and prospects. If any of the following risks actually occur, they could materially adversely affect our business, financial condition, operating results or prospects. In that case, the trading price of our securities could decline.

Please see the information provided under Item 1A Risk Factors of our quarterly report on Form 10-Q for the quarter ended September 30, 2007, filed on November 9, 2007, which is incorporated by reference herein.

**Risks Related to this Offering**

*There is no public market for the warrants to purchase common stock in this offering.*

There is no established public trading market for the warrants being offered in this offering, and we do not expect a market to develop. In addition, we do not intend to apply for listing the warrants on any securities exchange or for quotation on the Nasdaq Global Market. Without an active market, the liquidity of the warrants will be limited.

*Since we have broad discretion in how we use the proceeds from this offering, we may use the proceeds in ways in which you disagree.*

Although we intend to use some or all of the net proceeds from this offering toward the closing of our acquisition of Zevalin, we may instead use some or all of the net proceeds for other general corporate purposes, and we have not allocated specific amounts of the net proceeds from this offering for any specific purpose. Accordingly, our management will have significant flexibility in applying the net proceeds of this offering. You will be relying on the judgment of our management with regard to the use of these net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. It is possible that the net proceeds will be invested in a way that does not yield a favorable, or any, return for our company. The failure of our management to use such funds effectively could have a material adverse effect on our business, financial condition, operating results and cash flow.

*The warrants are not immediately exercisable and their exercisability is contingent upon our obtaining shareholder approval of an increase in our authorized shares.*

The warrants being sold as part of this offering, which have an exercise price of \$2.02 per share, will not be exercisable until June 20, 2008 and will expire on June 20, 2011. In the event our common stock price does not exceed the exercise price of the warrants during the period when the warrants are exercisable, the warrants may not have any value. Furthermore, the exercise of the warrants is conditioned upon our obtaining shareholder approval of an increase in our authorized shares at a special meeting of our stockholders. We currently have scheduled a special meeting for January 28, 2008 to approve an increase in our authorized shares from 110,000,000 to 210,000,000 shares. We have had difficulties in the past obtaining a quorum to conduct business at a shareholder meeting as a result of the number of our shares which are held by Italian shareholders. Furthermore, most Italian shareholders do not regularly vote shares they hold so it may be difficult to obtain the requisite shareholder approval.

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**USE OF PROCEEDS**

We estimate that the net proceeds of this offering, after deducting placement agent fees and our estimated offering expenses, and excluding the proceeds, if any, from the exercise of the warrants issued in this offering, will be approximately \$6.5 million.

We currently intend to use the net proceeds from this offering toward the payment of the purchase price for Zevalin, which consists of an initial up front payment of \$10 million, and for working capital and for general corporate purposes, which may include, among other things, funding research and development, preclinical and clinical trials, the preparation and filing of new drug applications and general working capital.

We cannot estimate precisely the allocation of the net proceeds from this offering among these uses. The amounts and timing of the expenditures may vary significantly, depending on numerous factors, including the progress of our clinical trials and other development efforts as well as the amount of cash used in our operations. Accordingly, our management will have broad discretion in the application of the net proceeds of this offering. We reserve the right to change the use of proceeds as a result of certain contingencies such as competitive developments, opportunities to acquire technologies or products and other factors. Pending the uses described above, we may temporarily invest the net proceeds of this offering in short- and medium-term interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

**DETERMINATION OF OFFERING PRICE**

We will sell our common stock and warrants in this offering at a negotiated price of \$2.02 per share of common stock. Each purchaser of our common stock will receive a warrant to purchase one share of common stock at an exercise price of \$2.02 per share for each share of common stock they purchase in the offering. The terms and conditions of the common stock, and the warrants, including exercise price, were determined by negotiation by us and the placement agent. The principal factors considered in determining these terms and conditions include:

the market price of our common stock;

the information set forth in this prospectus supplement and accompanying prospectus and otherwise available to the placement agent;

our history and prospects and the history of, and prospects for, the industry in which we compete;

our past and present financial performance and an assessment of our management;

our prospects for future earnings and the present state of our development;

the general condition of the securities markets at the time of this offering;

the recent market prices of, and demand for, publicly traded common stock of generally comparable companies; and

other factors deemed relevant by the placement agent and us.

**DIVIDEND POLICY**

We have never declared or paid any cash dividends on our common stock and do not currently anticipate declaring or paying cash dividends on our common stock in the foreseeable future. Except for dividends payable on the Series A 3% Convertible Preferred Stock, the Series B 3% Convertible Preferred Stock, the Series C 3% Convertible Preferred Stock and Series D 7% Convertible Preferred Stock, we currently intend to

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retain all of our future earnings, if any, to finance operations. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and other factors that our board of directors may deem relevant.

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**DESCRIPTION OF COMMON STOCK**

For a complete description of our common stock, see the Description of Capital Stock section in the accompanying prospectus on page 5.

**DESCRIPTION OF WARRANTS**

*The material terms and provisions of the warrants being offered pursuant to this prospectus supplement and the accompanying prospectus are summarized below. This summary is subject to, and qualified in its entirety by, the form of warrant to be filed as an exhibit to our current report on Form 8-K, which we expect to file with the SEC on or about December 27, 2007*

The warrants will be exercisable on or after June 20, 2008 and will terminate on the third anniversary of the date the warrants become exercisable. The exercisability of the warrants is conditioned upon our obtaining shareholder approval of an increase in our authorized shares at a special meeting of our stockholders. The warrants will be exercisable, at the option of each holder, upon the surrender of the warrants to us and the payment in cash of the exercise price of the shares being acquired upon exercise of the warrants.

The exercise price per share of common stock purchasable upon exercise of the warrants is \$2.02 per share of common stock being purchased. The exercise price is subject to appropriate adjustment in the event of stock dividends, stock splits, reorganizations or similar events affecting our common stock. The holders of the warrants are entitled to 20 days notice before the record date for certain distributions to holders of our common stock. If certain fundamental transactions occur, such as a merger, consolidation, sale of substantially all of our assets, tender offer or exchange offer with respect to our common stock or reclassification of our common stock, the holders of the warrants will be entitled to receive thereafter in lieu of our common stock, the consideration (if different from common stock), that the holders of our common stock received due to such fundamental transaction.

As of the date of this prospectus supplement, warrants to purchase 8,273,661 shares of our common stock were outstanding, which number does not include the warrants issued in this offering.

**CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

All purchasers of the common stock and warrants are advised to consult their own tax advisors regarding the federal, state, local and foreign tax consequences of the purchase, ownership, conversion, exercise and disposition of the common stock or warrants in their particular situations.

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**PLAN OF DISTRIBUTION**

We are offering through Rodman & Renshaw, LLC, who acted as our sole placement agent (the "placement agent"), 3,469,999 shares of our common stock at a purchase price of \$2.02 per share to investors. In addition, each investor in the offering will receive warrants to purchase shares of our common stock, at an exercise price of \$2.02 per share. In connection with this offering, we will pay fees to the placement agent. The placement agent will be working solely on a "best efforts" basis and is not purchasing or selling any shares by this prospectus supplement or the accompanying prospectus, nor is it required to arrange for the purchase and sale of any specific number or dollar amount of shares. Therefore, we may not sell the entire amount of shares of our common stock and warrants offered pursuant to this prospectus supplement.

The securities purchase agreement provides that the obligations of the investors in the offering are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain opinions from our counsel.

Confirmations and this prospectus supplement will be delivered, or otherwise made available, to all investors who agree to purchase shares of the common stock, informing investors of the closing date as to such shares. We currently anticipate that closing of the sale of the shares of common stock and warrants to purchase up to 3,469,999 shares of common stock will take place on or about December 21, 2007. Investors will also be informed of the date and manner in which they must transmit the purchase price for their shares.

On the scheduled closing date, the following will occur:

we will receive funds in the amount of the aggregate purchase price of the 3,469,999 shares of common stock and warrants to purchase up to 3,469,999 shares of common stock;

we will issue the 3,469,999 shares of common stock and warrants to purchase up to 3,469,999 shares of common stock; and

we will pay the placement agent's fee in accordance with the terms of our agreement with the placement agent.

On December 20, 2007, we entered into a letter agreement with the placement agent to serve as exclusive placement agent for purchasers of our securities pursuant to our existing shelf registration statement (File No. 333-143452), for a period of 30 days. Pursuant to the agreement, we will pay the placement agent at closing a cash fee equal to 6% of all cash proceeds received by us from investors it introduces to us.

We have also agreed to pay to reimburse the placement agent for up to \$20,000 of expenses incurred in connection with the offering. The estimated offering expenses payable by us, excluding the placement agent's fees, are \$75,000, which include legal, accounting and printing costs and various other fees associated with registering and listing the shares of common stock. We have agreed to indemnify the placement agent against certain liabilities, including liabilities under the Securities Act. We may also be required to contribute to payments the placement agent may be required to make in respect of such liabilities.

The agreement with the placement agent and the form of stock purchase agreement with the investors are included as exhibits to our current report on Form 8-K that will be filed with the SEC in connection with the completion of this offering.

Rodman & Renshaw, LLC may be deemed to be an underwriter within the meaning of Section 2(a)(11) of the Securities Act, and any commissions received by them and any profit realized on the resale of the securities sold by them while acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. As underwriters, the placement agent would be required to comply with the requirements of the Securities Act and the Exchange Act, including, without limitation, Rule 415(a)(4) under the Securities Act and Rule 10b-5 and Regulation M under the Exchange Act. These rules and regulations may limit the timing of purchases and sales of shares of common stock and warrants by the placement agent. Under these rules and regulations, the placement agent:

may not engage in any stabilization activity in connection with our securities; and

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may not bid for or purchase any of our securities or attempt to induce any person to purchase any of our securities, other than as permitted under the Exchange Act, until it has completed its participation in the distribution.

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**LEGAL MATTERS**

The validity of the issuance of the Cell Therapeutics, Inc. securities offered by this prospectus supplement and accompanying prospectus will be passed upon for Cell Therapeutics, Inc. by Heller Ehrman LLP, Seattle, Washington. Feldman Weinstein & Smith LLP in New York, New York is acting as counsel for the placement agent.

**INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

We are subject to the information requirements of the Exchange Act. In accordance with the Exchange Act, we file reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information filed by us are available free of charge on our web site, <http://www.cticseattle.com>, and may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC.

Our common stock is listed on the Nasdaq Global Market and such reports, proxy statements and other information concerning us may be inspected at the offices of The Nasdaq Stock Market, 1735 K Street, N.W., Washington, D.C. 20006.

SEC rules allow us to incorporate by reference into this prospectus supplement the information we file with the SEC. This means that we can disclose important information by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus. Information that we file later with the SEC, including all filings filed by us pursuant to the Exchange Act after the date of the initial registration statement and prior to the effectiveness of the registration statement, will automatically update and supersede this information.

