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	2009	2008
Furniture and office equipment	$11,970	$19,252
Leasehold improvements	3,277	6,512
Lab equipment	560	7,240
	15,807	33,004
Less: accumulated depreciation and amortization	(12,377)	(28,680)
	$3,430	$4,324

Depreciation expense of $1.8 million, $3.5 million and $4.1 million was recognized during 2009, 2008, and 2007, respectively.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accrued Liabilities

Accrued liabilities consist of the following as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Clinical and investigator-sponsored trial expense	$ 5,560	$ 8,293
Employee compensation and related expenses	4,113	5,920
Insurance financing and accrued interest expense	1,031	2,032
Legal expense	805	1,048
Manufacturing expense	651	2,662
Royalty and rebate expense	9	1,549
Deemed dividend on conversion of preferred stock		3,000
Settlement expense		2,595
Other	2,638	2,209
	$ 14,807	$ 29,308

5. Contractual Arrangements and Commitments

Lease Agreements

Facilities

We lease our office and laboratory space under operating leases. Leases for our corporate office space contain an annual escalation clause of approximately 3% and the related rent expense is recognized on a straight-line basis over the term of the respective lease. In connection with a lease agreement, we have a $0.7 million irrevocable, unconditional standby letter of credit which is secured by a certificate of deposit classified in our consolidated balance sheet in *other assets* as of December 31, 2009 and 2008. Rent expense amounted to $3.4 million, $4.6 million and $4.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. Rent expense is net of sublease income and amounts offset to excess facilities charges (see Note 6, *Restructuring Activities).*

We entered into sublease agreements to sublet a portion of our facilities considered to be in excess of current requirements. These subleases expired in 2008 along with the related original lease. Total sublease rental income for fiscal years 2008 and 2007 was $0.1 million and $1.0 million, respectively, and was recorded as an offset to lease expense.

Future Minimum Lease Payments

Future minimum lease commitments for noncancelable operating leases at December 31, 2009 are as follows (in thousands):

	Operating Leases
2010	$ 4,470
2011	4,426
2012	2,673
2013	179
2014	90

Thereafter	
Total minimum lease commitments	$ 11,838

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2009 and 2008, we had a liability of $0.9 million and $1.1 million, respectively, in charges for excess facilities under our current operating leases in accordance with ASC 420, *Exit or Disposal Obligations,* or ASC 420 (see Note 6, *Restructuring Activities*).

6. Restructuring Activities

Italian Operations

In September 2009, we closed our Bresso, Italy operations. These operations were used primarily for pre-clinical research and were underutilized due to our current focused business model on the development of late-stage compounds and their commercialization. We have recorded restructuring charges related to this closure as discussed further below in accordance with ASC 420.

Due to the restructuring of CTI and the need to focus on late stage development and commercialization, in May 2009, we entered into a severance agreement with the employee union of the Italian branch of CTI that worked in the area of preclinical research and early development. This severance agreement relates to a reduction in force of 56 positions and the closure of our Bresso, Italy facility. Employee separation costs associated with the reduction in force primarily relate to severance payments that we are paying over 42 months, with the majority of these payments made through the first 15 months. In addition, we have entered into separate severance/termination agreements with four of our Bresso-based directors and are also in the final stages of negotiating severance agreements for the remaining two directors that should be completed by the second quarter of 2010 and which have been accrued for as of December 31, 2009. For the year ended December 31, 2009, we recorded $2.6 million in employee termination benefits related to these Bresso employees and directors of which $1.5 million was unpaid and included in *accrued expenses* as of December 31, 2009. We may have adjustments to our employee termination benefit expense related to our estimate of amounts due under Italian labor laws. While we cannot predict additional amounts, if any, we do not expect to have material adjustments to this expense.

In connection with the closure of the Bresso operations, we had certain contract termination and clean-up charges related to the Bresso facility s laboratories. For the year ended December 31, 2009 we recorded $1.5 million for these charges which was paid during 2009. We completed closure of the Bresso facility in September 2009.

We also had certain laboratory equipment related to the Bresso facility that we sold in connection with the closure of the facility. We recognized a $0.3 million gain on the sale of these assets which is included in *restructuring charges and related gain on sale of assets, net* for the year ended December 31, 2009.

Zevalin Operations

In connection with the sale of our 50% interest in RIT Oncology to Spectrum, we terminated certain employees directly and indirectly involved in the operations of Zevalin. During the first half of 2009, we terminated 24 Zevalin-related employees. We recorded employee separation costs of $0.1 million in accordance with ASC 420 for the year ended December 31, 2009 which is included in *restructuring charges and related gain on sale of assets, net.* All amounts have been paid as of December 31, 2009 and we do not expect to incur additional restructuring charges related to this transaction.

2005 Restructuring

During 2005, we reduced our workforce in the United States and Europe. In conjunction with this, we vacated a portion of our laboratory and office facilities and recorded excess facilities charges. Charges for excess

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

facilities relate to our lease obligation for excess laboratory and office space in the United States that we vacated as a result of the restructuring plan. We recorded these restructuring charges when we ceased using this space. As of December 31, 2009 we had $0.9 million accrued related to excess facilities charges, of which $0.4 million was included in *current portion of long-term obligations* and $0.5 million of which was included in *long-term obligations, less current portion*. We will periodically evaluate our existing needs, the current and estimated future values of our subleases, and other future commitments to determine whether we should record additional excess facilities charges or adjustments to such charges.

The following table summarizes the changes in the liability for our 2005 restructuring activities during the years ended December 31, 2009 and 2008 (in thousands):

	Excess Facilities Liability	Employee Separation Liability
Balance at January 1, 2008	1,548	9
Adjustments	161	1
Payments	(581)	(10)
Balance at December 31, 2008	1,128	
Adjustments	96	
Payments	(370)	
Balance at December 31, 2009	$ 854	$

7. Formation of Joint Venture

In December 2008, we closed our transaction with Spectrum to form a 50/50 owned joint venture, RIT Oncology, to commercialize and develop Zevalin in the United States. We originally acquired the U.S. rights to develop, market and sell Zevalin from Biogen Idec Inc., or Biogen, in December 2007. At the closing of the joint venture transaction, we contributed to RIT Oncology all assets exclusively related to Zevalin in exchange for a 50% membership interest in RIT Oncology, an initial payment from RIT Oncology of $7.5 million upon closing of the transaction and an additional payment of $7.5 million in early January 2009 as well as up to $15.0 million in product sales milestone payments upon RIT Oncology s achievement of certain revenue targets. RIT Oncology also assumed from us all future liabilities and contingent milestone payments related to Zevalin. Also at closing, RIT Oncology issued to Spectrum a 50% membership interest in exchange for its capital contribution, a portion of which funded the purchase price paid to us by RIT Oncology, and we made an initial $1.8 million cash capital contribution. Due to the fact that we received cash for the assets contributed, in 2008 we recorded a one-time *gain on sale of Zevalin* of $9.4 million, based on the difference between the book value of our assets contributed and the fair value of these assets as recorded under the joint venture, net of transaction costs.

Under the terms of the amended and restated operating agreement for RIT Oncology, we held, among other rights, a sale option exercisable in our sole discretion to sell all of our membership interest in RIT Oncology to Spectrum for $18.0 million, subject to adjustments for any amounts owed between us and RIT Oncology at the time of such sale. In February 2009, we exercised this sale option and we completed the sale of our 50% interest in March 2009 for a renegotiated amount of $16.5 million. In addition, we agreed to forego our right to receive up to $15.0 million in product sales milestone payments. In connection with the sale we recorded a $10.2 million one-time *gain on sale of investment in joint venture* in 2009. This amount was based on the difference between the $16.5 million in gross proceeds and the $4.6 million book value of our investment in RIT Oncology at the time of sale. The amount is also net of $1.6 million in transaction costs which includes a $0.8 million consent fee to Biogen for the assignment to Spectrum of our security agreement and guarantee with Biogen.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Of the $16.5 million in gross proceeds, we received an initial payment of $6.5 million and an additional $6.5 million in April 2009. The remaining $3.5 million, which was subject to adjustments as discussed above, was not released to us based on the outcome of an arbitration proceeding. We recorded $3.2 million in *settlement expense* related to this arbitration proceeding as discussed further in Note 20, *Legal Proceedings*.

8. Long-term Obligations

Series B Unit Warrant Liability

As described in Note 9, *Convertible Notes*, a Series B Unit Warrant, or B Unit Warrant, was issued with our 13.5% notes and other financial instruments in April 2008. At issuance, the B Unit Warrant consisted of a warrant to purchase 67,500 units consisting of 12.5% convertible senior notes with an exercise price equal to $1,000 per unit and additional warrants to purchase common stock at an exercise price of $9.50 per share.

We determined that the B Unit Warrant was a liability instrument that is marked to fair value with changes in value recognized through earnings at each reporting period. At issuance, we estimated the fair value of the B Unit Warrant to be $21.3 million.

In June 2008, we entered into an Amendment to the Securities Purchase Agreement and Series B Unit Warrant with the holder, which provided for an increase in the interest rate of the convertible notes issuable upon exercise of the B Unit Warrant from 12.5% to 15% and also required $23.0 million of partial exercise of the B Unit Warrant. The amendment constituted a modification of terms and accordingly, the increase of $2.3 million in the fair value of the B Unit Warrant was expensed in the current period and is included in *gain on derivative liabilities, net* for the year ended December 31, 2008. Subsequent to the modification, $23.0 million of the B Unit Warrant was exercised by the holder, resulting in the issuance of $23.0 million aggregate principal amount of our 15% notes and additional warrants to purchase 1.5 million shares of common stock at an exercise price of $9.50 per share. The exercise of the B Unit Warrant resulted in a premium to our 15% notes of $3.8 million, which was recorded in equity.

