

CELL THERAPEUTICS INC
Form PRE 14A
May 12, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant: x

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- x Preliminary Proxy Statement .. Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- .. Definitive Proxy Statement
- .. Definitive Additional Materials
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Cell Therapeutics, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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T 206.282.7100 F 206.272.4010

April [•], 2006

Dear Shareholder:

You are cordially invited to attend the Cell Therapeutics, Inc. (CTI) Annual Meeting of Shareholders, to be held at 10:00 a.m. (PDT) on Friday, June 23, 2006, at Cell Therapeutics, Inc., located at 501 Elliott Avenue West, Seattle, Washington 98119.

Information concerning the business to be conducted at the meeting is included in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement. Immediately following the meeting, we will report on the operations of CTI and respond to questions you may have.

A copy of the 2005 Annual Report to Shareholders is also enclosed with proxy statements being sent to our U.S. shareholders. If you are an Italian shareholder, you may request a copy of the proxy statement and Annual Report from our Italian office located at Via Ariosto, 23, 20091 Bresso (MI)-Italy, Attn: Finance Director.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the meeting, it is important that your shares be represented. Therefore, we urge our U.S. shareholders to sign, date and promptly return the enclosed proxy in the enclosed postage paid envelope and we urge our Italian shareholders to request and return an Italian proxy card together with a completed certificate of participation. If your shares are held in a bank or brokerage account, you may be eligible to vote your proxy electronically or by telephone. Please refer to the enclosed voting form for instructions.

I look forward to greeting you personally, and on behalf of the Board of Directors and Management, I would like to express our appreciation for your interest in CTI.

Sincerely,

James A. Bianco, M.D.

President & Chief Executive Officer

Shareholder

Cell Therapeutics, Inc. 501 Elliott Avenue West Suite 400, Seattle, WA 98119

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CELL THERAPEUTICS, INC.

Notice of Annual Meeting of Shareholders

Friday, June 23, 2006

To Our Shareholders:

The Annual Meeting of Shareholders of Cell Therapeutics, Inc. (the Company) will be held at 10:00 a.m. (PDT) on Friday, June 23, 2006, at Cell Therapeutics Inc., located at 501 Elliott Avenue West, Seattle, Washington 98119, for the following purposes:

- 1) To elect two Class III directors, each to serve until the 2009 Annual Meeting, and to elect one Class I director, to serve until the 2007 Annual Meeting;
- 2) To approve an amendment to our amended and restated articles of incorporation to increase the number of authorized shares of common stock from 200,000,000 to 350,000,000, including amending and restating our articles of incorporation;
- 3) To approve an amendment to our 1996 Employee Stock Purchase Plan (the ESPP) to extend the term of the ESPP from 10 years from the date of the approval of the ESPP by our shareholders to 20 years from the date of the approval of the ESPP by our shareholders;
- 4) To approve an amendment to our 2003 Equity Incentive Plan (the 2003 Plan) to (a) increase the number of shares subject to the initial automatic grant of nonqualified stock options to non-employee directors upon joining the board of directors from 15,000 shares to 24,000 shares (the Initial Grant), (b) change the vesting of the Initial Grant from being fully vested at the date of grant to becoming vested after one year, (c) change, in part, the expiration of all option grants to non-employee directors from (i) three months following the cessation of such director's service on the board of directors for any reason other than death or disability and (ii) one year following the cessation of such director's service on the board by reason of death or disability to three years following the cessation of such director's service on the board of directors in all such cases, (d) alter the formula whereby directors may convert cash compensation into shares of common stock from an option pricing model determined by the board of directors to a rate of \$3 in option grant value for every \$1 in cash so converted, (e) increase the number of shares of common stock available for issuance under the 2003 Plan by 6,000,000 shares and (f) increase the maximum number of shares that may be issued pursuant to all awards granted to an individual in any one fiscal year under the 2003 Plan to 750,000 shares;
- 5) To approve the issuance of common stock at our election in connection with the payment of interest and make-whole amounts that may become due under our 7.5% convertible senior notes due 2011;
- 6) To ratify the selection of Stonefield Josephson, Inc. as our independent auditors for the year ending December 31, 2006; and
- 7) To transact such other business as may properly come before the meeting, and all adjournments and postponements thereof.

All shareholders are invited to attend the meeting. Shareholders of record at the close of business on April 17, 2006, the record date fixed by the board of directors, are entitled to vote at the meeting and all adjournments and postponements thereof. A complete list of shareholders entitled to notice of, and to vote at, the meeting will be open to examination by the shareholders beginning ten days prior to the meeting for any purpose germane to the meeting during normal business hours at the office of the Secretary of the Company at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119.

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Whether or not you intend to be present at the meeting, U.S. shareholders are requested to sign and date the enclosed proxy and return it in the enclosed envelope and Italian shareholders are requested to request and return an Italian proxy card together with a completed certificate of participation. If your shares are held in a bank or brokerage account, you may be eligible to vote your proxy electronically or by telephone. Please refer to the enclosed voting form for instructions.

By Order of the Board of Directors

Louis A. Bianco
Executive Vice President, Finance & Administration

Seattle, Washington

April [•], 2006

YOUR VOTE IS IMPORTANT. ACCORDINGLY, YOU ARE URGED TO SIGN, DATE AND RETURN PROMPTLY THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE REGARDLESS OF WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING. IF YOU ARE ONE OF OUR SHAREHOLDERS IN ITALY, PLEASE REMEMBER TO REQUEST A CERTIFICATE OF PARTICIPATION IN THE CENTRAL DEPOSITARY SYSTEM FROM YOUR BROKER AND INCLUDE IT IN THE SAME ENVELOPE OR TELECOPY IT TOGETHER WITH YOUR ITALIAN PROXY CARD (see page 2 for more information on Italian voting procedures).

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CELL THERAPEUTICS, INC.

501 Elliott Avenue West, Suite 400

Seattle, WA 98119

PROXY STATEMENT

Information Regarding Proxies

General

This Proxy Statement and the accompanying form of proxy are furnished in connection with the solicitation of proxies by the board of directors of Cell Therapeutics, Inc. for use at our Annual Meeting of Shareholders (the Annual Meeting), to be held at 10:00 a.m. (PDT) on Friday, June 23, 2006, at Cell Therapeutics, Inc., located at 501 Elliott Avenue West, Seattle, WA 98119, and at any adjournment or postponement thereof.

Only shareholders of record on our books at the close of business on April 17, 2006, which we will refer to as the record date, will be entitled to notice of, and to vote at, the Annual Meeting.

At the Annual Meeting, shareholders will be asked to:

- (1) elect two Class III directors to serve until the 2009 Annual Meeting and to elect one Class I director to serve until the 2007 Annual Meeting (Proposal 1);
- (2) approve an amendment to our amended and restated articles of incorporation to increase the number of authorized shares of common stock from 200,000,000 to 350,000,000, including amending and restating our articles of incorporation (Proposal 2);
- (3) approve an amendment to our 1996 Employee Stock Purchase Plan to extend the term of such plan from 10 years from the date of the approval of such plan by our shareholders, or April 29, 2006, to 20 years from the date of approval of such plan by our shareholders, or April 29, 2016 (Proposal 3);
- (4) approve an amendment to our 2003 Equity Incentive Plan previously approved by the board of directors to (a) increase the number of shares subject to the initial automatic grant of nonqualified stock options to non-employee directors upon joining the board of directors from 15,000 shares to 24,000 shares (the Initial Grant), (b) change the vesting of the Initial Grant from being fully vested at the date of grant to becoming vested after one year, (c) change, in part, the expiration of all option grants to non-employee directors from (i) three months following the cessation of such director's service on the board of directors for any reason other than death or disability and (ii) one year following the cessation of such director's service on the board by reason of death or disability to three years following the cessation of such director's service on the board of directors in all such cases, (d) alter the formula whereby directors may convert cash compensation into shares of common stock from an option pricing model determined by the board of directors to a rate of \$3 in option grant value for every \$1 in cash so converted (e) increase the number of shares available for issuance under such plan by 6,000,000 shares, and (f) increase the maximum number of shares that may be issued pursuant to all awards granted to an individual in any one fiscal year under the 2003 Plan to 750,000 shares (Proposal 4);

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(5) approve the issuance of common stock at our election in connection with the payment of interest and make-whole amounts that may become due under our 7.5% convertible senior notes due 2011 (Proposal 5); and

(6) ratify the selection of Stonefield Josephson, Inc. as our independent auditors for the year ending December 31, 2006 (Proposal 6 and, collectively, the Proposals).

This proxy statement and the accompanying proxy card are being first mailed to shareholders on or about April [•], 2006.

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Important Information for our Shareholders in Italy about Voting Procedures

If you hold our shares as a result of a merger with Novuspharma S.p.A. or if you acquired our stock on the Nuovo Mercato, you hold shares of our common stock indirectly through the facilities of the Italian clearing agency, called Monte Titoli, and through the banks and brokers participating in the Monte Titoli system (unless you or your broker has taken action to remove your shares from the Monte Titoli system). We refer to persons holding our stock through Monte Titoli as our shareholders in Italy. Monte Titoli, in turn, holds these shares of our common stock through the U.S. clearing agency, called the Depository Trust Company, or DTC. Pursuant to U.S. law, DTC will transfer its voting power over the shares in Monte Titoli's account to Monte Titoli. Monte Titoli has agreed with us that it will re-transfer its voting power over such shares to the persons holding Certifications of Participation in the Italian Central Depository System issued pursuant to Italian law (Article 85(4) of Legislative Decree no. 58/1998 and Article 34 of CONSOB Regulation 11768/1998).

All of our Italian shareholders are cordially invited to attend our annual meeting in the United States. If you hold our stock in Italy through Monte Titoli, your broker is required by Italian law to provide you with a Certification of Participation in the Italian Central Depository System, which we refer to as your Certification. If you wish to attend our annual meeting and vote in person, please present your Certification at the door. Alternatively, if you would like to vote by mail, you must obtain an Italian proxy card. If you did not receive an Italian proxy card with this proxy statement, you may print one from our Internet site at www.cticseattle.com/investors_events-share.htm. Please mark your votes on the Italian proxy card and return it and your Certification by mail to the address shown on the card by the deadline shown on the card. Your name, as you write it on your Italian proxy card must exactly match your name, as printed on your Certification. Italian privacy law prevents us from learning in advance the names of the persons holding Certifications. Thus, you must include your Certification (or a complete copy) in the same envelope as your Italian proxy card in order for your vote to be counted (that is, in order to prove to our inspector of election that you have the right to vote). Holders of Certifications may also name a substitute proxy by any other means permitted by Washington law and our bylaws. If you use an alternate means, the person you name as your proxy must provide your Certification, or a complete copy thereof, together with your written authorization naming such person as your proxy, to our inspector of election in order to verify the authenticity of your proxy designation.

We strongly encourage our Italian shareholders to obtain a Certification and submit it, together with an Italian proxy card, by mail to the address shown on the Italian proxy card. A significant percentage of our shares are held by persons in Italy. If our Italian shareholders do not take the time to vote, we will not obtain a quorum, in which case we would be unable to conduct any business at the annual meeting. **Your vote is important. Please obtain a Certification and vote today.**

Solicitation of Proxies

This solicitation is made on behalf of our board of directors. All expenses in connection with the solicitation of proxies will be borne by us. In addition to solicitation by mail, our officers, directors or other regular employees may solicit proxies by telephone, facsimile, electronic communication or in person. These individuals will not receive any additional compensation for these services. We have engaged The Proxy Advisory Group, LLC, to assist in the solicitation of proxies for a \$7,500 services fee and the reimbursement of customary disbursements.

Voting Rights and Outstanding Shares

Each share of our common stock, without par value, outstanding on the record date is entitled to one vote per share at the Annual Meeting. We do not have any other class of capital stock outstanding. At the close of business on the record date, there were issued and outstanding 102,889,997 shares of common stock. The presence at the Annual Meeting in person or by proxy of holders of record of a majority of the outstanding shares of voting stock is required to constitute a quorum for the transaction of all business at the Annual Meeting. Broker non-votes (i.e., shares held by a broker or nominee which are represented at the meeting, but with

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respect to which the broker or nominee is not empowered to vote on a particular non-routine proposal) and shares held by persons abstaining will be counted in determining whether a quorum is present.

All votes will be tabulated by the inspector of elections appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. If a quorum exists at the Annual Meeting, all shares of common stock represented by properly executed proxies that are not revoked will be voted in accordance with the instructions, if any, given therein. Proxy cards that are signed and returned without specifying a vote or an abstention on any proposal specified therein, will be voted according to the recommendations of the board of directors on such proposals.