In addition to the documents listed in the accompanying prospectus, we incorporate by reference the following documents:

our annual report on Form 10-K for the fiscal year ended December 31, 2006, as amended

our quarterly reports on Form 10-Q for the quarters ending March 31, 2007, June 30, 2007, and September 30, 2007;

our definitive Proxy Statement on Schedule 14A, dated and filed with the SEC on August 28, 2007 for our 2007 Annual Meeting of Shareholders;

our current reports on Form 8-K or 8-K/A filed with the SEC on filed on January 23, 2007, January 29, 2007, January 30, 2007, February 6, 2007, February 12, 2007, February 14, 2007, March 30, 2007, April 16, 2007, April 27, 2007, July 27, 2007, August 6, 2007, August 21, 2007, August 22, 2007, August 29, 2007, September 25, 2007, October 15, 2005, December 3, 2007, December 13, 2007 and December 14, 2007; and

The description of our capital stock contained in our Registration Statements on Form 10 filed with the SEC on June 27, 1996 and June 28, 1996, including any amendment or reports filed for the purpose of updating that description.

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Any documents subsequently filed by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, prior to the termination of the offering, shall be deemed to be incorporated by reference into this prospectus supplement. You should rely only on the information provided or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with different information.

We will provide without charge to each person, including any beneficial owner of our common stock, to whom this prospectus is delivered, upon written or oral request, a copy of any and all of the documents that have been incorporated by reference in the prospectus but not delivered with this prospectus (without exhibits, unless the exhibits are specifically incorporated by reference but not delivered with this prospectus). Requests should be directed to Louis A. Bianco, Executive Vice President, Finance and Administration, Cell Therapeutics, Inc., 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119.

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**PROSPECTUS**

**\$150,000,000**

**Common Stock**

**Preferred Stock**

**Debt Securities**

**Warrants**

---

From time to time, we may sell any of the securities listed above.

We will provide the specific terms of these securities in one or more supplements to this prospectus. You should read this prospectus, the information incorporated by reference and any prospectus supplement carefully before you invest.

Our common stock is quoted on the Nasdaq Global Market under the symbol CTIC.

The applicable prospectus supplement will contain information, where applicable, as to any other listing on the Nasdaq Global Market or any securities exchange or market of the securities covered by the prospectus supplement.

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**Investing in our securities involves significant risks, which we describe in our annual report on Form 10-Q for the three months ended March 31, 2007 and in other documents that we subsequently file with the Securities and Exchange Commission, and which we will describe in supplements to this prospectus.**

**This prospectus may not be used to offer or sell any securities unless accompanied by a prospectus supplement.**

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We may sell the securities to or through underwriters or dealers, directly to purchasers or through agents designated from time to time. For additional information on the methods of sale, you should refer to the section entitled "Plan of Distribution" in this prospectus. If any underwriters are involved in the sale of any securities with respect to which this prospectus is being delivered, the names of such underwriters and any applicable discounts or commissions and over-allotment options will be set forth in a prospectus supplement. The price to the public of such securities and the net proceeds we expect to receive from such sale will also be set forth in a prospectus supplement.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

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The date of this prospectus is June 15, 2007

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus or any prospectus supplement. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus or any applicable prospectus supplement is current only as of its date, and the information contained in any document incorporated by reference in this prospectus is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any prospectus supplement or any sale of a security.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under the shelf registration process, we may sell common stock, preferred stock, debt securities or warrants in one or more offerings up to a total dollar amount of \$150,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we sell any securities under this prospectus, we will provide a prospectus supplement that will contain more specific information about the terms of those securities. We may also add, update or change in the prospectus supplement any of the information contained in this prospectus. This prospectus, together with the applicable prospectus supplements and the documents incorporated by reference into this prospectus, includes all material information relating to this offering. Please carefully read both this prospectus and any prospectus supplement together with the additional information described below under **Where You Can Find More Information** before buying securities in this offering.

You should rely only on the information contained or incorporated by reference in this prospectus or a prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any prospectus supplement, as well as information we have previously filed with the SEC and incorporated by reference, is accurate as of the date on the front of those documents only. Our business, financial condition, results of operations and prospectus may have changed since those dates. **This prospectus may not be used to consummate a sale of our securities unless it is accompanied by a prospectus supplement.**

This prospectus contains and incorporates by reference market data, industry statistics and other data that have been obtained from, or compiled from, information made available by third parties. We have not independently verified their data.

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### **SUMMARY**

*The following is a summary of this prospectus. The following summary does not contain all the information that you should consider before investing in the notes. You should read this entire prospectus carefully, including the documents that we have incorporated by reference into this prospectus. Unless otherwise indicated, CTI, Company, we, us, our and similar terms refer to Cell Therapeutics, Inc. and its subsidiaries.*

### **Our Company**

We develop, acquire and commercialize novel treatments for cancer. Our goal is to build a leading biopharmaceutical company with a diversified portfolio of proprietary oncology drugs. Our research, development, acquisition and in-licensing activities concentrate on identifying and developing new, less toxic and more effective ways to treat cancer.

We are developing XYOTAX, paclitaxel poliglumex, for the treatment of non-small cell lung cancer, or NSCLC, and ovarian cancer. We believe the lack of safe and effective treatments for women with advanced first-line NSCLC who are performance status 2 represents an unmet medical need. We are also developing pixantrone, a novel anthracycline derivative, for the treatment of non-Hodgkin's lymphoma, or NHL.

In September 2006, we entered into an exclusive worldwide licensing agreement with Novartis International Pharmaceutical Ltd., or Novartis, for the development and commercialization of XYOTAX. Total product registration and sales milestones for XYOTAX under the agreement could reach as much as \$270 million. We will not receive any product registration or sales milestone payments under the licensing agreement unless Novartis elects to participate in the development and commercialization of XYOTAX and we receive the necessary regulatory approvals. There is no guarantee that Novartis will make any such election or that we will receive such regulatory approvals. The licensing agreement also provides Novartis with an option to develop and commercialize pixantrone based on certain agreed terms. There is no guarantee that Novartis will exercise this option.

We were incorporated in Washington in 1991. Our principal executive offices are located at 501 Elliott Avenue West, Seattle, Washington 98119. Our telephone number is (206) 282-7100. Our website can be found at [www.cticseattle.com](http://www.cticseattle.com). We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other filings pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and amendments to such filings, as soon as reasonably practicable after each is electronically filed with, or furnished to, the Securities and Exchange Commission, or the SEC.

CTI and XYOTAX are our proprietary marks. All other product names, trademarks and trade names referred to in this Form 10-K are the property of their respective owners.

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**The Securities We May Offer**

We may offer shares of our common stock, preferred stock and various series of debt securities and warrants to purchase such securities with a total value of up to \$150 million from time to time under this prospectus at prices and on terms to be determined by market conditions at the time of offering. This prospectus provides you with a general description of the securities we may offer. Each time we offer a type or series of securities, we will provide a prospectus supplement that will describe the specific amounts, prices and other important terms of the securities, including, to the extent applicable:

designation or classification;

aggregate principal amount or aggregate offering price;

maturity;

original issue discount, if any;

rates and times of payment of interest, dividends or other payments, if any;

redemption, conversion, exchange, settlement or sinking fund terms, if any;

conversion, exchange or settlement prices or rates, if any, and, if applicable, any provisions for changes to or adjustments in the conversion, exchange or settlement prices or rates and in the securities or other property receivable upon conversion, exchange or settlement;

ranking;

restrictive covenants, if any;

voting or other rights, if any; and

important federal income tax considerations.

The prospectus supplement also may add, update or change information contained in this prospectus or in documents we have incorporated by reference into this prospectus.

**This prospectus may not be used to consummate sales of offered securities unless accompanied by a prospectus supplement.**

We may sell the securities directly to or through underwriters, dealers or agents. We, and our underwriters or agents, reserve the right to accept or reject all or part of any proposed purchase of securities. If we do offer securities through underwriters or agents, we will include in the applicable prospectus supplement:

the names of those underwriters or agents;

applicable fees, discounts and commissions to be paid to them;

details regarding over-allotment options, if any; and

the net proceeds to us.

*Common Stock.* We may issue shares of our common stock from time to time. Each holder of common stock is entitled to one vote for each share held on all other matters to be voted upon by the shareholders and there are no cumulative voting rights. Subject to preferences that may be applicable to any outstanding preferred stock, holders of common stock are entitled to receive ratably the dividends, if any, that are declared from time to time by the board of directors out of funds legally available for that purpose. In the event of a liquidation, dissolution or winding up of the company, the holders of common stock are entitled to share in our assets remaining after the payment of liabilities and the satisfaction of any liquidation preference granted to the holders of any outstanding shares of preferred stock. Holders of common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of the holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate in the future.

*Preferred Stock.* We may issue shares of our preferred stock from time to time. The board of directors has the authority, without action by the shareholders, to designate and issue up to 10,000,000 shares of preferred stock in one or more series and to designate the rights, preferences and privileges of each series, which may be greater than the rights of the common stock. We issued 20,000 shares of our Series A 3% convertible preferred stock in February 2007 and 37,200 shares of our Series B 3% convertible preferred stock in April 2007. As of May 15, 2007, 6,850 shares of our Series A 3% convertible preferred were outstanding and 15,380 shares of our Series B 3% convertible preferred stock were outstanding.

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We will fix the rights, preferences and privileges of the preferred stock of each series that we sell under this prospectus and applicable prospectus supplements in the certificate of designation relating to that series. We will incorporate by reference into the registration statement of which this prospectus is a part the form of any certificate of designation that describes the terms of the series of preferred stock that we are offering before the issuance of the related series of preferred stock. We urge you to read the prospectus supplements related to the series of preferred stock being offered, as well as the complete certificate of designation that contains the terms of the applicable series of preferred stock.

*Debt Securities.* We may issue debt securities from time to time, in one or more series, as either senior or subordinated debt or as senior or subordinated convertible debt. The senior debt securities will rank equally with any other unsubordinated debt that we may have and may be secured or unsecured. The subordinated debt securities will be subordinate and junior in right of payment, to the extent and in the manner described in the instrument governing the debt, to all or some portion of our indebtedness. Any convertible debt securities that we issue will be convertible into or exchangeable for our common stock or other securities of ours. Conversion may be mandatory or at your option and would be at prescribed conversion rates.

The debt securities will be issued under one or more documents called indentures, which are contracts between us and a trustee for the holders of the debt securities. In this prospectus, we have summarized certain general features of the debt securities. We urge you, however, to read the prospectus supplements related to the series of debt securities being offered, as well as the complete indentures that contain the terms of the debt securities. Indentures have been filed as exhibits to the registration statement of which this prospectus is a part, and supplemental indentures and forms of debt securities containing the terms of debt securities being offered will be incorporated by reference into the registration statement of which this prospectus is a part from reports we file with the Securities and Exchange Commission.