In July 2008, we entered into a Second Amendment of Securities Purchase Agreement and Series B Unit Purchase Warrant, or Second Amendment, with the holder, which provided for an increase in the interest rate of the convertible notes issuable upon exercise of the B Unit Warrant from 15% to 18.33%. In addition, the July 2008 amendment also amended the exercise price of the warrants to purchase common stock issued in connection with the 13.5% notes and certain of the warrants to purchase common stock underlying the B Unit Warrant from $9.50 per share to $7.90 per share. The B Unit Warrant was also amended to increase its aggregate exercise price from $67.5 million to $112 million and to require the partial exercise in two closings of equal amounts of $22.25 million in July and August 2008. The remaining $44.5 million in aggregate exercise price could only be exercised by mutual agreement of the holder and us and was contingent on the satisfaction of certain regulatory requirements.

The modifications resulting from the Second Amendment also constituted a modification of terms and resulted in an increase to the fair value of the B Unit Warrant of $6.1 million which was expensed during the current period and is included in *gain on derivative liabilities, net* for the year ended December 31, 2008. These modifications were valued using Black-Scholes and Monte Carlo simulation models. The modification to the exercise price of the warrants to purchase common stock was valued using the Black Scholes option pricing model, which resulted in an increase to equity and additional discount to the notes of $0.4 million.

The estimated fair value of the derivative liability was adjusted quarterly for changes in the estimated market value. As of December 31, 2008, the remaining B Unit Warrant was estimated to have a fair value of $2.8 million. The net change in the estimated fair value of the B Unit Warrant for the year ended December 31, 2009 and 2008 was a gain of $2.8 million and $7.3 million and is included in *gain on derivative liabilities, net*. The B Unit Warrant expired in the second quarter of 2009.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-term obligations

Long-term obligations consist of the following as of December 31 (in thousands):

	2009	2008
Accrued rent	$ 1,165	$ 1,415
Excess facilities liability	854	1,128
Employee defined benefit plan (see Note 14, *Employee Benefit Plans*)	583	899
Italian Regional Production Tax	528	
European public loans		116
Other long-term obligations	43	106
	3,173	3,664
Less current portion	(1,312)	(757)
	$ 1,861	$ 2,907

As of December 31, 2009, maturities of the convertible senior and convertible senior subordinated notes as well as other long-term obligations listed above, excluding our liability for excess facilities, are as follows (in thousands):

Years Ending December 31,	
2010	$ 41,320
2011	21,899
2012	601
2013	13
2014	13
Thereafter	
	$ 63,846

9. Convertible Notes

The following table summarizes the changes in the principal balances of our convertible notes during the years ended December 31, 2009 and 2008 (in thousands):

	Balance at January 1, 2009	Converted	Exchanged, Extinguished or Repurchased	Balance at December 31, 2009
10% convertible senior notes due 2011	$ 18,000	$ (18,000)	$	$
9% convertible senior notes	5,585	(5,250)	(335)	
7.5% convertible senior notes	33,458		(23,208)	10,250

6.75% convertible senior notes	7,000		(7,000)	
5.75% convertible senior notes	23,000		(12,087)	10,913
4.0% convertible senior subordinated notes	55,150		(14,787)	40,363
Total	$ 142,193	$ (23,250)	$ (57,417)	$ 61,526

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Balance at January 1, 2008	Issued	Converted	Exchanged, Extinguished or Repurchased	Matured	Balance at December 31, 2008
18.33% convertible senior notes	$	$ 44,500	$ (28,250)	$ (16,250)	$	$
15.5% convertible senior notes		14,211	(14,211)			
15% convertible senior notes		23,000		(23,000)		
13.5% convertible senior notes		45,118	(27,600)	(17,518)		
10% convertible senior notes due 2011		32,651	(14,651)			18,000
10% convertible senior notes due 2012		9,000	(9,000)			
9.66% convertible senior notes		24,700	(15,700)	(9,000)		
9% convertible senior notes		51,655	(40,820)	(5,250)		5,585
7.5% convertible senior notes	33,458					33,458
6.75% convertible senior notes	7,000					7,000
5.75% convertible senior notes	23,250		(250)			23,000
5.75% convertible senior subordinated notes	16,907			(8,943)	(7,964)	
5.75% convertible subordinated notes	2,910			(150)	(2,760)	
4.0% convertible senior subordinated notes	55,150					55,150
Total	$ 138,675	$ 244,835	$ (150,482)	$ (80,111)	$ (10,724)	$ 142,193

Issuances and Exchanges of Convertible Notes

4% and 6.75% Notes Exchange for Common Stock

In September 2009, we entered into an exchange agreement whereby $3.0 million of our 4% convertible senior subordinated notes, or 4% notes, $1.5 million of our 6.75% convertible senior subordinated notes, or 6.75% notes, and all accrued and unpaid interest related to these notes were exchanged for an aggregate of 3.3 million shares of our common stock. In connection with this exchange, we recorded a $0.2 million *gain on exchange of convertible notes* for the year ended December 31, 2009 which is net of transaction costs of $25,000. This gain did not materially change the per share *net loss attributable to common shareholders.*

Tender Offer

In June 2009, we completed exchange offers whereby we issued $134.50 cash and 458 shares of common stock in exchange for each $1,000 principal amount of convertible notes exchanged. The exchange offers were open to any and all of the $118.9 million balance of our convertible notes outstanding prior to exchange and the following principal amounts for each series of convertible notes were exchanged (in thousands):

	Principal Amount Exchanged
4% convertible senior subordinated notes	$ 11,787
5.75% convertible senior notes	12,087
6.75% convertible senior notes	5,500
7.5% convertible senior notes	23,208
9% convertible senior notes	335
Total principal amount exchanged	$ 52,917

86

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the exchanges of these notes, we issued a total of $7.1 million in cash and 24.2 million shares of common stock and we recorded a $7.2 million *gain on exchange of convertible notes* for the year ended December 31, 2009 which decreased our *net loss attributable to common shareholders* by $0.02 per share. Total costs related to the transaction were $2.8 million and were allocated on a pro rata basis between *common stock* and *gain on exchange of convertible notes* based on the cash and common stock consideration issued.

10% Notes Due 2011 Exchanged for 15%, 18.33% and 9.66% Notes

In December 2008, we issued $32.7 million aggregate principal amount of our 10% convertible senior notes due 2011, or 10% notes due 2011, under a securities purchase agreement, pursuant to which we also repurchased, for a total repurchase price of $29.0 million, $4.8 million, $16.3 million and $9.0 million principal amounts of our 15%, 18.33% and 9.66% convertible senior notes, respectively, as well as related warrants to purchase 5.2 million shares of common stock. We recorded a *loss on exchange of convertible notes* of $3.7 million related to this exchange.

In connection with the repurchased notes, $12.6 million of funds were released from the escrow account established to pay the make-whole and interest payments on the repurchased notes. In addition, $9.8 million of the gross proceeds received was restricted and held in escrow to fund potential make-whole payments upon any conversion of the 10% Notes. The make-whole payments were equal to $300 per $1,000 principal amount of the notes so converted, less any interest paid on such notes prior to the conversion date. As of December 31, 2008, *restricted cash* included $5.4 million related to cash held in escrow to fund the make-whole payments on these notes which was paid in 2009 upon their conversion.

At the issuance of the 10% notes due 2011 we recorded a derivative liability related to the embedded features on the notes. For the years ended December 31, 2009 and 2008, we recorded a gain of $4.4 million and $0.8 million, respectively, related to the change in the fair value of this derivative liability which was included in *gain on derivative liabilities, net.*

9.66% Notes Exchanged for 15% Notes

In October 2008, we issued $24.7 million aggregate principal amount of our 9.66% convertible senior notes, or 9.66% notes, under a securities purchase agreement. Additionally, in connection with this issuance, we repurchased $18.2 million of our 15% convertible senior notes, or 15% notes, and related warrants to purchase 1.2 million shares of common stock. We recorded a *loss on exchange of convertible notes* of $5.5 million related to this exchange.

In connection with the repurchase of the 15% notes, $8.2 million was released to us from the escrow account established to pay make-whole and interest payments on the 15% notes. In addition, $7.2 million of the gross proceeds received from the issuance of the 9.66% notes was placed into escrow to fund potential make-whole payments upon any conversion of these notes. The make-whole payments were equal to $289.80 per $1,000 principal amount of the notes so converted, less any interest paid on such notes prior to the conversion date. As all of the 9.66% notes were converted or repurchased during 2008, there was no amount remaining in escrow related to the 9.66% notes as of December 31, 2008.

At the issuance of the 9.66% notes we recorded a derivative liability related to the embedded features on the notes. For the year ended December 31, 2008, we recorded a gain of $0.3 million related to the change in the fair value of this derivative liability which was included in *gain on derivative liabilities, net.*

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Issuance of 10% Notes Due 2012 and 15.5% Notes and Conversion of Series C Preferred Stock

In September 2008, we issued $9.0 million aggregate principal amount of our 10% convertible senior notes due 2012, or 10% notes due 2012, under a securities purchase agreement. This agreement, as amended, also gave us the right, to require the holder of the 10% notes due 2012 to purchase an additional $14.2 million of 15.5% convertible senior notes, or 15.5% notes, which were also issued in September 2008. Of the $23.2 million in gross proceeds, $3.6 million and $8.8 million was place into escrow to fund potential make-whole payments upon any conversion of the 10% notes due 2012 and the 15.5% notes, respectively. The make-whole payments related to the 10% notes due 2012 and the 15.5% notes were $400 and $620, respectively, per $1,000 principal amount of the notes so converted, less any interest paid on such notes prior to the conversion date. As all of the 10% notes due 2012 and 15% notes were converted during 2008, there was no amount in remaining escrow related to these notes as of December 31, 2008.