For Proposals 1 and 6, if your shares are held in street name and you do not instruct your broker on how to vote your shares, your brokerage firm may either leave your shares unvoted or vote your shares. Shares represented by abstentions for Proposals 1 and 6 will not be counted as votes cast against Proposals 1 and 6 and will have no effect on these proposals since approval is based on the number of votes actually cast. For Proposals 2, 3, 4 and 5, if your shares are held in street name and you do not instruct your broker on how to vote your shares, your brokerage firm will not have the authority to vote your shares, and your shares will constitute broker non-votes. Shares represented by broker non-votes and abstentions will have the same effect as votes against Proposal 2 to amend our articles of incorporation, since approval of this proposal is based on the number of votes entitled to be cast. Broker non-votes and abstentions will not be counted as votes against Proposals 3, 4 and 5 and will have no effect on the proposals, since approval is based solely on the number of votes actually cast.

Voting Electronically or by Telephone

If your shares are registered in the name of a bank or brokerage firm, you may be eligible to vote your shares electronically over the Internet or by telephone. A large number of banks and brokerage firms are participating in the ADP Investor Communication Services online program. This program provides eligible shareholders who receive a paper copy of the annual report and proxy statement the opportunity to vote via the Internet or by telephone. If your bank or brokerage firm is participating in ADP's program, your voting form will provide instructions. If your voting form does not reference Internet or telephone information, please complete and return the paper proxy card in the self-addressed postage paid envelope provided.

Revocability of Proxies

Any shareholder of record executing a proxy has the power to revoke it at any time prior to the voting thereof on any matter by delivering written notice to our assistant secretary, Donald W. Wyatt, at our principal executive offices, by executing and delivering another proxy dated as of a later date or by voting in person at the meeting. For our Italian shareholders, any written notice of revocation or another proxy, in either case dated as of a later date must also be accompanied by another Certification of Participation in the Italian Central Depository System.

Voting Agreements

At the time of our merger with Novuspharma, we entered into an agreement with Monte Titoli, S.p.A., the Italian central clearing agency, in order to ensure that persons receiving beneficial interests in shares of our common stock as a result of the merger would be able to vote those shares. Monte Titoli agreed that each time it is designated as proxy by the U.S. clearing agency, The Depository Trust Company, or DTC, Monte Titoli will execute a further omnibus proxy transferring its voting power to the persons who hold Certifications of Participation in the Italian Central Depository System, issued pursuant to Italian law (Article 85(4) of Legislative Decree no. 58/1998 and Article 34 of CONSOB Regulation 11768/1998).

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PROPOSAL 1

ELECTION OF DIRECTORS

Summary

Our amended and restated articles of incorporation and our amended and restated bylaws provide for the board of directors to be divided into three approximately equal classes of directors serving staggered three-year terms. Each director holds office until the later of the term elected or until his or her successor is elected and qualified. As a result, approximately one-third of the total number of directors are elected every year at the annual meeting of shareholders.

Under our bylaws, the number of directors constituting the entire board of directors may be decreased or increased by majority action of either the board of directors or the shareholders. Unless a director resigns or is removed for cause, no decrease in the number of directors may have the effect of shortening the term of any incumbent director. In the event of a vacancy on the board of directors, our bylaws permit a majority of the remaining directors in office to fill the vacancy, and the director then chosen will hold office until the next shareholders meeting at which directors are elected. At such meeting, the director will stand for election until the later of the term elected or until his or her successor is elected and qualified.

The board of directors has fixed the number of directors at twelve. Currently, there are six members of the board of directors. Our nominating and governance committee is in the process of evaluating potential candidates to fill the vacancies on our board. Proxies cannot be voted for a greater number of persons than the number of nominees named.

The current terms of office of the Class III directors, Dr. Jack W. Singer and Dr. Mary O. Munding, expire at the Annual Meeting. The current term of office of Mr. John H. Bauer, who was appointed by the board of directors in October 2005 to serve as a Class I director, expires at the Annual Meeting. The current term of the office of the other Class I director, Dr. Phillip M. Nudelman, expires at the 2007 Annual Meeting. The current terms of office of the Class II directors, Dr. James A. Bianco and Dr. Vartan Gregorian, expire at the 2008 Annual Meeting.

Nominees for Election as Directors

Mr. Bauer has been nominated by the board of directors for election at the Annual Meeting as a Class I director for a one year term expiring at the 2007 Annual Meeting. Dr. Munding and Dr. Singer have been nominated by the board of directors for election at the Annual Meeting as Class III directors for three year terms expiring at the 2009 Annual Meeting.

If elected, each nominee will hold office until the later of expiration of his or her term or until his or her successor is elected and qualified. It is intended that the accompanying proxy will be voted for the election as directors of Mr. Bauer, Dr. Munding and Dr. Singer and unless the proxy contains contrary instructions.

Each nominee has agreed to serve if elected, and we have no reason to believe that any of the nominees will not be a candidate or will be unable to serve. However, if any of the nominees should become unable or unwilling to serve as a director, the persons named in the proxy have advised us that they will vote for the election of the substitute nominee or nominees designated by the board of directors.

Vote Required and Board of Directors Recommendation

The three nominees for director who receive the most votes cast at the Annual Meeting in person or by proxy shall be elected. Abstentions and broker non-votes will not be counted in the election of directors.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS

A VOTE IN FAVOR OF EACH NAMED NOMINEE.

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The table below provides biographical information for each nominee for director and each person whose term of office as a director will continue after the Annual Meeting.

Name	Age as of March 31, 2006	Director Since	Class	Term Expiration
James A. Bianco, M.D.	49	1991	II	2008 Annual Meeting
John H. Bauer (3)	65	2005	I	2006 Annual Meeting
Vartan Gregorian, Ph.D (2)(3)(4)	71	2001	II	2008 Annual Meeting
Mary O. Mundinger, Dr. PH (2)(4)	68	1997	III	2006 Annual Meeting
Phillip M. Nudelman, Ph.D. (1)(2)(3)(4)	70	1994	I	2007 Annual Meeting
Jack W. Singer, M.D.	63	1991	III	2006 Annual Meeting

- (1) Chairman of the board of directors.
- (2) Member of the compensation committee.
- (3) Member of the audit committee.
- (4) Member of the nominating and governance committee.

Nomination for Election for a Three-Year Term Expiring at the 2006 Annual Meeting Class III Directors

Dr. Mundinger has been one of our directors since April 1997. Since 1986, she has been a dean and professor at the Columbia University School of Nursing, and an associate dean on the faculty of medicine at Columbia University. Dr. Mundinger currently serves on the board of directors of United Health Group and Gentiva Health Services. Dr. Mundinger received her doctorate of public health from Columbia's School of Public Health.

Dr. Singer is one of our founders and directors and currently serves as our executive vice president, chief medical officer. Dr. Singer has been one of our directors since our inception in September 1991. He also serves on the board of directors of DiaKine Therapeutics, Inc. From July 1995 to January 2004, Dr. Singer was our executive vice president, research program chairman and from April 1992 to July 1995, he served as our executive vice president, research and development. Prior to joining us, Dr. Singer was a professor of medicine at the University of Washington and a full member of the Fred Hutchinson Cancer Research Center. From 1975 to 1992, Dr. Singer was the chief of medical oncology at the Veterans Administration Medical Center in Seattle. Dr. Singer received his M.D. from State University of New York, Downstate Medical College.

Nomination for Election at the 2006 Annual Meeting for a Term Continuing Until the 2007 Annual Meeting Class I Director

Mr. Bauer was appointed to our board of directors in October 2005. Mr. Bauer was formerly Executive Vice President for Nintendo of America Inc. from 1994 to 2003. While at Nintendo of America Inc., he had direct responsibility for all administrative and finance functions. He is currently serving as a consultant to Nintendo of America Inc. In addition, he serves as an executive advisor and chief financial officer at DigiPen Institute of Technology. From 1979 to 1994 he worked for Coopers & Lybrand, including serving as the business assurance (audit) practice Partner. He was also a member of Coopers & Lybrand's Firm Council, the senior policy making and governing board for the firm.

Directors Continuing in Office Until the 2007 Annual Meeting Class I Director

Dr. Nudelman has been one of our directors since March 1994. Since May 2000, he has been the president and chief executive officer of The Hope Heart Institute. From 1998 to 2000, he was the chairman of the board of Kaiser/Group Health. From 1990 to 2000, Dr. Nudelman was the president and chief executive officer of Group Health Cooperative of Puget Sound, a health maintenance organization. Dr. Nudelman received his B.S. degree

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in microbiology, zoology and pharmacy from the University of Washington, and holds an M.B.A. and a Ph.D. in health systems management from Pacific Western University.

Directors Continuing in Office Until the 2008 Annual Meeting Class II Directors

Dr. Bianco is our principal founder and has been our president and chief executive officer since February 1992 and one of our directors since our inception in September 1991. Prior to founding CTI, Dr. Bianco was an assistant professor of medicine at the University of Washington, Seattle, and an assistant member in the clinical research division of the Fred Hutchinson Cancer Research Center. From 1990 to 1992, Dr. Bianco was the director of the Bone Marrow Transplant Program at the Veterans Administration Medical Center in Seattle. Dr. Bianco currently serves on the board of directors of Jose Carreras International Leukemia Foundation, Fred Hutchinson Business Alliance, Arts Fund, Seattle Police Foundation and Marsha Rivkin Center for Ovarian Cancer Research. Dr. Bianco received his B.S. degree in biology and physics from New York University and his M.D. from Mount Sinai School of Medicine. Dr. Bianco is the brother of Louis A. Bianco, our executive vice president, finance and administration.

Dr. Gregorian has been one of our directors since December 2001. He is the twelfth president of Carnegie Corporation of New York, a grant-making institution founded by Andrew Carnegie in 1911. Prior to his current position, which he assumed in June 1997, Dr. Gregorian served for eight years as Brown University's sixteenth president. He was awarded a Ph.D. in history and humanities from Stanford University. A Phi Beta Kappa and a Ford Foundation Foreign Area Training Fellow, he is a recipient of numerous fellowships, including those from the John Simon Guggenheim Foundation, the American Council of Learned Societies, the Social Science Research Council and the American Philosophical Society.

Director Independence

The board of directors has determined that two of the three directors standing for election have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and meet the requirements of independence as set forth in the rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market listing standards. Furthermore, the board of directors has determined that the following four out of the six current members of the Board meet the requirements of independence as set forth in the rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market listing standards: John H. Bauer, Vartan Gregorian, Ph.D., Mary O. Mundinger, Dr. PH and Phillip M. Nudelman, Ph.D.

Board of Directors and Committee Meetings

Our board of directors held 20 meetings during the year ended December 31, 2005. Each of the directors attended at least 75% of the total number of meetings of the board of directors and the total number of meetings held by all committees of the board of directors during the time which they served, with the exception of Mr. Bauer, who was unable to attend one of the meetings of the board of directors held subsequent to his appointment due to extenuating circumstances. Our policy is to encourage attendance at the annual meeting. All of our directors in office at the time of our 2005 Annual Meeting were in attendance at our 2005 Annual Meeting.

The board of directors has three standing committees: an audit committee, a compensation committee and a nominating and governance committee.

Audit Committee

The audit committee has responsibility for assisting the board of directors in fulfilling its responsibilities related to our corporate accounting and reporting practices and the quality and integrity of our financial reporting. The composition of the audit committee and the attributes of its members, and the responsibilities of

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the audit committee as reflected in its charter adopted by our board of directors, are intended to be in accordance with Securities and Exchange Commission rules and Nasdaq listing requirements with regard to corporate audit committees. The board of directors has adopted a written charter for the audit committee, a copy of which was included as an appendix to our definitive proxy statement filed on May 14, 2003 and which is available on our website at www.cticseattle.com.

The audit committee held 15 meetings during the year ended December 31, 2005. The audit committee currently consists of three non-employee directors: Mr. Bauer, Dr. Gregorian and Dr. Nudelman.

The board of directors has determined that each of the current members of the audit committee meets the requirements of independence as set forth in Section 10A(m)(3) of the Securities Exchange Act of 1934, the rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market listing standards. Additionally, the board of directors has determined that Mr. Bauer qualifies as an audit committee financial expert as defined under the rules and regulations of the SEC and that he has accounting and related financial management expertise within the meaning of the Nasdaq Stock Market listing standards.

Compensation Committee

The compensation committee has broad responsibility for assuring that our executive officers, including our chief executive officer, are effectively compensated in terms of salaries, supplemental compensation and benefits that are internally equitable and externally competitive. The compensation committee also administers our 2003 and 1994 Equity Incentive Plans, our Cell Therapeutics, Inc. Novuspharma S.p.A. Stock Option Plan (Novuspharma Plan) and our 1996 Employee Stock Purchase Plan. The compensation committee held 11 meetings during the year ended December 31, 2005. The compensation committee currently consists of three non-employee directors: Dr. Gregorian, Dr. Munding and Dr. Nudelman, all of whom meet the requirements of independence as set forth in the rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market listing standards. The compensation committee has a written charter, which is available at our website at www.cticseattle.com.

Nominating and Governance Committee

The nominating and governance committee ensures that the board of directors is properly constituted in addition to evaluating both the composition and governance of our board of directors and our corporate governance. The nominating and governance committee also oversees the board evaluation process. Three meetings of the nominating and governance committee were held during the year ended December 31, 2005. The nominating and governance committee currently consists of three non-employee directors: Drs. Gregorian, Munding and Nudelman, all of whom meet the independence requirements as set forth in the rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market listing standards. The nominating and governance committee has a written charter, which is available at our website at www.cticseattle.com.

