

CELL THERAPEUTICS INC  
Form DEF 14A  
January 14, 2009  
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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:                       Filed by a Party other than the Registrant:

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

**Cell Therapeutics, Inc.**

(Name of Registrant as Specified In Its Charter)

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

Payment of filing fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**T 206.282.7100 F 206.272.4010**

January 13, 2009

Dear Shareholder:

You are cordially invited to attend the Cell Therapeutics, Inc. ( CTI ) Special Meeting of Shareholders, to be held at 10:00 a.m. Pacific Daylight Time (PDT) on Friday, February 6, 2009, at 501 Elliott Avenue West, Suite 400, Seattle, Washington, 98119, USA. For those of you unable to attend in person, we expect to webcast the meeting and make information concerning the webcast available on our website at [www.celltherapeutics.com](http://www.celltherapeutics.com).

Information concerning the business to be conducted at the meeting is included in the accompanying Notice of Special Meeting and Proxy Statement. The proxy statement is being mailed to our U.S. shareholders. If you are an Italian shareholder who does not hold shares in record name (i.e. you hold shares through an Italian bank), you may obtain a copy of the proxy statement and a proxy card from any of the following places:

the office of the Borsa Italiana S.p.A.;

our Italian office located at Via Ariosto, 23, 20091 Bresso (MI)-Italy, Attn: Finance Director;

the office of any of the depository banks (or Monte Titoli intermediaries) having CTI shares on their accounts;

the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov); or

our website at [www.celltherapeutics.com/shareholder](http://www.celltherapeutics.com/shareholder).

**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 certification of participation. If your shares are held in a U.S. bank or brokerage account or if you are registered directly with CTI as the record holder of your shares, 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 support of CTI.

Sincerely,

James A. Bianco, M.D.

Chief Executive Officer

Shareholder

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

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**CELL THERAPEUTICS, INC.**

**Notice of Special Meeting of Shareholders**

**Friday, February 6, 2009**

To Our Shareholders:

The Special Meeting of Shareholders of Cell Therapeutics, Inc. (the Company) will be held at 10:00 a.m. Pacific Daylight Time (PDT), on Friday, February 6, 2009, at 501 Elliott Avenue West, Suite 400, Seattle Washington 98119, for the following purposes:

- (1) Approval of an amendment to our amended and restated articles of incorporation to increase the number of authorized shares from 410,000,000 to 810,000,000 and to increase the number of authorized shares of common stock from 400,000,000 to 800,000,000;
- (2) Approval of an amendment to our amended and restated articles of incorporation to effect a reverse stock split;
- (3) Approval of an amendment to our 2007 Equity Incentive Plan to increase the number of shares available for issuance under the plan by 25,000,000 shares;
- (4) Approval of an amendment to our 2007 Employee Stock Purchase Plan to increase the number of shares available for issuance under the plan by 1,000,000 shares; and

(5) 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 January 13, 2009, 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 (10) 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.

Copies of the enclosed proxy statement may be obtained by our Italian shareholders who do not hold their shares in registered form from any of the following places:

the office of the Borsa Italiana S.p.A.;

our Italian office located at Via Ariosto, 23, 20091 Bresso (MI)-Italy, Attn: Finance Director;

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the office of any of the depository banks (or Monte Titoli intermediaries) having CTI shares on their accounts;

the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov); or

our website at [www.celltherapeutics.com/shareholders](http://www.celltherapeutics.com/shareholders).

The proxy statement will be available for our Italian shareholders at least twenty (20) days before the meeting date of February 6, 2009.

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 in the United States, or if you are registered directly with the Company as the record holder of your shares, 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

January 13, 2009

**YOUR VOTE IS IMPORTANT. ACCORDINGLY, YOU ARE URGED TO SIGN, DATE AND RETURN PROMPTLY THE ACCOMPANYING PROXY CARD 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 PRINT AN ITALIAN PROXY CARD FROM OUR WEBSITE, OR ANY OF THE LOCATIONS LISTED IN THIS PROXY STATEMENT, REQUEST A CERTIFICATION OF PARTICIPATION IN THE CENTRAL DEPOSITARY SYSTEM FROM YOUR BROKER AND INCLUDE THE PROXY CARD AND CERTIFICATION IN THE SAME ENVELOPE OR TELECOPY THEM TOGETHER TO THE FAX NUMBER PROVIDED ON THE PROXY CARD**

(see page 1 for more information on Italian voting procedures).

**Important Notice Regarding the Available of Proxy Materials to Be Held on February 6, 2009:**

**The Proxy Statement is available on our website at [www.celltherapeutics.com/shareholders](http://www.celltherapeutics.com/shareholders).**

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**CELL THERAPEUTICS, INC.**

**501 Elliott Avenue West, Suite 400**

**Seattle, Washington 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 Special Meeting of Shareholders (the Special Meeting or shareholder meeting), to be held at 10:00 a.m. Pacific Daylight Time (PDT), on Friday, February 6, 2009, at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, and at any adjournment or postponement thereof.

Only shareholders of record on our books at the close of business on January 13, 2009, which we will refer to as the record date, will be entitled to notice of, and to vote at, the Special Meeting.

At the Special Meeting, shareholders will be asked to:

- (1) approve an amendment to our amended and restated articles of incorporation to increase the number of authorized shares from 410,000,000 to 810,000,000 and to increase the number of authorized shares of common stock from 400,000,000 to 800,000,000, ( Proposal 1 );
- (2) approve an amendment to our amended and restated articles of incorporation to effect a reverse stock split, at a time in the future, and in such a ratio between a one-for-two and a one-for-twenty reverse stock split, to be determined by our Board of Directors, in conjunction with advice from our investment bankers, to be in the best interests of Cell Therapeutics, Inc. ( Proposal 2 );
- (3) approve an amendment to our 2007 Equity Incentive Plan to increase the number of shares available for issuance under the plan by an additional 25,000,000 shares of common stock ( Proposal 3 );
- (4) approve an amendment to our 2007 Employee Stock Purchase Plan to increase the number of shares available for issuance under the plan by an additional 1,000,000 shares of common stock ( Proposal 4 and, collectively, the Proposals );

Shareholder approval of the Proposals are required by statutes or regulations applicable to the Company based on its listing on The NASDAQ Capital Market and its incorporation in the state of Washington.

This proxy statement and the accompanying proxy card are being first mailed to shareholders on or about January 22, 2009.

**Important Information for our Shareholders in Italy about Voting Procedures**

If you hold our shares of common stock as a result of a merger with Novuspharma S.p.A. or if you acquired our stock through an account with an Italian bank on the MTA, you most likely hold these shares 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 and requested to have shares registered in your name). We refer to persons holding our stock through Monte Titoli as our shareholders in Italy or our Italian shareholders. 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).

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In order to increase the number of shares owned by Italian shareholders that vote at the shareholder meeting so that we can achieve a quorum and take action at the shareholder meeting, which has been difficult in the past, certain Italian banks have agreed in the absence of the shareholder's contrary instructions thereto to make book entry transfer of their share positions at Monte Titoli to their U.S. correspondent banks, which will transfer the shares to an account of the Italian bank at a U.S. affiliate broker-dealer on the record date. This will permit such broker-dealers under the securities laws of the United States and the rules of the New York Stock Exchange to vote these shares for certain matters to be presented at the shareholder meeting in the event that the Italian shareholders do not instruct their broker to vote the shares pursuant to the procedures provided for in this proxy statement and on the proxy card prepared for our shareholders in Italy, which may be obtained from our Internet site at [www.celltherapeutics.com](http://www.celltherapeutics.com). Our Italian shareholders will, however, maintain their right to instruct the U.S. broker-dealer so that the broker-dealer refrains from taking any action in relation to such shareholder's shares, including voting the shares. Accordingly, if you do not vote your shares by valid proxy or you do not provide any specific instruction in relation thereto on or before the date of the shareholder meeting and your shares are held through an Italian bank participating in this transfer procedure, your shares will be voted by the U.S. broker pursuant to the discretionary authority granted them under Rule 452 of the New York Stock Exchange. However, you may still vote your shares yourself as provided below.

Copies of this proxy statement may be obtained by our Italian shareholders from any of the following places:

the office of the Borsa Italiana S.p.A.;

our Italian office located at Via Ariosto, 23, 20091 Bresso (MI)-Italy, Attn: Finance Director;

the office of any of the depository banks (or Monte Titoli intermediaries) having CTI shares on their accounts;

the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov); or

our website at [www.celltherapeutics.com/shareholders](http://www.celltherapeutics.com/shareholders).

The proxy statement will be available for our Italian shareholders at least twenty (20) days before the meeting date of February 6, 2009.

All of our shareholders, including our Italian shareholders, are cordially invited to attend our shareholder meeting. 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.

Italian shareholders who have requested and received a Certification may vote in the following manner:

In person. You may attend our shareholder meeting and vote in person. To do so, please present your Certification at the door, together with proof of your identity.

By mail or fax. You may print an Italian proxy card from our Internet site at [www.celltherapeutics.com/shareholders](http://www.celltherapeutics.com/shareholders) and use that proxy card to vote by mail or facsimile. Please mark your votes on the Italian proxy card and return it and your Certification by mail to the address shown on the card or by fax to the fax number 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.

By proxy. You may name another person as a substitute proxy by any means permitted by Washington law and our bylaws. That substitute proxy may then attend the meeting, however, he or she must provide, at the meeting, 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.

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**We strongly encourage our Italian shareholders to obtain a Certification and an Italian proxy card and submit them by mail to the address shown on the Italian proxy card or, if possible, send by fax to the fax number 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 be able to obtain a quorum, in which case we would be unable to conduct any business at the shareholder meeting. **Your vote is important. Please obtain an Italian proxy card and a Certification and vote today.****

For future meetings, other Italian shareholders may also vote via Internet or by phone if the shares owned by such Italian shareholder are held directly by a U.S. brokerage account in that shareholder's name. If you are an Italian shareholder and wish to use this method of voting for future meetings, prior to the record date for such future meeting, you will need to instruct your bank to transfer your shares to a U.S. brokerage account (to be held in your name and for your account). Once your shares are held by a U.S. broker in your name, you will receive the meeting documentation for any future meetings (including the proxy statement) at your address, together with a security code and instructions on how to vote your shares through the relevant website or by calling the telephone number provided in connection with that meeting. You will not need to transfer your shares before every meeting; once the transfer has been made and your shares are held in a U.S. brokerage account, you will be able to vote your shares via Internet or phone for all future meetings so long as your shares continue to be held in a U.S. brokerage account. If you wish to make such a transfer to allow voting via Internet or phone for future meetings, please contact your bank to understand the procedure and the costs associated with that transfer. Please note that you will be required by your bank to bear the costs relating to such a transfer, including those debited or claimed by the U.S. broker for the management of the account in the U.S.

Our Italian shareholders who are registered directly with the Company as a record holder (i.e. you hold your shares in registered form) may also vote via internet or by phone as described below.

If you do not hold your shares in registered form, you may request to be registered directly with the Company as a record holder, in which case you would be entitled to receive shareholder materials for future meetings directly at your address as indicated in the registration. If you are interested in having your shares registered directly with the Company for the purposes of receiving shareholder information directly for future meetings, please contact your bank for more information on the procedures required for such registration, which would include, among other things, the submission of a registration request (together with a Certification) to the Company's transfer agent, the removal of your shares from Monte Titoli's account and the transfer of such shares to the United States directly in your name. Please note that registration in the Company's shareholder books may require you to take additional steps if and when you decide to dispose of your shares.

### **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 also engaged The Proxy Advisory Group, LLC, to assist in the solicitation of proxies and provide related advice and informational support for a \$7,500 service fee and the reimbursement of customary disbursements; these fees and disbursements are not expected to exceed \$20,000 in the aggregate.

### **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 shareholder meeting. Each share of our Series A preferred stock outstanding on the record date is entitled to approximately 14.95 votes per share, each share of our Series B preferred stock outstanding on the record date is entitled to approximately 14.86 votes per share, each share of our Series C preferred stock outstanding on the record date is entitled to approximately 220.8 votes per share and each share of our Series D preferred stock outstanding on the record date is entitled to approximately 38.28 votes per share (or fewer, if such

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share s conversion rights as of the record date are limited by operation of an applicable 9.99% blocker provision under our articles of incorporation). 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 261,137,264 shares of common stock, 550 shares of Series A preferred stock, 2,218 shares of Series B preferred stock, 4,284 shares of Series C preferred stock, and 1,000 shares of Series D preferred stock. Our common stock, Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred stock will vote together as a single class on the proposals to be presented at the shareholder meeting. The presence at the shareholder meeting in person or by proxy of holders of record of one-third of the votes entitled to be cast is required to constitute a quorum for the transaction of all business at the shareholder meeting. Broker non-votes (i.e., shares held by a broker or nominee which are represented at the meeting, but with 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 election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. If a quorum exists at the shareholder meeting, all shares of common stock, Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred 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 2, 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 as it pleases. For Proposals 3 and 4, 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. Broker non-votes for Proposals 3 and 4 will have no effect on that proposal since approval is based on the number of votes actually cast. Shares which otherwise abstain from voting as to Proposals 3 and 4 will not be counted as votes cast against Proposals 3 and 4 and will have no effect on these proposals since approval is based on the number of votes actually cast. Abstentions will have the same effect as votes against Proposals 1 and 2, however, since approval of those proposals are based on the total number of shares outstanding.

### **Voting Electronically or by Telephone**

If your shares are registered in the name of a bank or brokerage firm in the United States, 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 Broadridge Investor Communication Solutions 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 Broadridge 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.

In addition, if your shares are registered in your name, you may vote your shares electronically over the Internet or by telephone as provided on your voting form.

### **Revocability of Proxies**

Any shareholder 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 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.

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**Voting Agreements**

At the time of our merger with Novuspharma, S.p.A., 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).

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**PROPOSAL 1**

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

**Summary**

We are asking our shareholders to approve an amendment to our amended and restated articles of incorporation to (a) increase the number of authorized stock from 410,000,000 shares to 810,000,000 shares and (b) increase the number of shares of our common stock authorized for issuance from 400,000,000 shares to 800,000,000 shares. The additional common stock to be authorized by adoption of the amendment would have rights identical to our currently outstanding common stock. The number of authorized shares of our preferred stock will not be affected by this amendment nor by any other Proposal considered at the Special Meeting. The number of shares of our preferred stock will be maintained at 10,000,000.

