

CELL THERAPEUTICS INC
 Form 424B5
 January 13, 2011
Table of Contents

Filed Pursuant to Rule 424(b)(5)
 Registration Statement No.: 333-161442

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Maximum aggregate offering price	Amount of registration fee ⁽¹⁾⁽²⁾
Series 8 Non-Convertible Preferred Stock, no par value per share	\$ 25,000,000	\$2,903
Warrants to purchase shares of common stock, no par value per share, and underlying shares of common stock, no par value per share	\$ 8,750,000 ⁽³⁾	\$1,016 ⁽⁴⁾
Additional Investment Right to purchase shares of Series 9 Convertible Preferred Stock, no par value per share, underlying shares of Series 9 Convertible Preferred Stock, and underlying shares of common stock, no par value per share	\$ 25,000,000 ⁽³⁾	\$2,903 ⁽⁵⁾
Total	\$ 58,750,000	\$6,822

- (1) Calculated in accordance with Rule 457(r) under the Securities Act.
- (2) This Calculation of Registration Fee table shall be deemed to update the Calculation of Registration Fee table in the registrant's registration statement on Form S-3 (File No. 333-161442) in accordance with Rules 456(b) and 457(r) under the Securities Act.
- (3) Pursuant to Rule 416 under the Securities Act, the common stock issuable upon exercise of the warrants and conversion of the Series 9 Convertible Preferred Stock covered by this registration statement shall be deemed to include additional shares of common stock to be offered to prevent dilution resulting from stock splits, stock dividends or similar transactions. Adjustments to the exercise price and conversion price resulting in the issuance of additional shares of common stock that are not addressed by Rule 416 will be covered by a separate registration statement. The shares of common stock include associated preferred stock purchase rights under the registrant's rights plan.
- (4) Pursuant to Rule 457(i) under the Securities Act, the filing fee is calculated based on the price at which the warrants may be exercised.
- (5) Pursuant to Rule 457(i) under the Securities Act, the filing fee is calculated based on the price at which the Additional Investment Right may be exercised.

Table of Contents

PROSPECTUS SUPPLEMENT

(to Prospectus dated August 19, 2009)

CELL THERAPEUTICS, INC.

25,000 Shares of Series 8 Non-Convertible Preferred Stock

Warrants to Purchase 22,563,177 Shares of Common Stock

Additional Investment Right to Purchase 25,000 Shares of Series 9 Convertible Preferred Stock

25,000 Shares of Series 9 Convertible Preferred Stock

64,466,219 Shares of Common Stock

Pursuant to this prospectus supplement and the accompanying prospectus, we are offering to an institutional accredited investor, or the Initial Purchaser:

up to 25,000 shares of Series 8 Non-Convertible Preferred Stock, or the Series 8 Preferred Stock;

warrants to purchase up to 22,563,177 shares of common stock, or the warrants (and the 22,563,177 shares of common stock issuable from time to time upon exercise of the warrants); and

the additional investment right to purchase up to 25,000 shares of Series 9 Convertible Preferred Stock, or the additional investment right (and the 25,000 shares of Series 9 Convertible Preferred Stock, or the Series 9 Preferred Stock, issuable from time to time upon exercise of the additional investment right and the 64,466,219 shares of common stock issuable from time to time upon conversion of the Series 9 Preferred Stock).

The purchase price for each share of Series 8 Preferred Stock is \$1,000. The shares of Series 8 Preferred Stock will accrue annual dividends at the rate of 10% from the date of issuance, payable in additional shares of Series 8 Preferred Stock. The shares of Series 8 Preferred Stock are redeemable at our option at any time after issuance, in whole or in part, either in cash or by offset against recourse notes fully secured with marketable securities, which are issued by the Initial Purchaser to us, or recourse notes.

In consideration for the purchase of the Series 8 Preferred Stock, the Initial Purchaser will receive the warrants. Each warrant to purchase shares of our common stock will have an exercise price of \$0.3878 per share of common stock. The warrants are exercisable immediately and expire two years from the date of issuance. The exercise price of the warrants may be paid in cash or through the issuance by the Initial Purchaser to us of recourse notes. The warrants are subject to cancellation and mandatory exercise, in each case in whole or in part, as described in this prospectus supplement.

In consideration for the purchase of the Series 8 Preferred Stock, the Initial Purchaser will also receive the additional investment right. The exercise price of the additional investment right is \$1,000 per share of Series 9 Preferred Stock. The additional investment right is exercisable immediately and must be exercised within 30 days of the date of this prospectus supplement. The exercise price of the additional investment right may be paid in cash or through the issuance by the Initial Purchaser to us of recourse notes. The additional investment right is subject to cancellation, in whole or in part, as described below.

The closing of the issuance and sale of the Series 8 Preferred Stock, or the closing, is expected to occur on the 10th trading day following the date of this prospectus supplement, or the closing date, and is conditioned upon the closing bid price of our common stock remaining at or above \$0.2908 for each of the nine trading days following the date of this prospectus supplement. In the event that the closing bid price of our common stock falls below \$0.2908 prior to the closing date, the closing may be cancelled or, in the event that all or any portion of the warrants and/or the

additional investment right have been exercised, we may elect to proceed with a partial closing as described in this prospectus supplement.

Table of Contents

We are conducting this offering on a self-underwritten, best efforts basis and there will be no underwriter or placement agent involved in the sale of these securities. Accordingly, we will retain, subject to the offering expenses that we incur and the payment to the Initial Purchaser of a commitment fee, all of the proceeds from the sale of the shares of Series 8 Preferred Stock, if any, and the proceeds received upon exercise of the warrants and the additional investment right for cash, if any.

For a more detailed description of the Series 8 Preferred Stock, the warrants, the additional investment right and the Series 9 Preferred Stock, see the sections entitled Description of Series 8 Preferred Stock, Description of Warrants, Description of Additional Investment Right and Description of Series 9 Preferred Stock beginning on pages S-23, S-24, S-25 and S-26, respectively, of this prospectus supplement. For a more detailed description of our common stock issuable upon the conversion of the Series 9 Preferred Stock and exercise of the warrants, see the section entitled Description of Capital Stock beginning on page S-29 of this prospectus supplement.

The Series 8 Preferred Stock, the warrants, the additional investment right and the Series 9 Preferred Stock will not be listed on any national securities exchange. Our common stock is quoted on The NASDAQ Capital Market and on the Mercato Telematico Azionario stock market in Italy, or the MTA, under the symbol CTIC. On January 12, 2011, the last reported sale price of our common stock on The NASDAQ Capital Market was \$0.3875.