Meetings of Non-Management Directors

Our non-management directors meet in executive session at each regularly scheduled board meeting, without management present.

Consideration of Director Nominees

A shareholder may recommend a person as a nominee for director by writing to the secretary of the company. Director nominations intended for inclusion in next year's proxy statement pursuant to SEC Rule 14a-8 should be sent to the Secretary of CTI at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119 and must be received by December 28, 2006. Under CTI's bylaws, notice of any other shareholder proposal or the nomination of a candidate for election as a director to be made at the 2007 Annual Meeting of Shareholders (but not included in the proxy statement) must be received by March 25, 2007 (not less than 90 days prior to the

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first anniversary of the previous year's Annual Meeting) and must comply with the bylaws. As set forth in the company's bylaws, each notice of nomination should contain the following information: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated, by the board of directors; and (e) the consent of each nominee to serve as a director of the company if so elected. All the director nominees named in the proxy statement met the board's criteria for membership and were recommended by the nominating and governance committee for election by shareholders at this Annual Meeting.

The nominating and governance committee considers shareholder recommendations of nominees for election to the board of directors if they are accompanied by a comprehensive written resume of the recommended nominee's business experience and background and a consent in writing signed by the recommended nominee that he or she is willing to be considered as a nominee and, if nominated and elected, he or she will serve as a director. Shareholders should send their written recommendations of nominees accompanied by the aforesaid documents to the principal executive offices of the company addressed to: Cell Therapeutics, Inc., 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, attention: Secretary.

John H. Bauer was appointed by the board of directors in October 2005, pursuant to a recommendation from the nominating and governance committee, to fill a vacancy on the board of directors created by the resignation of directors in August 2005. Mr. Bauer currently stands for election to the board of directors as part of Proposal 1. Mr. Bauer was interviewed by our chief executive officer, Dr. Bianco, and one of our non-management directors, Dr. Nudelman, and was recommended to the nominating and governance committee by Dr. Nudelman.

Communicating Concerns to Directors

Shareholders and other interested parties may communicate with our board of directors and the chairman by writing to Dr. Nudelman, c/o Cell Therapeutics, Inc., General Counsel, 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119. The General Counsel will perform a legal review in the normal discharge of his duties to ensure that communications forwarded to Dr. Nudelman are appropriate. Items that are unrelated to the duties and responsibilities of the board of directors such as mass mailings, junk mail, personal employee complaints not related to accounting, internal controls, auditing or officer conduct (which are reviewed and forwarded by the General Counsel pursuant to the terms of our Whistle Blower Policy), inquiries regarding clinical trials or our operations generally, job inquiries, surveys, business solicitations or advertisements will not be forwarded to Dr. Nudelman. In addition, material that is hostile, threatening or similarly unsuitable will not be forwarded to Dr. Nudelman. Any communication that is relevant to the conduct of CTI's business and is not forwarded will be retained for one year and made available to Dr. Nudelman and any other independent director on request. The independent directors have granted the General Counsel discretion to decide what correspondence shall be forwarded to Dr. Nudelman and what shall be shared with CTI management, in all cases with specific instructions that any personal employee complaints be forwarded as set forth in our Whistle Blower Policy.

Director Resignation

On August 19, 2005, Silvano Spinelli resigned as a director of CTI effective immediately. In written correspondence provided by Mr. Spinelli to CTI concerning the circumstances of his resignation, he stated that he disagreed with the decision by the board of directors to not replace the current Chief Executive Officer. A copy of this written correspondence was included as Exhibit 17.1 to our Current Report on Form 8-K filed on August 22, 2005.

Table of Contents**Non-Employee Director Compensation**

Directors who are also our employees are not paid an annual retainer, nor are they compensated for serving on the board. Information regarding compensation otherwise received by our directors who are also executive officers is provided under the heading "Compensation of Executive Officers" on page 37 of this proxy statement. As increased by our board of directors effective for meetings after February 17, 2006 and presented for shareholder approval as part of Proposal 4, our non-employee directors are paid meeting fees as follows:

	Annual Cash	Meeting Fees (\$)		Telephone Meeting Fees (\$)	
	Retainer (\$)	Board	Committee	Board	Committee
Board Member	25,000(1)	1,500		1,000	
Chairman of the Board	Plus 22,000	1,500		1,000	
Audit Committee Member	Plus 1,000		500		500
Audit Committee Chair	Plus 7,500(2)		500		500
Compensation Committee Member	Plus 1,000		500		500
Compensation Committee Chair	Plus 5,000(2)		500		500
Other Board Committee Member	Plus 1,000		500		500
Other Board Committee Chair	Plus 2,500(2)		500		500

(1) Prior to February 17, 2006, members of the board of directors were paid an annual cash retainer of \$18,000.

(2) Prior to February 17, 2006, the chairperson of a committee of the board of directors was paid an annual cash retainer of \$1,000.

In addition, all non-employee directors are reimbursed for their expenses incurred in attending board meetings.

During 2005, pursuant to our 2003 Equity Incentive Plan, each non-employee director also received one of the following fully-vested option grants:

Grant Type	Option Grants
Initial Grant Upon Appointment Directors (1)	15,000
Annual Grant Continuing Directors	12,000
Annual Grant Continuing Chairman of the Board	15,000

(1) After February 17, 2006, and subject to shareholder approval of this Proposal 4, new non-employee directors receive options to purchase 24,000 shares of our common stock on the date such director first becomes a non-employee director, which options become vested after one year provided that such director remains an eligible non-employee director on such anniversary.

Each of these options granted during 2005 had an exercise price that ranged from \$2.43 to \$8.14 and was equal to 100% of the fair market value on the date of grant. These options have a term of ten years measured from the grant date, subject to early termination if the optionee ceases serving as a director.

During 2005, pursuant to our 2003 Equity Incentive Plan, each non-employee director also received one of the following restricted stock awards, such restricted stock awards becoming fully-vested on the one year anniversary of the grant date.

Award Type	Restricted Stock
Initial Award Upon Appointment Directors	2,500
Annual Award Continuing Directors	2,500

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We provide liability insurance for our officers and directors. Our current coverage is through various underwriters, and extends until October 9, 2006 at an annual cost of approximately \$2.1 million. For further discussion of the liability insurance provided to our officers and directors, please see the heading **Indemnification Agreements with Directors and Officers** on page 50 of this proxy statement.

The following table provides the actual compensation received by our non-employee directors over the course of the last fiscal year.

2005 Non-Employee Director Compensation

Name	Annual Retainer	Board of Directors Meeting Fees	Committee Meeting Fees	Option Grants	Restricted Stock Grants
John H. Bauer (1)	\$ 5,000	\$ 2,500	\$ 1,000	15,000	2,500
John M. Fluke, Jr. (2)	14,672	14,500	6,000		
Vartan Gregorian, Ph.D	19,750	18,000	7,000	12,000	2,500
Max E. Link, Ph.D (3)	33,250	17,500	9,000	15,000	2,500
Mary O. Mundinger, Dr. PH	20,250	21,000	8,000	10,000	
Phillip M. Nudelman, Ph.D	28,500	21,500	12,000	10,000	
Erich Platzer, M.D. (2)	12,500	12,000	500	10,000	

(1) Joined the board of directors on October 17, 2005.

(2) Resigned from the board of directors on August 19, 2005.

(3) Resigned from the board of directors on September 30, 2005.

If Proposal 4 is approved by our shareholders, non-employee director equity compensation will continue as presented above. If Proposal 4 is not approved by our shareholders, the board of directors will reconsider the compensation provided to non-employee directors and determine whether or not to make any adjustments.

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PROPOSAL 2
APPROVAL OF AN AMENDMENT TO OUR
ARTICLES OF INCORPORATION
TO INCREASE THE NUMBER OF AUTHORIZED SHARES

Summary

We are asking our shareholders to approve the amendment of our amended and restated articles of incorporation to increase the number of shares of our common stock authorized for issuance from 200,000,000 shares to 350,000,000 shares. The additional common stock to be authorized by adoption of the amendment would have rights identical to our currently outstanding common stock.

Article II of our amended and restated articles of incorporation currently authorizes us to issue up to 200,000,000 shares of our common stock, no par value, and 10,000,000 shares of our preferred stock, no par value. Our common stock is all of a single class, with equal voting, distribution, liquidation and other rights. As of April 17, 2006, 102,889,997 shares of common stock were issued and outstanding, no shares of Series C preferred stock were issued and outstanding, 6,767,811 shares of common stock were reserved for issuance under our 1994 Equity Incentive Plan, 2003 Equity Incentive Plan and the Novuspharma S.p.A. Stock Option Plan, warrants to purchase 800,000 shares of our common stock were issued and outstanding, 6,692,500 shares of our common stock were reserved for issuance upon conversion of our 5.75% convertible senior subordinated notes due June 15, 2008, 871,765 shares of our common stock were reserved for issuance upon conversion of our 5.75% convertible subordinated notes due June 15, 2008, 4,085,188 shares of our common stock were reserved for issuance upon conversion of our 4% convertible senior subordinated notes due 2010, 7,169,976 shares of our common stock were reserved for issuance upon conversion of our 6.75% convertible senior notes due October 31, 2010 and 31,731,552 shares of our common stock were reserved for issuance upon conversion of our 7.5% convertible senior notes due April 30, 2011. Adoption of this proposed amendment would not affect the rights of the holders of our currently outstanding common stock.

We anticipate that we may issue additional shares of common stock in the future in connection with one or more of the following:

- acquisitions;
- strategic investments;
- partnerships, collaborations and other similar transactions;
- corporate transactions, such as stock splits or stock dividends;
- financing transactions, such as public or private offerings of common stock or convertible securities;
- our stock incentive plans; and
- other corporate purposes that have not yet been identified.

As of April 28, 2006, we had approximately 42.7 million authorized, unissued and unreserved shares of common stock. In order to provide our board of directors with certainty and flexibility to undertake such transactions to support our future business growth, our board of directors deems it is in the best interests of our shareholders and the company to increase the number of authorized shares of our common stock.

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Vote Required and Board of Directors Recommendation

Approval of the amendment to our amended and restated articles of incorporation requires the affirmative vote of holders of a majority of the shares of common stock that are entitled to vote at the Annual Meeting.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE
PROPOSAL TO AMEND OUR ARTICLES OF INCORPORATION TO INCREASE THE
NUMBER OF AUTHORIZED SHARES.**

If this Proposal 2 is adopted, the additional authorized shares of common stock would become issuable upon the approval of our board of directors at such times, in such amounts, and upon such terms as our board of directors may determine, without further approval of the shareholders, unless such approval is expressly required by applicable law, regulatory agencies, the Nasdaq stock market, the Nuovo Mercato or any other exchange or quotation service on which our common stock may then be listed. Furthermore, current shareholders will have no preemptive rights to purchase additional shares. Shareholder approval of this amendment will not, by itself, cause any change in our capital accounts. However, any future issuance of additional shares of common stock authorized pursuant to this Proposal 2 would ultimately result, in dilution of existing shareholders' equity interests.

The proposed form of amended and restated articles of incorporation is attached to this proxy statement/prospectus as *Appendix A*, and includes changes as set forth in this Proposal 2, in addition to generally amending and restating our articles of incorporation into one document for ease of reference and clarity. If the proposed amended and restated articles of incorporation are adopted, they will become effective upon filing of our Amended and Restated Articles of Incorporation with the Secretary of State of the State of Washington.

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PROPOSAL 3

APPROVAL OF AN AMENDMENT TO THE 1996 EMPLOYEE STOCK PURCHASE PLAN

Summary

We are asking our shareholders to approve the amendment and restatement of our 1996 Employee Stock Purchase Plan, which we will refer to as the employee plan. Our board of directors unanimously authorized an amendment to the employee plan, subject to shareholder approval at the Annual Meeting, to extend the term of the employee plan from ten years from the date of the approval of the employee plan by our shareholders, or April 29, 2006, to twenty years from the date of the approval of the employee plan by our shareholders, or April 29, 2016.

We believe the employee plan is an important component of our employee compensation package. Approximately 49% of our employees were eligible to participate in, and 9% of our employees elected to participate in, the employee plan during the most recent purchase period. We also believe that the employee plan assists us in attracting and retaining skilled personnel. The essential features of the employee plan are summarized below. The employee plan is intended to be an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended.

Vote Required and Board of Directors Recommendation

Approval of an amendment to the employee plan requires the affirmative vote of the holders of a majority of the shares of common stock voting on this Proposal 3 in person or by proxy and entitled to vote at the Annual Meeting. In the event the shareholders fail to approve the amendment to the employee plan, the board of directors will reconsider the necessity of the employee plan and determine whether or not to allow the employee plan to terminate. Even if the amendment is approved, the board of directors may, pursuant to the terms of the employee plan and subject to the rules of the Nasdaq Stock Market, make any other changes to the employee plan that it feels would be in our and our shareholders best interests.