Essentially all of our currently authorized common stock has been issued or is reserved for issuance upon exercise or conversion of existing derivative securities. In order to continue to fund our operations, we will need to raise additional capital from financing sources. One of the ways we raise such cash is by issuing shares and derivative securities from time to time. Without additional authorized common stock, we will be unable to raise the financing we need to maintain our operations. Other important corporate needs, including the potential issuance of shares in a merger or issuing stock-based incentive rewards to our employees, require additional authorized common stock as well.

In addition, we need additional authorized common stock to pursue our recapitalization plan to regain compliance with the listing requirements of The NASDAQ Stock Market ( "NASDAQ" ). We received notice of deficiency from NASDAQ in September 2008 because the market value of our listed securities had fallen below the \$50 million minimum requirement for the NASDAQ Global Market for 10 consecutive business days. We were granted a period of 30 calendar days to regain compliance with this requirement. In October 2008, we received a letter from NASDAQ stating that because we failed to regain compliance with the \$50 million minimum value of listed securities requirement our common stock would be subject to delisting unless we requested a hearing before a NASDAQ Listing Qualifications Panel (the "Panel" ). In November 2008 we had a hearing before the Panel and presented a plan for regaining compliance with the NASDAQ Marketplace Rules. Our proposed plan of compliance includes a recapitalization of our currently outstanding convertible debt and preferred stock. In early January 2008, we received notification that the Panel had determined to grant the Company's request to transfer the listing of its common stock from The NASDAQ Global Market to The NASDAQ Capital Market. Our continued listing on The NASDAQ Capital Market, which transfer was effected on January 8, 2009, is subject to us evidencing compliance with all applicable requirements for continued listing on The NASDAQ Capital Market, including the \$35 million market value of listed securities requirement or its alternatives, by February 12, 2009.

Our recapitalization plan is intended to enable us to regain and maintain compliance with the continued listing standards of The NASDAQ Capital Market by increasing shareholders' equity through a decrease in our outstanding debt, and by increasing the market value of our listed securities by increasing the number of shares of common stock outstanding. Consequently, as part of our recapitalization plan, the Company has sought, and still seeks, to restructure both our outstanding convertible debt and preferred stock, as described below.

On December 5, 2008, we announced via press release that our Board of Directors had authorized a modified Dutch tender offer seeking to repurchase a portion or all of an aggregate of \$124 million of our outstanding 4% Convertible Senior Subordinated Notes due 2010, 5.75% Convertible Senior Notes due 2011, 6.75% Convertible Senior Notes due 2010, 7.5% Convertible Senior Notes due 2011 and 9% Convertible Senior Notes due 2012 at a significant discount to the notes' par value. We continue to desire to pursue the tender offer as part of our recapitalization plan, but as of January 13, 2009 the tender offer for this debt has not commenced. The tender offer, if commenced, will be made solely by and subject to the terms and conditions set forth in a Schedule TO (including the Offer to Purchase and related Letter of Transmittal) that will be filed by the Company with the Securities and Exchange Commission.



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Also on December 5, 2008, we issued approximately \$32.65 million principal amount of our 10% Convertible Senior Notes due 2011 (the 10% Notes ) to BAM Opportunity Fund LP ( BAM ). Pursuant to the terms of this transaction, we also repurchased approximately \$30 million aggregate principal amount of outstanding 15% Convertible Senior Notes due 2011, Series B 18.33% Convertible Senior Notes and 9.66% Convertible Senior Notes held by BAM. In addition, BAM also granted us a conditional put option right to issue and sell to BAM an additional \$3 million of Series C 10% Convertible Senior Notes (the C Notes ) if we make a convertible notes repurchase tender offer and receive tenders (which are not withdrawn) of at least \$62 million principal amount of convertible notes, or to issue and sell to BAM an additional \$6 million of C Notes if we make a convertible notes repurchase tender offer and receive tenders (which are not withdrawn) of at least \$93 million principal amount of convertible notes. The C Notes would have substantially the same terms as the 10% Notes, including that they would be convertible into shares of common stock at the option of the holder at a conversion price of \$0.137 per share. If we commence a tender offer and exercise such option, approximately 21.9 million or 43.8 million shares of common stock would be issuable upon conversion of the C Notes, depending on the amount of tenders received in a tender offer.

We have also recently amended the earn-out provision of our acquisition agreement relating to Systems Medicine, Inc. ( SMI ) to provide that we would pay the SMI stockholders an immediate substitute earn-out payment of \$5 million (in lieu of the former potential milestone payments of \$5 million and \$10 million tied to certain FDA milestones for Brostallacin) in shares of our common stock, except the non-accredited stockholders who were paid in cash, for an aggregate of 38,185,911 shares. The transaction closed in early January 2009.

Furthermore, we are still seeking to restructure our preferred stock, but as of this time we have not entered into any binding agreements with respect to a restructuring of its preferred stock.

In order to continue to pursue our recapitalization plan and gain, and maintain, compliance with the continued listing requirements of The NASDAQ Capital Market, we will need additional authorized common stock for issuance in connection with the recapitalization plan or to raise funds for use in the recapitalization plan through the issuance of shares and derivative securities, though it is unknown at this time how many shares of common stock, other than as described above, may be issued in the future with uncompleted portions of our recapitalization plan.

Pursuant to the NASDAQ Marketplace Rules, no currently contemplated or completed component of the recapitalization plan requires shareholder approval, and we do not currently intend to present any such plan or proposal related to the recapitalization, other than this Proposal to increase our authorized shares, to the shareholders for approval.

Article II of our amended and restated articles of incorporation currently authorizes us to issue up to 410,000,000 shares of stock, 400,000,000 of which are designated as common stock, no par value, and 10,000,000 shares of which are designated as preferred stock, no par value. Our common stock is all of a single class, with equal voting, distribution, liquidation and other rights. As of January 13, 2009, 261,137,264 shares of common stock were issued and outstanding, 550 shares of our Series A preferred stock were outstanding, 2,218 shares of our Series B preferred stock were outstanding, 4,284 shares of our Series C preferred stock were outstanding, 1,000 shares of our Series D preferred stock were outstanding, 534,101 shares of common stock were reserved for issuance under our 1994 Equity Incentive Plan, our 2007 Equity Incentive Plan and the Novuspharma S.p.A. Stock Option Plan, 16,600 shares of common stock were reserved for issuance under our 2007 Employee Stock Purchase Plan, warrants to purchase 1,419,424 shares of our common stock were issued and outstanding, 102,129 shares of our common stock were reserved for issuance upon conversion of our 4% convertible senior subordinated notes due July 1, 2010, 66,564 shares of our common stock were reserved for issuance upon conversion of our 6.75% convertible senior notes due October 31, 2010, 400,257 shares of our common stock were reserved for issuance upon conversion of our 7.5% convertible senior notes due April 30, 2011, 766,666 shares of our common stock were reserved for issuance upon conversion of our 5.75% convertible senior notes due December 15, 2011, 396,099 shares of our common stock were reserved for

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issuance upon conversion of our 9% convertible senior notes due March 4, 2012, 94,890,513 shares of our common stock were reserved for issuance upon conversion of our 10% convertible senior notes due December 5, 2011, 8,221 shares of our common stock were reserved for issuance upon conversion of our Series A preferred stock, 32,957 shares of our common stock were reserved for issuance upon conversion of our Series B preferred stock, 109,848 shares of our common stock were reserved for issuance upon conversion of our Series C preferred Stock, 38,277 shares of our common stock were reserved for issuance upon conversion of our Series D preferred stock and 1,236,311 shares of our common stock were reserved for issuance under the equity line of credit set forth in the Securities Purchase Agreement dated July 29, 2008.

In addition to, or in conjunction with our recapitalization plan described above, we anticipate that we may issue additional shares of common stock in the future in connection with one or more of the following:

corporate transactions, such as stock splits or stock dividends;

financing transactions, such as public or private offerings of common stock or convertible securities;

debt or equity restructuring or refinancing transactions, such as debt exchanges or offerings of new convertible debt or modifications to existing securities or as payments of interest on debt securities;

acquisitions;

strategic investments;

partnerships, collaborations and other similar transactions;

our stock incentive plans; and

other corporate purposes that have not yet been identified.

In order to provide our Board of Directors with certainty and flexibility to undertake 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.

In addition to our periodic discussions regarding fund raising opportunities, we also engage in periodic discussions with potential partners, strategic investments and acquisition candidates, including product lines, as part of our business model. If any of these discussions came to a definitive understanding, it is possible that we could use some or all of the newly authorized shares in connection with one or more such transactions subsequent to the increase in the number of authorized shares. We also plan to continue to issue shares of our common stock pursuant to our stock incentive plans subsequent to the increase in the number of authorized shares. Except as noted above with respect to our recapitalization plan, as of January 13, 2009, we have no plan, commitment, arrangement, understanding or agreement, either oral or written, regarding the issuance of common stock in connection with one or more such strategic transactions subsequent to the increase in the number of authorized shares.

**Text of the Proposed Amendment**

If this Proposal 1 is approved, the Company proposes to amend the Articles of Incorporation by replacing Section 1 of Article II in its entirety as follows:

ARTICLE II

Authorized Capital Stock

1. Classes. The Corporation shall be authorized to issue two classes of shares of stock to be designated, respectively, Common Stock and Preferred Stock. The total number of shares which the Corporation shall have authority to issue Eight Hundred Ten Million (810,000,000); the total number of authorized shares of Common Stock shall be Eight Hundred Million (800,000,000) and the total number of authorized shares of Preferred Stock shall be Ten Million (10,000,000).

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If the amendment to our amended and restated articles of incorporation is adopted, it will become effective upon filing of the Amendment to Amended and Restated Articles of Incorporation with the Secretary of State of the State of Washington.

**Vote Required and Board of Directors Recommendation**

Approval of the amendment to our amended and restated articles of incorporation requires the affirmative vote of a majority of the votes held by holders of our common stock, our Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred stock that are entitled to vote at the shareholder meeting. The holders of our common stock, the holders of our Series A preferred stock, the holders of our Series B preferred stock, the holders of our Series C preferred stock and the holders of our Series D preferred stock will vote together as a single class.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS**

**A VOTE FOR PROPOSAL NO. 1 TO AMEND OUR ARTICLES OF**

**INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES.**

If Proposal 1 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 MTA 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 1 would ultimately result in dilution of existing shareholders' equity interests.

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**PROPOSAL 2**

**APPROVAL OF AN AMENDMENT TO OUR ARTICLES OF INCORPORATION TO EFFECT**

**A REVERSE STOCK SPLIT AT THE DISCRETION OF THE BOARD OF DIRECTORS**

**Summary**

We are seeking your approval of an amendment to our amended and restated articles of incorporation to authorize our Board of Directors to effect a reverse stock split of our outstanding common stock in the range of one-for-two to one-for-twenty without further approval of our shareholders, upon a determination by our Board of Directors, in consultation with our investment bankers, that such a reverse stock split is in the best interest of the Company and our shareholders.

Our common stock is presently listed on The NASDAQ Capital Market. In March 2008, when our common stock was listed on The NASDAQ Global Market, our stock price began trading below \$1.00 per share and remained below that threshold for more than 30 days, resulting in a notification in April 2008 from NASDAQ, which oversees The NASDAQ Global Market, that unless we were able to raise our stock price above \$1.00 per share for a minimum of 10 days prior to October 13, 2008, our common stock may be delisted from The NASDAQ Global Market. Upon effecting a one-for-ten reverse stock split in August 2008, we received a letter from NASDAQ in September 2008 confirming that we had regained compliance with the \$1.00 minimum bid price requirement.

Notwithstanding, in October 2008, NASDAQ temporarily suspended the bid price requirement for all NASDAQ listed companies until April 20, 2009. Our stock price is currently trading below \$1.00, and we may need to effect an additional reverse stock split to regain compliance with Nasdaq's \$1.00 minimum bid price requirement when it goes back into effect.

In addition, we received notice of deficiency from NASDAQ in September 2008 because the market value of our listed securities had fallen below the \$50 million minimum requirement for 10 consecutive business days. We were granted a period of 30 calendar days to regain compliance with this requirement. In October 2008, we received a letter from NASDAQ stating that because we failed to regain compliance with the \$50 million minimum value of listed securities requirement our common stock would be subject to delisting unless we requested a hearing before a NASDAQ Listing Qualifications Panel (the "Panel"). In November 2008 we had a hearing before the Panel and presented a plan for regaining compliance with the NASDAQ Marketplace Rules. In early January 2009, we received notification that the Panel has granted the Company's request to transfer the listing of its common stock from The NASDAQ Global Market to The NASDAQ Capital Market. Our continued listing on The NASDAQ Capital Market is subject to us evidencing compliance with all applicable requirements for continued listing on The NASDAQ Capital Market, including the \$35 million market value of listed securities requirement or its alternatives, by February 12, 2009. We may need to effect a reverse stock split to regain compliance with Nasdaq's \$1.00 minimum bid price requirement in order to maintain such listing.

Furthermore, our investment bankers have advised that it may be in the best interests of the Company to increase the per-share price of our common stock through a reverse stock split in order to attract different investors in future financings and in regular market trading.

As a result, the Board of Directors has determined that it may be in the best interest of the Company to effect a reverse stock split in the near future in an effort to increase the per-share price of the Company's common stock. As such, we are asking our shareholders to approve an amendment to our amended and restated articles of incorporation authorizing a reverse stock split in the range of one-for-two to one-for-twenty and granting the Board of Directors the discretion to effect the reverse stock split within this range at any time and at such ratio that it determines appropriate. Further discussion of the reasons for, and possible consequences of, the reverse stock split can be found below in the subsections titled "Reasons for the Reverse Stock Split" and "Possible Effects of the Reverse Stock Split."

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If this proposal is approved, the Board of Directors will have the authority, but not the obligation, in its sole discretion and without any further action on the part of the shareholders, to effect, at any time it believes to be most advantageous to the Company and its shareholders, a reverse stock split in the range of one-for-two to one-for-twenty. This Proposal would give the Board the authority to implement one, but not more than one, reverse stock split. A reverse stock split would be effected by the filing of an amendment to our amended and restated articles of incorporation with the Secretary of State of the State of Washington. The Board of Directors will have the ability to decline to file the Amended and Restated Articles of Incorporation without further shareholder action if it subsequently determines that a reverse stock split is no longer in the best interest of the Company.