Investing in the Series 8 Preferred Stock, the warrants, the additional investment right, the Series 9 Preferred Stock and the common stock involves a high degree of risk. See the section entitled Risk Factors beginning on page S-10 of this prospectus supplement and in the documents we incorporate by reference in this prospectus supplement to read about factors you should consider before investing in our securities.

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

This prospectus supplement is dated January 12, 2011.

Table of Contents

TABLE OF CONTENTS

Prospectus Supplement

	Page
<u>ABOUT THIS PROSPECTUS SUPPLEMENT</u>	S-ii
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	S-ii
<u>INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE</u>	S-ii
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	S-iii
<u>SUMMARY</u>	S-1
<u>THE OFFERING</u>	S-5
<u>RISK FACTORS</u>	S-10
<u>USE OF PROCEEDS</u>	S-19
<u>DETERMINATION OF OFFERING PRICE</u>	S-20
<u>RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</u>	S-21
<u>DIVIDEND POLICY</u>	S-22
<u>DESCRIPTION OF SERIES 8 PREFERRED STOCK</u>	S-23
<u>DESCRIPTION OF WARRANTS</u>	S-24
<u>DESCRIPTION OF ADDITIONAL INVESTMENT RIGHT</u>	S-25
<u>DESCRIPTION OF SERIES 9 PREFERRED STOCK</u>	S-26
<u>DESCRIPTION OF CAPITAL STOCK</u>	S-29
<u>CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS</u>	S-31
<u>PLAN OF DISTRIBUTION</u>	S-35
<u>LEGAL MATTERS</u>	S-36

Prospectus

	Page
<u>ABOUT THIS PROSPECTUS</u>	1
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	1
<u>INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE</u>	2
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	2
<u>RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</u>	4
<u>USE OF PROCEEDS</u>	4
<u>DIVIDEND POLICY</u>	4
<u>LEGAL MATTERS</u>	4
<u>EXPERTS</u>	4

You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information.

We are not making an offer of the Series 8 Preferred Stock, the warrants, the additional investment right and the Series 9 Preferred Stock (or the shares of common stock issuable from time to time upon conversion of the Series 9 Preferred Stock and exercise of the warrants) covered by this prospectus supplement in any jurisdiction where the offer is not permitted.

You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the respective dates thereof.

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of Series 8 Preferred Stock, warrants (and the shares of common stock issuable from time to time upon exercise of the warrants) and additional investment right (and the shares of Series 9 Preferred Stock issuable from time to time upon exercise of the additional investment right and the shares of common stock issuable from time to time upon conversion of the Series 9 Preferred Stock), and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference. The second part is the accompanying prospectus, which gives more general information. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference, on the other hand, you should rely on the information in this prospectus supplement.

In this prospectus supplement, the terms CTI, Company, we, us, our and similar terms refer to Cell Therapeutics, Inc., a Washington corporation and its subsidiaries, unless the context otherwise requires.

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of its respective date, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus, or of any sale of the Series 8 Preferred Stock, warrants (and the shares of common stock issuable from time to time upon exercise of the warrants) and additional investment right (and the shares of Series 9 Preferred Stock issuable from time to time upon exercise of the additional investment right and the shares of common stock issuable from time to time upon conversion of the Series 9 Preferred Stock). You should read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference before making an investment decision. You should also read and consider the information in the documents we have referred you to in the section of this prospectus supplement entitled Incorporation of Certain Documents by Reference.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. In accordance with the Exchange Act, we file reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. Such reports, proxy statements and other information filed by us are available to the public free of charge at www.sec.gov. Copies of certain information filed by us with the SEC are also available on our website at www.celltherapeutics.com. You may also read and copy any document we file at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference facilities by calling the SEC at 1-800-SEC-0330.

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the SEC. This prospectus supplement and the accompanying prospectus omit some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits in the registration statement for further information about us and the securities being offered hereby. Statements in this prospectus supplement or the accompanying prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

SEC rules allow us to incorporate by reference into this prospectus supplement and the accompanying prospectus much of the information we file with the SEC, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference into this prospectus supplement and the accompanying prospectus is considered to be part of this prospectus supplement and the accompanying prospectus. This prospectus supplement and the accompanying prospectus

Table of Contents

incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act (in each case, other than those documents or the portions of those documents not deemed to be filed) until the offering of the securities under the registration statement is terminated or completed:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2009;

our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2010, June 30, 2010 and September 30, 2010;

our Current Reports on Form 8-K filed on January 19, 2010 (Items 1.01, 3.03, 5.03 and 9.01 (excluding exhibit 99.1) only), February 9, 2010 (Item 8.01 only), February 22, 2010, March 2, 2010 (Item 8.01 only), March 5, 2010, March 22, 2010 (Item 8.01 only), April 5, 2010 (Items 1.01, 3.03, 5.03 and 9.01 (excluding exhibit 99.1) only), April 6, 2010, April 9, 2010 (Item 8.01 only), April 15, 2010 (Item 2.05 only), May 4, 2010 (Item 3.01 only), May 20, 2010 (Item 3.02 only), May 26, 2010, May 27, 2010 (Items 1.01, 3.02, 3.03, 5.03, 8.01 and 9.01 (excluding exhibit 99.1) only), June 29, 2010 (Item 8.01 only), July 14, 2010, July 26, 2010, July 27, 2010, August 24, 2010, September 17, 2010 (Items 5.02, 5.03, 5.07 and 9.01 (excluding exhibit 99.1) only), October 6, 2010 (as amended on October 25, 2010), October 22, 2010, October 28, 2010, November 4, 2010 (Item 3.01 only) and December 7, 2010 (Item 8.01 only); and

the description of our capital stock contained in our Registration Statement on Form 10 filed on June 27, 1996, as amended. Because we are incorporating by reference future filings with the SEC, this prospectus supplement and the accompanying prospectus are continually updated and those future filings may modify or supersede some of the information included or incorporated by reference in this prospectus supplement and the accompanying prospectus. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus supplement and the accompanying prospectus or in any document previously incorporated by reference have been modified or superseded.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Cell Therapeutics, Inc.