The amendment to the employee plan impacts each member of our executive officers, and thus each of our executive officers has a personal interest in this proposal and its approval by our shareholders.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE
PROPOSAL TO AMEND THE 1996 EMPLOYEE STOCK PURCHASE PLAN TO EXTEND
THE TERM OF THE PLAN.**

Summary of the 1996 Employee Stock Purchase Plan

The following paragraphs provide a summary of the principal features of the 1996 Employee Stock Purchase Plan, as proposed to be amended, and its operation. The following summary is qualified in its entirety by reference to the employee plan, as proposed to be amended, as set forth in *Appendix B*.

Background and Purpose

The employee plan was originally adopted by our board of directors in March 1996 and initially approved by our shareholders in April 1996 and provides our employees with the opportunity to purchase shares of common stock through payroll deductions. The purposes of the employee plan are to encourage ownership of our common stock by our employees and to provide additional incentives to our employees to promote the success of our business. Under the employee plan, participants may purchase our common stock at a discount.

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Shares Available for Issuance

There are 735,714 shares of our common stock available for issuance under the employee plan. As of December 31, 2005, 490,755 shares of common stock had been sold under the employee plan, leaving 244,959 shares available for purchase.

Administration

The employee plan shall be administered by a committee of the board of directors consisting of not less than two non-employee directors, which shall determine from time to time whether to grant options to purchase shares under the employee plan as of any date otherwise qualifying as an offering commencement date. The committee further determines which, if any, of our affiliates may be participating employers whose employees may participate in the employee plan as of each offering commencement date. The committee shall have authority in its discretion to interpret the employee plan, to prescribe, amend and rescind rules and regulations relating to determining the terms of options to purchase shares granted under the employee plan, and to make all other determinations necessary or advisable for the administration of the employee plan. Any determination of the committee shall be final and binding upon all persons having or claiming any interest under the employee plan or under any options to purchase shares granted pursuant to the employee plan.

Eligibility and Participation

Employees who customarily work more than twenty hours per week and more than five months per calendar year may participate in the employee plan. Participation in the employee plan is voluntary. No participant may purchase shares if immediately after such purchase, the participant would own stock and/or outstanding options to purchase stock comprising 5% or more of the total combined voting power of our stock or of any of our affiliates. In addition, no participant is permitted to purchase stock under the employee plan with a value in excess of \$25,000 (determined at the fair market value of the stock at the time such option to purchase shares is granted) in any calendar year.

Offering Dates

Shares of stock are offered for purchase on the first business day of each new six month offering period. New offering periods start on each January 1 and July 1.

Purchase Price

The purchase price per share is 85% of the lower of (a) the fair market value per share on the commencement date of the applicable offering period, or (b) the fair market value of the stock on the last business day of the applicable offering period.

Payroll Deductions

Employees may authorize payroll deductions in 1% multiples of base salary for each payroll period, up to a maximum of 10% of his or her base salary. An employee may discontinue his or her participation in the employee plan at any time.

Purchase of Stock

By executing an enrollment form, an employee is entitled to purchase shares of our common stock on the last day of the offering period. The maximum number of shares that may be purchased during an offering period is determined by dividing the amount collected from the participant through payroll deductions during the offering period by the purchase price in effect for that offering termination date, subject to a maximum of 800 shares. Unless the employee's participation is discontinued prior to such purchase date, his or her purchase of the shares will occur automatically on the last day of the offering period at the applicable price.

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Withdrawal

Generally, a participant may withdraw from an offering period at any time by written notice without affecting his or her eligibility to participate in future offering periods. However, once a participant withdraws from a particular offering period, that participant may not participate again in the same offering period. To participate in a subsequent offering period, the participant must deliver a new enrollment agreement to us.

Termination of Employment

Termination of a participant's employment for any reason, including death, retirement, voluntary severance or involuntary severance, cancels his or her option to purchase shares and participation in the employee plan immediately. In such event, the payroll deductions credited to the participant's account will be returned to him or her or, in the case of an employee's death, to the person or persons entitled thereto as provided in the employee plan.

Leave of Absence

A participant will be deemed to be employed throughout any leave of absence or military service, illness, or other bona fide purpose which does not exceed the longer of 90 days or the period during which the participant's reemployment rights are guaranteed by statute or contract. If the participant does not return to active employment prior to the termination of such period, his or her employment will be deemed to have ended on the 91st day of such leave of absence.

Restrictions on Transfer

Options may not be assigned, transferred, pledged, or otherwise disposed of, except by will, or under the laws of descent and distribution. An option may not be exercised by anyone other than the participant.

Changes in Capitalization

The number of shares reserved under the employee plan, the limit on the number of shares which may be purchased during the accumulation period and the purchase price per share of common stock under the employee plan shall be appropriately adjusted for the payment of a stock dividend or any increase or decrease in the number of outstanding shares of our common stock resulting from a split-up or contraction of shares, in order to prevent the dilution or enlargement of benefits thereunder.

Change of Control

In the event of a change of control (as defined in the employee plan), the board of directors shall, in its sole discretion, either (a) provide that shares granted under the employee plan shall be purchasable to the extent of each participant's accumulated payroll deductions for the offering period in effect as of a date prior to the change in control or (b) arrange with the surviving, continuing, successor or purchasing corporation, as the case may be, that such corporation assume our rights and obligations under the employee plan.

Dissolution or Liquidation

In the event of our dissolution or liquidation, except pursuant to a transaction to which Section 424(a) of the Internal Revenue Code applies, each option to purchase shares of our common stock will terminate; however, the participant has the right to purchase shares prior to such dissolution or liquidation.

Amendment and Termination of the Employee Plan

The board of directors may terminate or amend the employee plan at any time and from time to time (subject to shareholder consent as may be required by applicable law). No termination of or amendment to the employee plan may materially and adversely affect the rights of a participant as of the date of such termination or amendment without the participant's consent.

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Federal Income Tax Consequences

The proposed amendment will have no effect upon the tax consequences to participants or us. The following brief summary of the effect of federal income taxation upon the participant and us with respect to the shares purchased under the employee plan does not purport to be complete, and does not discuss the tax consequences of a participant's death or the income tax laws of any state or foreign country in which the participant may reside.

The employee plan, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Section 423 of the Internal Revenue Code. Under these provisions, no income will be taxable to a participant until the shares purchased under the employee plan are sold or otherwise disposed of. Upon sale or other disposition of the shares, the participant will generally be subject to tax in an amount that depends upon the holding period applicable to such shares. If the shares are sold or otherwise disposed of more than two years after the first day of the particular offering period in which such shares were acquired and more than one year after the actual purchase date, the participant will recognize ordinary income measured as the lesser of (a) the excess of the fair market value of the shares at the time of such sale or disposition over the purchase price, or (b) an amount equal to 15% of the fair market value of the shares as of the first day of the applicable offering period in which such shares were acquired. Any additional gain will be treated as long-term capital gain. If the shares are sold or otherwise disposed of before the expiration of aforementioned holding periods, the participant will recognize ordinary income generally measured as the excess of (a) the fair market value of the shares on the date the shares are purchased over (b) the purchase price. Any additional gain or loss on such sale or disposition will be capital gain or loss, which will be long-term if the shares are held for more than one year. We generally are not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant except to the extent of ordinary income recognized by participants upon a sale or disposition of shares prior to the expiration of the holding periods described above.

Participation In The Employee Plan

Participation in the employee plan is voluntary and therefore the number of shares an individual employee will purchase cannot be determined in advance.

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PROPOSAL 4

APPROVAL OF AN AMENDMENT TO THE

2003 EQUITY INCENTIVE PLAN

Summary

We are asking our shareholders to approve the amendment and restatement of our 2003 Equity Incentive Plan (the "2003 Plan"). The 2003 Plan was adopted by our board of directors in May 2003, approved by our shareholders in June 2003 and amended by our shareholders in June 2004.

On February 17, 2006, our board of directors unanimously amended the 2003 Plan, pursuant to the authority granted to the board of directors under the 2003 Plan, to:

- (1) increase the number of shares subject to the initial automatic grant of nonqualified stock options to non-employee directors joining the board of directors from 15,000 shares to 24,000 shares;
- (2) change the vesting of such initial grant from being fully vested at the date of grant to becoming vested after one year of service on the board of directors;
- (3) change, in part, the expiration of all vested option grants to non-employee directors from (i) three months following the cessation of such director's service on the board of directors for any reason other than such director's death or disability and (ii) one year following the cessation of such director's service on the board of directors by reason of death or disability to three years following the cessation of such director's service on the board of directors in all cases; and
- (4) alter the formula whereby directors may convert cash compensation into shares of our common stock from an option pricing model determined by the board of directors to a rate of \$3 in option grant value for every \$1 in cash so converted.

Our board of directors has also unanimously authorized an amendment to the 2003 Plan, subject to shareholder approval, to:

- (1) increase the number of shares authorized for issuance under the 2003 Plan from 6,443,289 shares (including 293,289 shares reserved, but not issued, under our 1994 Equity Incentive Plan, which was terminated when the 2003 Plan became effective) to 12,443,289 shares; and
- (2) increase the maximum number of shares that may be issued pursuant to all awards granted to an individual in any one fiscal year under the 2003 Plan in any fiscal year from 500,000 shares to 750,000 shares.

In January 2006, our board of directors engaged an independent external compensation consultant to evaluate our non-employee director compensation program for appropriateness and market competitiveness. The consultant determined that our total non-employee director compensation, while above the median when compared to our peer companies after adjusting the value of the equity-based component of our non-employee director compensation package to reflect our current market capitalization, could be adjusted upwards to make service on our board of directors more attractive to potential candidates. In addition, we only provide three months to exercise vested options after the cessation of service on the board of directors for reasons other than death or disability, a short exercise period when compared to peer companies which could cause directors to consider service decisions in the context of market timing.

We believe strongly that the approval of the 2003 Plan, as proposed to be amended and restated, is essential to our continued success. We believe that stock-based awards focus our directors on the objective of creating and maintaining shareholder value and promoting our success, and that the automatic award of stock options and restricted stock are an important attraction, retention and motivation tool for our

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non-employee directors. The amendments relating to non-employee director compensation were approved by our board of directors based in substantial part on the findings from the analysis performed by the external consultant. In addition, the proposed amendment increasing the number of shares authorized for issuance under the 2003 Plan ensures our ability to

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continue to grant stock options and other awards, which are vital to our ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we must compete. Our employees are our most valuable asset, and such awards also are crucial to our ability to motivate individuals in our service to achieve our goals.

Vote Required and Board of Directors Recommendation

Approval of these amendments to the 2003 Plan requires the affirmative vote of the holders of a majority of the shares of our common stock that are voting on this Proposal 4 in person or by proxy and entitled to vote at the Annual Meeting. In the event the shareholders fail to approve the amendments to the 2003 Plan, the board of directors will reconsider the compensation provided to non-employee directors and determine whether or not to make any adjustments. Even if the amendments to the 2003 Plan are approved, the board of directors may, pursuant to the terms of the 2003 Plan and subject to the rules of the Nasdaq Stock Market, make any other changes to the 2003 Plan that it feels would be in our and our shareholders' best interests.

The amendments to the 2003 Plan impact each member of our board of directors and our executive officers and thus each of our directors and executive officers has a personal interest in this proposal and its approval by our shareholders.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE
APPROVAL OF THE AMENDMENT TO THE 2003 EQUITY INCENTIVE PLAN.**

Summary of the 2003 Equity Incentive Plan

The following is a summary of the principal features of the 2003 Plan and its operation, as proposed to be amended and restated. Because it is not a complete description of all of the terms and conditions of the Plan, the summary is qualified in its entirety by reference to the full text of the Plan, as proposed to be amended and restated in its entirety, as set forth in *Appendix C*.

Background and Purpose of the Plan

The 2003 Plan is intended to attract, motivate and retain employees, consultants and non-employee directors who provide significant service to us and to encourage their stock ownership in CTI. We believe that, over the years, our stock plans have made a significant contribution to the success of our business by increasing our ability to attract and retain highly competent individuals on whose judgment, initiative, leadership, and continued efforts the growth and profitability of CTI depend.

Types of Awards Granted Under the Plan

The 2003 Plan permits the grant of the following types of incentive awards: (1) stock options, (2) stock appreciation rights and (3) restricted stock (individually, an Award).

Administration of the Plan

A committee of at least two non-employee members of our board of directors (the Committee) administers the 2003 Plan. To make grants to certain of our officers and key employees, the members of the Committee must qualify as non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934, and as outside directors under Section 162(m) of the Internal Revenue Code (so that we can receive a federal tax deduction for certain compensation paid under the Plan).