*Warrants.* We may issue warrants for the purchase of common stock, preferred stock and/or debt securities in one or more series, from time to time. We may issue warrants independently or together with common stock, preferred stock and/or debt securities, and the warrants may be attached to or separate from those securities.

The warrants will be evidenced by a warrant certificate issued under one or more warrant agreements, which are contracts between us and an agent for the holders of the warrants. In this prospectus, we have summarized certain general features of the warrants. We urge you, however, to read the prospectus supplements related to the series of warrants being offered, as well as the complete warrant agreements and warrant certificates that contain the terms of the warrants. Forms of warrant agreements and warrants certificates relating to warrants for the purchase of common stock, preferred stock and debt securities have been filed as exhibits to the registration statement of which this prospectus is a part, and complete warrant agreements and warrant certificates containing the terms of warrants being offered will be incorporated by reference into the registration statement of which this prospectus is a part from reports we file with the Securities and Exchange Commission.

**Financial Ratios**

Our ratio of earnings to fixed charges for each of the periods indicated is as follows:

	Year Ended December 31,					Three Months Ended March 31,	
	2002	2003	2004	2005	2006	2006	2007
Ratio of earnings to fixed charges(1)							

(1) For the purposes of computing ratio of earnings to fixed charges, earnings consist of income (loss) before provision for income taxes plus fixed charges. Fixed charges consist of interest charges and that portion of rental payments under operating leases we believe to be representative of interest. Earnings for the years ended December 31, 2002, 2003, 2004, 2005, 2006 and for the three months ended March 31, 2006 and 2007, were insufficient to cover fixed charges by \$49,903, \$130,031, \$252,298, \$102,505, \$135,819, \$51,916 and \$28,739 (in thousands) respectively.



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**RISK FACTORS**

Prior to making a decision about investing in our securities, you should carefully consider the specific risks discussed under **Risk Factors** in the applicable prospectus supplement and in our subsequent annual reports on Form 10-K and quarterly reports on 10-Q incorporated by reference into this prospectus, together with all of the other information appearing in this prospectus or incorporated by reference into this prospectus and any applicable prospectus supplement, in light of your particular investment objectives and financial circumstances.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

In addition to the other information contained or incorporated by reference in this prospectus, you should carefully consider the risk factors contained in and incorporated by cal-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

June 30, 2012

June 30, 2013

June 30, 2012

(unaudited)

(unaudited)

(unaudited)

(unaudited)

INCOME (LOSS) PER COMMON SHARE – BASIC:

CONTINUING OPERATIONS

\$  
0.05

\$  
—

\$  
0.04

\$  
(0.06  
)

DISCONTINUED OPERATIONS

\$  
(0.06  
)

\$  
(0.01  
)

\$  
(0.09  
)

\$  
(0.02  
)

NET LOSS PER SHARE

\$  
(0.01  
)

\$  
(0.01  
)

\$  
(0.05  
)

\$  
(0.08  
)

INCOME (LOSS) PER COMMON SHARE – DILUTED:

CONTINUING OPERATIONS

\$  
0.05

\$  
—

\$  
0.04

\$  
(0.06  
)

DISCONTINUED OPERATIONS

\$  
(0.06  
)

\$

(0.01  
)

\$  
(0.08  
)

\$  
(0.02  
)

NET LOSS PER SHARE

\$  
(0.01  
)

\$  
(0.01  
)

\$  
(0.04  
)

\$  
(0.08  
)

Weighted average common shares outstanding - basic  
21,828,858

21,796,091

21,789,855

21,770,066

Weighted average common shares outstanding - diluted  
22,902,796

21,796,091

22,701,954

21,770,066

See accompanying notes to the unaudited condensed consolidated financial statements



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CONDENSED CONSOLIDATED BALANCE SHEETS

## ASSETS

(in thousands)

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$327	\$18,056
Accounts receivable, net	25,819	18,845
Inventories	9,384	11,444
Costs and estimated earnings in excess of billings on uncompleted contracts	2,489	1,540
Prepaid expenses and other	6,551	1,181
Income tax receivable	688	621
Deferred tax assets	7,219	6,691
Current assets - discontinued operations	582	1,467
Total Current Assets	53,059	59,845
<b>PROPERTY AND EQUIPMENT, NET</b>	11,153	11,892
<b>OTHER ASSETS</b>		
Goodwill	37,796	37,796
Intangible assets, net	9,588	10,987
Restricted cash - certificate of deposit	1,682	1,682
Insurance collateral	11,693	10,899
Other assets	1,238	1,553
Deferred tax assets	5,439	5,439
Long-term assets - discontinued operations	329	381
Total Other Assets	67,765	68,737
<b>TOTAL ASSETS</b>	<b>\$131,977</b>	<b>\$140,474</b>

See accompanying notes to the unaudited condensed consolidated financial statements

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MULTIBAND CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 LIABILITIES AND STOCKHOLDERS' EQUITY  
 (in thousands, except share and liquidation preference amounts)

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
<b>CURRENT LIABILITIES</b>		
Checks drawn in excess of available bank balances	\$1,440	\$—
Line of credit	1,205	—
Insurance premium financing	4,424	—
Short-term debt	374	280
Related party debt	—	600
Current portion of long-term debt	4,251	17,396
Current portion of capital lease obligations	836	857
Accounts payable	23,289	24,075
Billings in excess of costs and estimated earnings on uncompleted contracts	32	68
Accrued liabilities	21,854	21,094
Deferred service obligations and revenue	296	361
Current liabilities - discontinued operations	1,221	—
<b>Total Current Liabilities</b>	<b>59,222</b>	<b>64,731</b>
<b>LONG-TERM LIABILITIES</b>		
Accrued liabilities	6,458	6,982
Long-term debt, net of current portion	18,331	20,458
Capital lease obligations, net of current portion	1,240	1,630
<b>Total Liabilities</b>	<b>85,251</b>	<b>93,801</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Cumulative convertible preferred stock, no par value:		
8% Class A (12,696 shares issued and outstanding, \$133,308 liquidation preference)	191	191
10% Class C (109,000 shares issued and outstanding, \$1,090,000 liquidation preference)	1,411	1,411
10% Class F (150,000 shares issued and outstanding, \$1,500,000 liquidation preference)	1,500	1,500
8% Class G (0 and 10,000 shares issued and outstanding, \$0 and \$100,000 liquidation preference)	—	41
Common stock, no par value (21,885,056 and 21,648,459 shares issued and outstanding)	117,866	116,775
Accumulated deficit	(74,242	) (73,245 )
<b>Total Stockholders' Equity</b>	<b>46,726</b>	<b>46,673</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$131,977</b>	<b>\$140,474</b>

See accompanying notes to the unaudited condensed consolidated financial statements

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MULTIBAND CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Six months ended June 30,	
	2013	2012
	(unaudited)	(unaudited)
<b>OPERATING ACTIVITIES</b>		
Net loss	\$(803	) \$(1,506
Plus loss from discontinued operations, net of taxes	1,997	351
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation and amortization	3,090	3,304
Amortization and expense related to debt issuance costs	945	18
Amortization of original issue discount	—	48
Gain on sale of property and equipment	(35	) (81
Other-than-temporary impairment loss on available-for-sale securities	—	581
Change in allowance for doubtful accounts receivable	169	18
Stock based compensation expense	769	909
Deferred income taxes	(528	) (777
Changes in operating assets and liabilities:		
Accounts receivable	(7,143	) 4,201
Costs and estimated earnings in excess of billings on uncompleted projects	(949	) (541
Inventories	2,060	4,232
Prepaid expenses and other	3,449	849
Income tax receivable	(67	) —
Insurance collateral	(794	) (2,345
Other assets	1,161	623
Checks drawn in excess of available bank balances	1,440	—
Accounts payable and accrued liabilities	321	(11,280
Billings in excess of costs and estimated earnings on uncompleted projects	(36	) (4
Deferred service obligations and revenue	(65	) (1,167
Cash flows from operating activities- continuing operations	4,981	(2,567
Cash flows from operating activities- discontinued operations	107	(1,769
Net cash flows from operating activities	5,088	(4,336
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(810	) (1,662
Purchases of intangible assets	(57	) (44
Proceeds from purchase of land and building	—	685
Proceeds from sales of available-for-sale securities	—	141
Increase in restricted cash - certificate of deposit	—	(1,682
Proceeds from sale of property and equipment	75	43
Collections on notes receivable	3	2
Cash flows from investing activities- continuing operations	(789	) (2,517
Cash flows from investing activities- discontinued operations	(30	) (700
Net cash flows from investing activities	(819	) (3,217
See accompanying notes to the unaudited condensed consolidated financial statements		





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MULTIBAND CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in thousands)

continued

	Six months ended June 30,	
	2013	2012
	(unaudited)	(unaudited)
<b>FINANCING ACTIVITIES</b>		
Borrowings on line of credit	\$27,166	\$—
Payments on line of credit	(25,961	) —
Payments for debt issuance costs	(2,257	) —
Payments on long-term debt	(35,271	) (88
Payments on capital lease obligations	(454	) (244
Payments on related parties debt	(600	) —
Payments on short-term debt	(4,727	) (2,217
Payments on common stock repurchased	—	(22
Proceeds from related parties debt	—	700
Proceeds from long-term debt	20,000	—
Payment of preferred stock dividends	(40	) (55
Exercise of options	151	—
Stock issuance costs	(5	) (5
Net cash flows from financing activities	(21,998	) (1,931
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(17,729	) (9,484
CASH AND CASH EQUIVALENTS - Beginning of Period	18,056	18,169
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$327	\$8,685

See accompanying notes to the unaudited condensed consolidated financial statements



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MULTIBAND CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in thousands)

continued

	Six months ended June 30,	
	2013	2012
	(unaudited)	(unaudited)
Cash paid for interest, net of amortization of OID	\$1,875	\$1,755
Net cash paid (refunded) for federal and state income taxes	163	(511 )
Non-cash investing and financing transactions:		
Intrinsic value of preferred dividends	59	—
Conversion of accrued dividends into common stock	75	100
Conversion of preferred stock into common stock	100	100
Increase in prepaid expenses via short-term debt issued	8,356	4,357
Reduction in debt by other receivable	—	3
Reduction of accrued expenses with the issuance of stock options	—	258
Purchase of land and building via mortgage assumed	—	3,803
Purchase of property and equipment with the increase in capital lease obligations	43	374

See accompanying notes to the unaudited condensed consolidated financial statements

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NOTE 1 – Unaudited Consolidated Financial Statements

The information furnished in this report is unaudited and reflects all adjustments which are normal recurring adjustments and, which in the opinion of management, are necessary to fairly present the operating results for the interim periods. The operating results for the interim periods presented are not necessarily indicative of the operating results to be expected for the full fiscal year. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, previously filed with the Securities and Exchange Commission.

NOTE 2 – Summary of Significant Accounting Policies

A detailed description of our significant accounting policies can be found in our most recent Annual Report filed on Form 10-K for the year ended December 31, 2012. There were no material changes in significant accounting policies during the quarter ended June 30, 2013.