In connection with the issuance of the 10% notes due 2012 and the 15.5% notes, the holder of these notes converted 2,000 shares of our Series C preferred stock into 51,280 shares of our common stock, induced by an aggregate cash payment of $300,000. We also paid to the holder of the notes and its affiliates $2.4 million in exchange for the prospective satisfaction of any final judgment which may ever be rendered on any and all claims for any relief whatsoever that have been alleged, or that could have been alleged, in our litigation with Enable Capital Management LLC, or Enable, the holder of the notes, as described further in Note 20, *Legal Proceedings.*

Since the holders of the Series C preferred stock had an option to redeem the stated value of their preferred stock for cash at any time after the two-year anniversary of the original issue date in July 2007, we concluded that the inducement of $300,000 was not representative of a sufficient inducement to Enable to convert their Series C preferred stock given the value underlying the common stock issued upon conversion. Accordingly, we allocated our total payment of $2.8 million and determined that $2.0 million and $0.8 million pertained to the inducement payment and the settlement payment and are recorded as *deemed dividends on preferred stock* and *settlement expense,* respectively.

At the issuance of the 10% notes due 2012 and the 15.5% notes we recorded derivative liabilities related to the embedded features on these notes. For the year ended December 31, 2008 we recorded a gain of $12.0 million related to the change in the fair value of the derivative liabilities which was included in *gain on derivative liabilities, net.*

18.33% Notes Exchanged for 13.5% Notes

In July and August 2008, we issued $44.5 million aggregate principal amount of our 18.33% convertible senior notes, or 18.33% notes, and warrants to purchase 2.8 million shares of common stock in connection with the exercise of the B Unit Warrant as described further in Note 8, *Long-Term Obligations*. The warrants were repurchased in connection with the issuance of our 10% notes due 2011 as discussed above. Additionally, we repurchased $17.5 million of our 13.5% convertible senior notes, or 13.5% notes, and related warrants to purchase 1.1 million shares of our common stock. We recorded a *loss on exchange of convertible notes* of $10.3 million related to this exchange.

In connection with the repurchase of the 13.5% notes, $6.5 million was released to us from the escrow account established to pay make-whole payments on the 13.5% notes. In addition, $24.5 million of the gross proceeds received from the issuance of the 18.33% notes was placed into escrow to fund potential make-whole payments upon any conversion of these notes. The make-whole payments were equal to $549.9 per $1,000 principal amount of the notes so converted, less any interest paid on such notes prior to the conversion date. As all of the 18.33 % notes were converted or repurchased during 2008, there was no amount remaining in escrow related to the 18.33% notes as of December 31, 2008.

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At the issuance of the 18.33% notes, we recorded a derivative liability related to the embedded features on the notes. For the year ended December 31, 2008, we recorded a gain of $6.9 million related to the change in the fair value of this derivative liability which was included in *gain on derivative liabilities, net.*

Issuance of 15% Notes

In June 2008, we issued $23.0 million aggregate principal amount of our 15% notes and warrants to purchase 1.5 million shares of common stock in connection with the exercise of the B Unit Warrant, as described further in Note 8, *Long-Term Obligations.* The warrants were repurchased in connection with the issuances of our 9.66% notes and our 10% notes due 2011 as discussed above.

Of the $23.0 million in gross proceeds, $10.4 million was placed into escrow to fund potential make-whole payments upon any conversion of the 15% notes. The make-whole payments were equal to $450 per $1,000 principal amount of the notes so converted, less any interest paid on such notes prior to the conversion date. As all of the 15% notes were repurchased during 2008, there was no amount remaining in escrow related to the 15% notes as of December 31, 2008.

At the issuance of the 15% notes, we recorded a derivative liability related to the conversion option of the notes. For the year ended December 31, 2008, we recorded a gain of $4.6 million related to the change in the fair value of this derivative liability which was included in *gain on derivative liabilities, net.*

13.5% Notes Exchanged for 9% Notes

In April 2008, we issued $36.0 million aggregate principal amount of our 13.5% convertible senior notes, or 13.5% notes, and $9.0 million aggregate principal amount of our Series E 13.5% convertible exchangeable preferred stock, or Series E preferred stock, which was subsequently exchanged for our 13.5% notes as described below. We also issued warrants to purchase 2.8 million shares of common stock which were repurchased in connection with the issuance of our 18.33% notes and our 10% notes due 2011 as discussed above. In addition, we issued the B Unit Warrant as discussed further in Note 8, *Long-Term Obligations.* All of these securities were issued to a single institutional investor for gross proceeds of $64.6 million. Additionally, we repurchased $5.3 million aggregate principal of our 9% convertible senior notes, or 9% notes, and related warrants. We recorded a *loss on exchange of convertible notes* of $3.3 million related to this exchange.

In connection with the issuance of securities, $36.5 million of the proceeds was placed into escrow to fund potential make-whole payments upon any conversion of the 13.5% notes. The make-whole payments were equal to $810 per $1,000 principal amount of the notes so converted, less any interest paid on such notes prior to the conversion date. As all of the 13.5% notes were converted or repurchased during 2008, there was no amount in escrow related to the 13.5% notes remaining as of December 31, 2008.

At the issuance of the 13.5% notes, we recorded a derivative liability related to the embedded features on the notes. For the year ended December 31, 2008, we recorded a gain of $22.3 million related to the change in the fair value of this derivative liability which was included in *gain on derivative liabilities, net.*

In June 2008, all of our Series E preferred stock and its accrued and unpaid dividend was exchanged by the holder for an additional $9.1 million aggregate principal amount of our 13.5% notes. Upon issuance of the Series E preferred stock, we recorded a beneficial conversion feature charge of $1.1 million related to the conversion price for the Series E preferred stock. The resulting discount was fully recognized as a dividend through the date of the Series E preferred stock exchange and included in *deemed dividends on preferred stock.*

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Issuance of 9% Notes and Induced Conversion of Preferred Stock

In March 2008, we issued $51.7 million aggregate principal amount of our 9% notes and warrants to purchase an additional 0.7 million shares of common stock at an exercise price of $14.10 per share. Additionally, in connection with the issuance, certain existing holders of our Series A, B, C and D convertible preferred stock converted their shares of preferred stock into 0.4 million shares of common stock, induced by an aggregate cash payment of $16.2 million which we recorded as *deemed dividends on preferred stock.*

In connection with the issuance of the 9% notes, $13.9 million of the gross proceeds received was placed into escrow for a period of one year to fund make-whole payments upon any conversion of these notes. The make-whole payments were equal to $270 per $1,000 principal amount of the notes so converted, less any interest paid on such notes prior to the conversion date. As of December 31, 2008, *restricted cash* included $1.2 million related to cash held in escrow to fund the make-whole payments on these notes which was released to us in March 2009 upon the one-year anniversary of the issuance of the 9% notes.

At the issuance of the 9% notes we recorded a derivative liability related to the embedded features on the notes. For the year ended December 31, 2008, we recorded a gain of $12.0 million related to the change in the fair value of this derivative liability which was included in *gain on derivative liabilities, net*. At December 31, 2008, the fair value of the derivative liability was less than $1,000 and, consequently, the *gain on derivative liabilities, net* for the year ended December 31, 2009 was minimal.

The warrants issued in connection with the 9% were exercisable on July 2, 2008 and expire on the third anniversary of this date. Less than 0.1 million of these warrants were repurchased in connection with the issuance of our 13.5% notes as discussed above and, as no warrants have been exercised, there are 0.7 million warrants still outstanding as of December 31, 2009.

Exchanges of 5.75% Notes

In February 2008, $8.9 million of our 5.75% convertible senior subordinated notes and $150,000 of our 5.75% convertible subordinated notes were cancelled in exchanged for 0.7 million and 11,000 shares of our common stock, respectively. We recorded a *loss on exchange of convertible notes* of $2.3 million related to this exchange.

In December 2007, we issued $23.3 million aggregate principal amount of our 5.75% convertible senior notes, or 5.75% notes, and 0.5 million shares of our common stock in exchange for $10.5 million of our 5.75% convertible senior subordinated notes and $25.6 million of our 5.75% convertible subordinated notes. We recorded a *loss on exchange of convertible notes* of $1.0 million related to this exchange.

Notes Outstanding as of December 31, 2009

7.5% Convertible Senior Notes

Our 7.5% convertible senior notes, or 7.5% notes, are due April 30, 2011 with interest payable semi-annually in April and October. The notes are convertible, at the option of the holder, into shares of our common stock at any time prior to maturity, redemption or repurchase at a conversion rate of 11.963 shares of common stock per $1,000 principal amount of the notes, which is subject to adjustments in certain circumstances. This conversion rate is equivalent to a conversion price of approximately $83.59 per share. On or after April 30, 2009, we have the option to redeem all of the notes for cash at any time at a redemption price equal to par plus accrued and unpaid interest up to but not including the redemption date. Subject to certain conditions, the notes will automatically convert if, at any time after June 26, 2006 and prior to maturity, the closing price per share of our common stock has exceeded 125% of the conversion price then in effect for at least

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 trading days within any 30-consecutive trading day period. In addition, upon certain non-stock changes in control, the holder can require us to repurchase the notes at 100% of their principal amount, plus accrued and unpaid interest to, but not including, the repurchase date. Upon any automatic conversion of the notes, or if the holder exercises their right to require us to repurchase notes in connection with a non-stock change of control, we will pay the holder of the notes a make-whole interest payment equal to $225 per $1,000 principal amount of the notes so converted, less any interest paid on such notes prior to the conversion date.

The interest make-whole provision, along with the conversion option of the 7.5% notes, represents an embedded derivative which is required to be accounted for separate from the underlying notes and was recorded as a derivative liability and a discount to the carrying value of the notes. The resulting discount to the notes is being accreted over the life of the notes as additional interest expense using the effective interest method. The estimated fair value of the derivative liability is adjusted quarterly for changes in the estimated market value. The change in the estimated fair value for the year ended December 31, 2007 was $3.6 million and is included in *gain on derivative liabilities, net.* As of December 31, 2007, no value was assigned to the fair value of the derivative liability; therefore, there was no change in the estimated fair value for the years ended December 31, 2009 and 2008.