If the reverse stock split is effected by the Board of Directors, the number of shares of common stock owned by each shareholder will be reduced by the same proportion as the reduction in the total number of shares of common stock outstanding, so that the percentage of the outstanding common stock owned by each shareholder after the reverse stock split will remain approximately the same as the percentage owned before the reverse stock split. The proportions may not be exactly the same due to the treatment of fractional shares that may result from the reverse stock split. The proposed reverse stock split will reduce the number of shares of outstanding common stock; however, it will not have the effect of reducing the number of shares of authorized common stock. Therefore, the reverse stock split would in effect create headroom in the form of more available authorized but unissued shares of common stock. Assuming passage of Proposal 1, the Company does not have any plan, commitment, arrangement, understanding or agreement, written or oral, to utilize such headroom to issue common stock.

The reverse stock split will not affect any shareholder's individual proportionate voting power, except that a reverse stock split will not have any effect on the voting rights of the Series C Preferred Stock and to a minor extent due to the handling of fractional shares.

Although the number of shares of the Company's preferred stock will not be affected, if and when the reverse stock split is effected, each Series of the preferred stock will have a new conversion ratio based upon the reverse stock split and the Company will prepare a notice of such adjustment of the conversion price setting forth the adjusted conversion price and the effective date that such adjustment becomes effective and shall mail such notice of such adjustment of the Conversion Price to the holders of the Preferred Stock.

The Company has granted options to purchase the Company's common stock and restricted stock awards to its employees as authorized by the 1994 Equity Incentive Plan, the Novuspharma Plan and the 2007 Equity Incentive Plan. In addition, the Company's 2007 Employee Stock Purchase Plan (the employee plan) allows eligible employees to purchase Company common stock at a discount. The Company will continue to grant options to purchase Company common stock and awards of restricted stock to its employees as authorized by the 2007 Equity Incentive Plan and will continue to allow employees to purchase Company common stock under the employee plan. The terms of each of the plans provide for appropriate adjustment in the number and class of shares reserved for granting of awards and in the number, class and prices of shares covered by the awards granted pursuant to the plans but not yet exercised. If the reverse stock split is implemented, the Board of Directors or the applicable plan administrator will take the above-mentioned appropriate action(s).

As the Company's common stock is registered under the Security Exchange Act of 1934 (the 1934 Act), the Company is subject to the reporting and other requirements of the 1934 Act. The reverse split, if implemented, will not affect the registration of the Company's common stock under the 1934 Act or our reporting or other requirements thereunder. Our common stock is currently traded on The NASDAQ Capital Market under the symbol CTIC subject to our continued satisfaction of The NASDAQ Capital Market listing requirements. While the primary reason for the proposed reverse stock split is to meet the continued listing requirements of The NASDAQ Capital Market, there can be no assurance that the Company's common stock will continue to be listed on The NASDAQ Capital Market or that we will be able to conform to all applicable listing requirements. Further, as the reverse stock split is also being considered for strategic purposes relating to

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potential financings, the reverse stock split may, if effected by the Board, occur whether or not the Company's common stock continues to be listed on The NASDAQ Capital Market.

**Reasons for the Reverse Stock Split**

Complying with the continued listing requirements for the Company's common stock on The NASDAQ Capital Market is the primary reason for the reverse stock split. Based upon the current market price of our common stock, the Company does not satisfy the \$1.00 minimum bid price requirement necessary for such a listing, which will again become effective on April 20, 2009. In addition, the Company also does not currently comply with the \$35 million minimum market value of listed securities requirement for The NASDAQ Capital Market. As a result, in November 2008, we presented a plan of compliance to the Panel. In early January 2008, we received notification that the Panel has granted the Company's request to transfer the listing of its common stock from The NASDAQ Global Market to The NASDAQ Capital Market. Our continued listing on The NASDAQ Capital Market is subject to us evidencing compliance with all applicable requirements for continued listing on The NASDAQ Capital Market, including the \$35 million market value of listed securities requirement or its alternatives, by February 12, 2009. We may need to effect a reverse stock split to regain compliance with NASDAQ's \$1.00 minimum bid price requirement when it becomes effective again in order to maintain such listing. In addition, our investment bankers have advised us that it may be advantageous to increase the per-share price of our stock through a reverse stock split to appeal to a broader range of investors in potential future financing transactions. Consequently, the Board of Directors intends to amend the Amended and Restated Articles of Incorporation to authorize a reverse stock split and to subsequently effect such a reverse stock split only if it believes that a decrease in the number of shares outstanding is likely to improve compliance with The NASDAQ Capital Market listing standards or make the Company's stock more attractive to potential investors for future financings. A reverse stock split would result in a recapitalization intended to increase the per share value of the Company's common stock. However, even if the Company effects the reverse stock split, there can be no assurance of either an immediate or a sustainable increase in the per share trading price of our common stock.

Our Board of Directors believes that a reverse stock split would also be beneficial for the following reasons:

It could heighten the interest of the financial community in the Company and potentially broaden the pool of investors that may consider investing in the Company by increasing the trading price of our common stock and decreasing the number of outstanding shares of our common stock.

It could help to attract institutional investors who have internal policies that either prohibit them from purchasing stocks below a certain minimum price or tend to discourage individual brokers from recommending such stocks to their customers.

It may also encourage investors who had previously been dissuaded from purchasing our Company's common stock because commissions on lower-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks.

**Text of the Proposed Amendment**

If the Board determines to effect the reverse stock split upon the approval of the proposal by the shareholders, the Company proposes to amend our amended and restated articles of incorporation by adding a second paragraph of Article II as follows:

Effective at the close of business, Pacific Time, on \_\_\_\_\_, \_\_\_\_\_, each \_\_\_\_\_ ( ) outstanding shares of the Corporation's Common Stock will be exchanged and combined, automatically, without further action, into one (1) share of Common Stock. At the effective time, there shall be no change in the number of authorized shares, including the number authorized for each class of shares, which the Corporation shall have the authority to issue.

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### **Possible Effects of the Reverse Stock Split**

Once the reverse stock split is implemented, Company common shareholders will own a fewer number of shares than they currently own. Although the Board expects that the reduction in outstanding shares of common stock will result in an increase in the per share price of the Company's common stock, there is no assurance that such a result will occur. Similarly there is no assurance that the reverse stock split will result in a permanent increase in the per share price, which can be dependent on several factors.

Should the per share price of our common stock decline upon implementation of the reverse stock split, the percentage decline may be greater than would occur in the absence of the reverse split.

The anticipated resulting increase in per-share price of the Company's common stock is expected to encourage interest in the Company's common stock and possibly promote greater liquidity for our shareholders. However, such liquidity could also be adversely affected by the reduced number of shares that would be outstanding after the reverse stock split.

The reverse stock split could be viewed negatively by the market and, consequently, could lead to a decrease in our overall market capitalization. It is often the case that the reverse-split adjusted stock price and market capitalization of companies that effect a reverse stock split decline.

The primary purpose for the proposed reverse stock split is to comply with the continued listing standards for The NASDAQ Capital Market. However, there can be no assurance that the reverse stock split alone will guarantee our continued listing on The NASDAQ Capital. If we are unable to continue to list our common stock on The NASDAQ Capital Market, our liquidity may be negatively affected.

The number of shares held by each individual shareholder will be reduced if the reverse stock split is implemented. This will increase the number of shareholders who hold less than a round lot, or 100 shares. Typically, the transaction costs to shareholders selling odd lots are higher on a per share basis. Consequently, the reverse stock split could increase the transaction costs to existing shareholders in the event they wish to sell all or a portion of their shares.

### **Procedures for Effecting the Reverse Stock Split and Filing An Amendment to Our Amended and Restated Articles of Incorporation**

If the shareholders approve the reverse stock split and the Board of Directors subsequently determines that it is in the Company's best interests to effect a reverse stock split, the amendment to our amended and restated articles of incorporation will become effective upon the filing of an amendment to our amended and restated articles of incorporation with the Secretary of State of the State of Washington. The actual timing of any such filing will be made by the Board at such time as the Board believes to be most advantageous to the Company and its shareholders.

### **Payment for Fractional Shares**

No fractional shares of common stock would be issued as a result of the reverse stock split, if any. Instead, each shareholder otherwise entitled to a fractional share would be entitled, upon surrender of the applicable stock certificate(s), to receive a cash payment (without interest) in lieu of such fractional share.

### **Exchange of Pre-Reverse Stock Split Shares with Post-Reverse Stock Split Shares**

If we implement a reverse stock split, our transfer agent will act as our exchange agent to act for holders of common stock in implementing the exchange of their pre-reverse stock split shares for post-reverse stock split shares.

*Registered Book Entry Shareholder.* Holders of common stock holding all of their shares electronically in book-entry form with the Company's transfer agent do not need to take any action (the exchange will be automatic) to receive post-reverse stock split shares or cash payment in lieu



of any fractional share interest (as described above under subsection Payment for Fractional Shares ), if applicable.

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*Registered Certificated Shareholder.* Some of our shareholders hold their shares in certificate form or a combination of certificate and book-entry entry form. If any of your shares are held in certificate form, you will receive a transmittal letter from the Company's transfer agent as soon as practicable after the effective date of the reverse stock split. The letter of transmittal will contain instructions on how to surrender your certificate(s) representing your pre-reverse stock split shares to the transfer agent. Upon receipt of your pre-reverse stock split certificate(s), you will be issued the appropriate number of shares electronically in book-entry form under the Direct Registration System ( DRS ), and if you are entitled to a payment in lieu of any fractional share interest, payment will be made as described above under subsection Payment for Fractional Shares. No new shares in book-entry form will be issued and no payment in lieu of any fractional share interest will be made to you until you surrender your outstanding pre-reverse stock split certificate(s), together with the properly completed and executed letter of transmittal, to the transfer agent. At any time after receipt of your DRS statement, you may request a stock certificate representing your ownership interest.

**SHAREHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATES AND SHOULD NOT SUBMIT ANY CERTIFICATES UNTIL REQUESTED TO DO SO.**

**Accounting Adjustments**

Adjustments to our financial statements to reflect the reverse stock split, if any, are expected to be minimal as our common stock does not have par value. Our stockholders' equity, in the aggregate, will remain unchanged. Our historical earnings per share data would also be restated to reflect the reverse stock split.

**Certain Material U.S. Federal Income Tax Consequences of the Reverse Stock Split**

The following summary of the federal income tax consequences of a reverse stock split, if any, is for general information only, and it is not intended to be, nor should it be construed to be, legal or tax advice to any particular shareholder. The summary does not address shareholders subject to special rules, such as persons who acquired shares of the Company's common stock in compensatory transactions, certain financial institutions, tax-exempt entities, regulated investment companies, insurance companies, partnerships or other pass-through entities, persons who are not U.S. citizens or taxed as U.S. resident aliens, persons subject to the alternative minimum tax, traders in securities that elect to use a mark-to-market method of accounting, individual retirement accounts or tax-deferred accounts, dealers in securities or currencies, persons holding shares in connection with a hedging transaction, straddle, conversion transaction or a synthetic security or other integrated transaction, and shareholders whose functional currency is not the U.S. dollar. The following summary also assumes that shares of the Company's common stock both before and after the reverse stock split are held as a capital asset as defined by the Internal Revenue Code of 1986, as amended (the Code ), which is generally property held for investment. This summary is based on current law, including the Code, administrative pronouncements, judicial decisions, existing and proposed Treasury Regulations, and interpretations of the foregoing, all as of January 13, 2009. All of the foregoing authorities are subject to change (possibly with retroactive effect) and any such change may result in U.S. federal income tax consequences to a stockholder that are materially different from those described below. This summary does not address tax considerations under state, local, foreign, and other laws.

*Federal Income Tax Consequences to the Company*

No gain or loss will be recognized by the Company as a result of a reverse stock split.

*Federal Income Tax Consequences to the Shareholders*

The reverse stock split is intended to constitute a reorganization within the meaning of section 368 of the Code. Provided the reverse stock split does qualify as a reorganization, a shareholder generally will not recognize gain or loss for U.S. federal income tax purposes on the reverse stock split (except with respect to any cash

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received in lieu of a fractional share as described below). The aggregate adjusted basis of the post-reverse stock split shares will be the same as the aggregate adjusted basis of the pre-reverse stock split shares exchanged therefor (excluding any portion of the shareholder's basis allocated to fractional share interests), and the holding period(s) of the post-reverse stock split shares received will include the shareholder's respective holding period(s) for the pre-reverse stock split shares exchanged.

Because the cash payment for fractional share interests represents a mere mechanical rounding off incident to the reverse stock split, a shareholder who receives cash for fractional shares should generally recognize gain or loss, as the case may be, for U.S. federal income tax purposes measured by the difference between the amount of cash received and the tax basis of such shareholder's pre-reverse stock split shares corresponding to the fractional share interest. Such gain or loss will be capital gain or loss, and any such capital gain or loss will generally be long-term capital gain or loss to the extent such shareholder's holding period exceeds 12 months. The deductibility of capital losses may be subject to certain limitations.

### *Backup Withholding*

A non-corporate shareholder may be subject to backup withholding at a 28% rate on cash payments received pursuant to the reverse stock split unless such shareholder provides a correct taxpayer identification number to his or her broker or to the Company and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional U.S. federal income tax. Rather, any amount withheld under these rules will be creditable against the shareholder's U.S. federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

Our view regarding the tax consequences of the reverse stock split is not binding on the Internal Revenue Service or the courts. ACCORDINGLY, EACH SHAREHOLDER SHOULD CONSULT HIS OR HER TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO HIM OR HER OF A REVERSE STOCK SPLIT, INCLUDING THE APPLICATION AND EFFECT OF FEDERAL, STATE, LOCAL AND/OR FOREIGN INCOME TAX AND OTHER LAWS.

### **Vote Required and Board of Directors Recommendation**

Approval of the amendment to our amended and restated articles of incorporation to effect a reverse stock split requires the affirmative vote of a majority of the votes held by holders of our common stock, Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred stock that are entitled to vote at the shareholder meeting, voting together as a single class.