Accounts Receivable

The Company reviews customers' credit history before extending unsecured credit and establishes an allowance for uncollectible amounts based upon factors surrounding the credit risk of specific customers and other information. For the MDU and FS segments, the Company has concentrations of credit risk with 75.8% and 71.2% of accounts receivable at June 30, 2013 and December 31, 2012, respectively, due from one customer (see Note 6). Invoices are due 30 days after presentation. Accounts receivable over 30 days are considered past due. The Company does not accrue interest on past due accounts receivable. Receivables are written off only after all collection attempts have failed and are based on individual credit evaluation and specific circumstances of the customer. Accounts receivable are shown on the accompanying condensed consolidated balance sheets net of an allowance for uncollectible amounts of approximately \$778 at June 30, 2013 and \$609 at December 31, 2012.

Debt Issuance Costs

The Company capitalized \$2,257 and \$0 of debt issuance costs during the six months ended June 30, 2013 and 2012, respectively. The Company amortizes the debt issuance costs under the effective interest method over the life of the related debt instrument. Amortization totaled \$116 for both the three and six months ending June 30, 2013, respectively, and are included in interest expense in the accompanying condensed consolidated statements of operations. Amortization totaled \$9 and \$18 for the three and six months ended June 30, 2012, respectively. The remaining balance of unamortized debt issuance costs, which are included in other current and long term assets in the accompanying condensed consolidated balance sheets, were \$1,429 and \$0 at June 30, 2013 and December 31, 2012, respectively. Debt issuance costs written off totaled \$0 and \$1,029, (including \$200 early termination fee), for the three and six months ended June 30, 2013, and \$0 for both the three and six months ended June 30, 2012, and are included in write-off of deferred financing costs in the accompanying condensed consolidated statements of operations.

Stock-Based Compensation

The Company measures and recognizes compensation expense for all stock-based awards at fair value. The Company recognizes stock-based compensation costs on a straight-line basis over the requisite service period of the award,

which is generally the option vesting term. The Company recognized compensation expense for the portion of outstanding awards which are expected to vest during the three and six months ended June 30, 2013 and 2012. For the three months ended June 30, 2013 and 2012, total stock-based compensation expense related to stock options of \$210 and \$198, respectively, was included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations. For the six months ended June 30, 2013 and 2012, total share-based compensation expense of \$486 and \$409, respectively, was included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

#### Restricted Stock

The Company awards restricted common shares to selected employees and directors. Recipients are not required to provide any consideration other than continued service. Company share awards are subject to certain restrictions on transfer and all or part of the shares awarded may be subject to forfeiture upon the occurrence of certain events, including the termination of employment. The restricted stock is valued at the grant date fair value of the common stock and is expensed over the requisite service period or vesting term of the awards. The Company recognized stock-based compensation expense related to restricted stock of \$92 and

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\$172, for the three months ended June 30, 2013 and 2012, respectively, and \$283 and \$500, for the six months ended June 30, 2013 and 2012, respectively, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations.

## Net Income (Loss) from Continuing Operations per Common Share

Basic income (loss) from continuing operations per common share is computed by using income (loss) from continuing operations attributable to common stockholders and the weighted average number of common shares outstanding. Diluted income (loss) from continuing operations per common share reflects the weighted average number of common shares outstanding plus all potentially dilutive common shares outstanding during the period. Potentially dilutive shares consist of shares issuable upon the exercise of stock options, stock warrants and unvested restricted stock (using treasury stock method) and conversion of preferred shares (using the as converted method). All options, warrants, convertible preferred shares, and unvested restricted stock during the three and six month periods ending June 30, 2012 were excluded from the calculation of diluted income (loss) from continuing operations per share as their effect was anti-dilutive due to the Company's net loss for the periods. A reconciliation of the weighted average number of common and common equivalent shares outstanding and awards excluded from the diluted income from continuing operations per share calculation, as they were anti-dilutive, are as follows:

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Numerator:				
Income (loss) from continuing operations	\$ 1,245	\$(6 )	\$ 1,194	\$(1,155 )
Preferred stock dividends	126	67	194	235
Income (loss) from continuing operations attributable to common stockholders for basic and diluted earnings per share	\$ 1,119	\$(73 )	\$ 1,000	\$(1,390 )
Denominator:				
Weighted average common shares outstanding – basic	21,828,858	21,796,091	21,789,855	21,770,066
Assumed conversion of diluted securities:				
Stock options	767,064	—	605,225	—
Restricted stock	263,724	—	263,724	—
Warrants	43,150	—	43,150	—
Potentially dilutive common shares	1,073,938	—	912,099	—
Weighted average common shares outstanding – diluted	22,902,796	21,796,091	22,701,954	21,770,066
Income (loss) from continuing operations per common share – basic and diluted	\$ 0.05	\$—	\$ 0.04	\$ 0.06
Awards excluded from diluted income per share calculation	2,922,652	4,299,311	2,901,675	4,295,501

#### Comprehensive Loss

Comprehensive loss is equal to net loss for the three and six months ended June 30, 2013 and 2012.

#### Recent Accounting Pronouncements

In July 2013, the financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which requires an entity, under certain circumstances, to present an unrecognized tax benefit as a liability on the financial statements. ASU 2013-11 is effective for fiscal years, and interim periods within those years beginning

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after December 15, 2013. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Other Comprehensive Income, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. ASU 2013-02 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012, with early adoption permitted. The Company adopted this guidance effective January 1, 2013, and the adoption did not have a material effect on its consolidated financial statements, financial position or cash flows.

In July 2012, the FASB issued ASU 2012-02, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-lived Intangible Assets for Impairment, an update to ASU 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2012-02 enables an entity to assess qualitative factors to determine whether it is more-likely-than-not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles - Goodwill and Other - General Intangibles Other than Goodwill. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Previous guidance in Subtopic 350-30 required an entity to test an indefinite-lived intangible asset for impairment by comparing the fair value of the asset with its carrying amount, utilizing only a quantitative impairment test. ASU 2012-02 is effective for interim and annual reporting periods for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company adopted this guidance effective January 1, 2013, and the adoption did not have a material effect on its consolidated financial statements, financial position or cash flows.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosure about Offsetting Assets and Liabilities, which requires an entity to include additional disclosures about financial instruments and transactions eligible for offset in the statement of financial position, as well as financial instruments subject to a master netting agreement or similar arrangement. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company adopted this guidance effective January 1, 2013, and the adoption did not have a material effect on its consolidated financial statements, financial position or cash flows.

## NOTE 3 – Discontinued Operations

On June 3, 2013, the Company decided to discontinue its cable television fulfillment operations due to the significant operating losses that have been incurred since its acquisition in October, 2011.

The financial results of the cable television fulfillment operation are being reported separately as discontinued operations for all periods presented. This operation was previously included in our FS segment. The financial results of the business included in discontinued operations are as follows:

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	\$ 1,798	\$ 2,772	\$ 4,419	\$ 5,535



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Loss from discontinued operations	\$ (1,383	) \$ (305	) \$ (2,328	) \$ (629	)
Loss on abandonments	\$ (983	) \$ —	\$ (983	) \$ —	)
Loss from discontinued operations before income taxes	\$ (2,366	) \$ (305	) \$ (3,311	) \$ (629	)
Income tax benefit	931	158	1,314	278	)
Loss from discontinued operations, net of tax	\$ (1,435	) \$ (147	) \$ (1,997	) \$ (351	)

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The assets and liabilities of the discontinued operations are presented separately in the accompanying balance sheet at June 30, 2013 and December 31, 2012 and consist of the following:

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
Current assets - discontinued operations	\$582	\$1,467
Long-term assets - discontinued operations	329	381
Total assets	\$911	\$1,848
Current liabilities - discontinued operations	\$1,221	\$—
Total liabilities	\$1,221	\$—

## NOTE 4 – Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, the Company uses a three-tier valuation hierarchy based upon observable and non-observable inputs:

Level 1 — Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 — Significant other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 — Significant unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following tables set forth by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2013, and December 31, 2012, according to the valuation techniques we used to determine their fair values.

(in thousands)	Fair Value Measurements at June 30, 2013			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Assets at Fair Value:

Restricted cash – certificate of deposit (1)	\$1,682	\$1,682	\$—	\$—
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(in thousands)	Fair Value Measurements at December 31, 2012			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at Fair Value:				
Restricted cash – certificate of deposit (1)	\$1,682	\$1,682	\$—	\$—

(1) The Company's restricted cash – certificate of deposit consists of one certificate of deposit which had a maturity date of 7/1/13. The Company has purchased a new certificate with a maturity date of 6/30/14.

The Company reviews the methodologies utilized to determine fair value on a quarterly basis. Any change in methodologies or significant inputs used in determining fair values are further reviewed to determine if a fair value level hierarchy change has occurred. Transfers in and out of Level 1, 2, and 3 are considered to be effective as of the end of the quarter in which they occur. There were no transfers between the levels in the fair value hierarchy during the six months ended June 30, 2013.

The gross realized losses on sales of available-for-sale securities, which are included in other than-temporary impairment loss on available for-sale securities, were \$50 for both the three and six months ended June 30, 2012. The Company sold all of its shares prior to December 31, 2012; as a result the balance at December 31, 2012 and June 30, 2013 was \$0.

#### Fair Value Measurements on a Nonrecurring Basis

In addition to items that are measured at fair value on a recurring basis, the Company also measures assets held for sale at the lower of its carrying amount or fair value on a nonrecurring basis. During the six months ended June 30, 2013, the Company recognized an impairment loss of \$150 based on recent purchase offers related to equipment used in its discontinued operation. The fair value of assets held for sale was estimated using a market approach, considering the estimated fair value for other comparable equipment which are Level 2 inputs.

#### NOTE 5 – Inventories

Inventories consisted of the following at:

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
DIRECTV – serialized	\$104	\$168
DIRECTV – non-serialized	6,598	8,398
Other	2,682	2,878
Total inventories	\$9,384	\$11,444

#### NOTE 6 – Business Segments

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Company has three operating segments: (1) Field Services segment (FS), where the Company provides installation services to pay television (satellite and broadband cable) providers, internet providers and commercial customers, (2) Multi-Dwelling Unit segment (MDU), where the Company bills voice, internet and video services to subscribers as owner/operator and also acts as a master system operator for DIRECTV, receiving net cash payments for managing video subscribers through its network of system operators who are billed directly by DIRECTV, and (3) Engineering, Energy & Construction segment (EE&C) where the Company provides engineering and construction services for the wired and wireless telecommunications industry, including public safety networks,

renewable energy services including wind and solar applications and other design and construction services, mostly done on a project basis. The MBCorp segment includes corporate expenses (e.g. corporate administrative costs), interest income, interest expense, depreciation and amortization. Segment disclosures are provided to the extent practicable under the Company's accounting system. Transactions within and between the segments are generally made on a basis to reflect the market value of the services and have been eliminated in consolidation.