With the exception of automatic option and restricted stock grants to our non-employee directors, and subject to the terms of the 2003 Plan, the Committee has the sole discretion to select the employees, consultants and directors who will receive Awards, to determine the terms and conditions of such Awards (for example, the number of shares subject to an Award, the exercise price, and vesting schedule), to interpret the provisions of the

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2003 Plan and outstanding Awards, to amend outstanding awards (including the authority to accelerate vesting), to reduce the exercise price of any outstanding Award (subject to required shareholder consent), or to extend an option's post-termination exercise period (but not beyond the original option term). The automatic grant of stock options and restricted stock awards to non-employee directors (described below) is to the maximum extent possible, self effectuating.

The Committee may delegate any part of its authority and powers under the 2003 Plan to one or more of our directors and/or officers, but only the Committee itself can make Awards to participants who are executive officers of the Company. References to the Committee in this proposal include the Committee and any directors or officers to whom the Committee properly delegates authority.

Authorized Shares

The aggregate number of shares of our common stock that currently may be issued or delivered pursuant to all Awards under the Plan is 6,443,289 shares. If this Proposal 4 is approved, the aggregate number of shares of our common stock that may be issued or delivered pursuant to all Awards under the 2003 Plan will increase to 12,443,289 shares. Various additional share limits will be imposed. A maximum of:

- 8,500,000 shares may be granted pursuant to Awards of restricted stock with a purchase price that is less than 100% of the fair market value on the date of grant; and
- 750,000 shares may be issued pursuant to all Awards to an individual in any given year.

As is customary in incentive plans of this nature, if we experience a stock dividend, stock split, reverse stock split, reorganization or other change in our capital structure, the Committee has discretion to adjust the number and class of shares available for issuance under the 2003 Plan, the number and class of shares covered by each outstanding Award, and the per person limits on Awards, as appropriate to reflect the stock dividend or other change.

If an Award expires or is cancelled without having been fully exercised or vested, the unvested or cancelled shares generally will be returned to the available pool of shares reserved for issuance under the Plan.

Eligibility to Receive Awards

The Committee selects the employees, consultants and directors who will be granted discretionary Awards under the 2003 Plan. As of March 15, 2006, approximately 187 officers and employees of CTI, including all of our named executive officers, and all of our non-employee directors were considered eligible to receive discretionary Awards under the Plan. The actual number of individuals who will receive an Award under the 2003 Plan cannot be determined in advance because the Committee has the discretion to select the participants. In addition, all of our non-employee directors were eligible for Awards under the non-employee director program described below.

Stock Options

A stock option is the right to acquire shares of our common stock at a fixed exercise price for a fixed period of time. Under the 2003 Plan, the Committee may grant nonqualified stock options and/or incentive stock options (which entitle employees, but not the Company, to more favorable tax treatment). The Committee will determine the number of shares covered by each option.

The exercise price of the shares subject to each option is set by the Committee but generally cannot be less than 100% of the fair market value on the date of grant. In addition, the exercise price of an incentive stock option must be at least 110% of fair market value (on the grant date) if the participant owns stock possessing more than 10% of the total combined voting power of all classes of our stock or any of our subsidiaries. The aggregate fair market value of the shares (determined on the grant date) covered by incentive stock options which first become exercisable by any participant during any calendar year also may not exceed \$100,000. Any shares in excess of this limit will be treated as a nonstatutory stock option. If the employee holds more than one incentive stock option, the incentive stock options are considered in the order in which they were granted.

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An option granted under the 2003 Plan cannot generally be exercised until it becomes vested. The Committee establishes the vesting schedule of each option at the time of grant. Options become exercisable at the times and on the terms established by the Committee. Options granted under the 2003 Plan expire at the times established by the Committee, but not later than 10 years after the grant date (such term is limited to five years in the case of an incentive stock option granted to a participant who owns stock possessing more than 10% of the total combined voting power of all classes of our stock or any of our subsidiaries). The Committee may determine the effect of termination of employment or service on the rights and benefits under options and in doing so may make distinctions based upon the cause of termination or other factors.

The exercise price of each option granted under the 2003 Plan must be paid in full at the time of exercise. The Committee also may permit payment through the tender of shares that are already owned by the participant, or by any other means which the Committee determines to be consistent with the purpose of the Plan. The participant must pay any taxes we are required to withhold at the time of exercise.

Stock Appreciation Rights

Awards of stock appreciation rights may be granted in connection with all or any part of an option, either concurrently with the grant of an option or at any time thereafter during the term of the option, or may be granted independently of options. The Committee has complete discretion to determine the number of stock appreciation rights granted to any employee, consultant or director.

The Committee determines the terms of stock appreciation rights, except that the exercise price of a stock appreciation right that is granted independently of an option may not be less than 100% of the fair market value of the shares on the date of grant and the exercise price of a stock appreciation right that is granted in connection with an option may not be less than the exercise price of the related option. In addition, the Committee may determine the effect of termination of employment or service on the rights and benefits under stock appreciation rights and in doing so may make distinctions based upon the cause of termination or other factors.

A stock appreciation right granted in connection with an option will entitle the participant to exercise the stock appreciation right by surrendering to the Company a portion of the unexercised related option. The participant will receive in exchange from the Company an amount equal to the excess of the fair market value of the shares on the date of exercise of the stock appreciation right covered by the surrendered portion of the related option over the exercise price of the shares covered by the surrendered portion of the related option. When a stock appreciation right granted in connection with an option is exercised, the related option, to the extent surrendered, will cease to be exercisable. A stock appreciation right granted in connection with an option will be exercisable until, and will expire no later than, the date on which the related option ceases to be exercisable or expires.

Stock appreciation rights may also be granted independently of options. Such a stock appreciation right will entitle the participant, upon exercise, to receive from the Company an amount equal to the excess of the fair market value of the shares on the date of exercise over the exercise price. A stock appreciation right granted without a related option will be exercisable, in whole or in part, at such time as the Committee will specify in the stock appreciation right agreement.

The Company's obligation arising upon the exercise of a stock appreciation right may be paid in shares, in cash, or any combination thereof, as the Committee may determine.

Restricted Stock

Awards of restricted stock are shares that vest in accordance with the terms and conditions established by the Committee. The Committee will determine the number of shares of restricted stock granted to any employee, consultant or director, and the other terms of the Award (including the purchase price, if any).

In determining whether an Award of restricted stock should be made, and/or the vesting schedule for any such Award, the Committee may impose whatever conditions to vesting as it determines to be appropriate. For

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example, the Committee may determine to grant an Award of restricted stock only if the participant satisfies performance goals established by the Committee. Unless the Committee otherwise provides, a restricted stock award confers voting and dividend rights prior to vesting.

Non-employee Director Stock Options

Under the 2003 Plan, our non-employee directors will receive annual, automatic, non-discretionary grants of nonqualified stock options and restricted stock. The Committee does not have discretion to select which non-employee directors will be granted automatic options and restricted stock awards, or to determine the number of shares to be covered by the automatic option and restricted stock awards.

Each new non-employee director will automatically be granted a nonqualified stock option to purchase 24,000 shares as of the date he or she first becomes a non-employee director that will vest after one year. In addition, on each anniversary of his or her election or appointment to the board of directors thereafter during the term of the 2003 Plan, each non-employee director also will automatically be granted a fully vested nonqualified stock option to purchase 12,000 shares (15,000 shares for the then current Chairman of our board of directors), provided that he or she remains an eligible non-employee director on each such anniversary.

Each option granted to a non-employee director will have an exercise price equal to 100% of the fair market value of the common stock on the grant date. Each option granted to a non-employee director will expire 10 years after the date of grant. If a non-employee director's service on the board of directors is terminated for any reason, the vested option will remain exercisable for three years after such termination or until the expiration of the option's stated term, whichever first occurs. The exercise price of each option must be paid in full at the time of exercise. The Committee also may permit payment through the tender of shares that are already owned by the non-employee director, or by any other means which the Committee determines to be consistent with the purpose of the 2003 Plan.

In addition to the automatic award of stock options, each new non-employee director will automatically be granted a restricted stock award of 2,500 restricted shares as of the date he or she is first appointed as a non-employee director. In addition, on each anniversary of his or her election or appointment to the board of directors that occurs after the Annual Meeting during the term of the 2003 Plan, each non-employee director will automatically be granted a restricted stock award of 2,500 restricted shares of our common stock, provided that he or she remains an eligible non-employee director on each such anniversary.

Each restricted stock award will vest as to 100% of the restricted shares subject to the Award on the one year anniversary of the grant date. If a non-employee director's service on the board of directors is terminated for any reason other than his or her death or disability prior to the award's vesting date, the balance of the shares of restricted stock which have not vested will be forfeited and reverted back to the Company. If a non-employee director's service on the board of directors is terminated by reason of his or her death or disability prior to the award's vesting date, the restricted stock award will become vested as to 100% of the restricted shares subject to the Award.

In addition to the automatic grant of stock option and restricted stock awards, the Committee has the discretion to permit non-employee directors to elect to forego receipt of all or a portion of any cash payments (the annual retainer, meeting fees and committee fees) otherwise due to the non-employee director in exchange for the grant of stock options or restricted stock in accordance with procedures that the Committee adopts. If the Committee permits the non-employee directors to make such an election, the number of shares of restricted stock the non-employee director would receive in lieu of cash compensation would equal the amount of foregone compensation divided by the fair market value of the common stock on the date the compensation would have otherwise been paid to the non-employee director and the number of shares subject to an option that the non-employee director would be granted in lieu of cash compensation would equal an option grant worth \$3 for every \$1 in foregone compensation. While the Committee retains the discretion to permit non-employee directors to make such elections, it has not exercised this discretion to date.

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Deferred Payments

The plan authorizes the Committee to permit the deferred payment of Awards in accordance with and subject to such rules and procedures determined by the Committee in its sole discretion.

Change of Control

In the event of a change of control of the Company, the Committee may require the successor corporation to either assume or provide a substitute award for each outstanding stock option and stock appreciation right. In the event the successor corporation refuses to assume or provide a substitute award, the Committee will provide at least 15 days notice that the options or stock appreciation rights under the 2003 Plan will immediately vest and become exercisable as to all of the shares subject to such Award and that such Award will terminate upon the expiration of such notice period. If the successor corporation assumes or provides a replacement Award and the participant is terminated for reasons other than misconduct during the 12-month period following the change of control, then such participant's options and stock appreciation rights will immediately vest and become exercisable as to all of the shares subject to such Award.

Additionally, in the event of a change of control of the Company, the Committee may require any Company repurchase or reacquisition right with respect to restricted stock to be assigned to the successor corporation. In the event the successor corporation refuses to assume any such Company repurchase or reacquisition right, such Company repurchase or reacquisition right will lapse and the participant will be fully vested in such shares of restricted stock. If the Company repurchase or reacquisition right is assigned to the successor corporation and the participant is terminated for reasons other than misconduct during the 12-month period following such change of control, then any Company repurchase or reacquisition right will lapse with respect to such participant's restricted stock (or the property for which the restricted stock was converted upon the change of control) and the participant will be fully vested in such restricted stock (or the property for which the restricted stock was converted upon the change of control).

If the Committee does not require the successor corporation to either assume or provide a substitute award for each outstanding stock option and stock appreciation right or require Company repurchase or reacquisition right with respect to restricted stock to be assigned to the successor corporation, then, unless the Committee otherwise provides, the options and stock appreciation rights will immediately vest and become exercisable as to all of the shares subject to such Award and any such Company repurchase or reacquisition right with respect to any restricted stock award will lapse and the participant will be fully vested in such shares of restricted stock.

Performance Goals

The Committee (in its discretion) may grant to eligible persons performance-based restricted stock awards that are designed to satisfy the requirements for deductibility under Section 162(m) of the Code. These Awards are in addition to options or stock appreciation rights that may also qualify as performance-based awards for Section 162(m) purposes.

The performance-based restrictions on restricted stock awards will lapse only if performance reaches specific, pre-established performance levels related to one or more Performance Goals established by the Committee. The performance levels must be approved by the Committee in advance of applicable deadlines under the Code and while the performance relating to the achievement of such performance levels remains substantially uncertain. The performance levels may be established based on one or a combination of the following Performance Goals: annual revenue, cash position, earnings per share, individual objectives, net income, operating cash flow, operating income, return on assets, return on equity, return on sales and total shareholder return. The performance-based restricted stock awards will also be subject to such other requirements determined by the Committee to be necessary or appropriate to ensure qualification of such awards as performance-based under Section 162(m) of the Code.

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Limited Transferability of Awards

Awards granted under the 2003 Plan generally may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the applicable laws of descent and distribution. However, participants may, in a manner specified by the Committee, transfer nonqualified stock options (a) pursuant to a court-approved domestic relations order relating to child support, alimony payments or marital property rights and (b) by bona fide gift (1) to a member of the participant's immediate family; (2) to a trust or other entity for the sole benefit of the participant and/or his or her immediate family; (3) to a partnership, limited liability company or other entity whose members are the participant and/or his or her immediate family or (4) to certain limited tax-qualified charities.