**OUR BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE PROPOSAL TO AMEND OUR ARTICLES OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT AT THE DISCRETION OF THE BOARD OF DIRECTORS AND RECOMMENDS CTI SHAREHOLDERS VOTE FOR THE AMENDMENT AND CORRESPONDING AMENDMENT AND RESTATEMENT OF OUR ARTICLES OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT AT THE DISCRETION OF THE BOARD OF DIRECTORS.**

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**PROPOSAL 3**

**APPROVAL OF AN AMENDMENT TO OUR**

**2007 EQUITY INCENTIVE PLAN**

**Summary**

We are asking our shareholders to approve an amendment to our 2007 Equity Incentive Plan, or the 2007 Plan, to increase the maximum number of shares authorized for issuance under the 2007 Plan by 25,000,000 shares, to a total of 26,661,082 shares, to remove the limits on the total number of shares of restricted stock or restricted stock units that may be issued under the plan and the total number of shares that may be issued pursuant to awards that are intended to qualify as qualified performance-based compensation under Section 162(m) of the Internal Revenue Code and to re-approve the performance goals which may be included in Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. As of January 9, 2009 the proposed increase in shares represents approximately 10.5% of our outstanding common stock. If Proposal 2 is also approved authorizing a reverse stock split and a reverse stock split is later implemented, the number of shares authorized for issuance under the 2007 Plan including the shares added to the 2007 Plan pursuant to this Proposal, if approved would be proportionately reduced.

The current 2007 Plan was approved by the Company's shareholders at the 2007 Annual Meeting. The Board of Directors has determined that it is advisable to increase the maximum number of shares available for issuance under the 2007 Plan in recognition of the significant dilution of our common stock in the past 12 months and the related impact on outstanding awards due to share issuances necessary to raise additional capital and complete certain strategic acquisitions and the implementation of a one-for-ten reverse stock split in 2008. The Board of Directors further determined that it is advisable to remove the limitation on the number of shares that may be issued as restricted stock or restricted stock units, to remove the limit on shares that may be issued as qualified performance-based compensation under Section 162(m) of the Internal Revenue Code and to re-approve the performance goals which may be included in Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. As of January 9, 2009 there are 237,359 shares remaining available for issuance under the 2007 Plan.

The proposed amendment would facilitate our ability to continue to grant stock options and other awards pursuant to the 2007 Plan, 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 are crucial to our ability to motivate individuals in our service to achieve our goals. We strongly believe that the approval of the proposed amendment to the 2007 Plan is instrumental to our continued success.

**Vote Required and Board of Directors Recommendation**

Approval of the amendment to the 2007 Plan to increase the number of shares authorized for issuance under the plan, to remove the limits on shares that may be issued pursuant to the Plan and to re-approve the performance goals which may be included in Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code requires the affirmative vote of the holders of a majority of the shares of our common stock that are voting on this Proposal 3 in person or by proxy and entitled to vote at the shareholder meeting. In the event the shareholders fail to approve the amendment to the 2007 Plan, the 2007 Plan will continue in operation pursuant to its terms with no change to the number of shares authorized for issuance under the plan. In addition, whether or not the amendment to the 2007 Plan is approved, the Board of Directors may, pursuant to the terms of the 2007 Plan and subject to the rules of The NASDAQ Capital Market, make any other changes to the 2007 Plan that it feels would be in our and our shareholders' best interests.

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**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE  
APPROVAL OF THE AMENDMENT TO THE 2007 EQUITY INCENTIVE PLAN.**

**Summary of the 2007 Plan**

The following is a summary of the principal features of the 2007 Plan and its operation. Because it is not a complete description of all of the terms and conditions of the 2007 Plan, the summary is qualified in its entirety by reference to the full text of the 2007 Plan as set forth in Appendix A. *Except for the proposed amendment described above in this Proposal 3, the Company's shareholders are not being asked to approve any other amendments to the 2007 Plan.*

***Background and Purpose of the 2007 Plan***

The 2007 Plan is intended to attract, motivate and retain employees, consultants and non-employee directors and to encourage their stock ownership in the Company.

***Types of Awards Granted under the 2007 Plan***

The 2007 Plan permits the grant of the following types of incentive awards: (1) stock options, including incentive stock options and nonqualified stock options, (2) stock appreciation rights, (3) restricted stock, (4) restricted stock units and (5) cash awards (individually, an Award).

***Administration of the 2007 Plan***

A committee of at least two non-employee members of our Board of Directors (the Committee) administers the 2007 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 2007 Plan).

Subject to the terms of the 2007 Plan, the Committee has the 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 2007 Plan and outstanding Awards, to amend outstanding Awards (including the authority to accelerate vesting), to extend an option's post-termination exercise period (but not beyond the original option term), to adopt procedures and subplans as are necessary or appropriate to permit participation in the 2007 Plan by employees and directors who are foreign nationals or employed outside the United States and to adopt, interpret, amend or revoke rules for the administration, interpretation and application of the 2007 Plan.

The Committee may delegate any part of its authority and powers under the 2007 Plan to one or more of our directors and/or officers, but only the Committee itself can make Awards to participants who are our executive officers. 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 pursuant to Awards under the 2007 Plan is 1,661,082 shares. As of January 9, 2008, 1,177,534 shares of common stock and options covering shares of common stock have been issued and were outstanding under the 2007 Plan, of which 940,575 were issued pursuant to restricted stock awards that remain subject to forfeiture if the holder were to terminate his or her service with the Company prior to the vesting of the award and 246,189 were subject to outstanding options granted under the 2007 Plan. A total of 237,359 shares of common stock remained available for future

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grant under the 2007 Plan (plus shares subject to outstanding awards that might in the future be returned to the Plan as a result of the cancellation, expiration or cash settlement). As of January 9, 2009, options outstanding under the 2007 Plan have per share exercise prices ranging from \$0.18 to \$484.00 or a weighted average per share exercise price of \$45.29.

In the event that any dividend or other distribution (whether in the form of cash, our common stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of our common stock or other securities, or other change in our corporate structure affecting our common stock occurs such that an adjustment is determined by the Committee (in its sole discretion) to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 2007 Plan, the Committee shall, in such manner as it may deem equitable (a) adjust the number and class of shares (or other securities) available for issuance under the 2007 Plan and the number, class, and price of shares (or other securities) subject to outstanding Awards or (b) make provision for a cash payment or for the assumption, substitution or exchange of any or all outstanding Awards or the cash, securities or property deliverable to the holder of any or all outstanding Awards, based upon the distribution or consideration payable to holders of our common stock upon or in respect of such event.

### ***Eligibility to Receive Awards***

The Committee selects the employees (including executive officers), consultants and directors who will be granted Awards under the 2007 Plan. As of January 9, 2009, we have approximately 195 officers and employees, including all of our named executive officers who are still serving in that capacity as of January 9, 2009 and six non-employee directors, who are eligible to receive Awards under the 2007 Plan. The actual number of individuals who will receive an Award under the 2007 Plan cannot be determined in advance because the Committee has the discretion to select the participants.

### ***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 2007 Plan, the Committee may grant nonqualified stock options and/or incentive stock options. 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 and any of our subsidiaries. However, we may grant certain options with exercise prices equal to less than the fair market value of our common stock on the date of grant in connection with our acquisition of another company. The fair market value of our common stock is generally the last quoted sales price for the shares on The NASDAQ Capital Market on the applicable date. As of January 9, 2009, the closing price of our common stock was \$0.11 per share.

Options vest and become exercisable at the times and on the terms established by the Committee at the time of grant. Options granted under the 2007 Plan expire at the times established by the Committee, but not later than 10 years after the grant date (such term is limited to 5 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 and 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 2007 Plan must be paid in full in cash or its equivalent at the time of exercise. The Committee also may permit payment through the tender of shares that are already

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owned by the participant, or by any other form of legally permissible consolidation which the Committee determines to be consistent with the purpose of the 2007 Plan.

### ***Stock Appreciation Rights***

Awards of stock appreciation rights may be granted in tandem with or in connection to 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 tandem with or in connection to 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 tandem 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 tandem 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. A stock appreciation right granted in connection with an option will automatically be deemed exercised after the related option is exercised.

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. Stock appreciation rights granted under the 2007 Plan expire at the times established by the Committee, but not later than 10 years after the date of grant.

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 and Restricted Stock Units***

Awards of restricted stock are shares that vest in accordance with the terms and conditions established by the Committee. Restricted stock units represent a promise to deliver shares of our common stock, or an amount of cash or property equal to the underlying shares, at a future date. The Committee will determine the number of shares subject to a restricted stock award or restricted stock unit award granted to any employee, consultant or director, and the other terms of the Award (including the purchase price, if any, and transfer restrictions).

In determining whether an Award of restricted stock or restricted stock units 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 example, the Committee may determine to grant an Award of restricted stock or restricted stock units only if the participant continues employment and satisfies performance goals established by the Committee.

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### ***Cash Awards***

Cash awards may be granted either alone, in addition to, or in tandem with other Awards granted under the 2007 Plan. After the Committee determines that it will offer a cash award, it shall advise the participant, by means of an award agreement, of the terms, conditions and restrictions related to the cash award. The grant or vesting of a cash award may be made contingent on the achievement of performance goals established by the Committee. The maximum amount payable pursuant to a cash award granted under the 2007 Plan for any fiscal year to any participant that is intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code may not exceed \$650,000. Nothing in the 2007 Plan prevents us from granting cash awards outside of the 2007 Plan in any amount to any employee or other service provider.

### ***Deferred Payments***

The 2007 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.

### ***Performance Goals***

Awards under the 2007 Plan may be made subject to performance conditions as well as time-vesting conditions. Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code may include performance conditions that are established and administered in accordance with the requirements of Section 162(m) of the Internal Revenue Code and based on an objective formula or standard utilizing one or more of the following factors and any objectively verifiable adjustment(s) thereto permitted and pre-established by the Committee in accordance with Section 162(m) of the Internal Revenue Code: (a) annual revenue, (b) cash position, (c) earnings per share, (d) individual objectives, (e) net income, (f) operating cash flow, (g) operating income, (h) return on assets, (i) return on equity, (j) return on sales, and (k) total shareholder return. Performance goals may differ from participant to participant and from Award to Award.

### ***Change of Control***

In the event of a change of control of the Company, the Committee may provide for 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 2007 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 by the successor corporation 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 provide for any vesting conditions or Company repurchase or reacquisition rights with respect to restricted stock and restricted stock units to be assigned to the successor corporation. In the event the successor corporation refuses to assume any such vesting conditions or repurchase or reacquisition rights, such vesting conditions or repurchase or reacquisition rights will lapse and the participant will be fully vested in such shares of restricted stock or restricted stock units. If the vesting conditions or repurchase or reacquisition rights are assigned to the successor corporation and the participant is terminated by the successor corporation for reasons other than misconduct during the 12-month period following such change of control, then any vesting conditions or repurchase or reacquisition rights will lapse with respect to such participant's restricted stock and restricted stock units (or the property for which the restricted stock and restricted stock units were converted upon the change of control) and



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the participant will be fully vested in such restricted stock and restricted stock units (or the property for which the restricted stock and restricted stock units were converted upon the change of control).

The Committee may provide for cash awards to be assumed or an equivalent cash award substituted by the successor corporation in the event of a change of control. In the event that the successor corporation refuses to assume or substitute for the cash award, the participant will become fully vested in the cash award. If the cash award is assumed or substituted for and within 12 months following the change of control the participant is terminated by the successor corporation for reasons other than misconduct, the participant will become fully vested in the cash award.

### ***Limited Transferability of Awards***

Awards granted under the 2007 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 to (1) a member of the participant's immediate family; (2) a trust or other entity for the sole benefit of the participant and/or his or her immediate family; (3) a partnership, limited liability company or other entity whose members are the participant and/or his or her immediate family or (4) certain limited tax-qualified charities.

### ***Amendment and Termination of the 2007 Plan***

Our Board of Directors generally may amend, suspend or terminate the 2007 Plan at any time and for any reason (subject to shareholder consent as may be required by applicable law). However, no amendment or termination of the 2007 Plan may alter or impair the rights of a participant with respect to an outstanding Award without his or her consent; provided that such consent shall not be required if our Board of Directors determines, in its sole and absolute discretion, that the amendment, suspension or termination (a) is required or advisable in order for the Company, the 2007 Plan or the Award to satisfy applicable law, to meet the requirements of any accounting standard or to avoid any adverse accounting treatment, or (b) in connection with any change of control event, is in the best interests of the Company or its shareholders. In addition, our Board of Directors may not, without shareholder consent, reduce the exercise price of any outstanding option or cancel and re-grant options at a lower exercise price.

Unless terminated by the Board of Directors, the 2007 Plan does not have a term. However, no incentive stock option may be granted under the 2007 Plan after ten years from the latest date our shareholders approve the 2007 Plan, including any subsequent amendment or restatement of the 2007 Plan approved by our shareholders. Outstanding Awards generally will continue following the expiration or termination of the 2007 Plan until they expire pursuant to the terms of such Awards. If our shareholders approve this amendment to the 2007 Plan, we will be able to grant incentive stock options under the terms of the plan for 10 years from the date of such approval.

### **Federal Income Tax Consequences**

The following is a brief summary of the general federal income tax consequences to U.S. taxpayers and the Company with respect to the grant, vesting and exercise of Awards granted under the 2007 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 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.

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### ***Nonqualified Stock Options***

No taxable income is recognized when a nonqualified stock option is granted to a participant. Upon exercise of a nonqualified stock option with respect to vested shares, 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 taxable income recognized in connection with exercise of a nonqualified stock option would be added to the tax basis of the shares and, with respect to an employee, is subject to tax withholding by us. Any additional gain or loss recognized upon any later disposition of the shares would be either long-term or short-term capital gain or loss, depending on how long the stock was held.

### ***Incentive Stock Options***

No taxable income is recognized when an incentive stock option is granted or exercised although the excess (if any) of the fair market value of the shares at exercise over the exercise price is treated as an item of income for alternative minimum tax purposes and may subject the participant to alternative minimum tax. Alternative minimum tax is an alternative method of calculating the income tax that must be paid each year, which includes certain additional items of income and tax preferences and disallows or limits certain deductions otherwise allowable for regular tax purposes. Alternative minimum tax is payable only to the extent that the alternative minimum tax exceeds ordinary federal income tax for the year (computed without regard to certain credits and special taxes).

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 long-term 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, (a) if the sale price exceeds the exercise price, 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 excess (if any) between the sales price and the fair market value of the shares on the exercise date will be taxed as capital gain or (b) if the sale price is less than the exercise price, the participant will recognize a capital loss equal to the difference between the exercise price and the sale price.

In the case of both nonqualified stock options and incentive stock options, special federal income tax rules apply if our common stock is used to pay all or part of the option exercise price, and different rules than those described above will apply if unvested shares are purchased on exercise of the option.

### ***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 either long-term or short-term capital gain or loss, depending on how long the stock was held.