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Segment disclosures are as follows:

Three months ended June 30, 2013	FS	MDU	EE&C	MBCorp	Total
Revenues	\$61,234	\$8,317	\$3,931	\$—	\$73,482
Income (loss) from operations	3,212	95	82	(652)	) 2,737
Income before income taxes	2,955	68	81	(929)	) 2,175
Gain (loss) from continuing operations	2,955	68	81	(1,859)	) 1,245
Gain (loss) from discontinued operations	(2,366)	) —	—	931	(1,435)
Three months ended June 30, 2012	FS	MDU	EE&C	MBCorp	Total
Revenues	\$58,175	\$6,331	\$2,524	\$—	\$67,030
Income (loss) from operations	1,409	516	(375)	) (482)	) 1,068
Income before income taxes	875	454	(376)	) (1,074)	) (121)
Gain (loss) from continuing operations	874	454	(376)	) (958)	) (6)
Gain (loss) from discontinued operations	(305)	) —	—	158	(147)
Six months ended June 30, 2013	FS	MDU	EE&C	MBCorp	Total
Revenues	\$121,427	\$15,486	\$7,016	\$—	\$143,929
Income (loss) from operations	6,031	51	(2)	) (1,586)	) 4,494
Income before income taxes	5,405	(18)	) (4)	) (3,297)	) 2,086
Gain (loss) from continuing operations	5,400	(19)	) (4)	) (4,183)	) 1,194
Gain (loss) from discontinued operations	(3,311)	) —	—	1,314	(1,997)
Six months ended June 30, 2012	FS	MDU	EE&C	MBCorp	Total
Revenues	\$119,179	\$12,219	\$5,097	\$—	\$136,495
Income (loss) from operations	1,768	872	(811)	) (1,177)	) 652
Income before income taxes	713	749	(815)	) (2,354)	) (1,707)
Gain (loss) from continuing operations	708	746	(815)	) (1,794)	) (1,155)
Gain (loss) from discontinued operations	(629)	) —	—	278	(351)

## NOTE 7 – Commitments and Contingencies

## Significant Relationship

The Company is a master agent for DIRECTV pursuant to a Master System Operator (MSO) agreement dated August 2011. The initial term of the agreement was four years. The initial term automatically renews thereafter for additional, individual one-year periods, unless either the Company or DIRECTV gives written notice of non-renewal at least ninety (90) days in advance of expiration of the then-current term. Under this agreement, the Company is required to ensure that its system operators meet minimum technical DIRECTV system standards so that the system operator subscribers may properly receive DIRECTV programming services. The Company must also maintain a minimum number of paying video subscribers in its system operator network. In October 2012, the initial term of the agreement was extended to a term of five years and the agreement now expires in August 2016.

The Company also has a separate home service provider agreement with DIRECTV ending October 15, 2016 which provides for the installation and servicing of DIRECTV satellite television services to residents of single family

homes. The term of this agreement will automatically renew as of October 15, 2016, for additional one year periods unless either the Company or DIRECTV gives written notice of termination at least 90 days in advance of expiration of the then current term.

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Termination of the Company's DIRECTV agreements would have a material adverse impact on the Company's on-going operations. Revenues generated from DIRECTV amounted to 86.4% and 86.8%, of total revenue for the three and six months ended June 30, 2013 respectively. Revenues generated from DIRECTV amounted to 87.8% and 89.4% of total revenue for the three and six months ended June 30, 2012 respectively. Amounts receivable from DIRECTV represented 75.8% and 71.2% of total accounts receivable as of June 30, 2013 and December 31, 2012, respectively. The Company purchases a substantial portion of its inventory from DIRECTV. DIRECTV is the only supplier of the major components (i.e., dishes and receivers) used in FS segment installations. The total accounts payable to DIRECTV, related to inventory supplied by them, was \$10,775 and \$10,558 at June 30, 2013 and December 31, 2012, respectively.

Legal proceedings

The Company is subject to claims, regulatory processes and lawsuits that arise in the ordinary course of business. The Company accrues for such matters when a loss is considered probable and the amount of such loss, or a range of loss, can be reasonably estimated. The Company's defense costs are expensed as incurred. The Company has recorded \$501 and \$71 of accrued liabilities in the accompanying condensed consolidated balance sheets at June 30, 2013 and December 31, 2012, respectively, for claims, known and potential settlements and legal fees associated with existing litigation. As of June 30, 2013, \$275 of these accrued liabilities is related to discontinued operations (see note 3). In December 2009, the U.S. Department of Labor (DOL) sued various individuals that are either shareholders, directors, trustees and/or advisors to DirecTECH Holding Company, Inc. (DTHC) and its Employee Stock Ownership Plan (ESOP). The Company was not named in this complaint. In May 2011, three of these individuals settled the complaint with the DOL (upon information and belief, some of this settlement was funded by the individuals' insurance carrier) in the approximate amount of \$8,600 and those same individuals have filed suit against the Company for reimbursement of certain expenses. The basis for these reimbursement demands are certain corporate indemnification agreements that were entered into by the former DTHC operating subsidiaries and the Company. Two of those defendants had their claims denied during the second quarter of 2012, in a summary arbitration proceeding. This denial was appealed and the summary judgment award was overturned by a federal court judge in February 2013 meaning the matter may proceed to arbitration. Based on the summary judgment ruling favorable to the Company, management determined that it was appropriate to reverse a \$1,800 related legal reserve as of June 30, 2012, which is included in selling, general and administrative expenses in the consolidated statement of income for the three and six months ended June 30, 2012.

The Company has denied all requests for indemnification of legal fees and/or reimbursement of liabilities in this matter for, in part, the following reasons: 1) similar indemnification agreements have been declared illegal under Federal law by a California federal appeals court; and 2) the Company has no obligation to indemnify DTHC individual shareholder conduct.

The ultimate outcome of the matter is uncertain. The Company, based in part on outside counsel's assessment, believes it has solid grounds to appeal the federal judge's decision overturning the arbitrator's summary judgment award and has filed a notice of appeal with the sixth circuit court of appeals.

Depending on the outcome of the appeal and a potential arbitration hearing, the Company's reasonable estimate of this potential liability is a range between zero and nine million dollars with no amount in that range a better estimate than any other amount. Accordingly, no amount has been accrued by the Company for this potential liability as of June 30, 2013 and December 31, 2012. In future periods, the Company will continue to assess its potential exposure in the matter pursuant to the applicable financial accounting standards until the matter is resolved.

Pending Acquisition



On July 9, 2012, the Company entered into an Acquisition Agreement (Agreement) with MDU Communications International, Inc. (MDUC), a Delaware corporation. This agreement was terminated as of May 21, 2013 when the Company entered into an Agreement and Plan of Merger (Merger Agreement) (see note 10) with Goodman Networks Incorporated, a privately held company (Goodman). No termination fee was incurred.

#### Insurance Premium Financing

During 2013, the Company entered into a short-term financing agreement with First Insurance Funding Corporation in the amount of \$8,062 for workers' compensation, business and auto insurance. This financing agreement carries an interest rate of 3.5% and requires monthly payments of principal and interest of \$747 through December 2013. As of June 30, 2013, the outstanding balance was \$4,424.

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Debt Facility

Effective January 2, 2013, the Company amended and extended its \$29,152 loan with DirecTECH Holding Company, Inc. (DTHC). During January and February of 2013, the Company made payments totaling \$8,731 to DTHC. The Company incurred \$829 in financing costs as part of this debt extension.

On March 20, 2013, the Company completed a financing transaction with Fifth Third Bank (FTB) that provides up to \$30,000 of senior secured debt financing. Proceeds from the financing were used to pay off the remaining balances of its existing secured indebtedness including the loan with DTHC discussed above. The financing package consists of a \$20,000 term loan and a \$10,000 revolving line of credit. The revolving line of credit will be used to fund working capital needs. The term loan amortizes over 5 years on a straight line basis at a rate of \$1,000 per quarter. In addition to the quarterly principal payments, the Company is required to make additional annual principal payments equal to 50% of excess cash flow as defined in the agreement. On a monthly basis, the Company makes an election to place the balance of the term loan and the revolver outstanding at the time into either the interest facility based on the lender's prime rate or the LIBOR rate. As of June 30, 2013, the Company elected to have \$1,000 of the outstanding balance under the term loan to be based on the lender's prime rate plus 3.75% (6.25%) with the remaining balance of \$18,000 based on the LIBOR rate plus 5.5% (5.69%). The revolving line of credit is available based on 80% of eligible accounts receivable plus up to 50% of eligible inventory. Borrowings under the revolving line of credit bear interest at the lender's prime rate plus 3.25% (5.75% as of June 30, 2013). Interest on both facilities is payable monthly in arrears. The financing agreements contain certain financial covenants. The Company is in compliance with its covenants as of June 30, 2013. Both facilities are secured by a valid, perfected, first and only priority security interest in all tangible and intangible assets and matures on April 30, 2016. As of June 30, 2013 the outstanding balance under the term loan and revolving line of credit is \$19,000 and \$1,205, respectively.

Note 8 - Income Taxes

The Company assesses the potential realization of net deferred tax assets on an annual basis, or on an interim basis if the circumstances warrant. If the Company's actual results and updated projections vary significantly from the projections used as a basis for this determination, the Company may need to increase or decrease the valuation allowance against the gross deferred tax assets. The Company would adjust its valuation allowance in the period the determination was made. The Company considers projected future taxable income and ongoing tax planning strategies then records a valuation allowance to reduce the carrying value of the net deferred taxes for amounts that are unable to be realized. At both June 30, 2013 and December 31, 2012, the valuation allowance was \$1,067.

The Company's effective tax rate on income from continuing operations before income taxes for the three and six month periods ended June 30, 2013 was 42.8% and 42.8% respectively. The Company's effective tax rate on loss from continuing operations before income taxes for the three and six month periods ended June 30, 2012 was 95.0% and 32.3%, respectively. For the three months ended June 30, 2012, the Company reduced the projected annual net income and the resulting tax provision, causing the effective tax rate to increase for the quarter. For the three and six month periods ended June 30, 2013, the Company recorded an income tax provision of \$930 and \$892, respectively. For the three and six month periods ended June 30, 2012, the Company recorded an income tax benefit of \$115 and \$552, respectively.

NOTE 9 – Related Party Transactions

In February 2013, the Company entered into an unsecured short-term promissory note payable in the amount of \$1,000 with J. Basil Mattingly, a Vice President of the Company. The note carried an interest rate of 5% per annum and was due February, 2014. This note was paid in full on March 20, 2013.