5.75% Convertible Senior Notes

Our 5.75% notes are due December 15, 2011 with interest payable semi-annually in June and December. The notes are convertible, at the option of the holder, into shares of our common stock at any time prior to maturity, redemption or repurchase at a conversion rate of 33.3333 shares of common stock per $1,000 principal amount of the notes, which is subject to adjustments in certain circumstances. This conversion rate is equivalent to a conversion price of approximately $30.00 per share. On or after December 15, 2009, we have the option to redeem all of the notes for cash at any time at a redemption price equal to par plus accrued and unpaid interest up to but not including the redemption date. Subject to certain conditions, the notes will automatically convert if, at any time after December 15, 2009 and prior to maturity, the closing price per share of our common stock has exceeded 140% of the conversion price then in effect for at least 20 trading days within any 30-consecutive trading day period. Upon a change in control, the holder can require us to repurchase the notes at 100% of their principal amount, plus accrued and unpaid interest and any other amounts due up to, but not including, the repurchase date. In addition, upon any of these occurrences (redemption, automatic conversion, or repurchase) we will pay the holder of the notes a make-whole interest payment equal to $115 per $1,000 principal amount of the notes so converted, less any interest paid on such notes prior to the conversion date.

4% Convertible Senior Notes

Our 4% notes are due July 1, 2010 with interest payable semi-annually in January and July. The 4% notes are convertible, at the option of the holder, into shares of our common stock at any time prior to maturity, redemption or repurchase at an initial conversion rate of 1.85185 shares of common stock per $1,000 principal amount of notes, which is subject to adjustment in certain circumstances. This conversion rate is equivalent to a conversion price of approximately $540.00 per share. Prior to maturity, we may redeem the notes upon certain conditions, the most significant of which is that the closing price of our common stock must exceed 150% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days. Upon such redemption, we would make an additional payment of $280.00 per $1,000 note, less any interest previously paid on the notes. The holder may elect to convert their notes prior to any such redemption.

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Preferred Stock

Series A 3% Convertible Preferred Stock

In February 2007, we issued 20,000 shares of our Series A 3% Convertible Preferred Stock, or Series A preferred stock, in a registered offering at an issue price of $1,000 per share with an annual dividend rate of 3%, payable quarterly. The Series A preferred stock was convertible at any time into a number of shares of our common stock determined by dividing the stated value of the preferred stock to be converted, which was $1,000 per share, by the conversion price of $66.90.

The holders of Series A preferred stock had the right to require us to redeem all or a portion of the shares of Series A preferred stock, payable in common stock, upon the occurrence of certain triggering events for a redemption amount equal to the greater of (a) 130% of the stated value or (b) the product of (1) the volume weighted average price of the common stock on the trading day preceding the conversion and (2) the stated value divided by the conversion price; plus all accrued and unpaid dividends or other payments on such shares. In addition, at any time after the two-year anniversary of the original issue date, holders of Series A preferred stock had the right to require us to redeem any of their outstanding shares of Series A preferred stock for cash at the stated value plus any accrued but unpaid dividends or other payments due on the shares being redeemed. The initial stated value of the Series A preferred stock is $1,000 per share. Based on these redemption features, we have classified these shares as mezzanine equity.

We calculated a beneficial conversion feature charge related to the conversion price for the preferred stock to common stock of $2.6 million. As the Series A preferred stock could be converted immediately, the amount of the beneficial conversion feature was immediately accreted and resulted in a deemed dividend. This charge was recorded as a dividend expense included in *deemed dividends on preferred stock* in determining the net loss attributable to common shareholders in 2007.

In connection with the Series A preferred stock issuance, we issued warrants to purchase an additional 0.1 million shares of our common stock at an exercise price of $64.40 per share. The warrants became exercisable in April 2007 and terminated in April 2009.

During 2007, 13,150 shares of Series A preferred stock were converted into 0.2 million shares of common stock.

During 2008, 6,300 shares of Series A preferred stock were converted into 0.1 million shares of our common stock in connection with the issuance of our 9% convertible senior notes as discussed further in Note 9, *Convertible Notes*.

During 2009, 250 shares of Series A preferred stock were exchanged for $0.1 million and 4.0 million shares of our common stock in connection with our litigation with RHP Master Fund, Ltd, or RHP, as discussed further in Note 20, *Legal Proceedings*. In connection with this exchange, we recorded $0.3 million as *deemed dividends on preferred stock* and $0.2 million as *settlement expense.* Also during 2009, 100 shares of Series A preferred stock and related warrants to purchase 747 shares of our common stock were exchanged for 0.3 million shares of our common stock and we recorded $0.1 million as *deemed dividends on preferred stock*. We also exchanged 200 shares of our Series A preferred stock for shares of our Series F preferred stock in 2009 as discussed further below.

As of December 31, 2009, all of our Series A preferred stock had been converted or exchanged as discussed above.

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Series B 3% Convertible Preferred Stock

In April 2007, we issued 37,200 shares of our Series B 3% convertible preferred stock, or Series B preferred stock, in a registered offering at an issue price of $1,000 per share with an annual dividend rate of 3%, payable quarterly. The Series B preferred stock was convertible at any time into a number of shares of our common stock determined by dividing the stated value of the preferred stock to be converted, which was $1,000 per share, by the conversion price of $67.30. The holders of Series B preferred stock had the same redemption rights as the holders of the Series A preferred stock, therefore, we have classified these shares as mezzanine equity.

We calculated a beneficial conversion feature charge related to the conversion price for the Series B preferred stock to common stock of $1.8 million. As the Series B preferred stock could be converted immediately, the amount of the beneficial conversion feature was immediately accreted and resulted in a deemed dividend. This charge was recorded as a dividend expense included in *deemed dividends on preferred stock* in determining the net loss attributable to common shareholders in 2007.

In connection with the Series B preferred stock issuance, we issued warrants to purchase an additional 0.3 million shares of our common stock at an exercise price of $64.80 per share. The warrants became exercisable in October 2007 and terminated in October 2009.

During 2007, 21,820 shares of Series B preferred stock were converted into 0.3 million shares of common stock.

During 2008, 10,162 shares of Series B preferred stock were converted into 0.2 million shares of our common stock in connection with the issuance of our 9% convertible senior notes as discussed further in Note 9, *Convertible Notes*.

During 2009, 3,000 shares of Series B preferred stock were converted into 44,576 shares of our common stock in connection with our litigation settlement with Tang Capital Partners LP, or Tang, as discussed further in Note 20, *Legal Proceedings*. In connection with this conversion and related litigation, $3.0 million of our payment to Tang was recorded as *deemed dividends on preferred stock* during 2008 and was included in *accrued liabilities* as of December 31, 2008. Also during 2009, 2,218 shares of Series B preferred stock were exchanged for shares of our Series F convertible preferred stock, or Series F preferred stock, as discussed further below.

As of December 31, 2009, all of our Series B preferred stock had been converted or exchanged as discussed above.

Series C 3% Convertible Preferred Stock

In July 2007, we issued 20,250 shares of our Series C 3% convertible preferred stock, or Series C preferred stock, in a registered offering at an issue price of $1,000 per share with an annual dividend rate of 3%, payable quarterly. The Series C preferred stock was convertible at any time into a number of shares of our common stock determined by dividing the stated value of the preferred stock to be converted, which was $1,000 per share, by the conversion price of $39.00. The holders of Series C preferred stock had the same redemption rights as the holders of the Series A preferred stock, therefore, we have classified these shares as mezzanine equity.

We calculated a beneficial conversion feature charge related to the conversion price for the Series C preferred stock to common stock of $3.9 million. As the Series C preferred stock could be converted immediately, the amount of the beneficial conversion feature was immediately accreted and resulted in a deemed dividend. This charge was recorded as a dividend expense included in *deemed dividends on preferred stock* in determining the net loss attributable to common shareholders in 2007.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the Series C preferred stock issuance, we issued warrants to purchase an additional 0.3 million shares of our common stock at an exercise price of $45.30 per share. The warrants became exercisable in January 2008. No warrants were exercised as of December 31, 2009 and they expired in January 2010.

During 2007, 11,966 shares of Series C preferred stock were converted into 0.3 million shares of common stock.

During 2008, 2,000 shares of Series C preferred stock were converted into 51,282 share of our common stock in connection with the issuance of our 9% convertible senior notes as discussed further in Note 9, *Convertible Notes*. An additional 2,000 shares of Series C preferred stock were converted into 51,280 shares of our common stock in connection with the issuance of our 15.5% and 10% convertible senior notes which is also discussed further in Note 9, *Convertible Notes*.

During 2009, 4,284 shares of Series C preferred stock were exchanged for shares of our Series F preferred stock as discussed further below.

As of December 31, 2009, all of our Series C preferred stock had been converted or exchanged as discussed above.

Series D 7% Convertible Preferred Stock

In December 2007, we issued 6,500 shares of our Series D 7% convertible preferred stock, or Series D preferred stock, in a registered offering at an issue price of $1,000 per share with an annual dividend rate of 7%, payable quarterly. The Series D preferred stock was convertible at any time into a number of shares of our common stock determined by dividing the stated value of the preferred stock to be converted, which was $1,000 per share, by the conversion price of $26.13. The holders of Series D preferred stock have the same redemption rights as the holders of the Series A preferred stock, therefore, we have classified these shares as mezzanine equity.

We calculated a beneficial conversion feature charge related to the conversion price for the Series D preferred stock to common stock of $1.2 million. As the Series D preferred stock could be converted immediately, the amount of the beneficial conversion feature was immediately accreted and resulted in a deemed dividend. This charge was recorded as a dividend expense included in *deemed dividends on preferred stock* in determining the net loss attributable to common shareholders in 2007.