### ***Restricted Stock and Restricted Stock Units***

No taxable income is generally recognized when restricted stock or restricted stock units are granted to a participant. Upon vesting, the participant will generally recognize income in an amount equal to the excess of the fair market value of the shares over any amount the participant paid for the shares. A participant who receives unvested shares of stock under a stock award may make an election at the time of transfer of the shares to recognize income based upon the fair market value of the stock on the date of transfer. Any additional gain or loss recognized upon any later disposition of the shares would be either long-term or short-term capital gain or loss, depending on how long the stock was held.

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The ordinary income on an award of restricted stock or restricted stock units recognized by an employee will be subject to tax withholding by us.

### ***Cash Awards***

Upon receipt of cash, the recipient will have taxable ordinary income, in the year of receipt, equal to the cash received. Any cash received by an employee will be subject to tax withholding by us. Unless limited by Section 162(m) of the Internal Revenue Code, we will be entitled to a tax deduction in the amount and at the time the recipient recognizes compensation income.

### ***Tax Effect for the Company***

We generally will be entitled to a tax deduction in connection with an Award under the 2007 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 three most highly compensated executive officers listed in our Summary Compensation Table. If compensation attributable to Awards to such individuals is not performance-based within the meaning of Section 162(m) of the Internal Revenue Code, we 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 2007 Plan in connection with a change in control (as this term is used under the 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 Internal Revenue Code (and certain related excise taxes may be triggered).

### **Accounting Treatment**

We will recognize compensation expense in connection with Awards granted under the 2007 Plan as required under applicable accounting standards, including with respect to equity awards under Statement of Financial Accounting Standards No. 123(R). We currently amortize compensation expense associated with equity awards over an award's requisite service period and establish fair value of equity awards in accordance with applicable accounting standards.

### **Participation in the 2007 Plan**

Because future benefits under the 2007 Plan will depend on the Committee's actions and the fair market value of our common stock at various future dates, it is not possible to determine the benefits that will be received by employees, officers, and consultants if the amendment to the 2007 Plan is approved by the shareholders. The number of awards that non-employee directors may receive under the 2007 Plan is set forth in our Director Compensation Policy, which is described in the section entitled Non-Employee Director Compensation of our proxy statement on Schedule 14A filed with the SEC on May 23, 2008.

**Table of Contents****Equity Compensation Plan Information**

The following table gives information about our common stock that may be issued upon the exercise of options and rights under all of our existing compensation plans as of December 31, 2007, including the 2007 Plan, Novuspharma Plan and the 1994 Equity Incentive Plan. Noncompensatory warrants (such as we issue in financing transactions) are not included.

<b>Plan Category</b>	<b>(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>(b) Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights</b>	<b>(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</b>	<b>(d) Total of Securities Reflected in Columns (a) and (c)</b>
Plans Approved by Shareholders	218,180(1)	\$ 262.40	277,397(2)	495,577
Plans Not Approved by Shareholders	5,018(3)	\$ 120.50	None	5,018

- (1) Consists of the 2007 Equity Incentive Plan and the 1994 Equity Incentive Plan.
- (2) Consists of 252,397 shares available for future issuance under the 2007 Equity Incentive Plan and 25,000 shares available for future issuance under the 2007 Employee Stock Purchase Plan.
- (3) Consists of the Novuspharma S.p.A. Stock Option Plan adopted in connection with the merger between CTI and Novuspharma which expired on December 31, 2006.

**1994 Equity Incentive Plan**

Our 1994 Equity Incentive Plan was adopted by the Board of Directors in January 1994, approved by shareholders in February 1994 and terminated in June 2003 in connection with the approval of our 2003 Equity Incentive Plan, which was amended and restated as our 2007 Equity Incentive Plan in 2007. Upon termination, 29,328 shares reserved but not issued under our 1994 Equity Incentive Plan were transferred to our 2007 Equity Incentive Plan.

**2007 Equity Incentive Plan**

For information regarding the 2007 Equity Incentive Plan, please see the discussion presented under the heading *Summary* above.

**2007 Employee Stock Purchase Plan**

For information regarding the 2007 Employee Stock Purchase Plan, please see the discussion presented under the heading *Summary* in Proposal 4 below.

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**PROPOSAL 4**

**APPROVAL OF AN AMENDMENT TO OUR**

**2007 EMPLOYEE STOCK PURCHASE PLAN**

**Summary**

We are asking our shareholders to approve an amendment to our 2007 Employee Stock Purchase Plan, or employee plan, to increase the maximum number of shares authorized for issuance under the employee plan by 1,000,000 shares to a total of 1,025,000 shares and to increase the limit on the total number of shares that may be purchased under the employee plan on any offering date to 5,000 shares. As of January 9, 2009, this increase represents approximately 0.4% of our outstanding common stock. If Proposal 2 is also approved authorizing a reverse stock split and a reverse stock split is later implemented, the number of shares authorized for issuance under the employee plan including the shares added to the employee plan pursuant to this proposal, if approved would be proportionately reduced.

The current employee plan was approved by the Company's shareholders at the 2007 annual meeting. The Board of Directors has determined that it is advisable to increase the maximum number of shares available for issuance under the employee plan in recognition of the significant dilution of our common stock in the past 12 months and the related impact in outstanding awards due to share issuances necessary to raise additional capital and complete certain strategic acquisitions and the implementation of a one-for-ten reverse stock split in 2008. The Board of Directors further determined that it is advisable to increase the limit on the total number of shares that may be purchased under the employee plan on any offering date to 5,000 shares. As of January 9, 2009, there are 16,600 shares remaining available for issuance under the employee plan.

The proposed amendment would facilitate our ability to continue to utilize the employee plan. We believe the employee plan is an important component of our employee compensation package and assists us in attracting and retaining skilled personnel. Approximately 65% of our employees, including all of our officers, are eligible to participate in the employee plan. Approximately 63% of our employees were eligible to participate in, and 8% of our employees elected to participate in, our previous employee plan during the purchase period ending June 30, 2008. 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.

**Vote Required and Board of Directors Recommendation**

Approval of the amendment to the employee plan to increase the number of shares authorized for issuance under the plan and to increase the limit on the total number of shares that may be purchased under the employee plan on any offering date to 5,000 shares requires the affirmative vote of the holders of a majority of the shares of common stock voting on this Proposal 4 in person or by proxy and entitled to vote at the shareholder meeting. In the event the shareholders fail to approve the amendment to the employee plan, the employee plan will continue in operation pursuant to its terms with no change to the number of shares authorized for issuance under the plan. In addition, whether or not the amendment to the employee plan is approved, the Board of Directors may, pursuant to the terms of the employee plan and subject to the rules of The NASDAQ Capital Market, make any other changes to the employee plan that it feels would be in our and our shareholders' best interests.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE  
APPROVAL OF THE AMENDMENT TO OUR 2007 EMPLOYEE STOCK PURCHASE PLAN.**

**Summary of the 2007 Employee Stock Purchase Plan**

The following is a summary of the principal features of our 2007 Employee Stock Purchase Plan and its operation. Because it is not a complete description of all of the terms and conditions of the employee plan, the following summary is qualified in its entirety by reference to the full text of the employee plan, as set forth in

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Appendix B. *Except for the proposed amendment described above in this Proposal 4, the Company's shareholders are not being asked to approve any other amendments to the employee plan.*

### ***Background and Purpose***

The employee plan provides our employees with the opportunity to purchase shares of our 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.

### ***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.

### ***Shares Available for Issuance***

The aggregate number of shares of our common stock that currently may be issued pursuant to the employee plan is 25,000. As of January 9, 2009, 8,400 shares of common stock had been sold under the employee plan, leaving 16,600 shares available for purchase. If an option expires or terminates for any reason without having been exercised in full, the unpurchased shares subject to the option shall become available for other options granted under the employee plan.

### ***Eligibility and Participation***

Employees who are employed on the first day of any offering period and remain an employee through the end of the offering period and 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 with respect to the fair market value of the stock at the time such option to purchase shares is granted) in any calendar year.

### ***Plan Characterization***

The employee plan is not subject to the provisions of the Employment Retirement Income Security Act of 1974, as amended, and is not qualified under Section 401(a) of the Internal Revenue Code.

### ***Offering Dates***

Shares of stock are offered for purchase on the first business day of each six month offering period designated by the committee administering the employee plan. Such committee shall also designate the offering period commencement dates and has the authority to change the duration of the offering periods without shareholder approval if the change is announced prior to the relevant offering period.

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### ***Purchase Price***

The purchase price per share of common stock covered by an option granted under the employee plan is 85% of the lower of (a) the fair market value per share of our common stock on the commencement date of the applicable offering period and (b) the fair market value per share of our common stock on the last business day of the applicable offering period. The fair market value of our common stock is generally the last quoted sales price of our common stock on The NASDAQ Capital Market on the determination date. As of January 9, 2009 the last quoted sales price of our common stock on The NASDAQ Capital Market was \$0.11 per share.

### ***Payroll Deductions***

Employees may authorize payroll deductions in 1% multiples of base salary for each payroll period, up to a maximum of 10% of their base salary. An employee may not change the percentage of base salary withheld during an offering period. 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 per share purchase price in effect for that offering termination date, subject to a maximum of 5,000 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.

### ***Withdrawal***

Generally, a participant may withdraw from an offering period at any time prior to one business day prior to the offering termination date 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. Upon a participant's withdrawal from an offering period, all of the participant's accumulated payroll deductions held by us will be paid to the participant without interest.

### ***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, without interest.

### ***Leave of Absence***

A participant will be deemed to be employed throughout any leave of absence for 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.

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### ***Changes in Capitalization***

The number of shares reserved under the employee plan and the number of shares and the price per share in effect under each outstanding option 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 committee administering the employee plan 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 shall 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.

### ***Term; Amendment and Termination of the Employee Plan***

No option shall be granted under the employee plan on or after the twentieth anniversary of shareholder approval of the employee plan, but options granted prior to such date may extend beyond such date.

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 adversely affect the rights of a participant with respect to an outstanding option held by the participant as of the date of such termination or amendment without the participant's consent. However, our Board of Directors may make such amendments to the employee plan as our Board of Directors determines to be advisable and which do not cause unfavorable accounting treatment, including changes with respect to current offering periods, if the continuation of the employee plan or any offering period would result in financial accounting treatment for the employee plan that is different from the financial accounting treatment in effect on the date the employee plan is adopted by our Board of Directors.

### ***Federal Income Tax Consequences***

The following is a brief summary of the federal income tax consequences to U.S. taxpayers and the Company with respect to the shares purchased under the employee plan. The summary 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 following is not intended to be used, and cannot be used, for the purpose of avoiding taxpayer penalties.

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 (including by gift) 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 of the shares, 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



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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 or loss will be treated as long-term capital gain or loss. If the shares are sold or otherwise disposed of (including by gift) before the expiration of the 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.

## **Accounting Treatment**

Based on Statement of Financial Accounting Standards No. 123(R), we will recognize compensation expense in connection with the employee plan. So long as we continue issuing shares under the employee plan with a purchase price at a discount to the fair market value of our common stock, we will recognize compensation expense which will be determined by the level of participation in the employee plan. However, in certain cases where the purchase price is greater than 95% of the fair market value of the stock subject to the employee plan, there may be no compensation expense under Statement of Financial Accounting Standards No. 123(R).

## **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. In addition, because benefits under the employee plan will depend on the fair market value of our common stock at various future dates, it is not possible to determine the benefits that will be received by employees if the employee plan is approved by the shareholders.

## **COMPENSATION DISCUSSION AND ANALYSIS**

Our Compensation Committee is comprised of independent members of the Board of Directors. The Compensation Committee's basic responsibility is to review the performance of our management in achieving corporate goals and objectives and to assure that our management is compensated effectively in a manner consistent with our compensation philosophy, competitive practice and the requirements of the appropriate regulatory bodies. Toward that end, the Compensation Committee oversees, reviews and administers all of our compensation, equity and employee benefit plans and programs.

### ***Compensation Objectives***

We believe that compensation of our executive officers should encourage creation of shareholder value and achievement of strategic corporate objectives. We attempt to align the interests of the Company's shareholders and management by integrating compensation with the Company's short-term and long-term corporate strategic and financial objectives. In order to attract and retain the most qualified personnel, the Company intends to offer a total compensation package competitive with companies in the pharmaceutical industries, taking into account relative company size, performance and geographic location as well as individual responsibilities and performance. However, we believe that, given the challenges the Company has faced in the recent past and continues to face, a standard compensation methodology is not appropriate for the Company. For example, the Compensation Committee has utilized, and will continue to utilize, performance-based incentives which are tied to key corporate goals critical to the Company's long-term success and viability.

The elements of compensation for executive officers includes base salaries, annual cash incentives, long-term equity incentives, and perquisites as well as additional features which are available to most other employees, including a 401(k) plan, employee stock purchase plan, health and welfare insurance, and life

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insurance, some of which allocate payments generally based on an individual's level of annual cash compensation. Executives have substantial portions of their compensation at risk for annual and long-term performance, with the largest portion at risk for the most senior executives.

As described in Item 1a of our Annual Report on Form 10-K filed with the SEC on March 26, 2008, we have experienced and continue to experience certain financial difficulties. For example, we expect that our existing cash and cash equivalents will not be sufficient to fund our operations at current levels for the next 12 months and we have a substantial amount of debt. In light of our business situation, our compensation philosophy and objectives for fiscal 2008 continue to reflect the current environment in which we are operating and will be focused more heavily on retention of our senior management team through this challenging time while creating the foundation for value creation in the future. Our fiscal year 2008 philosophy and objectives will continue our trend of generally providing reduced or flat levels of cash compensation while increasing the equity compensation component of the compensation packages for our named executive officers.

### ***Compensation Consultant***

The Compensation Committee has the authority under its charter to hire experts in the field of executive compensation to assist it with its evaluation of CEO or executive officer compensation and other advisors to assist with other matters related to executive officer and director compensation. In late 2006, the Board of Directors engaged Milliman, Inc., an independent executive compensation consultant, to review the Company's executive and director compensation policies and plans.