Amendment and Termination of the 2003 Plan

The board generally may amend, suspend or terminate the 2003 Plan at any time and for any reason (subject to shareholder consent as may be required by applicable law); provided, however, that no amendment or termination of the plan may alter or impair the rights of a participant with respect to an outstanding Award without his or her consent. Unless terminated earlier by the board of directors, the authority to grant new awards under the 2003 Plan will terminate on May 7, 2013. Outstanding awards, as well as the Committee's authority with respect thereto, generally will continue following the expiration or termination of the 2003 Plan.

Securities Underlying Awards

The closing price of a share of common stock as of April 28, 2006, was \$1.83 per share.

Federal Income Tax Consequences

The following is a brief summary of the general federal income tax consequences to U.S. taxpayers and the Company of Awards granted under the 2003 Plan. This summary does not purport to be complete and does not discuss the tax consequences of a participant's death, the tax consequences of an award that is subject to but does not satisfy the deferred compensation rules of Section 409A of the U.S. Internal Revenue Code, or the tax laws of any locality, state or foreign country in which the participant may reside. Tax consequences for any particular individual may be different. Tax consequences for any particular individual may be different.

Nonqualified Stock Options

No taxable income is recognized when a nonqualified stock option is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the shares purchased over the exercise price of the option. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Incentive Stock Options

No taxable income is recognized when an incentive stock option is granted or exercised (except for purposes of the alternative minimum tax, in which case taxation is the same as for nonqualified stock options). If the participant exercises the option and then later sells or otherwise disposes of the shares more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option and the difference (if any) between the sales price and the fair market value of the shares on the exercise date will be taxed as capital gain.

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Stock Appreciation Rights

No taxable income is recognized when a stock appreciation right is granted to a participant. Upon exercise of a stock appreciation right, the participant will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any shares received as of the payment date. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Restricted Stock

A participant will not have taxable income when restricted stock is granted unless he or she elects to be taxed at that time. Instead, he or she will recognize ordinary income at the time of vesting of the shares equal to the fair market value (on the vesting date) of the shares minus any amount paid for the shares.

Tax Effect for the Company

We generally will be entitled to a tax deduction in connection with an Award under the 2003 Plan in an amount equal to the ordinary income realized by a participant at the time the participant recognizes such income (for example, upon the exercise of a nonqualified stock option). Special rules limit the deductibility of compensation paid to our Chief Executive Officer and to each of our four most highly compensated executive officers. If compensation attributable to Awards to such individuals is not performance-based within the meaning of Section 162(m) of the U.S. Internal Revenue Code, CTI may not be permitted to deduct compensation paid to such individuals to the extent that aggregate non-performance-based compensation exceeds \$1,000,000 per individual in any tax year. Furthermore, if an Award is accelerated under the 2003 Plan in connection with a change in control (as this term is used under the U.S. Internal Revenue Code), we may not be permitted to deduct the portion of the compensation attributable to the acceleration (parachute payments) if it exceeds certain threshold limits under the U.S. Internal Revenue Code (and certain related excise taxes may be triggered).

Table of Contents**Participation in the 2003 Plan**

The board of directors has approved a grant of restricted stock to our chief executive officer under the 2003 Plan that is contingent on shareholder approval of this Proposal 4. Except for this restricted stock award, the number of Awards that an employee or consultant may receive under the 2003 Plan is at the discretion of the Committee and therefore cannot be determined in advance. The following table presents the Awards that will be granted, based on the stated assumptions, for the remaining term of the 2003 Plan, including (a) the restricted stock awards that will be allocated to our chief executive officer and (b) the stock options and restricted stock awards that will be allocated to non-employee directors pursuant to the automatic annual stock option and restricted stock award feature for the remaining term of the 2003 Plan, subject to any future amendments to the 2003 Plan.

Future Awards to be Granted Under the 2003 Plan

Name and Position	Number of Shares	Number of
	Underlying Stock	Restricted Shares
	Options (#) (1)	(#) (2)
James A. Bianco, M.D., President and Chief Executive Officer	N/A	200,000(3)
Louis A. Bianco, Executive Vice President, Finance and Administration	N/A	N/A
Jade Brown, Executive Vice President, Chief Business Officer	N/A	N/A
Jack W. Singer, M.D., Executive Vice President, Chief Medical Officer	N/A	N/A
Scott C. Stromatt, Executive Vice President, Clinical Development & Regulatory Affairs	N/A	N/A
All current executive officers as a group (six persons)	N/A	N/A
All directors (other than executive officers) as a group (four persons)	357,000(4)	70,000(5)
Each other person who is to receive 5% or more of the options, warrants or rights under the 2003 Plan	N/A	N/A
All employees, excluding executive officers, as a group (177 persons)	N/A	N/A

- (1) Represents the aggregate number of shares subject to grants of stock options from June 23, 2006 through May 7, 2013, that can be determined based on objective criteria.
- (2) Represents the aggregate number of shares subject to restricted stock awards from June 23, 2006 through May 7, 2013, that can be determined based on objective criteria.
- (3) Assumes that this Proposal 4 is approved by our shareholders. These shares vest upon the receipt of an NDA approval for XYOTAX or pixantrone from the FDA, if the approval is obtained on or before January 1, 2007. The actual number of shares subject to any other restricted stock awards to this individual under the 2003 Plan is not determinable.
- (4) Assumes, among other future variables, that that there are no new eligible directors, there continues to be four eligible directors (including one chairman of the board) seated and that the number of shares subject to each annual grant is not increased or decreased. The actual number of shares subject to stock options for initial one-time grants to new directors under this program is not determinable.
- (5) Assumes, among other future variables, that that there are no new eligible directors, there continues to be four eligible directors (including one chairman of the board) seated and that the number of shares subject to each annual grant is not increased or decreased. The actual number of shares subject to restricted stock awards for initial one-time grants to new directors under this program is not determinable.

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Other than the awards described above, the number, amount and type of awards to be received by or allocated to eligible persons under the 2003 Plan cannot be determined at this time. The Company is not currently considering any specific additional awards under the 2003 Plan. For information regarding options and restricted stock awards granted to executive officers of the Company during fiscal 2005, see the information provided under the heading "Compensation of Executive Officers" on page 37 of this proxy statement.

In implementing stock-based compensation programs, we seek to balance the need to maintain a talented resource pool in a human-intensive and highly competitive business with efforts to closely monitor and reduce our "burn rate" from stock option and restricted stock awards, where burn rate is defined as the number of options and restricted stock granted in a fiscal year divided by the gross number of shares outstanding at the end of that fiscal year. Over the last three years, our annual burn rate has averaged 5.92%. In connection with the proposal to increase the number of shares authorized for issuance under our 2003 Equity Incentive Plan, we intend to maintain a burn rate across the next three fiscal years equal to or less than 5.57%.

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PROPOSAL 5

APPROVAL OF THE ISSUANCE OF COMMON STOCK AT THE COMPANY'S

ELECTION IN CONNECTION WITH THE PAYMENT OF INTEREST AND

MAKE-WHOLE AMOUNTS THAT MAY BECOME DUE UNDER THE COMPANY'S 7.5%

CONVERTIBLE SENIOR NOTES DUE 2011

Summary

We are asking our shareholders to approve the issuance of common stock at our election in connection with the payment of interest and make-whole amounts that may become due under our 7.5% convertible senior notes due 2011. On April 27, 2006, we issued an aggregate of \$66,312,000 million principal amount of our 7.5% convertible senior notes due April 30, 2011 (the "Senior Notes"), \$33,156,000 of which was issued in a registered public offering and \$33,156,000 of which was issued in a private placement transaction in exchange for approximately \$39.5 million of our 5.75% convertible senior subordinated notes due 2008 and \$1.2 million of our 5.75% convertible subordinated notes due 2008 (the "Offering"). The Senior Notes will bear interest at a rate of 7.5% per annum, and we will pay interest on the Senior Notes on April 30 and October 31 of each year. The first interest payment on the Senior Notes will be made on October 31, 2006.

Pursuant to the terms of the Senior Notes, at any time prior to maturity the note holder may elect to convert the Senior Notes into shares of our common stock at a rate of 478.519 shares per \$1,000 principal amount of the notes converted, which is equivalent to an initial conversion price of \$2.09 per share, as may be adjusted. Subject to certain conditions, the Senior Notes will automatically convert if, at any time after June 26, 2006 and prior to maturity, the closing price per share of our common stock has exceeded 125% of the conversion price then in effect for at least 20 trading days within any 30-consecutive trading day period. In addition, upon certain changes in control of CTI, holders of the Senior Notes will have the right, subject to certain conditions and restrictions, to require us to repurchase their Senior Notes, in whole or in part, at 100% of the principal amount, plus accrued and unpaid interest to, but not including, the repurchase date.

Upon any automatic conversion of the Senior Notes, or if holders of the Senior Notes exercise their right to require us to repurchase their Senior Notes in connection with a non-stock change of control (as such term is defined in the indenture governing the Senior Notes), we will pay to such holders an amount equal to \$225 per \$1,000 principal amount of their notes so converted or repurchased less the amount of any interest paid on such notes prior to the conversion or repurchase date (the "Make-Whole Amount").

At our election, we have the right to issue shares of our common stock in payment of interest and Make-Whole Amounts due on the Senior Notes (the "Payment Shares"). For the purposes of any payment of interest or Make-Whole Amounts that may become due under the Senior Notes made in Payment Shares, the fair market value of such Payment Shares shall be equal to 95% of the volume-weighted average price of our common stock for the five consecutive trading days ending on the trading day immediately preceding the interest payment, conversion or repurchase date. In the event that this Proposal 5 is approved by our shareholders, we will have the flexibility to make these payments in cash or stock depending on our financial situation at the time of payment. In the event that this Proposal 5 is not approved by the shareholders, we may not have the flexibility to issue stock in payment of these amounts to the extent that such issuance would require the approval of our shareholders and instead would have to pay any such amount from our cash reserves.

Why We Need Shareholder Approval

Rule 4350(i) of the Nasdaq Stock Market rules requires shareholder approval for the issuance or potential issuance of common stock or securities convertible into or exchangeable for common stock at a price less than the greater of the book or market value of an issuer's stock where the amount of securities being issued represents 20% or more of the issuer's common stock or voting power outstanding before such issuance.

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We are subject to the Nasdaq Stock Market rules because our common stock is listed on the Nasdaq National Market. We are seeking shareholder approval for the following reasons:

- Pursuant to the terms of the Senior Notes, we have the right to elect to pay interest and Make-Whole Amounts due under the Senior Notes in Payment Shares. Such Payment Shares shall be valued at 95% of the volume weighted average price of our common stock for the five consecutive trading days ending on the trading date immediately preceding the payment date. Therefore, if we elect to pay interest and Make-Whole Amounts due under the Senior Notes in our common stock, the price at which such common stock is issued may be below the market price of our common stock at the closing of the offering.
- If we elect to issue any Payment Shares as described above, then, as described in more detail below, the number of shares of common stock issuable in payment of interest and Make-Whole Amounts due on the Senior Notes could result in the issuance of common stock in excess of 20% of our outstanding common stock or voting power.

In general, the shares to be issued upon conversion of the Senior Notes will be issued at a price above the fair market value of our common stock on the date of the issuance of the Senior Notes. The only shares of our common stock that may potentially be issued at a price below such market value would be the Payment Shares. Accordingly, in order to meet applicable requirements under the Nasdaq Stock Market rules, your vote is being solicited in order to approve, at our election, the issuance of Payment Shares in satisfaction of interest and Make-Whole Amounts that may become due on the Senior Notes. Please note that the number of Payment Shares issuable in satisfaction of interest and Make-Whole Amounts due on the Senior Notes is tied to the market price of our common stock at the time of such issuance and is therefore not currently determinable.

Vote Required and Board of Directors Recommendation

Approval of the issuance of Payment Shares at our election in satisfaction of interest and Make-Whole Amounts that may become due on the Senior Notes requires the affirmative vote of the holders of a majority of the shares of our common stock voting on this Proposal 5 in person or by proxy and entitled to vote at the Annual Meeting. If this Proposal 5 is approved by our shareholders, we will not solicit further authorization for the issuance of Payment Shares in satisfaction of interest and Make-Whole Amounts that may become due on the Senior Notes, provided that the terms of such issuance comply with the terms approved by our shareholders in this Proposal 5 and any applicable laws or regulations. If this Proposal 5 does not receive shareholder approval, we may not have the flexibility to pay any interest and Make-Whole Amounts that may become due under the Senior Notes by issuing Payment Shares to the extent that such issuance would require the approval of our shareholders. In such case, we will be required to pay any interest and Make-Whole Amounts due on the Senior Notes from our cash reserves and may not have funds remaining necessary to operate our business.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE
APPROVAL OF THE ISSUANCE OF COMMON STOCK AT THE COMPANY'S
ELECTION IN CONNECTION WITH THE PAYMENT OF INTEREST AND
MAKE-WHOLE AMOUNTS DUE UNDER THE COMPANY'S CONVERTIBLE
SENIOR NOTES.**

Terms of the Senior Notes

The summary of the terms of the Senior Notes provided above does not purport to be complete and is qualified in its entirety by the text of the transaction documents, copies of which are filed as exhibits to our Current Report on Form 8-K filed on April 28, 2006 and which are incorporated by reference herein. The terms of our common stock are set forth in our proposed form of amended and restated articles of incorporation attached to this proxy statement as *Appendix A*.