In February 2013, the Company began doing business with Fowler Wind Energy LLC (Fowler), a company that is partially owned (70.0%) by J. Basil Mattingly, a Vice President of the Company. The Company provides wind tower labor to Fowler. Revenue recognized under the Company's contract with Fowler was \$1,063 and \$1,177 for the three and six months ended June 30, 2013, which is included in revenues in the accompanying condensed consolidated statement of operations. At June 30, 2013, the Company carried an amount receivable from Fowler of \$836 which is included in accounts receivable, net in the accompanying condensed consolidated balance sheet.

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In June 2012, the Company entered into an unsecured short-term promissory note payable in the amount of \$700 with Frank Bennett, a director of the Company. The balance at December 31, 2012 was \$600. The note carried an interest rate of 8.5% per annum and payment of its remaining balance as of December 31, 2012 was extended to April 23, 2013. The note was paid in full in April 2013.

The above transactions were approved by the disinterested members of the Company's audit committee.

The Company leases principal offices located at 2000 44th Street SW, Fargo, ND 58013. The Fargo base rate is \$22 per month. The Fargo property is owned in part by David Ekman, Chief Information Officer of the Company.

NOTE 10 – Merger

On May 21, 2013, the Company entered into an Agreement and Plan of Merger (Merger Agreement) with Goodman Networks Incorporated, a privately held company (Goodman). Pursuant to the Merger Agreement and at the effective time of the Merger, each issued and outstanding share of common stock, no par value per share (the Common Stock), of Company will be converted into the right to receive \$3.25 in cash, without interest. The Merger Agreement also includes offers of (A) the difference between \$3.25 per share and the exercise price for Employee Options with exercise prices less than \$3.25 per share; (B) \$.50 per share for Employee Options with exercise prices greater than \$3.25 per share; (C) the difference between \$3.25 per share and the exercise price for Common Stock subject to Director Options with exercise prices less than \$3.25 per share for termination of the options; (D) \$10.50 per share of Class A convertible preferred stock outstanding; (E) \$10.00 per share of Class C convertible preferred stock outstanding; (F) \$10.00 per share of Series F convertible preferred stock outstanding; (G) the difference between \$3.25 per share and exercise price per share for Common Stock subject to warrants outstanding; and (H) \$3.25 per outstanding restricted share. The all cash transaction is valued at approximately \$116,000, net of debt and cash acquired, and including consideration to be paid to holders of outstanding options and warrants.

Upon completion of the merger, the Company will become a wholly owned subsidiary of Goodman. The Merger Agreement provides that completion of the exchange offer will be subject to certain conditions, including that stockholders, holding a majority of our outstanding common shares, vote to approve the merger and adopt the Merger Agreement. The Merger Agreement also includes customary covenants governing the conduct of our business prior to completion of the merger, including the use of commercially reasonable efforts to operate our business in the ordinary course until the effective time of the merger. The closing of the transaction is expected to occur during the third quarter of 2013. If the Merger Agreement is terminated under certain circumstances, the Company may be required to pay Goodman a termination fee of \$6,000.

## FORWARD LOOKING STATEMENTS

This report contains forward-looking statements that involve risks and uncertainties. In some cases, you can identify forward-looking statements by the following words: “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would,” or the negative of these terms or other comparative terminology, although not all forward-looking statements contain these words. These statements involve known and unknown risks, uncertainties and other factors that may cause our results or our industry's actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information.

These important factors include the risk factors listed in Part II., Item 1A., as well as those that we discuss under the heading “Risk Factors” as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012. You should read those risk factors and the other cautionary statements made in this report as being applicable to all related forward-looking statements wherever they appear in this report. We cannot assure you that the forward-looking statements in this report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. You should read this report completely. Other than as required by law, we undertake no obligation to update these forward-looking statements, even though our situation may change in the future.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

### Corporate Information

The Company is a Minnesota corporation formed in September 1975. The Company's principal executive offices are located at 5605 Green Circle Drive, Minnetonka, Minnesota 55343, and its telephone number is (763) 504-3000. The Company's website address is [www.multibandusa.com](http://www.multibandusa.com). The information on, or that may be accessed through, the Company's website is not incorporated by reference into this report and should not be considered a part of this report. As used in this report, references to “we,” “our,” “us,” “Multiband” and “the Company” refer to Multiband Corporation unless the context indicates otherwise.

### Overview

The Company has three operating segments: (1) Field Services segment (FS), where the Company provides installation services to pay television (satellite and broadband) providers, internet providers and commercial customers, (2) Multi-Dwelling Unit segment (MDU), where the Company bills voice, internet and video services to subscribers as owner/operator and also acts as a master system operator for DIRECTV, receiving net cash payments for managing video subscribers through its network of system operators; and (3) Engineering, Energy & Construction segment (EE&C) where the Company provides engineering and construction services for the wired and wireless telecommunications industry, including public safety networks. This segment also provides renewable energy services including wind and solar applications and other design and construction services, usually done on a project basis. All segments encompass a variety of different corporate entities. We operate in 33 states with 33 field offices and employ approximately 3,100 people. On May 21, 2013, the Company entered into a Agreement and Plan of Merger (Merger Agreement) with Goodman Networks Incorporated, a privately held company (Goodman)(see note 10). Upon completion of the merger, the Company will become a wholly owned subsidiary of Goodman.

### Field Services segment (FS)

The Company, through its FS segment, generates revenue from the installation and service of DIRECTV video programming for residents of single family homes under a contract with DIRECTV. DIRECTV is the largest provider of satellite television services in the United States with approximately 20 million subscribers. These video subscribers are owned and billed by DIRECTV. The FS segment functions as a fulfillment arm for DIRECTV. As a result, the Company does not directly compete with other providers for DIRECTV's business. Although DIRECTV competes with DISH, the other leading satellite television provider and incumbent providers of phone and telephone services for pay television customers, DIRECTV has its own marketing and competitive programs of which the Company is merely an indirect and passive recipient. The FS segment also provides similar installation services for certain broadband cable and internet providers and commercial customers. As of June 18, 2013, the Company no longer provides installation services to cable providers (see note 3). The financial results of the cable television fulfillment operation are being reported separately as discontinued operations for all periods presented.

#### Multi-Dwelling Unit segment (MDU)

Through our MDU segment, we serve as a master system operator for DIRECTV, which allows us to offer satellite television services to residents of multi-dwelling units directly and through a network of affiliated operators. The MDU segment also offers

bundled services for voice, data and video directly to residents in the MDU market. Our primary customers in the MDU segment are property owners/managers who are focused on delivering their residents (our end users) reliability, quality service, short response times, minimized disruptions and alterations on the property, and value added services. Our contracts with the property owner typically run three to ten years pursuant to right-of-entry agreements between property owners and us. Within this segment, we also offer our internal support center and billing platform to service third party clients. As of July 31, 2013, we had approximately 152,000 owned and managed subscribers, with an additional 33,000 subscribers supported by the support center.

#### Energy, Engineering & Construction segment (EE&C)

The Company also provides engineering and construction services for the wired and wireless telecommunications industry, including public safety networks, renewable energy services including wind and solar applications and other design and construction services which are usually done on a project basis.

#### Backlog (in thousands)

In the EE&C segment, we had a backlog of unfilled orders of approximately \$5,173 as of June 30, 2013, compared to approximately \$1,680 as of December 31, 2012, an increase of \$3,493 or 207.9%. The increase is due primarily to two new wireless orders booked in the quarter ended June 30, 2013. These orders totaled \$3,343 with backlog remaining at June 30, 2013 of \$3,091 which comprised 88% of the increase in backlog. We define backlog as the value of work-in-hand to be provided for customers as of a specific date where the following conditions are met (with the exception of engineering change orders): (i) the price of the work to be done is fixed; (ii) the scope of the work to be done is fixed, both in definition and amount; and (iii) there is an executed written contract, purchase order, agreement or other documentary evidence which represents a firm commitment by the customer to pay us for the work to be performed. These backlog amounts are based on contract values and purchase orders and may not result in actual receipt of revenue in the originally anticipated period or at all. We have experienced variances from time to time in the realization of our backlog because of project delays or cancellations resulting from external market factors and economic factors beyond our control and we may experience such delays or cancellations in the future. Backlog does not include new firm commitments which may be awarded to us by our customers from time to time in future periods. These new project awards could be started and completed in this same future period. Accordingly, our backlog does not necessarily represent the total revenue that could be earned by us in future periods.

#### Our Strategies

Our strategies are centered on leveraging our existing infrastructure and improving operational efficiencies. The key elements of our business strategies are:

##### Grow Our MDU Business.

We believe that we are well positioned with proper funding to support growth initiatives in the MDU market because we are currently the largest nationwide MDU master system operator and we have invested significant time, effort, and capital into developing our MDU infrastructure. Our intent is to substantially grow this segment of our business by targeting middle to high-end rental properties and resort area condominiums. We will target properties that range from 50 to 150 units on a contiguous MDU property for television and internet access only. We will survey properties that exceed 150 units for the feasibility of local and long distance telephone services.

##### Expand Our Installation & Fulfillment Services.

We believe our national footprint and technical expertise uniquely position us to expand into new installation and fulfillment services for corporations, government agencies and residential properties. Expanding our installation services would allow us to better leverage our fixed costs and improve operating margins. We continue to evaluate opportunities to expand into new installation services and will pursue those opportunities that are strategically and financially viable.

##### Grow the EE&C Business segment.

We believe growth in public safety networks will continue as security and safety concerns, driven by, among other things, terrorism threats and weather emergencies, require further infrastructure build-outs. We also believe that research, development and investment in alternative and renewable energy sources will provide work for the Company as the United States looks to reduce its dependence on foreign oil imports.

**Improve Operational Efficiencies.**

We intend to continue improving our profitability and cash flow by reducing technician turnover, maintaining strict inventory control systems, improving our training and safety programs to reduce insurance and other costs, reducing fleet fuel usage, and optimizing vehicle leasing terms.

**Pursue Strategic Acquisitions.**



We intend to pursue strategic acquisitions that expand the scope of our service offerings, allow us to expand our operations into new geographic areas or strengthen our position in our existing geographic markets.

SELECTED CONSOLIDATED FINANCIAL DATA (expressed as a percentage of revenue)

	Three Months Ended		Six Months Ended	
	June 30, 2013 (unaudited)	June 30, 2012 (unaudited)	June 30, 2013 (unaudited)	June 30, 2012 (unaudited)
REVENUES	100%	100%	100%	100%
COST OF PRODUCTS & SERVICES (Exclusive of depreciation and amortization shown below)	73.4%	73.9%	73.0%	73.4%
SELLING, GENERAL & ADMINISTRATIVE DEPRECIATION & AMORTIZATION	20.8%	22.0%	21.8%	23.7%
	2.1%	2.5%	2.2%	2.4%
INCOME (LOSS) FROM OPERATIONS	3.7%	1.6%	3.0%	0.5%
INTEREST EXPENSE & OTHER, NET	-0.7%	-1.8%	-1.6%	-1.7%
INCOME (LOSS) BEFORE INCOME TAXES	3.0%	-0.2%	1.4%	-1.2%
PROVISION FOR (BENEFIT FROM) INCOME TAXES	1.3%	-0.2%	0.6%	-0.4%
INCOME (LOSS) FROM CONTINUING OPERATIONS	1.7%	0.0%	0.8%	-0.8%
LOSS FROM DISCONTINUED OPERATIONS	-2.0%	-0.2%	-1.4%	-0.3%
NET LOSS	-0.3%	-0.2%	-0.6%	-1.1%

RESULTS OF OPERATIONS (in thousands, except for percentages)

Revenues

Total revenues increased 9.6% to \$73,482 for the quarter ended June 30, 2013 as compared to \$67,030 for the quarter ended June 30, 2012. Revenues for the six months ended June 30, 2013 increased 5.4% to \$143,929 from \$136,495 for the same period in 2012.