501 Elliott Avenue West, Suite 400

Seattle, Washington 98119

(206) 282-7100

Attention: Investor Relations

Such filings are also available to the public free of charge at www.sec.gov.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Exchange Act. All statements other than statements of historical fact are forward-looking statements for purposes of these provisions, including:

any projections of cash resources, revenues, operating expenses or other financial terms;

Edgar Filing: CELL THERAPEUTICS INC - Form 424B5

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

any statements concerning proposed new products or services;

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

S-iii

Table of Contents

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

any statements regarding compliance with the listing standards of The NASDAQ Stock Market, or NASDAQ;

any statements regarding pending or future mergers or acquisitions; and

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

In some cases, forward-looking statements can be identified by terms such as anticipates, believes, continue, could, estimates, expects, plans, potential, predicts, should or will or the negative thereof or other comparable terms. Such statements are based on management's current expectations and are subject to risks and uncertainties which may cause actual results to differ materially from those set forth in the forward-looking statements. There can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, but not limited to, the risk factors described in the section of this prospectus supplement entitled Risk Factors. All forward-looking statements and reasons why results may differ included in this prospectus supplement are made as of the date hereof, and we assume no obligation to update any such forward-looking statement or reason why actual results might differ, except to the extent required by law.

Table of Contents

SUMMARY

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

Our Company

We develop, acquire and commercialize novel treatments for cancer. Our goal is to build a leading biopharmaceutical company with a diversified portfolio of proprietary oncology drugs. Our research, development, acquisition and in-licensing activities concentrate on identifying and developing new, less toxic and more effective ways to treat cancer. Our operations are primarily conducted in the United States. We are currently focusing our efforts on Pixuvri® (pixantrone dimaleate), or Pixuvri, OPAXIO, brostallicin and novel bisplatinum analogues.

Corporate Information

We were incorporated in the State of Washington in 1991. Our shares of common stock trade on The NASDAQ Capital Market and the MTA in Italy under the symbol CTIC. Our principal executive offices are located at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, and our phone number is (206) 282-7100. Our website is located at www.celltherapeutics.com; however, the information in, or that can be accessed through, our website is not part of this prospectus supplement or the accompanying prospectus.

Recent Developments

Pediatric Committee of the European Medicines Agency

October 19, 2010, we announced that the Pediatric Committee, or the PDCO, of the European Medicines Agency, or the EMA, adopted an opinion agreeing to our Pediatric Investigation Plan, or PIP, for Pixuvri for the treatment of lymphoid malignancies and solid tumors in children between the ages of six months and 18 years. We submitted the updated PIP to the PDCO in July 2010 after it recommended that we expand the original PIP to include pixantrone's potential clinical benefit of reducing long-term cardiotoxicity associated with current curative therapies in children. The expanded PIP was accepted for review by the PDCO in August 2010. The recommendation from the PDCO came following discussions with us about the preclinical and clinical pixantrone data, including PIX301, and the desire to explore the potential benefits pixantrone may offer to children with hematologic cancers and solid tumors. The PDCO also recommended deferral of the initiation of the clinical studies until after the drug receives EMA approval. On November 17, 2010, we announced that the EMA approved our PIP.

On November 1, 2010, we announced that we submitted a Marketing Authorization Application, or MAA, to EMA for Pixuvri for the treatment of adult patients with multiple relapsed or refractory aggressive non-Hodgkin's lymphoma. On November 18, 2010, we announced that the EMA validated and accepted for review our MAA. Validation indicates that the MAA is complete and that the EMA's review process has begun. The EMA's review of the MAA will follow the centralized authorization procedure and, if the EMA approves the MAA, we expect to receive marketing authorization for Pixuvri in the E.U. member states.

Notice from NASDAQ

On November 2, 2010, we received a notice from NASDAQ indicating that NASDAQ has granted us an additional 180 days to regain compliance with NASDAQ's \$1.00 minimum bid price rule under NASDAQ Marketplace Rule 5550(a)(2). Previously, on May 3, 2010, we were notified by NASDAQ that we did not meet the minimum bid price rule required for continued listing and we were provided until November 1, 2010 to achieve compliance. We may achieve compliance during the additional 180-day period if the closing bid price of our common stock is at least a \$1.00 per share for a minimum of 10 consecutive business days before May 2, 2011.

Table of Contents

There can be no assurance that we will be able to comply with the minimum bid price rule prior to May 2, 2011. See Risk Factors Risks Related to Our Company Our common stock is listed on The NASDAQ Capital Market and the MTA in Italy and we may not be able to maintain those listings or trading on these exchanges may be halted or suspended, which may make it more difficult for investors to sell shares of our common stock.

Recent Financing Initiatives

We have held preliminary discussions with several investment funds regarding a potential investment in our company, but we have no current agreements or commitments with respect to any investment by these investment funds or any other investors (other than this offering). We have substantial operating expenses associated with the development of our product candidates and we continually evaluate our financing needs and alternatives. There can be no assurance that our discussions with these investment funds or any other investors will result in an investment in our company. See Risk Factors Risks Related to Our Company We need to raise additional funds and expect that we will need to continue to raise funds in the future, and additional funds may not be available on acceptable terms, or at all; failure to raise significant additional funds may cause us to cease development of our products and operations.

CONSOB Investigation

On May 5, 2010, the Commissione Nazionale per le Società e la Borsa, or CONSOB, (i) notified us that it has begun the preliminary investigation for its decision on administrative proceedings relating to three asserted violations of the provisions of Section 114, paragraph 5 of the Italian Legislative Decree no. 58/98 contained in a notice that CONSOB sent to us on July 31, 2009 and (ii) provided us with a preliminary investigation report in reply to our defenses that were submitted to CONSOB on August 28, 2009. On June 4, 2010 (within 30 days of May 5, 2010, the notification date of the beginning of the aforesaid preliminary investigation, according to the applicable Italian rules), we submitted further defenses that CONSOB will have to evaluate before imposing any possible administrative sanctions.

On July 12, 2010, CONSOB (i) notified us that it has begun the preliminary investigation for its decision on administrative proceedings relating to two claimed violations of the provisions of Section 114, paragraph 1 of the Italian Legislative Decree no. 58/98, due to the asserted late disclosure of certain information reported, at CONSOB's request, in a press release disseminated on December 19, 2008 and March 23, 2009, contained in a notice that CONSOB sent to us on December 10, 2009 and (ii) provided us with a preliminary investigation report in reply to our defenses which were submitted to CONSOB on January 8, 2010. On August 12, 2010 (within 30 days of July 12, 2010, the notification date of the beginning of the aforesaid preliminary investigation, according to the applicable Italian rules), we submitted further defenses that CONSOB will have to evaluate before imposing any possible administrative sanctions.