In connection with the Series D preferred stock issuance, we issued warrants to purchase an additional 0.1 million shares of our common stock at an exercise price of $25.50 per share. The warrants became exercisable on June 3, 2008 and will terminate two years from that date. No warrants had been exercised as of December 31, 2009.

During 2007, 2,500 shares of Series D preferred stock were converted into 0.1 million shares of common stock.

During 2008, 3,000 shares of Series D preferred stock were converted into 0.1 million shares of our common stock in connection with the issuance of our 9% convertible senior notes as discussed further in Note 9, *Convertible Notes*.

In 2009, 1,000 shares of Series D preferred stock and related warrants to purchase 19,138 shares of our common stock were exchanged for 3.5 million shares of our common stock and we recorded $1.1 million as *deemed dividends on preferred stock*.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2009, all of our Series D preferred stock had been converted or exchanged as discussed above.

Series F Convertible Preferred Stock

In February 2009, we issued 6,702 shares of our Series F preferred stock in exchange for shares of our Series A, B and C convertible preferred stock as discussed above. The Series F preferred stock had no fixed dividend rate and was convertible into a number of shares of our common stock determined by dividing the state value of the preferred stock to be converted, which was $1,000 per share, by the conversion price of $0.14. In connection with this exchange, we recorded a *gain on restructuring of preferred stock* of $2.1 million which did not materially change our *net loss attributable to common shareholders* for the year ended December 31, 2009.

During 2009, all 6,702 shares of Series F preferred stock were converted into 47.9 million shares of our common stock.

Series 1 Convertible Preferred Stock

In April 2009, we issued the following in a registered offering: (a) 15,000 shares of our Series 1 convertible preferred stock, or Series 1 preferred stock, convertible into 50.0 million shares of our common stock at a conversion price of $0.30 per share for a purchase price of $1,000 per share of Series 1 preferred stock and warrants described as follows, (b) Class A warrants to purchase an additional 9.2 million shares of our common stock at an exercise price of $0.41 per share and (c) Class B warrants to purchase an additional 13.3 million shares of our common stock at an exercise price of $0.41 per share. In addition, the original holder of the Series 1 preferred stock had the right to purchase up to 5,000 additional shares of Series 1 preferred stock at $1,000 per share within 60 days of April 13, 2009. The transaction closed on April 13, 2009 and we received gross proceeds of $15.0 million. Issuance costs related to this transaction were $1.5 million, which included $0.2 million related to the placement agent warrants as discussed below.

The Class A warrants were immediately exercisable and the Class B warrants were exercisable six months and one day after the date of issuance. The Class A and B warrants terminate on the fifth anniversary of the date upon which such warrants become exercisable. As the Class A and Class B warrants include a redemption feature that may be triggered upon certain liquidation events that are outside of our control, we classified these warrants as mezzanine equity. We estimated the fair value of the Class A and B warrants using the Black-Scholes pricing model and allocated $1.5 million and $1.9 million of the $15.0 million gross proceeds to the Class A and Class B warrants, respectively.

In April 2009, the original holder exercised the right to purchase the additional 5,000 shares of Series 1 preferred stock as discussed above and we received and additional $5.0 million in gross proceeds.

For the year ended December 31, 2009, we recognized $8.2 million in *deemed dividends on preferred stock* related to the above transactions, including $3.4 million resulting from the allocation of net proceeds to the Class A and B warrants and $4.9 million related to the beneficial conversion feature on the 20,000 shares of Series 1 preferred stock as the stock is convertible immediately.

In connection with this offering, we also issued warrants to purchase 1.0 million shares of our common stock to the placement agent which are classified as mezzanine equity due to the same redemption feature of the Class A and B warrants as described above. The warrants were estimated to have a fair value of $0.2 million using the Black-Scholes pricing model. These warrants have an exercise price of $0.45 per share, became exercisable in October 2009 and expire in October 2014. As of December 31, 2009, these warrants had not been exercised.

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In April 2009, all 20,000 shares of Series 1 preferred stock issued were converted in 66.7 million shares of our common stock. Additionally, in May 2009, all of the Class A warrants were exercised for 9.2 million shares of our common stock and we received gross proceeds of $3.8 million. In October 2009, the Class B warrants were partially exercised for 10.4 million shares of our common stock and we received gross proceeds of $4.3 million. As of December 31, 2009, Class B warrants to purchase 2.9 million shares of common stock are outstanding.

Series 2 Convertible Preferred Stock

In August 2009, we issued 30,000 shares of our Series 2 convertible preferred stock, or Series 2 preferred stock, which was convertible into 18.9 million shares of our common stock and warrants to purchase up to 4.7 million shares of our common stock for gross proceeds of $30.0 million. Issuance costs related to this transaction were $2.2 million, including $0.6 million related to the placement agent warrants as discussed below.

Each share of Series 2 preferred stock was convertible into our common stock, at the option of the holder, at a conversion price of $1.59125 per share. The warrants have an exercise price of $1.70 per share of our common stock, are exercisable immediately upon issuance and expire nine months after the date of issuance. No warrants had been exercised as of December 31, 2009.

For the year ended December 31, 2009, we recognized $13.8 million in *deemed dividends on preferred stock* related to this transaction. This includes $5.5 million resulting from the allocation of net proceeds to the fair value of the warrants which was estimated using the Black-Scholes pricing model and $8.3 million related to the beneficial conversion feature on the 30,000 shares of our Series 2 preferred stock as the stock was convertible immediately.

In connection with this offering, we issued warrants to purchase 0.6 million shares of our common stock to the placement agent which were estimated to have a fair value of $0.6 million using the Black-Scholes pricing model. These warrants have an exercise price of $1.989 per share, are exercisable immediately upon issuance and expire nine months after the date of issuance. No warrants had been exercised as of December 31, 2009.

In August 2009, all 30,000 shares of our Series 2 preferred stock were converted into 18.9 million shares of our common stock.

11. Common Stock

In July 2009, we issued 33.7 million shares of our common stock and warrants to purchase up to 8.4 million shares of our common stock in a public offering for gross proceeds of $43.9 million. The purchase price for each share of our common stock and warrant to purchase 0.25 shares of our common stock was $1.30. Each warrant to purchase a share of our common stock has an exercise price of $1.70, is exercisable immediately upon the date of issuance and expires nine months thereafter. In connection with this offering we issued a warrant to purchase up to 0.6 million shares of our common stock at an exercise price of $1.70 per share to the underwriter of the offering. This warrant is exercisable commencing on the date six months from the issuance date and expires five years from the closing date of the offering. We also issued a warrant to purchase up to 0.3 million shares of our common stock at an exercise price of $1.56 per share for certain financial advisory services related to the offering. This warrant is exercisable beginning in January 2010 and expires in April 2010. No warrants issued in connection with this offering had been exercised as of December 31, 2009. Issuance costs related to this offering were $4.4 million, which include $0.9 million related to the fair value of placement agent warrants and warrants granted for financial advisory services which were estimated using a Black-Scholes pricing model.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2009, we entered into a securities purchase agreement pursuant to which we issued 16.0 million shares of our common stock and warrants to purchase up to 4.8 million shares of common stock in a registered offering. Each warrant to purchase shares of common stock has an exercise price of $1.40 per share, is immediately exercisable and terminates on May 11, 2014. The purchase price for one share of common stock and a warrant exercisable for 0.30 shares of common stock was $1.25 and we received gross proceeds of $20.0 million. In connection with this offering, we also issued warrants to purchase 0.3 million shares of our common stock to the placement agent. These warrants have an exercise price of $1.56 per share, are exercisable in November 2009 and expire in November 2014. No warrants issued in connection with this offering had been exercised as of December 31, 2009. Issuance costs related to this common stock offering were $1.5 million which included $0.4 million related to the fair value of the placement agent warrants which were estimated using a Black-Scholes pricing model.

Common Stock Reserved

A summary of common stock reserved for issuance is as follows as of December 31, 2009:

Convertible senior notes	486,386
Convertible senior subordinated notes	74,746
Equity incentive plans	36,700,675
Common stock warrants	24,793,070
Employee stock purchase plan	1,474,591
Restricted share rights	391
	63,529,859

12. Significant Agreements

Collaboration, Licensing and Milestone Agreements

PG-TXL Company, L.P. We have an agreement with PG-TXL Company, L.P, or PG-TXL, which grants us an exclusive worldwide license for the rights to OPAXIO and to all potential uses of PG-TXL s polymer technology. Under the terms of the agreement, we acquired the rights to the research, development, manufacture, marketing and sale of anti-cancer drugs developed using this polymer technology. We are obligated to make payments to PG-TXL upon the achievement of certain development and regulatory milestones and we could be obligated to make payments of up to $14.4 million in the future if additional milestones are met.

Gynecologic Oncology Group. We have an agreement with the Gynecologic Oncology Group, or GOG, related to the GOG0212 trial which the GOG is conducting. Under this agreement we are required to pay up to $5.1 million in additional milestone payments related to the trial of which $1.6 million may become due in the first quarter of 2010 based on patient enrollment.

Acquisition of Systems Medicine, Inc. In connection with our acquisition of Systems Medicine, Inc., or SMI, we were required to pay its stockholders a maximum of $15.0 million in additional consideration (payable in cash or stock at our election, subject to certain NASDAQ limitations on the issuance of stock) upon the achievement of certain FDA regulatory milestones for brostallicin. In August 2009, we entered into an amended agreement under which these milestone payments were replaced by an immediate substitute payment of $6.0 million payable in shares of our common stock subject to certain conditions, including required shareholder approval. If the conditions were not satisfied, we would have been required to pay SMI stockholders $5.0 million cash in lieu of the $6.0 million shares of our common stock. In October 2009, our shareholders approved the issuance of $6.0 million shares of our common stock and we issued 5.6 million shares of common stock to the SMI stockholders.