FS segment revenues for the three months ended June 30, 2013, were \$61,234 in comparison to \$58,175 for the same period in 2012, an increase of 5.2%. Revenue generated under the home services provider agreement with DIRECTV increased \$1,761 or 3.2% due to an 8.1% increase in work orders closed. In addition, revenue earned under the internet fulfillment contract with WildBlue increased by \$740 (36.5%). Revenues for the six months ended June 30, 2013, were \$121,427 in comparison to \$119,179 for the same period in 2012, an increase of 1.9%. Revenue generated under the home services provider agreement with DIRECTV decreased \$1,841 or 1.6% due to a 22.8% decline in incentive revenue (\$2,320) and the elimination of the fuel subsidy program that was in place in 2012 (\$900). These declines were partially offset by a \$1,555 increase in revenues earned on closed work orders. The decline in revenue earned under the DIRECTV contract was completely offset by a \$3,217 (109.7%) increase in WildBlue internet fulfillment revenue, driven by an increase in work orders closed. For the remainder of 2013, the Company expects FS segment revenues to increase based on continued growth in WildBlue internet fulfillment activity and due to normal seasonality of the DIRECTV business. Revenues generated under the home services provider agreement with DIRECTV are expected to be consistent with 2012 levels.

The MDU segment had revenues of \$8,317 for the three months ended June 30, 2013, compared to \$6,331 for the same period in 2012, an increase of 27.3%. Revenues for the six month period ended June 30, 2013, increased to

\$15,486 compared to \$12,219 for the same period in 2012, an increase of 26.7%. The increases being generated in this segment are primarily because of an increase in system operator related revenue resulting from the consolidation of system operators during the second and third

quarters of 2012. For the remainder of 2013, the Company expects quarterly MDU segment revenues to be consistent with the amount recognized during the first two quarters of 2013.

The EE&C segment revenues increased from \$2,524 for the three months ended June 30, 2012 to \$3,931 for the three months ended June 30, 2013, an increase of \$1,407, or 55.7%. Revenues for the six month period ended June 30, 2013, for the EE&C segment, increased 37.6% to \$7,016 from \$5,097 for the same period in 2012. The increases in this segment are due primarily to an increase in renewable energy services with Fowler (see note 9). The Company expects revenues in this segment to increase in 2013 as the demand for products and services provided in this sector increases and we increase our sales activities and footprint.

#### Cost of Products and Services (exclusive of depreciation and amortization)

The Company's cost of products and services increased by 8.9% to \$53,958 for the quarter ended June 30, 2013, as compared to \$49,540 for the same quarter last year. For the six month period ended June 30, 2013, cost of products and services increased by 4.8% to \$104,995, compared to \$100,186 for the comparable period in 2012.

Cost of products and services for the FS segment increased by 3.4% for the three months ended June 30, 2013 to \$45,151, compared to \$43,647 in the prior year quarter. As a percentage of revenue, cost of products and services for the FS segment was 73.7% and 75.0% for the three months ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013, cost of products and services were \$88,742 compared to \$88,760 in the prior year, a 0.0% decline. As a percentage of revenue, cost of products and services for this segment was 73.1% and 74.5% for the six months ended June 30, 2013 and 2012, respectively. During 2013, the Company expects FS segment costs of products and services to remain relatively consistent in relation to FS segment revenue.

Cost of products and services for the MDU segment increased by 54.0% for the current quarter to \$5,954, compared to \$3,865 in the same quarter last year. As a percentage of revenue, cost of products and services for the MDU segment was 71.6% and 61.0% for the three months ended June 30, 2013 and 2012, respectively. Cost of products and services for the six month period ended June 30, 2013, for the MDU segment, increased 52.7% to \$11,166 from \$7,314 for the same period in 2012. The increase for both periods, was due to an increase in system operator related costs resulting from the addition of several large system operators during the second and third quarters of 2012, and is consistent with the increase in system operator revenues. In 2013, the Company expects MDU costs of products and services to remain relatively consistent in relation to MDU segment revenue.

For the EE&C segment, cost of products and services were \$2,853 for the quarter ended June 30, 2013, compared to \$2,028 in the same quarter last year, a 40.7% increase. As a percentage of revenue, costs of products and services for the EE&C segment were 72.6% and 80.3% for the quarters ended June 30, 2013 and 2012, respectively. Costs of products and services for the six month period ended June 30, 2013, for the EE&C segment, increased 23.7% to \$5,087 from \$4,112 for the same period in 2012. As a percentage of revenue, costs of products and services for the EE&C segment were 72.5% and 80.7% for the six months ended June 30, 2013 and 2012, respectively. This improvement is due to an improved job mix in the period ended June 30, 2013, as compared to the year which is expected to continue throughout 2013.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$15,255 for the quarter ended June 30, 2013, compared to \$14,743 in the prior year's quarter, an increase of 3.5%. Selling, general and administrative expenses were, as a percentage of revenues, 20.8% for the quarter ended June 30, 2013 and 22.0% for the same period a year ago. For the six months ended June 30, 2013, selling, general and administrative expenses decreased 3.1% to \$31,350 compared to \$32,353 in the same period in 2012. Selling, general and administrative expenses, as a percentage of revenues, were 21.8% and 23.7% for the six month periods ended June 30, 2013 and 2012, respectively. The decline was driven primarily by reductions in certain employee-related expenses including wages, bonuses and employee benefit costs. In addition, costs for workers' compensation insurance have declined by \$2,104 (31.1%) which includes the impact of a

premium refund from a previous year of \$1,400. The decline in employee-related expenses was partially offset by increased costs of \$700 associated with the Goodman merge (Note10), and an increase in legal expenses of \$2,523, which was primarily caused by a \$1,800 credit that was recognized in 2012 upon the reversal of a legal contingency reserve. For the remainder of 2013, the Company anticipates that selling, general and administrative expenses will remain relatively consistent as a percentage of total revenues to that experienced in the first two quarters of this year.

#### Depreciation and Amortization

Depreciation and amortization expense of \$1,532 for the quarter ended June 30, 2013, compared to \$1,679 in the prior year's quarter, a decrease of 8.8%. For the six months ended June 30, 2013, depreciation and amortization expense decreased 6.5% to \$3,090 compared to \$3,304 for the six months ended June 30, 2012. At the end of 2012, the Company incurred an impairment charge on the contract intangible related to the acquisition of the cable fulfillment businesses after an assessment identified the related businesses were generating negative cash flows. Accordingly, the amortization of this intangible is no longer reflected in the 2013 results.

#### Income from Operations

In the second quarter of 2013, the Company had income from operations of \$2,737, versus income from operations of \$1,068 during the prior year's comparable period, an improvement of \$1,669 (156.3%). Income from operations was \$4,494 during the first six months of 2013 compared to \$652 during the first half of 2012, an improvement of \$3,842 or 589.3%.

For the second quarter of 2013, the FS segment earned income from operations of \$3,212, compared to \$1,409 in the same period last year, an increase of 128.0%. For the six months ended June 30, 2013, income from operations increased 241.1% to \$6,031 compared to \$1,768 for the six months ended June 30, 2012. This increase in income from operations was primarily due to an increase in WildBlue revenue and decreases in employee expenses. The FS segment is expected to improve its profitability in 2013 as a result of the consistent profitability of the home services provider work for DIRECTV and a continued expansion of the satellite internet fulfillment business (WildBlue).

The MDU segment had income from operations of \$95 for the three months ended June 30, 2013, compared to income of \$516 for the three months ended June 30, 2012. For the six months ended June 30, 2013, income from operations was \$51 for the MDU segment, compared to \$872 in the same period last year. During the second quarter of 2012, the MDU segment had increased earnings related to a short-term project that increased the call center revenue. The Company plans to improve results in the MDU segment in future periods by reshaping its owned subscriber footprint in concentrated, targeted geographic markets in order to service the customers more efficiently.

The EE&C segment had income from operations of \$82 for the second quarter of 2013, compared to loss of \$375 in the second quarter of 2012. For the six months ended June 30, 2013, there was a loss from operations of \$2 for the EE&C segment, compared to \$811 in the same period last year. The improvement is due to increased demand and better job mix which has improved margins. During 2013, the Company expects this segment to improve its profitability as the demand for products and services provided in this sector increases and we increase our sales activities and footprint.

The MBCorp segment, which has no revenues, incurred a loss from operations of \$652 for the three months ended June 30, 2013 and \$482 for the three months ended June 30, 2012. For the six months ended June 30, 2013, there was a loss from operations of \$1,586 for the MBCorp segment, compared to \$1,177 in the same period last year. The MBCorp segment is expected to show losses in future periods as corporate overhead is expected to remain consistent with current levels with no offsetting revenues or anticipated credits to expenses.

#### Interest Expense

Interest expense was \$582 for the quarter ended June 30, 2013, versus \$925 for the same period a year ago. Interest expense was \$1,416 for the six months ended June 30, 2013 and \$1,836 for the same period last year. The Company expects interest expense in future quarters will continue to be lower in 2013 due to the reduced level of indebtedness and lower borrowing rates.

#### Write-off of Deferred Financing Costs

Deferred financing costs expensed during the six month period ended June 30, 2013 totaled \$1,029. Substantially all of these costs were incurred in January 2013 when the Company extended the debt agreements in place at the time. In March 2013, those debt agreements were replaced with permanent financing with Fifth Third Bank and the costs incurred in January 2013 were written off including \$200 early termination fee.

#### Other-than-Temporary Impairment Loss

For the three months ended June 30, 2013 and 2012, the Company recorded an other-than-temporary impairment loss of \$0 and \$290, respectively. For the six months ended June 30, 2013 and 2012, the Company recorded an other-than-temporary impairment loss of \$0 and \$581, respectively. The 2012 losses were due to the decline in the fair value of the shares it held in WPCS International, Inc. All WPCS International, Inc. shares held were sold in 2012.