Securities Class Action and Shareholder Derivative Litigation

On March 12, 2010, a purported securities class action complaint was filed in the United States District Court for the Western District of Washington against us and certain of our officers and directors, styled *Cyril Sabbagh, individually and on behalf of all others similarly situated v. Cell Therapeutics, Inc., Dr. James A. Bianco, M.D., and Dr. Jack W. Singer* (Case No. 2:10-sv-00414), or the *Sabbagh* action. On March 19, 2010, a substantially similar class action complaint was filed in the same court, styled *Michael Laquidari, individually and on behalf of all others similarly situated v. Cell Therapeutics, Inc., Dr. James A. Bianco, M.D., and Dr. Jack W. Singer* (Case No. 2:10-cv-00480), or the *Laquidari* action. On March 31, 2010, a third substantially similar class action complaint was filed in the same court, styled *William Snyder, individually and on behalf of all others similarly situated v. Cell Therapeutics, Inc., James A. Bianco, Phillip M. Nudelman, Louis A. Bianco, John H. Bauer, Richard L. Love, Mary O. Munding, Jack W. Singer, Frederick W. Telling and Rodman & Renshaw, LLC* (Case No. 2:10-cv-00559), or the *Snyder* action. The securities actions are pending before Judge Marsha Pechman in the Western District of Washington. The securities complaints allege that the defendants violated the federal securities laws by making certain alleged false and misleading statements. The plaintiffs in the *Sabbagh* and *Laquidari* actions seek unspecified damages on behalf of a putative class of purchasers of our securities from May 5, 2009 through February 8, 2010. The plaintiffs in the *Snyder* action seek unspecified damages on behalf of a putative class of purchasers of our securities from May 5, 2009 through March 19, 2010, including purchasers of securities issued

Table of Contents

pursuant to or traceable to our July 22, 2009 public offering. On August 2, 2010, the court consolidated the securities actions, appointed lead plaintiffs, and approved lead plaintiffs' counsel. On September 27, 2010, lead plaintiff filed an amended consolidated complaint. On October 27, 2010, the defendants filed a motion to dismiss the amended consolidated complaint. The plaintiffs' opposition to the motion to dismiss was filed on December 3, 2010 and the defendants' reply was filed on December 22, 2010. The motion is scheduled to be heard on January 28, 2011.

On April 1, 2010, a shareholder derivative complaint was filed in the United States District Court for the Western District of Washington, derivatively on our behalf against the members of our Board of Directors, styled *Shackleton v. John A. Bauer, James A. Bianco, Vartan Gregorian, Richard L. Love, Mary O. Neil Munding, Phillip M. Nudelman, Jack W. Singer, and Frederick W. Telling* (Case No. 2:10-cv-564). On April 5, 2010, and April 13, 2010, substantially similar derivative actions were filed in the same court, styled, respectively, *Marbury v. James A. Bianco, et al.* (Case No. 2:10-cv-00578) and *Cyrek v. John H. Bauer, et al.* (Case No. 2:10-cv-00625). The derivative actions are also pending before Judge Marsha Pechman. The derivative complaints allege that the defendants breached their fiduciary duties to the Company under Washington law by making or failing to prevent the disclosure of certain alleged false and misleading statements. The allegations in the derivative actions are substantially similar to those in the securities actions. On May 10, 2010, pursuant to the parties' stipulation, the court consolidated these three shareholder derivative actions and appointed the law firms Robbins Umeda LLP and Federman & Sherwood as co-lead counsel for derivative plaintiffs.

On June 1, 2010, a fourth related shareholder derivative action was filed in the Western District of Washington, *Souda v. John H. Bauer et al.* (Case No. 2:10-cv-00905). It was subsequently transferred to Judge Pechman and consolidated with the consolidated derivative actions. Plaintiff Souda filed a motion to reconsider the portion of the court's order dated May 10, 2010, appointing Robbins Umeda and Federman & Sherwood as co-lead derivative counsel. Souda's motion for reconsideration was denied on November 16, 2010.

On July 27, 2010, a fifth related shareholder derivative action, *Bohland v. John H. Bauer et al.* (Case No. 2:10-cv-1213), was filed in the Western District of Washington and assigned to Judge John C. Coughenour. It was subsequently transferred to Judge Pechman. Plaintiff Bohland filed a motion to consolidate the *Bohland* action with the consolidated derivative actions and to reconsider the portion of the court's order dated May 10, 2010, appointing Robbins Umeda and Federman & Sherwood as co-lead derivative counsel. Bohland's motion for reconsideration was denied on November 16, 2010, and *Bohland* was ordered consolidated with the other derivative actions.

On October 4, 2010, a sixth related derivative complaint was filed in the Superior Court of Washington, County of King, *Alexander v. James A. Bianco, et al.* (Case No. 10-2-34849-2-SEA). On October 5, 2010, the complaint was removed to the Western District of Washington and assigned to Judge Pechman. On October 29, 2010, we, as the nominal defendant, filed a Notice of Related Case in the lead derivative case, *Shackleton v. John H. Bauer, et al.*, Case No. 2:10-cv-00564 (Doc. No. 42). We notified the court of this action and requested that it be consolidated with the other derivative actions per the court's May 10, 2010 Consolidation Order. On November 30, 2010, the court entered an order consolidating *Alexander* with the other derivative actions and staying the derivative actions until defendants' motion to dismiss in the securities class action is decided.