97

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Brostallicin. Under a license agreement entered into for brostallicin, we may be required to pay up to $80.0 million in milestone payments, based on the achievement of certain product development results. Due to the early stage of development that brostallicin is in, we are not able to determine whether the clinical trials will be successful and therefore cannot make a determination that the milestone payments are reasonably likely to occur at this time.

Cephalon. Pursuant to an acquisition agreement entered into with Cephalon, Inc. in June 2005, we may receive up to $100 million in payments upon achievement by Cephalon of specified sales and development milestones related to TRISENOX. However, the achievement of any such milestones is uncertain at this time.

Novartis International Pharmaceutical Ltd. In September 2006, we entered into an exclusive worldwide licensing agreement with Novartis International Pharmaceutical Ltd., or Novartis, for the development and commercialization of OPAXIO. If Novartis elects to participate in the commercialization and development of OPAXIO, total product registration and sales milestones due from Novartis for OPAXIO under the agreement could reach up to $270 million. The agreement also provides Novartis with an option to develop and commercialize pixantrone based on agreed terms. If Novartis exercises its option on pixantrone under certain conditions and we are to negotiate a definitive agreement with Novartis, Novartis would pay CTI a $7.5 million license fee, up to $104 million in registration and sales related milestones and a royalty on pixantrone worldwide net sales as well as reimbursement for certain expenses. As of December 31, 2009, we have not received any milestone payments and we will not receive any milestone payments unless Novartis elects to participate in the development and commercialization of pixantrone or OPAXIO

Financing Agreement

In June 2006, we entered into a Step-Up Equity Financing Agreement, as amended in December 2006, with Société Générale. Subject to certain conditions, the agreement allowed us to issue to Société Générale shares of our common stock in a series of tranches over a period of 24 months beginning in January 2007 and terminating in January 2009. Under the agreement, we could issue up to 45 million worth of our common stock based on a pre-determined formula with the right to increase the total amount of all issuances to up to 60 million. Any issuance of our common stock pursuant to this agreement was at our election and we were not required to issue any common stock.

In January 2008, we sold 80,000 shares to Société Générale under this agreement in a registered offering at an issue price of 10.70, or approximately $15.90, per share and we received gross proceeds of $1.3 million. Net proceeds from the issuance were $1.2 million.

In June 2008, we received notice from counsel for Société Générale asserting that the agreement was terminated by Société Générale effective June 6, 2008 on the basis that the going concern statement included in our Annual Report on Form 10-K, as well as the notice we received from NASDAQ on April 16, 2008 regarding our failure to comply with the minimum price requirements under the listing requirements of the NASDAQ Global Market, constituted a material adverse change under the agreement, permitting Société Générale to terminate the agreement. Upon receipt of this notice, we wrote-off capitalized offering costs of $2.4 million, including costs associated with this agreement as well as costs related to the Italian Listing Prospectus that was published in January 2008 as an Italian regulatory requirement to issue shares under this agreement. These amounts were expensed during 2008 due to significant uncertainty regarding our ability to pursue further financings under the agreement and were included in *write-off of financing arrangement costs* for the year ended December 31, 2008.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity Line of Credit

In July 2008, we entered into a Securities Purchase Agreement with Midsummer Investment, Ltd., or Midsummer. Pursuant to the purchase agreement, we issued to Midsummer a warrant to purchase up to the lesser of $12.0 million in shares of our common stock or the number of shares of common stock equal to 19.9% of our outstanding common stock on July 29, 2008 (or 2.8 million shares), in order to effectuate an equity line of credit relationship. Under the agreement, as amended in August 2008, following a commencement notice by us, Midsummer was obliged (subject to customary conditions applicable to each respective closing) to exercise the warrant every three trading days for an amount of stock measured by a formula based on the trading volume of our common stock on the Milan stock exchange, or MTA, during the three trading days prior to the closing date, or the pricing period, with the issuance amount for each pricing period equal to the sum for the three prior trading days of 15% of our trading volume on the MTA for each respective trading day. We were able to suspend exercises of the warrant at our discretion and could reactivate the equity line of credit following any such suspension until the warrant had been exercised in full. The price per share for each such issuance was 85% of the volume weighted average price of our shares on the MTA for the pricing period.

Pursuant to the purchase agreement, we were deemed to have issued a commencement notice upon the signing of the purchase agreement such that the first closing date under the agreement was August 4, 2008. Under the terms of the deemed commencement notice, additional closings occurred every three trading days until August 26, 2008 at which point we suspended exercises of the warrant.

During the year ended December 31, 2008, we issued 1.5 million shares and received $4.0 million in gross proceeds under this agreement. In December 2008, $0.5 million in costs associated with the equity line of credit were expensed to *write-off of financing arrangement costs* based on our plans to terminate the agreement which occurred in March 2009 by mutual agreement with Midsummer.

Other Significant Agreements

We have several agreements with clinical research organizations, third party manufacturers, and distributors which have a duration greater than one year for the development of our products.

13. Stock-Based Compensation

Stock-Based Compensation Expense

Stock-based compensation expense for all stock-based payment awards made to employees and directors is measured based on the grant-date fair value estimated in accordance with generally accepted accounting principles for stock-based compensation. We recognized stock-based compensation using the straight-line single-award method based on the value of the portion of stock-based payment awards that is ultimately expected to vest during the period. Stock-based compensation is reduced for estimated forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. For performance-based awards that do not include market-based conditions, we record stock-based compensation expense only when the performance-based milestone is deemed probable of achievement. We utilize both quantitative and qualitative criteria to judge whether milestones are probable of achievement. For awards with market-based performance conditions, we recognize the grant-date fair value of the award over the derived service period regardless of whether the underlying performance condition is met.

Stock-based compensation expense recognized for the years ended December 31, 2009, 2008 and 2007 was $24.9 million, $4.0 million and $1.6 million, which consisted of $23.2 million, $3.3 million and $0.7 million of stock-based compensation expense related to restricted stock and $0.4 million, $0.7 million and $0.9 million of

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

stock-based compensation expense related to employee stock options and employee stock purchases, respectively. Stock-based compensation expense for the year ended December 31, 2009 also consisted of $1.3 million related to our December 2009 performance awards; no such expense was recorded for the years ended December 31, 2008 and 2007.

The following table summarizes stock-based compensation expense for the years ended December 31, 2009, 2008 and 2007, which was allocated as follows (in thousands):

	2009	2008	2007
Research and development	$ 3,281	$ 1,249	$ 772
Selling, general and administrative	21,656	2,746	816
Stock-based compensation expense included in operating expenses	$ 24,937	$ 3,995	$ 1,588

Employee stock-based compensation had a $24.9 million, $4.0 million and $1.6 million effect on our net loss attributable to common shareholders and a $(0.05), $(0.14) and $(0.35) effect on basic and diluted net loss per common share for the years ended December 31, 2009, 2008 and 2007, respectively. It had no effect on cash flows from operations or financing activities for the periods presented; however, during 2009 we repurchased shares of our common stock totaling $6.4 million for cash in connection with the vesting of employee restricted stock awards based on taxes owed by employees due to the vesting of the awards.

As of December 31, 2009, the total remaining unrecognized compensation cost related unvested stock options and restricted stock amounted to $3.5 million, which will be recognized over the weighted-average remaining requisite service period of 1.35 years. In addition, we have unrecognized compensation cost related to our December 2009 performance awards as discussed further below. The unrecognized compensation cost related to unvested options and restricted stock does not include the cost related 3.2 million performance-based restricted stock awards granted in December 2009 with a grant-date fair value of $3.8 million which, as of December 31, 2009, had not been deemed probable of achievement. This amount also excludes 48,000 shares of performance-based restricted stock awards granted in December 2007 with a grant date fair value of $0.9 million which have been deemed improbable of achievement. As of December 31, 2009, we have not recognized any expense related to either of these performance-based award grants. In addition, unvested stock-based compensation expense excludes the fair value of 275,000 restricted stock awards and 152,000 options granted to external consultants as the fair value is periodically remeasured as discussed below.

For the years ended December 31, 2009, 2008 and 2007, no tax benefits were attributed to the stock-based compensation expense because a valuation allowance was maintained for substantially all net deferred tax assets.

Stock Plan

Pursuant to our 2007 Equity Incentive Plan, as amended and restated in August 2009, or the Plan, we may grant 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. The Plan is administered by the Compensation Committee of the Board of Directors which has the discretion to determine which employees, consultants and directors shall be granted incentive awards. Options are typically exercisable ratably over a four-year period commencing one year from the date of grant, and expire not more than 10 years from the date of grant. As of December 31, 2009, 36.1 million shares of common stock were available for future grants under the Plan. However, assuming the performance goals underlying the December 2009 performance awards (as discussed below) had been achieved as of December 31, 2009, there would have been no shares of common stock remaining for future grants under the Plan.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Options

Fair value for employee stock options was estimated at the date of grant using the Black-Scholes pricing model, with the following weighted average assumptions:

	Year Ended December 31,		
	2009	**2008**	**2007**
Risk-free interest rates	1.4%	2.8%	3.9%
Expected dividend yield	None	None	None
Expected life (in years)	2.8	2.7	3.0
Volatility	88%	79%	76%

The risk-free interest rate used in the Black-Scholes valuation method is based on the implied yield currently available in U.S. Treasury securities at maturity with an equivalent term. We have not declared or paid any dividends on our common stock and do not currently expect to do so in the future. The expected term of options represents the period that our stock-based awards are expected to be outstanding and was determined based on historical weighted average holding periods and projected holding periods for the remaining unexercised shares. Consideration was given to the contractual terms of our stock-based awards, vesting schedules and expectations of future employee behavior. Expected volatility is based on the annualized daily historical volatility, including consideration of the implied volatility and market prices of traded options for comparable entities within our industry.