Milliman recommended a group of comparable companies based on line of business, company size measured by market value and number of employees, among other criteria, that the Compensation Committee used as a reference when evaluating the Company's executive and director compensation policies and programs and for making specific recommendations regarding the Company's executive and director compensation policies, including, in the case of the Company's executive officers, salaries, equity ownership levels and requirements and other compensation issues and, in the case of the Company's directors, annual retainers, equity awards and other compensation issues. This peer group is comprised of the following companies: Allos Therapeutics, Inc., Cell Gensys, Inc., Coley Pharmaceutical Group, Dendreon Corp., Exelixis, Inc. Favril, Inc., Genitope Corporation, InterMune, Inc., Isis Pharmaceuticals, Kosan Biosciences Incorporated, Neurocrine Biosciences, Inc., Pharmacyclics, Inc., Rigel Pharmaceutical, Inc., Seattle Genetics, Inc., Sunesis Pharmaceuticals, Inc. and Telik Inc. In April 2007 and again in December 2007, Milliman prepared an executive compensation report for the Compensation Committee using an evaluation of compensation practices of this peer group, along with published executive compensation studies for the industry, which the Compensation Committee used to evaluate the compensation targets for the Company's executive officers. While the same peer group was used for both reports prepared in 2007, the list of peer companies will be revised in 2008 to add companies with a marketed product due to the acquisition by the Company of Zevalin in December 2007.

The Compensation Committee also relied in part on the review and the advice provided to the Board of Directors by Milliman, Inc. in revising the non-employee director compensation in April 2007 to adjust the cash and equity components of non-employee director compensation as discussed above.

### ***Principal Elements of Compensation***

**Base Salaries.** Base salary, including merit-based salary increases, for the CEO and the other executive officers, is established based on the underlying scope of their respective responsibilities, taking into account available compensation information for comparable companies in similar positions. Salary adjustments are based on competitive market salaries and general levels of market increases in salaries, individual performance, achievement of the Company's corporate and strategic goals and changes in job duties and responsibilities.

Based on a review of the executive compensation report prepared by Milliman, base salaries for our executive officers are generally competitive with the market when compared to our peer group despite the fact

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that we have not raised the base salaries of most of executive officers in recent years. Pursuant to his employment agreement, dated as of January 1, 2005, which is filed as an exhibit to our Annual Report on Form 10-K, Dr. James Bianco's base salary was initially set at \$650,000 per year and has remained unchanged for 2006 and 2007. In addition, the base salary for Mr. Louis Bianco and Dr. Jack Singer have remained unchanged since 2005. While Dr. Stromatt's base salary increased roughly 1% from 2005 to 2006 and 20% for fiscal year 2007, those increases were made to bring his base salary up to the 50<sup>th</sup> percentile for companies in our peer group. Base salaries of the remainder of our executives are above the median for base salaries provided to like executives amongst companies in our peer group.

Given continued competitiveness of base salaries combined with the Company's current business situation, and consistent with our philosophy of providing reduced or flat levels of cash compensation while increasing equity awards during this challenging time, the Compensation Committee again determined that base salaries should not be raised in 2008. Therefore base salaries for our executive officers will remain the same for 2008.

*Annual Cash Incentive Compensation.* Annual cash incentives for the executive officers and other key employees are designed to reward performance for achieving key corporate goals, which we believe in turn should increase shareholder value. The performance metrics against which the executives are measured are corporate goals which are clearly communicated, measurable and consistently applied. Pursuant to his employment agreement, Dr. James Bianco's target bonus opportunity under the Company's annual incentive compensation program was fixed at an amount no less than 50% of his base salary. In general, the annual incentive awards for executive officers are determined on the basis of management's achievement of specific performance goals established at the beginning of the fiscal year and an evaluation by the Compensation Committee of the contributions made by individual executives to the Company during the course of the year for which the cash incentive compensation is being awarded. In connection with determining cash bonus payments to executives in 2007, the Compensation Committee also elected to take into consideration additional achievements of the Company and the executives, including the acquisitions of Systems Medicine, Inc. in July 2007 and the acquisition of the U.S. rights to Zevalin in December 2007, which had not been contemplated at the time the original performance goals were established. For a discussion of annual cash incentive compensation paid to our named executive officers in fiscal year 2007 see "2007 Cash Incentive Bonuses" below.

*Long-Term Equity Incentive Compensation.* Generally, a significant equity award in the form of a stock option grant, a restricted stock grant, or a combination thereof, is made in the year that an executive officer commences employment. Thereafter, option grants may be made at varying times and in varying amounts at the discretion of the Compensation Committee or the Board of Directors. Upon hiring an executive officer, an option grant generally will be made at the first regularly scheduled meeting of the Compensation Committee or the Board of Directors after the officer commences employment. The size of each new hire or promotion stock option grant made to officers is generally set at a level that the Compensation Committee or the Board of Directors deems appropriate to create a meaningful opportunity for stock ownership based upon the grant guidelines and the individual's potential for future responsibility and promotion. The relative weight given to each of these factors will vary from individual to individual at the Compensation Committee's discretion and adjustments may be made as the Compensation Committee deems reasonable to attract candidates in the competitive environment for highly qualified employees in which the Company operates.

The exercise price of stock options is always equal to the fair market value (the closing price on the Nasdaq Global Market) of the Company's common stock on the date of grant. Options granted pursuant to our equity incentive plans will provide a return to the employee only if he or she remains in the Company's service, and then only if the market price of the Company's common stock appreciates over the option term. Generally, stock options granted pursuant to our equity incentive plans vest over a two or three-year period. Annual equity awards are generally granted and dated as of the date of the Compensation Committee or Board of Directors meeting at which the awards were made with the exception of equity awards approved in December 2006 and granted in September 2007 as discussed below.

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The Compensation Committee grants restricted stock, in addition to stock options, to our executives as long-term incentive compensation. Restricted stock grants are included as part of the annual compensation package and are generally either service-based or performance-based awards. Service-based awards generally vest over a one or two-year period, subject to the executive's continued employment with the Company. Performance-based awards are designed to provide benefits to our executive officers only upon the successful accomplishment of critical corporate goals and vest on the achievement of these goals if they are obtained within a set period of time, usually three years from the date of grant. In addition, these awards are also subject to the executive's continued employment with the Company. For a discussion of equity awards granted to our named executive officers in fiscal year 2007 see [Equity Awards Approved in 2006](#) and [December 2007 Equity Awards](#) below.

*2007 Cash Incentive Bonuses.* The Company established corporate performance targets for its named executive officers in fiscal year 2007. In July 2007, the Compensation Committee determined that the mid-year payouts of bonus amounts would be made to the executive officers based on the Compensation Committee's evaluation of the performance goals, an evaluation of each executive's individual contributions to the Company during the first half of 2007 and additional significant developments in the Company's overall business that had not been contemplated at the time the performance goals were set, namely the proposed acquisition of Systems Medicine and the U.S. rights to Zevalin, which were both in process at that time. The Compensation Committee determined that if any executive was paid more than he was eligible to receive based on an evaluation of the performance goals, an evaluation of individual contributions to the Company and other developments at the end of the year, such amounts would be deducted from bonuses to be earned in 2008. In December 2007, the Compensation Committee again discussed the payment of bonuses and determined that, while not all of the performance goals established at the beginning of the fiscal year had been met, based on their consideration of significant additional achievements of the Company and the executives, including the completion of the acquisition of Systems Medicine, Inc. in July 2007 and the completion of the acquisition of the U.S. rights to Zevalin in December 2007, and the evaluation of individual contributions of the executive officers to the Company throughout 2007, each of the named executive officers had achieved between 80% and 100% of the performance targets and would be entitled to 80% to 100% of the target level of annual cash incentive compensation based on such achievements. Based on the combined bonus payments from July 2007 and December 2007, Dr. James Bianco was awarded 100% of his annual bonus of \$487,500 based on corporate and individual achievements in fiscal year 2007, Mr. Louis Bianco, Mr. Dan Eramian and Dr. Jack Singer were awarded 100% of their target bonuses of \$148,500, \$141,750, and \$153,000 and Dr. Scott Stromatt was awarded 80% of his target cash bonus, or \$84,000 based on corporate and individual achievements in fiscal year 2007. The table below sets forth annual bonuses paid to our named executive officers for each of the past three years.

Name	Year	Annual Cash Bonus (\$)
James Bianco, M.D.	2007	487,500(1)
	2006	260,000(2)
	2005	240,000
Louis Bianco	2007	148,500(1)
	2006	79,200
	2005	99,000
Dan Eramian	2007	141,750(1)
	2006	62,176
	2005	N/A
Jack Singer, M.D.	2007	153,000(1)
	2006	81,600
	2005	102,000
Scott Stromatt, M.D.	2007	84,000(1)
	2006	69,960
	2005	87,450

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- (1) Includes cash bonuses paid in both July 2007 and January 2008.
- (2) Does not include the special cash bonus paid in July 2006, which such bonus was based on the achievement of a significant corporate goal. *Equity Awards and Equity Ownership Goals.* As discussed above, in light of the business environment and existing challenges facing it, the Company has generally been reducing or keeping unchanged annual cash compensation while increasing equity compensation. In implementing this part of the compensation policy, the Compensation Committee was cognizant of the key compensation goals for the Company, including (i) recognizing that the next one to three years will be extremely critical to the Company's future and shareholder value, (ii) taking into consideration present and projected trials, (iii) considering pipeline products and their status, (iv) the need for a retention plan for critical executives and for the CEO, (v) staying as close to the 75th percentile in total compensation as possible while still meeting the other compensation goals, and (vi) supplying a mechanism for motivating the CEO and the executive team during the upcoming critical time period.

In December 2006 and again in December 2007, the Compensation Committee discussed appropriate ownership goals for each of the executive officers. Based on consultations with Milliman, the Compensation Committee set ownership goals for each executive officer which are intended to be a guideline for the percentage ownership the Committee believes would be appropriate to align the interests of management with the interests of shareholders. However, the Compensation Committee has not made it a policy to require the executive officers to reach such ownership goals and, moreover, has recognized that in light of the substantial dilution to the Company's stock in 2007 due to necessary share issuances used to fund the Company and pursue desirable acquisition opportunities, the ownership percentages of management was significantly lower at the end of the year.

*Equity Awards Approved in 2006.* In December 2006, after consulting with Milliman, the Compensation Committee approved the following restricted stock grants to the named executive officers; these grants were not made until September 2007 because they were approved contingent upon receiving shareholder approval of an amendment to the Company's 2003 Equity Incentive Plan authorizing an increase in shares available for issuance under that plan, which approval was obtained at the Company's Annual Meeting of the Shareholders on September 25, 2007. Each of these grants will vest in full on December 22, 2008 subject to the relevant named executive officer remaining employed with the Company through December 22, 2008:

Name	Number of shares of Restricted Stock
Dr. James Bianco	8,064
Mr. Louis Bianco	2,419
Dr. Jack Singer	2,419
Mr. Dan Eramian	2,016
Dr. Scott Stromatt*	2,016

\* Pursuant to the Severance and Release Agreement entered into by the Company and Dr. Stromatt, these shares were not forfeited upon his termination on April 4, 2008 and will vest upon Dr. Stromatt's assistance to the Company with its response letter to the EMEA for paclitaxel poliglumex pursuant to the terms of the Severance and Release Agreement.

In addition, in December 2006, the Compensation Committee approved additional grants of restricted stock to the named executive officers tied to the Company's achievement of significant corporate goals, which were also contingent upon receiving shareholder approval of an increase in shares available for issuance under the 2003 Equity Incentive Plan and therefore were not granted until September 2007. In particular, the Company identified the following three key corporate goals over the next three years: (a) approval from the FDA or EMEA for the sale of either paclitaxel poliglumex or pixantrone or any other drug owned or exclusively licensed by the

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Company on the date the grant was approved, (b) approval from the FDA or EMEA of a second such drug and (c) the closing share price for the Company's common stock exceeding \$350.00 (as equitably adjusted for any stock split, stock dividend or similar adjustment in the Company's capitalization). In the event that one of the above-mentioned corporate goals is achieved prior to December 31, 2009, the following additional shares of restricted stock approved for grant to the named executive officers in December 2006 would vest as of the date of the achievement of such corporate goal:

<b>Name</b>	<b>Number of shares of Restricted Stock</b>
Dr. James Bianco	8,064
Mr. Louis Bianco	2,419
Dr. Jack Singer	2,419
Mr. Dan Eramian	2,016
Dr. Scott Stromatt*	2,016

\* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, these shares have been forfeited.

In the event that two of the above-mentioned corporate goals are achieved prior to December 31, 2009, the following additional shares of restricted stock approved for grant to the named executive officers in December 2006 would vest as of the date of the second to occur of the two corporate goals:

<b>Name</b>	<b>Number of shares of Restricted Stock</b>
Dr. James Bianco	4,032
Mr. Louis Bianco	1,209
Dr. Jack Singer	1,209
Mr. Dan Eramian	1,008
Dr. Scott Stromatt*	1,008

\* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, these shares have been forfeited.

In the event that all three of the above-mentioned corporate goals are achieved prior to December 31, 2009, the following additional shares of restricted stock granted to the named executive officers in December 2006 would vest as of the date of the last to occur of the three corporate goals:

<b>Name</b>	<b>Number of shares of Restricted Stock</b>
Dr. James Bianco	8,064
Mr. Louis Bianco	2,419
Dr. Jack Singer	2,419
Mr. Dan Eramian	2,016
Dr. Scott Stromatt*	2,016

\* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, these shares have been forfeited.

The restricted shares referred to in the three immediately preceding paragraphs are also subject to a vesting ceiling and shall cease vesting, notwithstanding the achievement of any of the three corporate goals, if such additional vesting would cause the relevant named executive officer's aggregate ownership percentage of the Company's outstanding stock to exceed the ownership goals established by the Compensation Committee in December 2006 for each such named executive officer as discussed above. Therefore, the restricted shares will cease to vest as to that particular named executive officer if the following ownership levels are reached (reflected as a percentage of the Company's outstanding stock): Dr. James Bianco 2.5%, Mr. Louis Bianco 1.5%, Dr. Jack Singer 1.5% and Mr. Dan Eramian 1.0%.



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*December 2007 Equity Awards.* In December 2007, after consulting with Milliman, the Compensation Committee determined that, due to the significant decline in share price and significant dilution that had occurred because of the issuance of additional shares necessary to fund the Company and make desired acquisitions, there had been a significant decrease in the value of the equity compensation then held by such executives and therefore existing equity awards were not providing the retention benefit intended by such grants. Therefore, the Compensation Committee determined that it would be appropriate to make additional stock award and option award grants that would create a meaningful opportunity for stock ownership among the executive officers of the Company.

The following restricted stock awards were granted to the named executive officers in December 2007 and are subject to vesting as follows: (a) one-third of the shares granted will vest on the one-year anniversary of the date of grant, or December 27, 2008, (b) one-third of the shares granted will vest on the Company obtaining approval FDA approval of paclitaxel poliglumex prior to December 31, 2010, and (c) one-third of the shares granted will vest on the Company reaching a specified net sales threshold for Zevalin prior to December 31, 2010; in all cases, such vesting is also subject to the relevant named executive officer remaining employed with the Company.