Value Added Tax Assessment

Our European operations are subject to a value added tax, or VAT, which is usually applied to all goods and services purchased and sold throughout Europe. The VAT receivable is \$5.5 million and \$6.3 million as of September 30, 2010 and December 31, 2009, respectively. On April 14, 2009 and December 21, 2009, the Italian Tax Authority, or the ITA, issued notices of assessment to CTI (Europe) based on the ITA's audit of CTI (Europe)'s VAT returns for the years 2003 and 2005, respectively. On June 25, 2010, the ITA issued notices of assessment to CTI (Europe) for the years 2006 and 2007 based on similar findings of the 2003 and 2005 assessments. The ITA audits concluded that CTI (Europe) did not collect and remit VAT on certain invoices issued to non-Italian clients for services performed by CTI (Europe). The assessments, including interest and penalties, for the years 2003, 2005, 2006 and 2007 are 0.5 million, 5.5 million, 2.5 million and 0.8 million, or approximately \$0.7 million, \$7.5 million, \$3.4 million and \$1.2 million as of September 30, 2010, respectively. On July 14, 2010, the ITA issued a notice of deposit payment to CTI (Europe) based on the 2005 assessment, including interest and collection fees for an amount of 0.9 million. We successfully filed a petition with the Provincial Tax Court of Milan, or the Tax

Table of Contents

Court, for suspension of the 2005 notice of deposit payment. On January 10, 2011, the ITA issued a notice of deposit payment to CTI (Europe) based on the 2006 assessment, including interest and collection fees for an amount of 0.4 million, which is due within 60 days of the notice date. We are preparing to file a petition with the Provisional Tax Court of Milan, or the Tax Court, for suspension of the 2006 notice of deposit payment. On September 28, 2010, the merits of the case for the 2005 assessment were discussed in a public hearing before the Tax Court, which has reserved its decision in order to carefully review the arguments, relevant documents and other supporting evidence (including an appraisal from an independent expert) that our counsel filed and presented during the hearing. We believe that the services invoiced were non-VAT taxable consultancy services and that the VAT returns are correct as originally filed. We have been vigorously defending against the assessments and expect that the Tax Court will take into account our arguments both on the procedural grounds and on the merits of the case. If the Tax Court's decision is unfavorable, we will appeal to the higher courts in order to further defend our interests. However, if we are unable to successfully defend ourselves against the assessments, and if we receive an assessment for subsequent years, it may harm our results of operations and financial condition.

Recent Series 7 Preferred Stock Financing

On October 19, 2010, we entered into a securities purchase agreement with various purchasers party thereto pursuant to which we agreed to issue in a registered offering 21,000 shares of our Series 7 Preferred Stock, no par value per share, initially convertible into approximately 56.8 million shares of common stock, and warrants to purchase up to approximately 22.7 million shares of common stock, for an aggregate offering price of \$21 million, or the Series 7 Preferred Stock Financing. Each warrant has an exercise price of \$0.45 per share of common stock. The warrants are exercisable six months and one day after the date of issuance and expire five years after the date of issuance.

The purchasers elected to convert all 21,000 shares of Series 7 Preferred Stock and to receive approximately 56.8 million shares of common stock issuable upon such conversion at the closing of the Series 7 Preferred Stock Financing on October 22, 2010.

Table of Contents

THE OFFERING

The following is a brief summary of some of the terms of this offering and is qualified in its entirety by reference to the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus.

Securities we are offering	Up to 25,000 shares of Series 8 Preferred Stock, warrants to purchase up to 22,563,177 shares of common stock (and the 22,563,177 shares of common stock issuable from time to time upon exercise of the warrants) and the additional investment right to purchase up to 25,000 shares of Series 9 Preferred Stock (and the 25,000 shares of Series 9 Preferred Stock issuable from time to time upon exercise of the additional investment right and the 64,466,219 shares of common stock issuable from time to time upon conversion of the Series 9 Preferred Stock). The purchase price for each share of Series 8 Preferred Stock is \$1,000. In consideration for the purchase of the Series 8 Preferred Stock, the Initial Purchaser will receive the warrants and the additional investment right.
Closing	The closing is expected to occur on the closing date and is conditioned upon the closing bid price of our common stock remaining at or above \$0.2908 during the nine trading days following the date of this prospectus supplement. We refer to any day prior to the closing date during which the closing bid price falls below \$0.2908 as the early termination date in this prospectus supplement.
	In the event that no portion of the warrants and/or the additional investment right has been exercised prior to the early termination date, the closing will be cancelled and the warrants and the additional investment right will automatically terminate on the early termination date.
	In the event that all or any portion of the warrants and/or the additional investment right have been exercised prior to the early termination date, we may elect to require the Initial Purchaser to purchase shares of Series 8 Preferred Stock at the closing in an amount equal to 25,000 multiplied by the larger of (i) the percentage of the warrants so exercised and (ii) the percentage of the additional investment right so exercised, or the adjustment factor. In that case, the number of shares of common stock that must be purchased by the Initial Purchaser upon exercise of the warrants and the number of shares of Series 9 Preferred Stock that must be purchased by the Initial Purchaser upon exercise of the additional investment right will also be adjusted by the adjustment factor, and the balance of the unexercised warrants in excess of the adjusted number of warrants and the balance of the additional investment right in excess of the adjusted number of shares of Series 9 Preferred Stock will automatically terminate. Alternatively, we may elect to hold the consideration received upon exercise of the warrants and/or the additional investment right and otherwise cancel the closing. In that case, no shares of Series 8 Preferred Stock will be issued and the unexercised warrants and the additional investment right will automatically terminate on the early termination date.
	If the closing is not cancelled, and the Initial Purchaser purchases all of the shares of Series 8 Preferred Stock on the closing date, as further described herein, the Initial Purchaser will be required to (i) exercise the additional investment right in full and (ii) exercise the warrants in full, in each case, within 30 days of the date of this prospectus supplement.
Commitment Fee	In connection with this offering, we will pay to the Initial Purchaser a commitment fee equal to 5.0% of the aggregate cash proceeds received by us from the Initial Purchaser for the purchase and

Table of Contents

sale of the Series 8 Preferred Stock at the closing, or the commitment fee. The commitment fee will be paid in the form of a deduction from such aggregate cash proceeds payable to us.

Escrow

In connection with this offering, the Initial Purchaser will deposit up to \$12,500,000 of the purchase price for the shares of Series 8 Preferred Stock into an escrow account upon any exercise of the warrants and the additional investment right. The funds in the escrow account will be released to us in connection with the closing of this offering. In the event that the closing is cancelled, the funds in the escrow account will be released to the Initial Purchaser. In the event of a partial closing, any funds in the escrow account in excess of the purchase price required to be delivered to us by the Initial Purchaser at the partial closing will be released to the Initial Purchaser.

Description of the Series 8 Preferred Stock

Dividends

Commencing on the issuance date of each share of Series 8 Preferred Stock, holders of the Series 8 Preferred Stock are entitled to receive annual dividends on each outstanding share of Series 8 Preferred Stock, which dividends shall accrue in the form of additional shares of Series 8 Preferred Stock at a rate equal to 10.0% per annum from the issuance date of the Series 8 Preferred Stock. Accrued dividends shall be payable upon redemption of the Series 8 Preferred Stock. The Series 8 Preferred Stock is senior to the Series 9 Preferred Stock as to dividends.