Our stock price volatility and option lives involve management s best estimates, both of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option. As we also recognize compensation expense for only the portion of options expected to vest, we apply estimated forfeiture rates that we derive from historical employee termination behavior. If the actual number of forfeitures differs from our estimates, additional adjustments to compensation expense may be required in future periods.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarized stock option activity for all of the stock option plans is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Thousands)
Outstanding January 1, 2007 (118,000 exercisable)	155,000	$ 392.30		
Granted	96,000	$ 39.20		
Exercised		$		
Forfeited	(7,000)	$ 134.70		
Cancelled and expired	(20,000)	$ 284.30		
Outstanding December 31, 2007 (127,000 exercisable)	224,000	$ 258.60		
Granted	122,000	$ 4.90		
Exercised		$		
Forfeited	(18,000)	$ 45.30		
Cancelled and expired	(30,000)	$ 159.70		
Outstanding December 31, 2008 (147,000 exercisable)	298,000	$ 177.40		
Granted	404,000	$ 1.26		
Exercised		$		
Forfeited	(56,000)	$ 6.41		
Cancelled and expired	(24,000)	$ 132.37		
Outstanding December 31, 2009	622,000	$ 80.17	8.4	$ 43
Vested or expected to vest at December 31, 2009	585,000	$ 84.91	8.4	$ 36
Exercisable at December 31, 2009	202,000	$ 241.81	6.3	$ 15

The weighted average exercise price of shares exercisable at December 31, 2008 and 2007 was $345.40 and $420.10, respectively. The weighted average fair value of options granted was $0.52, $2.00 and $19.30 during 2009, 2008 and 2007, respectively.

The following table summarizes information about common stock options outstanding at December 31, 2009:

		Options Outstanding			Exercisable Options Outstanding (Without Restriction)	
Range of Exercise Prices		Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.08	$ 1.07	217,000	9.7 Years	$ 0.94	17,000	$ 0.25
$ 1.08	$ 1.76	184,000	9.5 Years	$ 1.66		$
$ 1.77	$ 8.30	64,000	8.4 Years	$ 5.59	38,000	$ 5.43
$ 8.31	$ 99.20	96,000	7.2 Years	$ 47.44	86,000	$ 47.53

$ 99.21	$1,721.30	61,000	2.8 Years	$ 733.38	61,000	$ 733.38
$ 0.08	$1,721.30	622,000	8.4 Years	$ 80.17	202,000	$ 241.81

102

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Stock

We issued 34.1 million, 1.0 million and 0.2 million shares of restricted common stock in 2009, 2008 and 2007, respectively. Additionally, 322,000, 26,000 and 12,000 shares of restricted stock were cancelled during 2009, 2008 and 2007, respectively. The weighted average fair value of restricted shares issued during 2009, 2008 and 2007 was $0.87, $1.70 and $18.60, respectively.

A summary of the status of nonvested restricted stock awards as of December 31, 2009 and changes during the period then ended, is presented below:

	Nonvested Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested at December 31, 2008	942,000	$ 1.90
Granted	34,143,000	$ 0.87
Vested	(23,269,000)	$ 0.98
Forfeited	(322,000)	$ 0.63
Nonvested at December 31, 2009	11,494,000	$ 0.75

The total fair value of restricted stock awards vested during the year ended December 31, 2009, 2008 and 2007 was $26.0 million, $0.4 million and $0.4 million, respectively.

December 2009 Performance Awards

In December 2009, we granted restricted stock units (which we refer to as our December 2009 performance awards) to our executive officers and directors which vest upon milestone-based performance conditions. If one or more of the eight underlying performance-based conditions are timely achieved, the award recipient will be entitled to receive a number of shares of our common stock (subject to share limits of the Plan), determined by multiplying (1) the award percentage corresponding to that particular performance goal by (2) the total number of outstanding shares of our common stock as of the date that the particular performance goal is achieved. The total award percentages related to all eight performance goals are 9.36% and 2.63% of shares outstanding at the time a performance goal is achieved for executive officers and directors, respectively.

The fair value of the December 2009 performance awards was estimated based on the average present value of the awards to be issued upon achievement of the performance conditions. The average present value is calculated based upon the expected date the shares of common stock underlying the performance rights will vest, or the event date, the expected stock price on the event date, and the expected shares outstanding as of the event date. The event date, stock price and the shares outstanding are estimated using a Monte Carlo simulation model which is based on assumptions by management, including the likelihood of achieving the milestones and potential future financings. The total fair value of the December 2009 performance awards based on this calculation was $49.8 million. As of December 31, 2009, we have not deemed the December 2009 performance awards probable of achievement and no expense has been recognized except for the awards with an underlying market-based performance condition.

We determined that the December 2009 performance awards with the market-based performance condition have a fair value of $15.2 million, of which we have recognized $1.3 million in stock-based compensation expense for the year ended December 31, 2009 as discussed above. As of December 31, 2009, the remaining unrecognized compensation expense related to the market-based December 2009 performance awards is $14.0 million, which will be recognized over the weighted-average remaining requisite service period of 0.48 years.

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Non-Employee Stock-Based Compensation

Stock compensation expense for awards granted to non-employees is determined using the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. The fair value of options and restricted stock awards granted to non-employees is periodically remeasured as the underlying options or awards vest. The value of the instrument is amortized to expense over the vesting period with final valuation measured on the vesting date. At December 31, 2009, 2008 and 2007, unvested non-employee options to acquire approximately 152,000, 16,000 and 12,000 shares of common were outstanding, respectively. Additionally, unvested non-employee restricted stock awards totaled 275,000 as of December 31, 2009. No such awards were outstanding as of December 31, 2008 and 2007. We recorded compensation expense of $157,000 and $4,000 in 2009 and 2007, respectively, and reversed previously recorded compensation expense of $5,000 in 2008 related to non-employee stock options.

Employee Stock Purchase Plan

Under our 2007 Employee Stock Purchase Plan, as amended and restated in August 2009, or Purchase Plan, eligible employees may purchase a limited number of shares of our common stock at 85% of the lower of the subscription date fair market value and the purchase date fair market value. There are two six-month offerings per year. Under the Purchase Plan, we issued approximately 42,000 and 8,000 shares to employees in 2009 and 2008, respectively. We did not issue any shares under a purchase plan during 2007. There are 1,525,000 shares of common stock authorized under the Purchase Plan and 1,475,000 are reserved for future purchases as of December 31, 2009.

14. Employee Benefit Plans

CTI s U.S. employees participate in the Cell Therapeutics, Inc. 401(k) Plan whereby eligible employees may defer up to 80% of their compensation, up to the annual maximum allowed by the Internal Revenue Service. We may make discretionary matching contributions based on certain plan provisions. We made contributions of $0.1 million during each of the years ended December 31, 2009, 2008 and 2007.

In connection with our merger with Novuspharma, on January 1, 2004, we assumed a defined benefit plan and related obligation for benefits owed to our Italian employees who, pursuant to Italian law, are entitled to a lump sum payment upon separation from the Company. Related costs are accrued over the employees service periods based on compensation and years of service. In accordance with ASC 715, *Compensation-Retirement Benefits*, we elected to carry the obligation under the plan at the amount of the vested benefit obligation which is defined as the actuarial present value of the vested benefit to which the employee is entitled if the employee separates immediately. Benefits of $0.6 million, $0.5 million and $0.3 million were paid to employees who separated from the Company during 2009, 2008 and 2007, respectively. As of December 31, 2009 and 2008, the vested benefit obligation was $0.6 million and $0.9 million and was included in *current portion of long-term obligations*, and *long-term obligations, less current portion*, respectively. We expect that the remaining vested benefit obligation will be paid by mid-2010 in connection with the reduction in force of our Italian employees related to our 2009 restructuring activities.

15. Shareholder Rights Plan

In December 2009, CTI s Board of Directors, or the Board, approved and adopted a shareholder rights plan, or rights plan, in which one preferred stock purchase right was distributed for each common share held as of the close of business on January 7, 2010. Initially, the rights are not exercisable, and are attached to and trade with, all of the shares of CTI s common stock outstanding as of, and issued subsequent to January 7, 2010.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Each right, if and when it becomes exercisable, will entitle the holder to purchase a unit consisting of one ten-thousandth of a share of Series ZZ Junior Participating Cumulative Preferred Stock, no par value per share, at a cash exercise price of $6.00 per unit, subject to standard adjustment in the rights plan. The rights will separate from the common stock and become exercisable if a person or group acquires 20% or more of our common stock. Upon acquisition of 20% or more of our common stock, the Board could decide that each right (except those held by a 20% shareholder, which become null and void) would become exercisable entitling the holder to receive upon exercise, in lieu of a number of units of preferred stock, that number of shares of our common stock having a market value of two times the exercise price of the right. In certain circumstances, including if there are insufficient shares of our common stock to permit the exercise in full of the rights, the holder may receive units of preferred stock, other securities, cash or property, or any combination of the foregoing.

In addition, if CTI is acquired in a merger or other business combination transaction, each holder of a right, except those rights held by a 20% shareholder which become null and void, would have the right to receive, upon exercise, common stock of the acquiring company having a market value equal to two times the exercise price of the right.

The Board may redeem the rights for $0.0001 per right or terminate the rights plan at any time prior to an acquisition by a person or group holding 20% or more of our common stock. The rights plan will expire on January 7, 2013.

16. Customer and Geographic Concentrations

We consider our operations to be a single operating segment focused on the development, acquisition and commercialization of novel treatments for cancer. Financial results of this reportable segment are presented in the accompanying consolidated financial statements.

Product sales from Zevalin s major customers as a percentage of total product sales were as follows:

	Year Ended December 31,	
	2008	**2007**
Customer A	77%	67%
Customer B	5%	33%

All sales of Zevalin during 2008 and 2007 were to customers in North America.