Name	Number of shares of Restricted Stock Granted
Dr. James Bianco	36,000
Mr. Louis Bianco	12,000
Dr. Jack Singer	12,000
Mr. Dan Eramian	12,000
Dr. Scott Stromatt*	12,000

\* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, 8,000 of these shares have been forfeited, however, the remaining 4,000 shares will vest upon Dr. Stromatt's assistance to the Company with its response letter to the EMEA for paclitaxel poliglumex pursuant to the terms of the Severance and Release Agreement.

The following incentive stock options were granted to the named executive officers in December 2007 and vest over two years, with 25% vesting on the date that is six months from the date of grant, 25% vesting on the one-year anniversary of the date of grant, 25% vesting on the date that is 18 months from the date of grant, and the entire award vesting in full on the second anniversary of the date of grant, subject to the relevant named executive officer remaining employed with the Company. Each option has an exercise price of \$18.90 per share, which was the closing price of the Company's common stock as traded on the Nasdaq Global Market on the date of grant.

Name	Number of shares of Restricted Stock Granted
Dr. James Bianco	10,000
Mr. Louis Bianco	3,600
Dr. Jack Singer	3,600
Mr. Dan Eramian	3,600
Dr. Scott Stromatt*	3,600

\* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, this option has terminated.

*Perquisites and Other Benefits.* The named executive officers received certain perquisites and other benefits provided by or paid for by the Company. For example, in fiscal year 2007, the Company provided tax gross-up payments to Dr. James A. Bianco for reimbursement of taxes arising from family member's use of chartered aircraft when accompanying Dr. Bianco on business trips, as calculated based on the standard industry fare level (SIFL) valuation method for income tax purposes, tax preparation fees, health club dues and insurance premiums.



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The Company also provided tax gross-up payments to other executive officers for tax preparation fees and insurance premiums. In addition, the Company paid for tax preparation assistance as well as health and life insurance premiums for all of its executive officers. The named executive officers are also entitled to participate in the Company's benefit programs which are available to all Company employees, including company-sponsored health, welfare, 401(k), and employee stock purchase plans.

*Corporate Travel Policy.* To best utilize the time of executive officers and members of management as well as due to potential security concerns, the Compensation Committee has approved the occasional use of chartered aircraft by our executives, members of management and, when space is available, their family members in connection with business travel. In addition, to comply with applicable laws and prevent any abuse of travel expenditures related to business travel, we have instituted a Corporate Travel Policy. The policy sets forth the detailed procedures related to business travel by Company employees. The Compensation Committee has approved the use of chartered aircraft by employees at the sole discretion of the Company's Chief Executive Officer in consultation with the Chairman of the Board of Directors, so long as a bona fide business justification for the use of chartered aircraft is provided. In 2007, certain of our named executive officers and employees, in compliance with the policy set forth by the Compensation Committee, occasionally used a chartered aircraft for business related activities. When space is available on a chartered aircraft being used for business purposes, directors and executive officers are occasionally accompanied by spouses or other family members on such trips. In those cases, the Board of Directors and the Compensation Committee have determined that the aggregate incremental cost to the Company of including such family members is a de minimis amount.

***Post-Termination Protection and Payments***

In April 2005, the Compensation Committee approved a form of strategic management team severance agreement ( *Severance Agreements* ) which our executive officers other than Dr. James Bianco have entered into. The *Severance Agreements* replaced existing severance agreements certain of the Company's executive officers had previously entered into with the Company. The *Severance Agreements* provide that in the event an executive officer is discharged from employment by the Company without cause or resigns for good reason (including upon a change of control) (each as defined in the *Severance Agreements*), he will be entitled to receive (i) acceleration of all then-existing unvested stock-based compensation (options shall remain exercisable for a period of twenty-one months following the severance date), (ii) severance pay based on the executive officer's base salary in effect immediately prior to the severance date for a period of eighteen months, (iii) bonus pay equal to the greater of the average of the three prior years' bonuses or 30% of base salary, (iv) continuation of or reimbursement for certain health benefits for a period of up to eighteen months, and (v) all accrued but unused vacation and certain other benefits for a severance period of eighteen months. The *Severance Agreements* further provide that if the executive officer is discharged from employment by the Company for cause, as a result of death or disability, or resigns without good reason, the executive officer is entitled only to (i) his base salary through and including the severance date and (ii) pay for all accrued but unused vacation as of the severance date. Under the *Severance Agreements*, if any severance payments are subject to the excise tax on parachute payments, the Company will make a gross up payment in an amount that covers the excise tax due plus the excise and income taxes payable on the gross up payment. The severance payments are conditioned upon the executive not breaching his or her inventions and proprietary information agreement with the Company.

Dr. James Bianco entered into an employment agreement with us effective January 1, 2005, superseding the agreement he had with us effective December 31, 2002. Pursuant to the employment agreement, if Dr. Bianco is terminated without cause or if he resigns for good reason (each, as defined in his employment agreement), he will receive (i) at his choice either (x) a lump sum payment representing two years of his salary based on a 6% discount factor, or (y) continuing payments of severance pay at a rate equal to his monthly base salary rate, as then in effect, plus his most recent annual cash bonus continuation, for a period of eighteen (18) months from the date of such termination, (ii) full vesting of outstanding unvested stock options which shall become exercisable for a period of two (2) years following the date on which they vest, subject to the terms of the applicable award agreements, and full vesting of outstanding unvested or restricted stock, (iii) continuation of health benefits for

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the severance period not to exceed two (2) years following termination, and (iv) all accrued but unused vacation. In the event a change of control occurs and Dr. Bianco is terminated without cause or resigns for good reason, Dr. Bianco will receive the following severance benefits: (i) a lump sum payment equal to two years of his base salary plus his most recent annual cash bonus, (ii) full vesting of outstanding unvested stock options which shall become exercisable for a period of two (2) years following the date on which they vest, and full vesting of outstanding unvested or restricted stock (iii) continuation of health benefits for two (2) years, and (iv) all accrued but unused vacation. The employment agreement restricts Dr. Bianco from competing with us for the term of the severance payment period following the termination of his employment with us. In addition, the severance payments are conditioned upon Dr. Bianco not competing with us and not soliciting our employees. The agreement further provides that, if any payments are subject to the excise tax on parachute payments, we will make a gross up payment in an amount that covers the excise tax due plus the excise and income taxes payable on the gross up payment.

The Compensation Committee believes the Severance Agreements and Dr. James Bianco's employment agreement are important to protect the Company's officers from any involuntary termination associated with a change of control and that the acceleration of vesting provided in such agreements is reasonable when compared with similar arrangements adopted by other companies in the pharmaceutical industry. With these agreements, the Compensation Committee sought uniformity of results among the executive officers based on their positions at the Company.

Under the Company's 2007 Equity Incentive Plan, in the event of a change in control all awards granted pursuant to this plan generally become fully exercisable. Further, all restrictions and conditions on any award then outstanding shall lapse as of the date of the change in control. Under the Company's 2007 Employee Stock Purchase Plan in the event of a change in control, the Board or a committee created by the Board, in its sole discretion, shall either (a) provide that options granted under such plan shall be fully exercisable to the extent of each optionee's accumulated withholdings for the respective offering period (as defined in the relevant Employee Stock Purchase Plan) 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 the Company's rights and obligations under such plan. Under the Company's 1994 Equity Incentive Plan, in the event of a change in control (a) all options granted (including options granted to officers or directors less than six months prior to any such change in control) generally become fully exercisable; and (b) all restrictions and conditions of all bonus shares then outstanding shall lapse as of the date of the change in control. The Company's directors and executive officers participate in the Company's 2007 Equity Incentive Plan and have outstanding awards which have been issued pursuant to the 2007 Equity Incentive Plan and 1994 Equity Incentive Plan. The Company's executive officers have participated in the Company's 1996 Employee Stock Purchase Plan.

***Tax Deductibility of Pay***

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Tax Code), places a limit of \$1,000,000 on the amount of compensation that the Company may deduct in any one year with respect to each of its five most highly paid executive officers. There is an exception to the \$1,000,000 limitation for performance-based compensation meeting certain requirements. To qualify for an exemption from the \$1,000,000 limitation, the shareholders were asked to approve a limit under stock incentive plans on the maximum number of shares for which a participant may be granted stock options in any calendar year. Because our stock incentive plans and option grants under our stock incentive plans comply with the applicable requirements for this exemption, any compensation deemed paid to a named executive officer when he or she exercises an option with an exercise price that is at least equal to the fair market value of the option shares on the grant date should qualify as performance-based compensation and should not be subject to the \$1,000,000 deduction limitation. The Compensation Committee may approve compensation or changes to plans, programs or awards that may cause the compensation or awards not to comply with Section 162(m) if it determines that such action is appropriate and in the Company's best interests.

**Table of Contents****Summary**

The Compensation Committee believes that the Company's compensation philosophy and programs are designed to foster a performance-oriented culture that aligns employees' interests with those of the Company's shareholders. The Compensation Committee believes that the compensation of the Company's executives is both appropriate and responsive to the goal of improving shareholder value.

*The following Compensation Committee Report and related disclosure shall not be deemed incorporated by reference by any general statement incorporating this proxy statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.*

**Compensation Committee Report**

The Compensation Committee reviewed this Compensation Discussion and Analysis and discussed its contents with Company management. Based on the review and discussions, the Committee has recommended that this Compensation Discussion and Analysis be included in the proxy statement.

Respectfully submitted by the Compensation Committee:

**Frederick W. Telling, Ph.D., Chair**

**Richard L. Love**

**Phillip M. Nudelman, Ph.D.**

**Compensation of Executive Officers**

The following table sets forth information concerning compensation earned for services rendered to the Company by the President and Chief Executive Officer (the CEO), the Executive Vice President, Finance and Administration, and the Company's next three most highly compensated executive officers for fiscal year 2007. Collectively, these are the named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus \$(1)	Stock Awards \$(2)	Option Awards \$(2)	Non-Equity	All Other	Total (\$)
						Incentive Plan Compensation (\$)	Compensation \$(3)	
James A. Bianco, M.D. President and Chief Executive Officer	2007	650,000	487,500	67,092	156,310		154,881	1,515,783
	2006	650,000	510,000	435,351	345,995		183,025	2,124,371
Louis A. Bianco Executive Vice President, Finance and Administration	2007	330,000	148,500	33,987	53,930		16,622	583,039
	2006	330,000	79,200	108,913	278,501		17,506	814,120
Dan Eramian Executive Vice President, Corporate Communications	2007	315,000	141,750	52,733	52,313		3,091	564,887
	2006	259,067	62,176	56,677	43,965		126,720	548,605
Jack W. Singer, M.D. Executive Vice President, Chief Medical Officer	2007	340,000	153,000	33,987	53,930		55,369	636,286
	2006	340,000	81,600	108,913	288,591		42,309	861,413
Scott Stromatt, M.D. Executive Vice President, Clinical Development and Regulatory Affairs(4)	2007	350,000	84,000	34,914	58,763		5,125	532,802
	2006	291,500	69,960	129,084	202,187		5,205	697,936

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- (1) Amounts reflected in this column represent cash incentive payments paid to our named executive officers based on fiscal year 2007 individual and corporate performance as approved by our Compensation Committee and as more fully discussed in Compensation Discussion and Analysis Principal Elements of Compensation below.
- (2) The amounts in these columns reflect amounts recognized for financial statement reporting purposes for the fiscal year ended December 31, 2007 in accordance with Statement of Financial Standards (SFAS) No. 123R, Share-Based Payment, (FAS 123R) which requires that we recognize as compensation expense the value of all stock-based awards, including stock options, granted in exchange for services over the requisite service period, which is typically the vesting period. However, these amounts do not include any reduction for risk of forfeiture. The stock and option awards included in this expense amount were granted from 2003 through 2007. There can be no assurance that the FAS 123R amounts will ever be realized. For more information, see Note 13 in the Notes to Financial Statements contained in our Annual Report on Form 10-K filed with the SEC on March 26, 2008.
- (3) See All Other Compensation Table below for a discussion of the components of the amounts set forth in this column.
- (4) Dr. Stromatt resigned from CTI effective April 4, 2008.

**All Other Compensation Table**

The following table shows the components of all other compensation.

Name		Use of Chartered Aircraft(1) (\$)	Tax Gross- ups (\$)	Insurance Premiums (\$)	401(k) Match (\$)	Executive Relocation Benefits (\$)	Other Personal Benefits (\$)	Total (\$)
James A. Bianco, M.D.	2007		79,804(2)	62,008			13,069(7)	154,881
	2006		146,320(2)	20,020			16,685(7)	183,025
Louis A. Bianco	2007		4,842(3)	8,405	3,375			16,622
	2006		3,429(3)	7,326	3,300		3,451	17,506
Dan Eramian	2007		769(4)	2,322				3,091
	2006		6,547(4)	1,742		116,287(6)	2,144	126,720
Jack W. Singer, M.D.	2007		17,492(3)	34,502	3,375			55,369
	2006		9,375(3)	26,934	3,300		2,700	42,309
Scott C. Stromatt, M.D.	2007		508(5)	1,242	3,375			5,125
	2006		290(5)	810	3,300		805	5,205

- (1) Certain directors and executive officers were accompanied by spouses or other family members on trips using chartered aircraft where the use of the chartered aircraft was primarily for business purposes. In those cases, the Compensation Committee has determined that the aggregate incremental cost to the Company is a de minimis amount, and as a result, no amount is reflected in the table.
- (2) The 2007 amount represents tax reimbursements for taxable compensation related to family member's use of chartered aircraft, tax preparation fees, health club dues and insurance premiums. For 2006, the amount represents tax reimbursements for bonuses paid, tax preparation fees, health club dues and insurance premiums.
- (3) Represents tax reimbursements for tax preparation fees and insurance premiums.
- (4) The 2007 amount represents tax reimbursements for taxable compensation related to family member's use of chartered aircraft and tax preparation fees. The 2006 amount represents tax reimbursements for tax preparation fees, executive relocation benefits and gifts.
- (5) Represents tax reimbursements for tax preparation fees.
- (6) Represents executive relocation benefits Mr. Eramian received pursuant to the Company's executive relocation plan after joining the Company in March of 2006.

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- (7) The 2007 amount includes payments for health club dues, tax preparation services and other miscellaneous compensation related to gifts. In 2006, amount includes payment of personal travel expenses, health club dues and tax preparation services.