Conversion

The Series 8 Preferred Stock is not convertible.

Redemption

The shares of Series 8 Preferred Stock are redeemable at our option at any time after issuance, in whole or in part, either in cash or by offset against recourse notes. In the event that we elect to redeem shares of Series 8 Preferred Stock by offset against recourse notes, each share of Series 8 Preferred Stock (plus accrued dividends thereon, if any) shall be fully offset by \$1,350 principal amount of recourse notes (plus accrued interest thereon, if any), regardless of the issuance date of the shares of Series 8 Preferred Stock and recourse notes. See Description of Series 8 Preferred Stock Redemption.

Liquidation preference

In the event of our voluntary or involuntary dissolution, liquidation or winding up, each holder of Series 8 Preferred Stock will be entitled to be paid a liquidation preference equal to the initial stated value of such holder's Series 8 Preferred Stock of \$1,000 per share, plus accrued and unpaid dividends and any other payments that may be due on such shares, before any distribution of assets may be made to holders of capital stock ranking junior to the Series 8 Preferred Stock. The Series 8 Preferred Stock is *pari passu* with the Series 9 Preferred Stock as to liquidations.

Voting rights and negative covenants

The Series 8 Preferred Stock will have no voting rights, except as otherwise expressly provided in our amended and restated articles of incorporation or as otherwise required by law. However, so long as at least 8,000 or more originally issued shares of Series 8 Preferred Stock are outstanding, we cannot amend our amended and restated articles of incorporation, amended and restated bylaws or other charter documents so as to materially, specifically and adversely affect the rights of the Series 8 Preferred Stock or authorize or create any class of senior preferred stock, in each case, without the affirmative written consent of holders of a majority of the outstanding shares of Series 8

Preferred Stock.

S-6

Table of Contents

Description of warrants	<p>In consideration for the purchase of Series 8 Preferred Stock, the Initial Purchaser will receive warrants to purchase up to 22,563,177 shares of common stock. Each warrant to purchase shares of our common stock will have an exercise price of \$0.3878 per share. The exercise price (and, in certain circumstances, the number of shares of common stock issuable upon exercise of the warrants) is subject to adjustment in certain events, including, among other things, stock splits or certain distributions. The warrants are exercisable immediately and expire two years from the date of issuance, provided that the warrants must be exercised simultaneously with the exercise of the additional investment right such that the percentage of the warrants that have been exercised will always equal or exceed the percentage of the additional investment right that has been exercised. The exercise price of the warrants may be paid in cash or, provided that the Initial Purchaser is solvent, through the issuance by the Initial Purchaser to us of recourse notes. The warrants are subject to cancellation, in whole or in part, as described below. See Description of Warrants.</p>
Automatic termination	<p>In the event that no portion of the warrants and/or the additional investment right has been exercised prior to the early termination date, the closing will be cancelled and the warrants will automatically terminate on the early termination date. In the event of a partial closing, the remaining unexercised portion of the warrants will automatically terminate on the early termination date.</p>
Limitations on exercise	<p>No holder may exercise its warrants to the extent that the exercise would result in the holder and its affiliates beneficially owning 9.99% or more of our common stock. To the extent such limitation applies, the holder shall first be required to convert outstanding shares of Series 9 Preferred Stock into common stock, subject to such limitation, until the holder no longer owns any shares of Series 9 Preferred Stock prior to exercising the warrants.</p>
Description of Additional Investment Right	<p>In consideration for the purchase of Series 8 Preferred Stock, the Initial Purchaser will receive the additional investment right to purchase up to 25,000 shares of Series 9 Preferred Stock, at a purchase price of \$1,000 per share of Series 9 Preferred Stock. The additional investment right is exercisable immediately and must be exercised in full within 30 days of the date of this prospectus supplement. The additional investment right may be exercised by the Initial Purchaser in whole or in part in one or more tranches during such period, at such times as may be determined by the Initial Purchaser. The exercise price of the additional investment right is \$1,000 per share of Series 9 Preferred Stock and may be paid in cash or, provided that the Initial Purchaser is solvent, through the issuance by the Initial Purchaser to us of recourse notes. The additional investment right is subject to cancellation, in whole or in part, as described below. See Description of Additional Investment Right.</p>
Automatic termination	<p>In the event that no portion of the additional investment right and/or the warrants has been exercised prior to the early termination date, the closing will be cancelled and the additional investment right will automatically terminate on the early termination date. In the event of a partial closing, the remaining unexercised portion of the additional investment right will automatically terminate on the early termination date.</p>
Description of the Series 9 Preferred Stock	

Dividends

Holders of the Series 9 Preferred Stock are entitled to receive dividends equal (on an as if converted to common stock basis) to and in the same form as dividends actually paid on shares of common stock or other junior securities, as and if such dividends are paid. We have never declared or paid any cash dividends on our common stock and do not currently

S-7

Table of Contents

anticipate declaring or paying cash dividends on our common stock in the foreseeable future. See Dividend Policy. The Series 8 Preferred Stock is senior to the Series 9 Preferred Stock as to dividends.

Optional conversion

The Series 9 Preferred Stock can be converted at the holder's option at any time after issuance into the number of shares of common stock determined by dividing the stated value of the Series 9 Preferred Stock of \$1,000 per share to be converted by the conversion price, which is initially \$0.3878. The initial conversion price is subject to adjustment in certain events, including, among other things, stock splits or certain distributions. See Description of Series 9 Preferred Stock.

Automatic conversion

On the first to occur of (i) the date on which 1,000 or less shares of Series 9 Preferred Stock remain outstanding or (ii) the date on which our board of directors determines in good faith to do a reverse stock split with respect to our common stock in order to achieve compliance with the listing rules of The NASDAQ Capital Market or for other good faith business reasons, all outstanding shares of Series 9 Preferred Stock shall automatically convert into that number of shares of common stock determined by dividing the aggregate stated value of the Series 9 Preferred Stock being converted by the conversion price then in effect, subject only to the limitations on conversion described below.

Limitations on conversion

We cannot effect a conversion of the Series 9 Preferred Stock, and no holder may request a conversion of its Series 9 Preferred Stock, to the extent such conversion would result in the holder and its affiliates beneficially owning more than 9.99% of our common stock. In the event of an automatic conversion of the Series 9 Preferred Stock, the conversion threshold will increase to 19.99% without any further action on the part of a holder.