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Effect of the Potential Issuance on Current Shareholders

As discussed above, if we elect to pay interest and make-whole amounts due under the Senior Notes in Payment Shares, such Payment Shares will be valued at a price equal to 95% of the volume weighted average price of our common stock for the five consecutive trading days ending on the trading date immediately preceding the interest payment date. Therefore, if we elect to pay interest and make-whole amounts due under the Senior Notes in Payment Shares, such issuance will result in dilution to our current shareholders in their proportionate ownership of us. Because the number of Payment Shares issuable at our election in satisfaction of interest and make-whole amount due on the Senior Notes is not currently determinable, the extent of such dilution also cannot be determined at this time.

Neither the presently authorized shares of our common stock nor any shares of our common stock that may be issued pursuant to this Proposal 5 carry any preemptive rights.

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PROPOSAL 6

RATIFICATION OF THE SELECTION OF INDEPENDENT AUDITORS

Summary

The audit committee has approved the appointment of Stonefield Josephson, Inc. as our independent auditors for the year ending December 31, 2006, and the board of directors has further directed that we submit the selection of independent auditors for ratification by the shareholders at the Annual Meeting.

On August 31, 2004, Ernst & Young LLP informed us that Ernst & Young LLP had resigned as our independent registered public accounting firm. Ernst & Young LLP had audited our financial statements since 1992. The reports of Ernst & Young LLP on our consolidated financial statements for the years ended December 31, 2002 and 2003 did not contain any adverse opinion, or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. In connection with its audits of our consolidated financial statements for the years ended December 31, 2002 and 2003, and through the subsequent interim periods, there were no disagreements with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ernst & Young LLP, would have caused it to make reference thereto in its report. There were no reportable events as that term is defined in Item 304(a)(1)(v) of Regulation S-K. We requested Ernst & Young LLP to furnish a letter addressed to the U.S. Securities and Exchange Commission stating whether it agrees with the statements made herein. A copy of that letter dated September 10, 2004 was filed as Exhibit 16.1 to our Form 8-K/A filed on September 10, 2004. Ernst & Young LLP did not seek our consent to its resignation. As a result, the audit committee did not recommend or approve the resignation of Ernst & Young LLP.

On October 18, 2004, the audit committee engaged Grant Thornton LLP as our new independent auditors to provide financial audit services. Grant Thornton LLP did not audit our financial statements in either 2002 or 2003 or any subsequent interim period and did not perform any services prior to October 18, 2004. Additionally, during 2002 and 2003 and the subsequent interim period through October 18, 2004, we did not consult with Grant Thornton LLP regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

On August 31, 2005, Grant Thornton LLP informed us that Grant Thornton LLP had resigned as our independent registered public accounting firm. Grant Thornton LLP had audited our financial statements since 2004. The reports of Grant Thornton LLP on our consolidated financial statements for the year ended December 31, 2004 did not contain any adverse opinion, or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. In connection with its audit of our consolidated financial statements for the year ended December 31, 2004, and through the subsequent interim periods, there were no disagreements with Grant Thornton LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Grant Thornton LLP, would have caused it to make reference thereto in its report. There were no reportable events as that term is defined in Item 304(a)(1)(v) of Regulation S-K. We requested Grant Thornton LLP to furnish a letter addressed to the U.S. Securities and Exchange Commission stating whether it agrees with the statements made herein. A copy of that letter dated September 1, 2005 was filed as Exhibit 16.1 to our Form 8-K filed on September 2, 2005. Grant Thornton LLP did not seek our consent to its resignation. As a result, the audit committee did not recommend or approve the resignation of Grant Thornton LLP.

On October 7, 2005, the audit committee engaged Stonefield Josephson, Inc. as our new independent auditors to provide financial audit services. Stonefield Josephson, Inc. did not audit our financial statements in either 2003 or 2004 or any subsequent interim period and did not perform any services prior to October 7, 2005. Additionally, during 2003 and 2004 and the subsequent interim period through October 7, 2005, we did not consult with Stonefield Josephson regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements; or

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(ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

Representatives of Stonefield Josephson, Inc., who are expected to be present at the Annual Meeting, will have an opportunity to make a statement if they so desire and are expected to be available to respond to appropriate questions.

We are asking our shareholders to ratify the selection of Stonefield Josephson, Inc. as our independent auditors. Although ratification is not required by our amended and restated bylaws or otherwise, we are submitting the selection to our shareholders for ratification because we value our shareholders' views and as a matter of good corporate practice. In the event the shareholders fail to ratify the selection, the audit committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the audit committee in its discretion may direct the appointment of a different independent accounting firm at any time during the year if the audit committee feels that such a change would be in our and our shareholders' best interests. The selection of Stonefield Josephson, Inc. will be effectively ratified at the Annual Meeting if the number of votes cast in favor of the proposal exceeds the number of votes cast in opposition to the proposal.

Vote Required and Board of Directors' Recommendation

The affirmative vote of the holders of a majority of the shares of common stock present in person or by proxy and entitled to vote at the Annual Meeting will be required to approve this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE SELECTION OF STONEFIELD JOSEPHSON, INC. AS OUR INDEPENDENT AUDITORS.

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The following report shall not be deemed incorporated by reference into any previous or future filings under the Securities Act or Securities Exchange Act, notwithstanding any such filings which purport to incorporate by reference this proxy statement in whole or in part.

Audit Committee Report

The audit committee reviews and monitors CTI's financial reporting process on behalf of the board and reviews CTI's system of internal controls. We act only in an oversight capacity, however, and it is management that has the primary responsibility for the financial statements, establishing and maintaining adequate internal controls, and the reporting process. Stonefield Josephson, Inc., CTI's independent auditor for 2005, is responsible for expressing opinions on the conformity of CTI's financial statements in accordance with generally accepted accounting principles, on management's assessment of the effectiveness of CTI's internal control over financial reporting, and on the effectiveness of CTI's internal control over financial reporting. Each member of the Audit Committee is an independent director as determined by our board of directors, based on Nasdaq National Market rules and the Securities and Exchange Commission's independence requirements for members of audit committees. In addition, the board of directors has determined that John H. Bauer is an audit committee financial expert, as defined by SEC rules.

We operate under a written charter, a copy of which is available on CTI's website at www.cticseattle.com. As more fully described in our charter, the purpose of the audit committee is to assist the board of directors in its oversight and monitoring of CTI's financial statements, internal controls and audit matters. We meet each quarter with Stonefield Josephson, Inc. and management to review CTI's interim financial results before the publication of CTI's quarterly reports. Management's and independent auditors' presentations to and discussions with the audit committee cover various topics and events that may have significant financial impact and/or are the subject of discussions between management and the independent auditors. In accordance with the Sarbanes-Oxley Act, we have ultimate authority and responsibility to select, compensate, evaluate and, when appropriate, replace CTI's independent auditors.

In accordance with existing audit committee policy and the requirements of the Sarbanes-Oxley Act, all services to be provided by Stonefield Josephson, Inc. are subject to pre-approval by the audit committee. This includes audit services, audit-related services, tax services and other services. Pre-approval provided by the full audit committee or a subcommittee thereof, relates to a particular category or group of services and is subject to a specific budget. The Sarbanes-Oxley Act prohibits an issuer from obtaining certain non-audit services from its auditing firm so as to avoid certain potential conflicts of interest; we have not in recent years obtained any of these services from Stonefield Josephson, Inc., Grant Thornton LLP or Ernst & Young LLP, and we are able to obtain such services from other service providers at competitive rates.

In addition, we recommend to the board of directors the appointment of the independent auditors and review their proposed audit scope, approach and independence.

We are not professional accountants or auditors and our duties are not intended to duplicate or to certify the activities of management or the independent auditors. It is not the audit committee's duty to plan or conduct audits or to determine that CTI's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Consequently, the audit committee is not providing any professional certification as to the independent auditors' work or any expert assurance as to the financial statements.

We have reviewed and discussed CTI's audited financial statements with management and Stonefield Josephson, Inc. Management has represented to the audit committee that the financial statements were prepared in accordance with generally accepted accounting principles.

We also discussed with Stonefield Josephson, Inc. other matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). In addition, we have received from, and

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discussed with, Stonefield Josephson, Inc. their annual written report on their independence from us and our management, as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and discussed with the auditors whether the provision of any non-audit services provided to us by them during 2005 were compatible with the auditors' independence.

Based on our discussion with management and the independent auditors and our review of the audited financial statements and the representations of management and the independent auditors, we recommended to the board that the audited financial statements be included in CTI's Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

John H. Bauer (Chair)
Phillip M. Nudelman, Ph.D.
Vartan Gregorian, Ph.D.

Table of Contents**Independent Auditor's Fees and Services**

The following table provides the aggregate fees billed for professional services rendered by our principal accountants during each of the past two fiscal years ended December 31:

Services Rendered	Ernst & Young LLP		Grant Thornton LLP		Stonefield Josephson, Inc.	
	2005	2004	2005	2004	2005	2004
Audit Fees (1)	\$	\$ 318,000	\$ 212,325	\$ 555,000	\$ 1,051,000	\$
Audit-Related Fees (2)		233,000				
Tax Fees (3)		46,000	7,014			
All Other Fees (4)						

- (1) *Audit Fees.* This category includes fees for professional services provided in conjunction with the audit of our financial statements and with the audit of management's assessment of internal control over financial reporting and the effectiveness of internal control over financial reporting, review of our quarterly financial statements, assistance and review of documents filed with the SEC, consents, and comfort letters and attestation services provided in connection with statutory and other regulatory filings and engagements.
- (2) *Audit Related Fees.* This category includes fees for assurance and related professional services associated with due diligence related to mergers and acquisitions, consultation on accounting standards or transactions, internal control reviews and assistance with internal control reporting requirements, services related to the audit of employee benefit plans, and other attestation services not required by statute or regulation.
- (3) *Tax Services.* This category includes fees for professional services provided related to tax compliance, tax planning and tax advice.
- (4) *Other Services.* There were no other fees for services not included above.

Pre-Approval Policy

Pursuant to our Audit and Non-Audit Services Pre-Approval Policy, which is approved by the Audit Committee on an annual basis, the audit committee pre-approves all auditing services and non-audit services to be performed by our independent auditors. The audit committee also pre-approves all associated fees, except for de minimus amounts for non-audit services, which are approved by the audit committee prior to the completion of the audit.

Executive Officers

The following table provides certain information with respect to our executive officers:

Name	Age as of		Position
	March 31, 2006		
James A. Bianco, M.D.	49		President, Chief Executive Officer, Director
Alberto Bernareggi, Ph.D.	49		Managing Director, Cell Therapeutics Europe S.r.l.
Louis A. Bianco	53		Executive Vice President, Finance and Administration
Jade Brown	37		Executive Vice President, Chief Business Officer
Jack W. Singer, M.D.	63		Executive Vice President, Chief Medical Officer, Director
Scott C. Stromatt, M.D.	48		Executive Vice President, Clinical Development and Regulatory Affairs

For biographical information for all our directors, including biographical information concerning Drs. Bianco and Singer who are each directors of CTI as well as executive officers. Please see the discussion under the heading "Information about Nominees and Continuing Directors" on page 5 of this proxy statement.

Mr. Bianco is one of our founders and has been our executive vice president, finance and administration since February 1, 1992, and was a director from our inception in September 1991 to April 1992 and from April 1993 to April 1995. From January 1989 through January 1992, Mr. Bianco was a vice president at Deutsche

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Bank Capital Corporation in charge of risk management. Mr. Bianco is a Certified Public Accountant and received his M.B.A. from New York University. Mr. Bianco and Dr. Bianco are brothers.

Dr. Bernareggi was named managing director, Cell Therapeutics Europe S.r.l in September 2005. A co-founder of Novuspharma, Dr. Bernareggi joined CTI as Senior Director of Preclinical Development as part of the acquisition of our acquisition of Novuspharma in January 2004. Dr. Bernareggi has more than 23 years of experience in scientific and management roles in research and development at pharmaceutical and biotech companies, including Marion-Merrell-Dow, Boehringer Mannheim, and Roche. Dr. Bernareggi has authored more than 75 peer-reviewed manuscripts and is a contract Professor of Medicinal Chemistry at the University of Milan.

Mr. Brown was promoted to executive vice president and chief business officer in August 2005. Prior to joining us, Mr. Brown was vice president of business development & marketing at Natesth Pharmaceuticals. Additionally, he was employed at Eli Lilly and Company for 12 years where he held a number of leadership positions in business development and commercialization, ultimately serving as the Brand Director in the Women's Health Division. Mr. Brown received his M.B.A from Harvard University Graduate School of Business and his B.S. Degree from Indiana University.