**Grants of Plan-Based Awards**

The following table sets forth information regarding grants of stock and option awards made to our named executive officers during the fiscal 2007:

Name	Grant Date	Approval Date(1)	Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
			Threshold (#)	Target (#)	Maximum (#)				
James A. Bianco, M.D.	1/18/2007	1/18/2007					6,000	68.00	264,066
	9/25/2007	12/22/2006				8,064			302,419
	9/25/2007	12/22/2006	8,064(2)	20,161(2)	20,161(2)				605,322(3)
	12/27/2007	12/27/2007	12,000(4)	24,000(4)	24,000(4)				453,600
	12/27/2007	12/27/2007				12,000			226,800
	12/27/2007	12/27/2007					10,000	18.90	109,700
Louis A. Bianco	1/18/2007	1/18/2007					1,750	68.00	66,568
	9/25/2007	12/22/2006				2,419			90,724
	9/25/2007	12/22/2006	2,419(2)	6,048(2)	6,048(2)				181,593(3)
	12/27/2007	12/27/2007	4,000(5)	8,000(5)	8,000(5)				151,200
	12/27/2007	12/27/2007				4,000			75,600
	12/27/2007	12/27/2007					3,600	18.90	29,088
Dan Eramian	1/18/2007	1/18/2007					1,500	68.00	57,059
	9/25/2007	12/22/2006				2,016			75,604
	9/25/2007	12/22/2006	2,016(2)	5,040(2)	5,040(2)				151,329(3)
	12/27/2007	12/27/2007	4,000(5)	8,000(5)	8,000(5)				151,200
	12/27/2007	12/27/2007				4,000			75,600
	12/27/2007	12/27/2007					3,600	18.90	29,088
Jack W. Singer, M.D.	1/18/2007	1/18/2007					1,750	68.00	66,568
	9/25/2007	12/22/2006				2,419			90,723
	9/25/2007	12/22/2006	2,419(2)	6,048(1)	6,048(2)				181,593(3)
	12/27/2007	12/27/2007	4,000(5)	8,000(5)	8,000(5)				151,200
	12/27/2007	12/27/2007				4,000			75,600
	12/27/2007	12/27/2007					3,600	18.90	29,088
Scott C. Stromatt, M.D.(6)	1/18/2007	1/18/2007					1,500	68.00	57,059
	9/25/2007	12/22/2006				2,016(7)			75,604
	9/25/2007	12/22/2006	2,016(2)	5,040(2)	5,040(2)				151,329(3)
	12/27/2007	12/27/2007	4,000(5)	8,000(5)	8,000(5)				151,200
	12/27/2007	12/27/2007				4,000(7)			75,600
	12/27/2007	12/27/2007					3,600	18.90	29,088

- (1) The Board of Directors approved certain equity award grants on December 22, 2006 contingent upon approval by the shareholders of the Company of an amendment to the 2003 Equity Incentive Plan to increase the number of shares available for issuance under that plan. The amendment was approved by the shareholders at the Company's Annual Meeting of the Shareholders on September 25, 2007. Therefore, those grants approved on December 22, 2006 were not granted until September 25, 2007.
- (2) Shares will vest upon the Company's achievement of the following three key corporate goals: (a) approval from the FDA or EMEA for the sale of either paclitaxel poliglumex or pixantrone or any other drug owned or exclusively licensed by the Company on the date the grant was approved, (b) approval from the FDA or EMEA of a second such drug and (c) the closing share price for the Company's common stock exceeding \$350.00 (as equitably adjusted for any stock split, stock dividend or similar adjustment in the Company's capitalization). In the event that one of the above-mentioned corporate



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goals is achieved prior to December 31, 2009, the following additional shares of restricted stock would vest as of the date of the achievement of such corporate goal:

<b>Name</b>	<b>Number of shares of Restricted Stock</b>
Dr. James Bianco	8,064
Mr. Louis Bianco	2,419
Dr. Jack Singer	2,419
Mr. Dan Eramian	2,016
Dr. Scott Stromatt*	2,016

\* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, these shares have been forfeited. In the event that two of the above-mentioned corporate goals are achieved prior to December 31, 2009, the following additional shares of restricted stock granted would vest as of the date of the second to occur of the two corporate goals:

<b>Name</b>	<b>Number of shares of Restricted Stock</b>
Dr. James Bianco	4,032
Mr. Louis Bianco	1,209
Dr. Jack Singer	1,209
Mr. Dan Eramian	1,008
Dr. Scott Stromatt*	1,008

\* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, these shares have been forfeited. In the event that all three of the above-mentioned corporate goals are achieved prior to December 31, 2009, the following additional shares of restricted stock granted would vest as of the date of the last to occur of the three corporate goals:

<b>Name</b>	<b>Number of shares of Restricted Stock</b>
Dr. James Bianco	8,064
Mr. Louis Bianco	2,419
Dr. Jack Singer	2,419
Mr. Dan Eramian	2,016
Dr. Scott Stromatt*	2,016

\* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, these shares have been forfeited.

- (3) As discussed in footnote (2) above, the vesting terms of this award contain two performance-based conditions and one market condition. The grant date fair value of the restricted shares that vest upon the two performance-based conditions is determined by multiplying the number of restricted shares granted by the closing price of one share of our common stock on the grant date. The grant date fair value of the restricted shares that vest upon the market condition was determined by utilizing a Monte Carlo simulation model to estimate the implications of potential stock price movements of our common stock and taking the average of the results.
- (4) 12,000 shares will vest if the Company obtains FDA approval of paclitaxel poliglumex prior to December 31, 2010 and 12,000 shares will vest if the Company has obtained a specific annual net sales threshold for Zevalin prior to December 31, 2010.
- (5) 4,000 shares will vest if the Company obtains FDA approval of paclitaxel poliglumex prior to December 31, 2010 and 4,000 shares will vest if the Company has obtained a specific annual net sales threshold for Zevalin prior to December 31, 2010.

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- (6) Dr. Stromatt resigned effective as of April 4, 2008; in connection with his resignation, all unvested equity awards were terminated with the exception of 6,016 shares of restricted stock which will vest upon Dr. Stromatt assisting the Company with its response letter to the EMEA for paclitaxel poliglumex pursuant to his Severance Agreement and General Release entered into in connection with his resignation.
- (7) These shares will vest upon Dr. Stromatt assisting the Company with its response letter to the EMEA for paclitaxel poliglumex pursuant to his Severance Agreement and General Release entered into in connection with his resignation.



**Table of Contents****Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth information regarding outstanding equity awards held by our named executive officers at the end of fiscal 2007:

Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Equity Incentive Plan Awards; Unearned Shares, Units or Other Rights That Have Not Vested (#)(1)	Equity Incentive Plan Awards; Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)	
James A. Bianco, M.D.	12/10/1998	1,391		118.80	12/10/2008			
	12/22/1999	2,500		122.50	12/22/2009			
	11/30/2000	7,500		1,718.80	11/30/2010			
	11/30/2001	6,250		1,091.80	11/30/2011			
	7/30/2002	2,993		139.40	7/30/2012			
	12/3/2002	4,750		379.80	12/3/2012			
	12/11/2003	3,125		324.00	12/11/2013			
	12/14/2005	6,250		94.40	12/14/2015			
	12/14/2005					3,125(3)	58,750	
	1/18/2007		6,000(1)	68.00	1/18/2017			
	9/25/2007					28,225(4)	530,643	
	12/27/2007			10,000(2)	18.90	12/27/2017		
	12/27/2007					36,000(5)	676,800	
Louis A. Bianco	7/31/1998	1,603		116.20	7/31/2008			
	12/10/1998	875		118.80	12/10/2008			
	12/22/1999	875		122.50	12/22/2009			
	11/30/2000	750		1,718.80	11/30/2010			
	11/30/2001	1,032		1,091.80	11/30/2011			
	7/30/2002	700		139.40	7/30/2012			
	12/3/2002	1,115		379.80	12/3/2012			
	12/11/2003	1,485		324.00	12/11/2013			
	7/14/2005	3,750		111.20	7/14/2015			
	12/14/2005	3,000		94.40	12/14/2015			
	6/22/2006	750		56.80	6/22/2016			
	1/18/2007		1,750(1)	68.00	1/18/2017			
	9/25/2007					8,467(4)	159,189	
	12/27/2007			3,600(2)	18.90	12/27/2017		
	12/27/2007					12,000(5)	225,600	
Dan Eramian	3/31/2006	791	1,583(6)	76.40	3/31/2016			
	3/31/2006					500(7)	9,400	
	6/22/2006	750		56.80	6/22/2016			
	6/23/2006					187(7)	3,525	
	1/18/2007		1,500(1)	68.00	1/18/2017			
	9/25/2007					7,056(4)	132,658	
	12/27/2007			3,600(2)	18.90	12/27/2017		
12/27/2007					12,000(5)	225,600		
Jack W. Singer, M.D.	7/31/1998	488		116.20	7/31/2008			
	12/10/1998	1,125		118.80	12/10/2008			
	12/22/1999	1,000		122.50	12/22/2009			
	11/30/2000	1,750		1,718.80	11/30/2010			
	11/30/2001	1,875		1,091.80	11/30/2011			
	7/30/2002	766		139.40	7/30/2012			
	12/3/2002	2,000		379.80	12/3/2012			
	12/11/2003	1,875		324.00	12/11/2013			
	7/14/2005	3,750		111.20	7/14/2015			
	12/14/2005	3,000		94.40	12/14/2015			
	6/22/2006	750		56.80	6/22/2016			
	1/18/2007		1,750(1)	68.00	1/18/2017			

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	9/25/2007					8,467(4)	159,189
	12/27/2007		3,600(2)	18.90	12/27/2017		
	12/27/2007					12,000(5)	225,600
Scott C. Stromatt, M.D.(8)	3/10/2003	1,000		273.60	3/10/2013		
	8/26/2003	187		408.40	8/26/2013		
	9/29/2004	500		284.00	9/29/2014		
	6/16/2005	1,000		116.00	6/16/2015		
	12/14/2005	3,750		94.40	12/14/2015		
	6/22/2006	750		56.80	6/22/2016		
	1/18/2007		1,500(1)	68.00	1/18/2017		
	9/25/2007					7,056(4)	132,658
	12/27/2007		3,600(2)	18.90	12/27/2017		
	12/27/2007					12,000(9)	225,600

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- (1) Option grant vests over three years with 1/3 vesting one year from the date of grant, 1/3 vesting two years from the date of grant and 1/3 vesting three years from the date of grant.
- (2) Option grant 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.
- (3) Shares will vest when the Company files an NDA with the FDA related to the approval of paclitaxel poliglumex, if the filing occurs on or before December 14, 2008.
- (4) The following number of shares will vest on December 22, 2008:

Name	Number of shares of Restricted Stock
Dr. James Bianco	8,064
Mr. Louis Bianco	2,419
Dr. Jack Singer	2,419
Mr. Dan Eramian	2,016
Dr. Scott Stromatt*	2,016

- \* Pursuant to the Severance and Release Agreement entered into by the Company and Dr. Stromatt, these shares were not forfeited upon his termination on April 4, 2008 and will vest upon Dr. Stromatt's assistance to the Company with its response letter to the EMEA for paclitaxel poliglumex pursuant to the terms of the Severance and Release Agreement.

In addition, the remaining shares will vest upon the Company's achievement of the following three key corporate goals: (a) approval from the FDA or EMEA for the sale of either paclitaxel poliglumex or pixantrone or any other drug owned or exclusively licensed by the Company on the date the grant was approved, (b) approval from the FDA or EMEA of a second such drug and (c) the closing share price for the Company's common stock exceeding \$350.00 (as equitably adjusted for any stock split, stock dividend or similar adjustment in the Company's capitalization). In the event that one of the above-mentioned corporate goals is achieved prior to December 31, 2009, the following additional shares of restricted stock would vest as of the date of the achievement of such corporate goal:

Name	Number of shares of Restricted Stock
Dr. James Bianco	8,064
Mr. Louis Bianco	2,419
Dr. Jack Singer	2,419
Mr. Dan Eramian	2,016
Dr. Scott Stromatt*	2,016

- \* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, these shares have been forfeited. In the event that two of the above-mentioned corporate goals are achieved prior to December 31, 2009, the following additional shares of restricted stock granted would vest as of the date of the second to occur of the two corporate goals:

Name	Number of shares of Restricted Stock
Dr. James Bianco	4,032
Mr. Louis Bianco	1,209
Dr. Jack Singer	1,209
Mr. Dan Eramian	1,008
Dr. Scott Stromatt*	1,008

\* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, these shares have been forfeited.

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In the event that all three of the above-mentioned corporate goals are achieved prior to December 31, 2009, the following additional shares of restricted stock granted would vest as of the date of the last to occur of the three corporate goals:

Name	Number of shares of Restricted Stock
Dr. James Bianco	8,064
Mr. Louis Bianco	2,419
Dr. Jack Singer	2,419
Mr. Dan Eramian	2,016
Dr. Scott Stromatt*	2,016

\* Due to Dr. Stromatt's resignation from CTI on April 4, 2008, these shares have been forfeited.

- (5) 1/3 of the shares will vest on December 27, 2008, 1/3 of the shares will vest if the Company obtains FDA approval of paclitaxel poliglumex prior to December 31, 2010 and 1/3 of the shares will vest if the Company has obtained a specific annual net sales threshold for Zevalin prior to December 31, 2010.
- (6) Option grant vests over three years, 1/3 of which vested on 3/6/07, 1/3 of which vests on 3/6/08 and 1/3 of vests on 3/6/09.
- (7) Stock award vests on 3/6/2008.
- (8) Dr. Stromatt resigned effective as of April 4, 2008; in connection with his resignation, all unvested equity awards were terminated with the exception of 6,016 shares of restricted stock which will vest upon Dr. Stromatt assisting the Company with its response letter to the EMEA for paclitaxel poliglumex pursuant to his Severance Agreement and General Release entered into in connection with his resignation.
- (9) Pursuant to Dr. Stromatt's Severance Agreement and General Release entered into in connection with his resignation on April 4, 2008, 4,000 of these shares were not forfeited and will vest upon Dr. Stromatt assisting the Company with its response letter to the EMEA for paclitaxel poliglumex; the remainder of the shares were forfeited upon his resignation from the Company.

**Option Exercises and Stock Vested**

The following table sets forth information regarding options exercised and shares of common stock acquired upon vesting of restricted stock by our named executive officers during fiscal 2007:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
James A. Bianco, M.D.				