Liquidation preference

In the event of our voluntary or involuntary dissolution, liquidation or winding up, each holder of Series 9 Preferred Stock will be entitled to be paid a liquidation preference equal to the initial stated value of such holder's Series 9 Preferred Stock of \$1,000 per share, plus accrued and unpaid dividends and any other payments that may be due on such shares, before any distribution of assets may be made to holders of capital stock ranking junior to the Series 9 Preferred Stock. The Series 9 Preferred Stock is *pari passu* with the Series 8 Preferred Stock as to liquidations.

Voting rights and negative covenants

The Series 9 Preferred Stock will have no voting rights, except as otherwise expressly provided in our amended and restated articles of incorporation or as otherwise required by law. However, so long as at least 20% of the aggregate originally issued shares of the Series 9 Preferred Stock are outstanding, we cannot amend our amended and restated articles of incorporation, amended and restated bylaws or other charter documents so as to materially, specifically and adversely affect the rights of the Series 9 Preferred Stock, repay, repurchase or offer to repay or repurchase or otherwise acquire any of our common stock or other securities junior to the Series 9 Preferred Stock, except in certain limited circumstances, or authorize or create any class of senior preferred stock, in each case without the affirmative written consent of holders of a majority of the outstanding shares of Series 9 Preferred Stock.

Use of proceeds after expenses

We intend to use the net proceeds from this offering for general corporate purposes, which may include, among other things, paying interest on and/or retiring portions of our outstanding debt, funding

Table of Contents

research and development, preclinical and clinical trials, the preparation and filing of new drug applications and general working capital. We may also use a portion of the net proceeds from this offering to fund possible investments in, or acquisitions of, complementary businesses, technologies or products. We have recently engaged in limited discussions with third parties regarding such investments or acquisitions, but we have no current agreements or commitments with respect to any investment or acquisition. We can provide no assurance that we will enter into any such agreements or commitments or consummate any such investments or acquisitions. See Use of Proceeds.

Market for the Series 8 Preferred Stock, the warrants, the additional investment right and the Series 9 Preferred Stock

There is no established public trading market for the Series 8 Preferred Stock, Series 9 Preferred Stock or warrants and we do not expect a market to develop. In addition, we do not intend to apply for listing the Series 8 Preferred Stock, the warrants, the additional investment right or the Series 9 Preferred Stock on any securities exchange.

Market for our common stock

Our common stock is quoted on The NASDAQ Capital Market and on the MTA in Italy under the symbol CTIC. On January 12, 2011, the last reported sale price of our common stock on The NASDAQ Capital Market was \$0.3875.

Table of Contents**RISK FACTORS**

*You should carefully consider the risks under the heading **Risk Factors** beginning on page 18 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on February 26, 2010, and beginning on page 30 of our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2010, filed with the SEC on October 28, 2010, which information is incorporated by reference in this prospectus supplement, and the additional risks described below and other information in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference before deciding to invest in our securities. If any of the identified risks actually occur, they could materially adversely affect our business, financial condition, operating results or prospects and the trading price of our securities. Additional risks and uncertainties that we do not presently know or that we currently deem immaterial may also impair our business, financial condition, operating results and prospects and the trading price of our securities.*

Risks Related to Our Company

We need to raise additional funds and expect that we will need to continue to raise funds in the future, and additional funds may not be available on acceptable terms, or at all; failure to raise significant additional funds may cause us to cease development of our products and operations.

We have substantial operating expenses associated with the development of our product candidates, and as of September 30, 2010, we had cash and cash equivalents of \$17.3 million. As of September 30, 2010, our total current liabilities were \$25.9 million. The aggregate principal balance of our outstanding 7.5% and 5.75% convertible senior notes as of September 30, 2010 was \$21.2 million. We repaid the outstanding principal amount and accrued but unpaid interest on our 4% notes in July 2010. We do not expect that our existing cash and cash equivalents, as well as proceeds received from our offerings to date, will provide sufficient working capital to fund our presently anticipated operations beyond the first quarter of 2011.

Raising additional capital will likely require that we issue additional shares of our common stock. To the extent that we raise additional capital through the sale of equity securities, or securities convertible into our equity securities, our shareholders may experience dilution of their proportionate ownership of us. We have held preliminary discussions with several investment funds regarding a potential investment in our company, but we have no current agreements or commitments with respect to any investment by these investment funds or any other investors. There can be no assurance that our discussions with these investment funds or any other investors will result in an investment in our company or that we will have sufficient earnings, access to liquidity or cash flow in the future to meet our operating expenses and other obligations, including our debt service obligations.

We may not be able to raise such capital or if we can, it may not be on favorable terms. We may seek to raise additional capital through public or private equity financings, partnerships, joint ventures, dispositions of assets, debt financings or restructurings, bank borrowings or other sources. To obtain additional funding, we may need to enter into arrangements that require us to relinquish rights to certain technologies, drug candidates, products and/or potential markets. In addition, some financing alternatives may require us to meet additional regulatory requirements in Italy and the United States and we may be subject to certain contractual limitations, which may increase our costs and adversely affect our ability to obtain additional funding. If adequate funds are not otherwise available, we will further curtail operations significantly, including the delay, modification or cancellation of operations and plans related to pixantrone, OPAXIO and brostallicin, and may be forced to cease operations, liquidate our assets and possibly seek bankruptcy protection. A bankruptcy may result in the termination of agreements pursuant to which we license certain intellectual property rights, including the rights to pixantrone, OPAXIO and brostallicin.

We are required to comply with the regulatory structure of Italy because our stock is traded on the MTA, which could result in administrative and other challenges and additional expenses.

Our common stock is traded on the MTA and we are required to also comply with the rules and regulations of CONSOB, which is the public authority responsible for regulating the Italian securities market, and the Borsa Italiana, which ensures the development of the managed market in Italy. Collectively these entities regulate companies listed on Italy's public markets. Conducting our operations in a manner that complies with all of the

Table of Contents

applicable laws and rules requires us to devote additional time and resources to regulatory compliance matters. For example, the process of seeking to understand and comply with the laws of each country, including tax, labor and regulatory laws, might require us to incur the expense of engaging additional outside counsel, accountants and other professional advisors and might result in delayed business initiatives as we seek to ensure that each new initiative will comply with all of the applicable regulatory regimes. In addition, the Borsa Italiana and CONSOB have made several requests for information asking us to provide additional clarifications about our business operations and financial condition, and we have complied with such requests and have met with CONSOB on several occasions to answer questions. Compliance with Italian regulatory requirements may delay additional issuances of our common stock; we are currently taking steps to attempt to conform to the requirements of the Italian stock exchange and CONSOB to allow such additional issuances.