Dr. Stromatt was promoted to executive vice president, clinical development and regulatory affairs in August 2005, and has managed CTI's global clinical research programs and related functional areas since 2003. Prior to joining us, Dr. Stromatt was vice president clinical research and chief medical officer for Northwest Biotherapeutics and, prior to that, was an analyst focused on public and private biotechnology, pharmaceutical, and medical device companies. Dr. Stromatt earned his MD from the University of Chicago and received his MBA from the University of Colorado.

Security Ownership of Certain Beneficial Owners and Management

The following table provides certain information regarding beneficial ownership of common stock as of April 30, 2006 by (1) each shareholder known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock, (2) each of our directors and nominees for director, (3) each of our executive officers named in the Summary Compensation Table herein and (4) all directors and executive officers as a group:

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned (2)	Shares Subject to Options	Percentage Ownership (2)
James A. Bianco, M.D.** (3)	2,044,808	1,161,239	2.0%
John H. Bauer** (4)	26,500	24,000	*
Louis A. Bianco (5)	669,956	397,517	*
Jade Brown (6)	164,399	74,403	*
Vartan Gregorian, Ph.D.**	76,500	69,000	*
Mary O. Munding, Dr. PH**	87,150	83,000	*
Phillip M. Nudelman, Ph.D.**	139,311	86,906	*
Jack W. Singer, M.D.** (5)	946,480	490,190	*
Scott C. Stromatt, M.D (7)	202,916	127,916	*
All directors and executive officers as a group (11 persons) (8)(9)(10)	4,422,020	2,538,171	4.2%

* Less than 1%

** Denotes director of CTI

(1) The address of the individuals listed is 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119.

(2) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (SEC) and generally includes voting or investment power with respect to securities. This table is based upon information supplied by officers, directors, Schedules 13D, 13G and 13F and Forms 3

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and 4 filed with the SEC. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of April 30, 2006, are deemed outstanding for computing the percentage of the person holding the option or warrant but are not deemed outstanding for computing the percentage of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned.

- (3) Number of shares beneficially owned includes 505,000 shares of unvested restricted stock, of which 450,000 shares have contingent vesting terms and 200,000 are subject to shareholder approval. Of these contingent shares, 200,000 shares would vest upon the date that we receive a new drug application, or NDA, approval for XYOTAX or pixantrone from the Food and Drug Administration, or FDA, if the approval is obtained prior to January 1, 2007. Additionally, 125,000 shares will vest upon the closing of a material partnership deal with a pharmaceutical company and 125,000 shares will vest upon the filing of an NDA with the FDA related to the approval of XYOTAX, if either such event occurs on or before December 14, 2008.
- (4) Mr. Bauer joined our board of directors effective October 17, 2005.
- (5) Number of shares beneficially owned includes 151,666 shares of unvested restricted stock, of which 100,000 shares are contingent and would vest upon the date that we receive approval for an NDA for XYOTAX from the FDA if the approval is obtained prior to January 1, 2007.
- (6) Number of shares beneficially owned includes 88,496 shares of unvested restricted stock.
- (7) Number of shares beneficially owned includes 75,000 shares of unvested restricted stock.
- (8) Number of shares beneficially owned includes 1,011,828 shares of unvested restricted stock for all executive officers as a group, of which 650,000 shares are contingent and would vest as described in the above footnotes.
- (9) Does not include shares owned by directors and executive officers who served as directors and executive officers during all or part of the 2005 fiscal year but were not serving in that capacity as of April 30, 2006.
- (10) Includes shares owned by directors and executive officers who did not serve as directors and executive officers during all or part of 2005 but were serving in that capacity as of April 30, 2006.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission reports of ownership and reports of changes in ownership of common stock and our other equity securities. Executive officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

We prepare Section 16(a) forms on behalf of our executive officers and directors based on the information provided by them. Based solely on review of this information or written representations from reporting persons that no other reports were required, we believe that, during the 2005 fiscal year, all Section 16(a) filing requirements applicable to our executive officers, directors and greater than ten percent beneficial owners complied with Section 16(a), except in October 2005, a Form 4 for John H. Bauer was not timely filed due to an inadvertent administrative error.

Table of Contents**Compensation of Executive Officers**

The following table sets forth all compensation earned in the years ended December 31, 2005, 2004, and 2003 by our chief executive officer and our four other most highly compensated executive officers as of December 31, 2005, who we will collectively refer to as the named executive officers.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards		All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(1)	Restricted Stock Awards (\$)(2)	Securities Underlying Options (#)	
James A. Bianco, M.D. President and Chief Executive Officer	2005	650,000	240,000	114,385(3)	2,212,000	250,000	43,588(4)
	2004	460,297	306,832	162,518(3)	139,000		43,588(4)
Louis A. Bianco Executive Vice President, Finance and Administration	2005	330,000	99,000	10,030(5)	1,002,800	270,000	7,326(6)
	2004	300,120	120,048	5,959(5)	104,250		7,326(6)
Jade Brown Executive Vice President, Chief Business Officer	2005	300,120	81,997	5,550(5)	751,800	60,000	2,349(6)
	2004	245,288	84,000	345(5)	291,890	185,278	441(7)
Jack W. Singer, M.D. Executive Vice President, Chief Medical Officer	2005	340,000	102,000	17,290(5)	1,002,800	270,000	30,234(8)
	2004	309,747	95,253	21,551(5)	104,250		30,086(8)
Scott Stromatt, M.D. Executive Vice President, Clinical Development and Regulatory Affairs	2005	302,000	106,703	25,583(5)	751,800	75,000	37,510(8)
	2004	288,750	87,450		244,800	190,000	810(7)
	2003						

- (1) Other annual compensation in the form of perquisites and other personal benefits has been omitted where the aggregate amount of the perquisites and other personal benefits constituted the lesser of \$50,000 or 10% of the total annual salary and bonus for the named executive officer for the applicable year.
- (2) The amounts shown in this column represent the dollar value of the grant of restricted stock based on the closing price of our common stock on the date of issuance and will accrue any future dividends declared. Restricted stock granted in 2005 includes contingent awards that vest upon the achievement of certain performance goals. During 2005, 450,000 of these awards were granted to Dr. Bianco, 200,000 of which are contingent on shareholder approval, and 100,000 of these awards were granted to each of Mr. Bianco and Dr. Singer. The vesting terms of the awards shown in this column are included in the Restricted Stock Awards Not Yet Vested table below.
- (3) In 2005, 2004, and 2003, other annual compensation for Dr. Bianco represents perquisites, including the following: (i) travel and entertainment expenses reimbursed by the Company, including the aggregate incremental cost of using our aircraft for personal use (the

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aircraft was disposed of in November 2005), of \$80,138, \$101,721 and \$42,769 and (ii) tax reimbursements of \$28,075, \$53,446 and \$60,128; respectively. The Jobs Creation Act of 2004 does not permit a deduction for the company for any amount not included in compensation of the individuals utilizing the aircraft for non-business use. To the extent non-business use was not included in the aforementioned compensation, the company forewent the deduction for these amounts in determining taxable income. Although we are not able to currently use these foregone tax deductions given our net loss position, the company would have otherwise utilized these expenditures to offset future revenue in determining taxable income. Protective services were provided for Dr. Bianco and his family as part of the Company's corporate security program, which was cancelled in August 2005. The approximate costs of the Company's corporate security program totaled \$216,000, \$1,242,201 and \$939,537 for 2005, 2004 and 2003, respectively. The Company did not consider the cost of providing protective services to Dr. Bianco and his family to be compensatory and therefore such costs are not reflected in the above table.

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- (4) All other compensation for Dr. Bianco for 2005, 2004 and 2003 includes the following: (i) a premium payment of \$24,810, \$24,810 and \$34,310 for life insurance required by the terms of Dr. Bianco's employment; (ii) reimbursement of a disability insurance premium of \$5,577, \$5,578 and \$0; and (iii) reimbursement of a health insurance premium of \$13,200, \$13,200 and \$22,000, respectively.
- (5) Other annual compensation consists of tax reimbursements.
- (6) In 2005, 2004 and 2003, all other compensation for Mr. Bianco includes the following: (i) reimbursement for long-term disability insurance premiums of \$4,977, \$4,977 and \$0; and (ii) a premium payment of \$2,349 for life insurance in each of the three years; respectively.
- (7) All other compensation includes a premium payment for life insurance.
- (8) In 2005, 2004 and 2003, all other compensation for Dr. Singer includes the following: (i) reimbursement for long-term disability insurance premiums of \$6,870, \$6,870 and \$0; (ii) premium payments of \$3,564, \$3,416 and \$3,564 for life insurance; and (iii) reimbursement of a health insurance premium of \$19,800, \$19,800 and \$33,946; respectively.

The following table provides additional detail regarding Restricted Stock Awards presented in the Summary Compensation table above which were unvested as of December 31, 2005.

Restricted Stock Awards Not Yet Vested

Name	Grant Date	Vesting Date	Initial Grant Amount	Initial Price	Initial Value	Remaining Shares	Current Value (a)
James A. Bianco, M.D.	December 14, 2005	(b)	250,000	\$ 2.36	\$ 590,000	250,000	\$ 545,000
	January 10, 2005	(c)	200,000	8.11	1,622,000	200,000	436,000
	May 21, 2004	(d)	20,000	6.95	139,000	6,667	14,534
	January 1, 2004	(e)	110,000	8.67	953,700	27,500	59,950
	December 11, 2003	(f)	145,000	8.10	1,174,500	48,333	105,366
						Total	\$ 1,160,850
Louis A. Bianco	December 14, 2005	(e)	30,000	\$ 2.36	\$ 70,800	30,000	\$ 65,400
	January 28, 2005	(g)	100,000	9.32	932,000	100,000	218,000
	May 21, 2004	(d)	15,000	6.95	104,250	5,000	10,900
	January 1, 2004	(e)	40,000	8.67	346,800	10,000	21,800
	December 11, 2003	(f)	50,000	8.10	405,000	16,666	36,332
						Total	\$ 352,432
Jade Brown	December 14, 2005	(e)	50,000	\$ 2.36	\$ 118,000	50,000	\$ 109,000
	June 16, 2005	(h)	56,000	2.90	162,400	37,333	81,386
	February 28, 2005	(i)	1,163	9.88	11,490	1,163	2,535
	September 29, 2004	(j)	6,000	7.10	42,600	3,000	6,540
						Total	\$ 199,461
Jack W. Singer, M.D.	December 14, 2005	(e)	30,000	\$ 2.36	\$ 70,800	30,000	\$ 65,400
	January 28, 2005	(g)	100,000	9.32	932,000	100,000	218,000
	May 21, 2004	(d)	15,000	6.95	104,250	5,000	10,900
	January 1, 2004	(e)	40,000	8.67	346,800	10,000	21,800
	December 11, 2003	(f)	50,000	8.10	405,000	16,666	36,332
						Total	\$ 352,432
Scott C. Stromatt, M.D.	December 14, 2005	(e)	30,000	\$ 2.36	\$ 70,800	30,000	\$ 65,400
	June 16, 2005	(h)	60,000	2.90	174,000	40,000	87,200
	August 26, 2003	(k)	10,000	10.21	102,100	5,000	10,900
						Total	\$ 163,500

(a) Determined based on the closing price of our common stock (\$2.18) on December 31, 2005.

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- (b) 50% of the restricted stock award vests when we close a material partnership deal with a pharmaceutical company for XYOTAX and 50% of the restricted stock award vests when we file an NDA with the FDA related to the approval of XYOTAX if either such event occurs on or before December 14, 2008.
- (c) Restricted stock award vests when we receive an NDA approval for XYOTAX or pixantrone from the FDA, if the approval is obtained on or before January 1, 2007.
- (d) Restricted stock award is subject to shareholder approval. Award vests at a rate of 33 1/3% on each of December 11, 2004, 2005 and 2006.
- (e) Restricted stock award vests over two years with 25% vesting six months from the date of grant, 25% vesting one year from the date of grant, 25% vesting 18 months from the date of grant and 25% vesting two years from the date of grant.
- (f) Restricted stock award vests over three years with 1/3 of the shares vesting one year from the date of grant, 1/3 of the shares vesting two years from the date of grant and 1/3 of the shares vesting three years from the date of grant.
- (g) Restricted stock award vests upon the date that we receive approval for an NDA for XYOTAX from the FDA, if the approval is obtained on or before January 1, 2007.
- (h) Restricted stock award vests over 18 months with 1/3 of the shares vesting six months from the date of grant, 1/3 of the shares vesting one year from the date of grant and 1/3 of the shares vesting 18 months from the date of grant.
- (i) Restricted stock award vests on May 16, 2007.
- (j) 50% of restricted stock award vests on March 26, 2005 and 50% vests on March 26, 2006.
- (k) Restricted stock award vests over four years with 25% of the shares vesting one year from the date of grant, 25% vesting two years from the date of grant, 25% vesting three years from the date of grant and 25% vesting four years from the date of grant.

The following table provides the number of options granted to each of the named executive officers during the year ended December 31, 2005 and the potential realizable value of such grants. No stock appreciation rights were granted to such individuals for the 2005 fiscal year.