Provision for (Benefit from) Income Taxes

The Company recorded an income tax expense of \$930 (42.8% of net income before income taxes) and net tax benefit of \$115 (95.0% of net loss before income taxes) for the three months ended June 30, 2013 and 2012, respectively. For the three months ended June 30, 2012, the Company reduced the projected annual net income and the resulting tax provision, causing the effective tax rate to increase for the quarter. The Company recorded income tax expense of \$892 (42.8% of net income before income taxes) and net tax benefit of \$552 (32.3% of net loss before income taxes) for the six months ended June 30, 2013 and 2012, respectively. The Company has no significant unrecognized tax benefits as of June 30, 2013 that would reasonably be expected to affect our effective tax rate.

Loss from Discontinued Operations, net of tax

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During the three month periods ended June 30, 2013 and 2012, the Company recorded a loss from discontinued operations, net of tax, of \$1,435 and \$147, respectively. During the six month periods ended June 30, 2013 and 2012, the Company recorded a loss from discontinued operations, net of tax, of \$1,997 and \$351, respectively (see note 3).

#### Net Loss

In the second quarter of fiscal 2013, the Company reported a net loss of \$190 compared to a net loss of \$153 for the second fiscal quarter of 2012. For the six months ended June 30, 2013, the Company recorded a net loss of \$803 compared to a net loss of \$1,506 for the six months ended June 30, 2012.

#### Liquidity and Capital Resources

During the six months ended June 30, 2013 and 2012, the Company incurred net losses of \$803 and \$1,506, respectively. Net cash provided by continuing operations during the six months ended June 30, 2013 was \$4,981 compared to cash used of \$2,567 during the six months ended June 30, 2012. During the six month period ended June 30, 2012, DTV implemented certain changes in the way it priced, financed and sold equipment to the Company, resulting in a significant reduction in accounts receivable, inventory and accounts payable balances.

Net cash used in investing activities- continuing operations totaled \$789 for the six months ended June 30, 2013, compared to \$2,517 for the six months ended June 30, 2012. During the first six months of 2013, purchases of property and equipment totaled \$810, compared to \$1,662 during the six months ended June 30, 2012. During 2012, the Company increased restricted cash as security for a letter of credit in connection with the acquisition of land and a building for \$1,682. In addition, the transaction to acquire land and a building resulted in proceeds of \$685.

Net cash used in financing activities was \$21,998 for the six months ended June 30, 2013, compared to \$1,931 for the six months ended June 30, 2012. This increase in cash used was related to principal payments and fees and expenses paid related to its former debt agreements which were paid off in full in March 2013 using available cash plus proceeds from new debt facilities.

Cash and cash equivalents totaled \$327 at June 30, 2013, versus \$18,056 at December 31, 2012. The Company has a working capital deficit of \$6,163 at June 30, 2013, compared to \$4,886 at December 31, 2012. In March 2013, the Company refinanced its short-term debt on a long term basis. The debt now matures in 2016. The debt was refinanced at interest rates that were approximately 50% lower than its previous debt instruments. The debt facility also allows for additional borrowings under the terms and conditions of the credit agreement.

In 2013, the Company intends to focus on maintaining profitability in its FS business segment. With regards to its MDU business segment, the Company believes it can aggressively grow owned subscriber revenues by acquiring new rights of entry agreements, increasing marketing and customer penetrations of previously built out properties and by acquiring existing subscribers from other operators. In addition, the Company believes it can increase managed subscriber revenues by selling its support center services to its network of system operators and by providing ancillary programs for voice and data services to that same network. In the EE&C segment, the Company hopes to see improvements in operating results as: (i) a concentrated focus on the selling process resulting in increased bid activity which should lead to increased revenues; (ii) governmental grants for alternate energy projects are extended to promote growth in wind projects; and (iii) 3G to 4G tower conversions increase based on the demand for higher capacity mobile infrastructure.

Management anticipates that the impact of the actions listed below will generate sufficient cash flows to pay current liabilities, long-term debt and capital and operating lease obligations and fund the Company's operations for the next twelve months:

1. Maintain continued operating profit in the Company's FS segment (see Note 6).
2. Expand call center support with sales of call center services to both existing and future system operators.

3. Improve results in the MDU segment by reshaping its owned subscriber footprint to gain efficiencies and by expanding its managed subscriber base by adding new system operators.
4. Improve results in the EE&C segment as demand for the Company's products and services increases.

As of June 30, 2013, the Company intends to continue to improve its working capital ratio to adequately manage its operation. Management believes that through a combination of its new credit facility, its cash on hand, greater expense control, continued positive operating income, and potential sales of common and/or preferred stock, it can meet its anticipated liquidity and capital resource requirements for the next twelve months.



In the EE&C segment, we had a backlog of unfilled orders of approximately \$5,173 as of June 30, 2013, compared to approximately \$1,680 at December 31, 2012. We define backlog as the value of work-in-hand to be provided for customers as of a specific date where the following conditions are met (with the exception of engineering change orders): (i) the price of the work to be done is fixed; (ii) the scope of the work to be done is fixed, both in definition and amount; and (iii) there is an executed written contract, purchase order, agreement or other documentary evidence which represents a firm commitment by the customer to pay us for the work to be performed. These backlog amounts are based on contract values and purchase orders and may not result in actual receipt of revenue in the originally anticipated period or at all. We have experienced variances in the realization of our backlog because of project delays or cancellations resulting from external market factors and economic factors beyond our control and we may experience such delays or cancellations in the future. Backlog does not include new firm commitments which may be awarded to us by our customers from time to time in future periods. These new project awards could be started and completed in this same future period. Accordingly, our backlog does not necessarily represent the total revenue that could be earned by us in future periods.

#### Critical Accounting Policies and Estimates

Our significant accounting policies are summarized in Note 1 of the Notes to Consolidated Financial Statements included in our 2012 Annual Report on Form 10-K for the year ended December 31, 2012. Also refer to the Notes to Unaudited Condensed Consolidated Financial Statements included in Part 1, Item 1 of this report.

#### Item 3. Quantitative and Qualitative Disclosure about Market Risk

None.

#### Item 4. Controls and Procedures

##### Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). Because of its inherent limitations, our disclosure controls and procedures may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Based on this evaluation, our chief executive officer and chief financial officer concluded that as of June 30, 2013, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

##### Changes in Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting during the six months ended June 30, 2013 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

#### Part II. Other Information

##### Item 1

Legal proceedings (in thousands)

The Company is subject to claims, regulatory processes and lawsuits that arise in the ordinary course of business. The Company accrues for such matters when a loss is considered probable and the amount of such loss, or a range of loss, can be reasonably estimated. The Company's defense costs are expensed as incurred. The Company has recorded \$501 and \$71 of accrued liabilities in the accompanying consolidated balance sheets at June 30, 2013 and December 31, 2012, respectively, for claims and known and potential settlements and legal fees associated with existing litigation. As of June 30, 2013, \$275 of these accrued liabilities is related to discontinued operations (see note 3).

In December 2009, the U.S. Department of Labor (DOL) sued various individuals that are either shareholders, directors, trustees and/or advisors to DirecTECH Holding Company, Inc. (DTHC) and its Employee Stock Ownership Plan (ESOP). The Company was not named in this complaint. In May 2011, three of these individuals settled the complaint with the DOL (upon information

and belief, some of this settlement was funded by the individuals' insurance carrier) in the approximate amount of \$8,600 and those same individuals have filed suit against the Company for reimbursement of certain expenses. The basis for these reimbursement demands are certain corporate indemnification agreements that were entered into by the former DTHC operating subsidiaries and the Company.

Two of those defendants had their claims denied during the second quarter of 2012, in a summary arbitration proceeding. This denial was appealed and the summary judgment award was overturned by a federal court judge in February 2013 meaning the matter may proceed to arbitration. Based on the summary judgment ruling favorable to the Company, management determined that it was appropriate to reverse a \$1,800 related legal reserve as of June 30, 2012, which is included in selling, general and administrative expenses in the consolidated statement of income for the three and six months ended June 30, 2012.

The Company has denied all requests for indemnification of legal fees and/or reimbursement of liabilities in this matter for, in part, the following reasons: 1) similar indemnification agreements have been declared illegal under Federal law by a California federal appeals court; and 2) the Company has no obligation to indemnify DTHC individual shareholder conduct.

The ultimate outcome of the matter is uncertain. The Company, based in part on outside counsel's assessment, believes it has solid grounds to appeal the federal judge's decision overturning the arbitrator's summary judgment award and has filed a notice of appeal with the sixth circuit court of appeals.

Depending on the outcome of the appeal and a potential arbitration hearing, the Company's reasonable estimate of this potential liability is a range between zero and nine million dollars with no amount in that range a better estimate than any other amount. Accordingly, no amount has been accrued by the Company for this potential liability as of June 30, 2013 and December 31, 2012. In future periods, the Company will continue to assess its potential exposure in the matter pursuant to the applicable financial accounting standards until the matter is resolved.

#### Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (in thousands, except for share and per share amounts)

##### Unregistered Sales of Equity Securities

During the last three months the registrant has issued various securities that were not registered under the Securities Act. The securities were offered and sold by us in reliance upon the exemptions provided under Section 4(2) under the Securities Act relating to sales not involving any public offering, and/or Rule 506 of Regulation D under the Securities Act. The certificates representing the securities sold bear a restrictive legend that prohibits transfer without registration or an applicable exemption. All purchasers signed agreements stating that they were purchasing for investment purposes only and which contain restrictions on the transfer of the securities sold.

In June 2013, the Company issued 7,500 shares of common stock worth \$75 in lieu of payment of dividends on Class F preferred stock.

##### Issuer Purchases of Equity Securities

On June 4, 2012, the Company announced that its Board of Directors has approved the repurchase of up to 2.0 million shares of its common stock over a six month period commencing on June 6, 2012. On June 13, 2012, the Company entered into a Stock Repurchase Plan pursuant to SEC Rule 10b-18, which documents the guidelines, rules and limitations of the program. The following table summarizes shares repurchased pursuant to this program during the

quarter ended June 30, 2012.

Period	Total Number of Shares Purchase (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Number of Shares that May Yet Be Purchased Under the Programs
June 1, 2012 - June 30, 2012	10,000	\$2.15	10,000	1,990,000

(1) All shares purchased during the three months ended June 30, 2012 were made in open-market transactions.

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Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
101	The following financial information from our Quarterly Report on Form 10-Q for the three and six months ended June 30, 2013, filed with the SEC on August 14, 2013, is formatted in eXtensible Business Reporting Language (XBRL): (i) the consolidated balance sheets as of June 30, 2013 and December 31, 2012; (ii) the related consolidated statements of operations for each of the three and six months ended June 30, 2013 and 2012; (iii) the related consolidated statements of cash flow for the six months ended June 30, 2013 and 2012; and (iv) the Notes to Consolidated Financial Statements.
*	Filed herewith.

SIGNATURES

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

MULTIBAND CORPORATION  
Registrant

Date: August 14, 2013

By: /s/ James L. Mandel  
James L. Mandel  
Chief Executive Officer

Date: August 14, 2013

By: /s/ Steven M. Bell  
Steven M. Bell  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

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Exhibit Index

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