In addition, under Italian law, we must publish a listing prospectus that has been approved by CONSOB prior to issuing common stock that exceeds, in any twelve-month period, 10% of the number of shares of our common stock outstanding at the beginning of that period (except for the applicable exceptions). If we are unable to maintain a listing prospectus to cover general financing efforts under Italian law, we may be required to raise money using alternative forms of securities. For example, we may need to use convertible preferred stock and convertible debt since the common stock resulting from the conversion of such securities, subject to the provisions of European Directive No. 71/2003 and according to the interpretations of the Committee of European Securities Regulators (CESR), is not subject to the aforesaid 10% limitation imposed by European Union and Italian law.

Moreover, on December 23, 2008, CONSOB sent a notice to us requesting that we issue (i) immediately, a press release providing, among other things, information about our debt restructuring plan, the current state of compliance with the relevant covenants regulating our debt and the equity line of credit agreement we entered into with Midsummer Investment Ltd. on July 29, 2008, and (ii) by the end of each month and starting from the month of December 2008, a press release providing certain information relating to our management and financial situation, updated to the previous month, or the Monthly CONSOB Press Release. On July 31, 2009, CONSOB sent us a notice asserting three violations of the provisions of Section 114, paragraph 5 of the Italian Legislative Decree no. 58/98, as follows: (a) the non-disclosure without delay of the press release described under point (i) above and the subsequent incomplete disclosure of the relevant information through press releases dated January 9, 2009 and January 13, 2009; (b) the non-disclosure of the Monthly CONSOB Press Release in December 2008; and (c) the incomplete disclosure of the Monthly CONSOB Press Release in January 2009. The sanctions established by the Section 193, paragraph 1 of the Italian Legislative Decree no. 58/1998 for such violations are pecuniary administrative sanctions amounting to between 5,000 and 500,000, applicable to each one of the three asserted violations. According to the applicable Italian legal provisions, CONSOB may impose such administrative sanctions by means of a decree stating the grounds of its decision only after evaluating our possible defenses that were submitted to CONSOB on August 28, 2009 (within 30 days of July 31, 2009, the notification date of the relevant charges, according to the applicable Italian rules). On May 5, 2010, CONSOB (i) notified us that it has begun the preliminary investigation for its decision on these administrative proceedings and (ii) provided us with a preliminary investigation report in reply to our defenses submitted on August 28, 2009. On June 4, 2010 (within 30 days of May 5, 2010, the notification date of the beginning of the aforesaid preliminary investigation, according to the applicable Italian rules), we submitted further defenses that CONSOB will have to evaluate before imposing any possible administrative sanctions.

On December 10, 2009, CONSOB sent us a notice claiming two violations of the provisions of Section 114, paragraph 1 of the Italian Legislative Decree no. 58/98 due to the asserted late disclosure of certain information then reported, at CONSOB's request, in the press release disseminated on December 19, 2008 and March 23, 2009. Such information concerned, respectively: (i) the conversion by BAM Opportunity Fund LP of 9.66% notes into shares of common stock that occurred between October 24, 2008 and November 19, 2008; and (ii) the contents of the opinion expressed by Stonefield Josephson, Inc., an independent registered public accounting firm, with respect to our 2008 financial statements. The sanctions established by the Section 193, paragraph 1 of the Italian Legislative Decree no. 58/98 for such violations are pecuniary administrative sanctions amounting to between 5,000 and 500,000, applicable to each one of the two asserted violations. According to the applicable Italian legal provisions, CONSOB may impose such administrative sanctions by means of a decree stating the grounds of its decision only after evaluating our possible defenses that were submitted to CONSOB on January 8, 2010 (within 30 days of December 10, 2009, the notification date of the relevant charges, according to the applicable Italian rules). On July 12, 2010, CONSOB (i) notified us that it has begun the preliminary investigation for its decision on these

Table of Contents

administrative proceedings and (ii) provided us with a preliminary investigation report in reply to our defenses submitted on January 8, 2010. On August 12, 2010 (within 30 days of July 12, 2010, the notification date of the beginning of the aforesaid preliminary investigation, according to the applicable Italian rules), we submitted further defenses that CONSOB will have to evaluate before imposing any possible administrative sanctions.

We may owe additional amounts for value added taxes related to our operations in Europe.

Our European operations are subject to VAT, which is usually applied to all goods and services purchased and sold throughout Europe. The VAT receivable is \$5.5 million and \$6.3 million as of September 30, 2010 and December 31, 2009. On April 14, 2009 and December 21, 2009, the Italian Tax Authority, or ITA, issued notices of assessment to CTI (Europe) based on the ITA's audit of CTI (Europe)'s VAT returns for the years 2003 and 2005. On June 25, 2010, the ITA issued notices of assessment to CTI (Europe) for the years 2006 and 2007 based on similar findings of the 2003 and 2005 assessments. The ITA audits concluded that CTI (Europe) did not collect and remit VAT on certain invoices issued to non-Italian clients for services performed by CTI (Europe). The assessments, including interest and penalties, for the years 2003, 2005, 2006 and 2007 are 0.5 million, 5.5 million, 2.5 million and 0.8 million, as of September 30, 2010, respectively. On July 14, 2010, the ITA issued a notice of deposit payment to CTI (Europe) based on the 2005 assessment including interest and collection fees for an amount of 0.9 million, payable in the third quarter 2010. We successfully filed a petition with the Provincial Tax Court of Milan, or the Tax Court, for suspension of the 2005 notice of deposit payment. On January 10, 2011, the ITA issued a notice of deposit payment to CTI (Europe) based on the 2006 assessment, including interest and collection fees for an amount of 0.4 million, which is due within 60 days of the notice date. We are preparing to file a petition with the Tax Court for suspension of the 2006 notice of deposit payment. On September 28, 2010, the merits of the case for the 2005 assessment were discussed in a public hearing before the Tax Court, which has reserved its decision in order to carefully review the arguments, relevant documents and other supporting evidence (including an appraisal from an independent expert) that our counsel filed and presented during the hearing. We believe that the services invoiced were non-VAT taxable consultancy services and that the VAT returns are correct as originally filed. We have been