The following table depicts long-lived assets based on the following geographic locations (in thousands):

	Year Ended December 31,	
	2009	**2008**
United States	$ 21,501	$ 22,966
Europe	5,929	7,286
	$ 27,430	$ 30,252

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Net Loss Per Share

Basic and diluted net loss per share is calculated using the weighted average number of shares outstanding as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2009	2008	2007
Net loss attributable to common shareholders	$ (116,763)	$ (202,907)	$ (148,305)
Basic and diluted:			
Weighted average shares outstanding	466,352	29,383	4,564
Less weighted-average restricted shares outstanding	(7,996)	(416)	(35)
Shares used in calculation of basic and diluted net loss per common share	458,356	28,967	4,529
Net loss per common share: Basic and diluted	$ (0.25)	$ (7.00)	$ (32.75)

As of December 31, 2009, 2008 and 2007, options, warrants, unvested restricted share awards and rights, convertible debt, and convertible preferred stock aggregating 34.1 million, 136.1 million and 3.7 million common equivalent shares, respectively, prior to the application of the treasury stock method for options and warrants, were not included in the calculation of diluted net loss per share as their effects on the calculation are anti-dilutive. These amounts do not include performance or market-based awards, including options, restricted share awards and December 2009 performance awards.

18. Income Taxes

We file income tax returns in the United States, Italy and the United Kingdom. Due to substantial book and tax losses from our global operations, we have reported no income tax provisions in jurisdictions in which we file returns. A substantial part of our operations takes place in the State of Washington, which does not impose an income tax as that term is defined in ASC 740, *Income Taxes*. As such, our state income tax expense or benefit, if recognized, would be immaterial to our operations. We are not currently under examination by an income tax authority, nor have we been notified that an examination is contemplated.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying values of assets and liabilities for financial reporting and income tax reporting in accordance with ASC 740. We have a valuation allowance equal to net deferred tax assets due to the uncertainty of realizing the benefits of the assets. Our valuation allowance increased $12.0 million, $17.8 million, and $34.6 million during 2009, 2008 and 2007, respectively.

The reconciliation between our effective tax rate and the income tax rate as of December 31 is as follows:

	2009	2008	2007
Federal income tax rate	(34%)	(34%)	(34%)
Research and development tax credits			(1)
Non-deductible debt/equity costs	13	20	4
Non-deductible executive compensation	5		
In process research and development			5
Valuation allowance	10	9	23
Expired tax attribute carryforwards	6	4	2

Other		1	1
Net effective tax rate	%	%	%

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant components of our deferred tax assets and liabilities as of December 31 are as follows (in thousands):

	2009	2008
Deferred tax assets:		
Net operating loss carryforwards	$ 268,220	$ 243,616
Capitalized research and development	59,766	68,486
Research and development tax credit carryforwards	20,434	19,954
Stock based compensation	4,069	4,485
Intangible assets	578	1,808
Depreciation and amortization	270	1,026
Other deferred tax assets	1,874	3,389
Total deferred tax assets	355,211	342,764
Less valuation allowance	(354,192)	(342,233)
	1,019	531
Deferred tax liabilities:		
GAAP adjustments on Novuspharma merger	(208)	(208)
Deductions for tax in excess of financial statements	(811)	(323)
Total deferred tax liabilities	(1,019)	(531)
Net deferred tax assets	$	$

As of December 31, 2009, we had net operating loss carryforwards of approximately $788.9 million, of which $83.8 million relates to stock compensation deductions, and research credit carryforwards of approximately $20.0 million. The carryforwards began to expire in 2007.

Due to our equity financing transactions, and other owner shifts as defined in Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, we incurred ownership changes pursuant to the Code. Accordingly, our use of net operating loss carryforwards is limited. We are currently studying the impact of Section 382 on the future realization of our various tax attributes.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes*, as codified in ASC 740-10, and we have analyzed filing positions in our tax returns for all open years. We are subject to United States federal and state, Italian and United Kingdom income taxes with varying statutes of limitations. Tax years from 1995 forward remain open to examination due to the carryover of net operating losses or tax credits. Our policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. As of December 31, 2009, we had no unrecognized tax benefits and therefore no accrued interest or penalties related to unrecognized tax benefits. We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our consolidated financial position, results of operations and cash flows. Therefore, no reserves for uncertain income tax positions have been recorded.

19. Related Party Transactions

In the case of termination, we have severance agreements with our executive officers that provide benefits for eighteen to twenty-four months.

In May 2007, we formed Aequus Biopharma, Inc., or Aequus, a majority owned subsidiary of which our ownership was approximately 69% as of December 31, 2009. We entered into a license agreement with Aequus

107

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

whereby Aequus gained rights to our Genetic Polymer technology which Aequus will continue to develop. The Genetic Polymer technology may speed the manufacture, development, and commercialization of follow-on and novel protein-based therapeutics.

In May 2007, we also entered into an agreement to fund Aequus in exchange for a convertible promissory note that becomes due and payable in five years and earns interest at a rate of 6% per annum. The note can be converted into equity at any time prior to its maturity upon CTI s demand, or upon other triggering events. The number of shares of Aequus equity securities to be issued upon conversion of this note is equal to the quotient obtained by dividing (i) the outstanding balance of the note by (ii) 100% of the price per share of the equity securities. We also funded Aequus $0.6 million, $0.3 million and $0.5 million during the years ended December 31, 2009, 2008 and 2007, respectively. In addition, we entered into a services agreement to provide certain administrative and research and development services to Aequus. The amounts charged for these services, if unpaid by Aequus within 30 days, will be considered additional principal advanced under the promissory note.

Our President and Chief Executive Officer, James A. Bianco, M.D. and our Executive Vice President, Chief Medical Officer, Jack W. Singer, M.D. are both minority shareholders of Aequus, each owning approximately 4.9% of the equity in the company. Additionally, both Dr. Bianco and Dr. Singer are members of Aequus board of directors and each have entered into a consulting agreement with Aequus. Additionally, Frederick W. Telling, Ph.D., a member of our board of directors, owns approximately 1% of Aequus and is also a member of Aequus board of directors.

20. Legal Proceedings

On January 2, 2008, Tang filed a civil action in the United States District Court for the Southern District of New York in which Tang alleged that we breached a Securities Purchase Agreement, executed on or about April 16, 2007 in connection with the issuance of our Series B preferred stock. On January 3, 2009, we entered into a settlement agreement with Tang with respect to the civil action filed by Tang on January 2, 2008. In exchange for the full release of all claims arising directly or indirectly out of or related to Tang s purchase, acquisition, ownership, interest in or rights under our Series B 3% preferred stock, we agreed to pay Tang $5.1 million, which was included in *accrued expenses* as of December 31, 2008. Of the $5.1 million, $2.1 million was recorded to *settlement expense* and $3.0 million was recorded to *deemed dividends on preferred stock* for the year ended December 31, 2008. Final payment was completed on January 29, 2009. A holder of our Series C preferred stock, Enable Capital Management LLC, or Enable, filed a lawsuit on January 23, 2008 in the Supreme Court of the State of New York with similar claims to the Tang action. On September 29, 2008, in exchange for payment, Enable entered into a release agreement with us to fully resolve this action. On May 5, 2008, RHP Master Fund, Ltd., or RHP, a holder of our Series A preferred stock, filed suit in the United States District Court for the Southern District of New York alleging breach of contract and violation of Washington Business Corporation Act, and breach of fiduciary duty by certain officer and director defendants. On February 4, 2009, for $0.1 million and 4.0 million shares of our common stock, we settled all claims that were filed or could have been filed by RHP.

On January 22, 2007, we filed a complaint in King County Washington Superior Court against The Lash Group, Inc. and Documedics Acquisition Co., Inc., our former third-party reimbursement expert for TRISENOX, seeking recovery of damages, including losses incurred by us in connection with our investigation, defense and settlement of claims by the United States concerning Medicare reimbursement for TRISENOX. On February 28, 2007, defendant The Lash Group, Inc. removed the case to federal court in the Western District of Washington. On June 19, 2008, the trial judge dismissed our claims and we filed a timely notice of appeal in the Ninth Circuit Court of Appeals. An appeal hearing was held on August 31, 2009, and on November 18, 2009, the Ninth Circuit Court of Appeals reversed the lower court and held that the False Claims Act did not preclude us from seeking recovery and bringing claims against The Lash Group, Inc. for their alleged violations. On December 1, 2009, the Lash Group, Inc. filed a petition for

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

rehearing with the Ninth Circuit Court of Appeals, which was formally denied on January 6, 2010. The case has been remanded for trial in the District Court. A status conference was held on February 17, 2010, and the parties must report back to the court with updates within 60 days. There is no guarantee that we will prevail at trial.

On February 20, 2009, we notified Spectrum that we had exercised our option to sell to Spectrum all of our membership interest in their 50/50 owned joint venture, RIT Oncology, and on March 2, 2009, Spectrum made the first payment totaling $6.5 million. The sale of our membership interest to Spectrum closed on March 15, 2009, and the remaining $10.0 million of the total $16.5 million purchase price was deposited into an escrow account to be paid to us in two additional installments. On April 3, 2009, $6.5 million was released to us from this escrow account and the final installment of $3.5 million, subject to an adjustment for certain operational liabilities and other obligations, was scheduled to be released to us on April 15, 2009. This final installment payment was not released to us because we and Spectrum disputed the amount of the adjustment. On April 10, 2009, we filed a demand for arbitration regarding Spectrum s payment of the final installment. On April 22, 2009, Spectrum filed a cross-claim alleging that Spectrum was entitled to the entire amount held in escrow and that Spectrum was owed additional amounts by us. The arbitration hearing was held on May 14, 2009. On May 21, 2009, the arbitrator ordered that the final installment of $3.5 million be released from the escrow account and distributed to Spectrum; additionally, we were ordered to pay $0.8 million to Spectrum. Of these amounts, $3.2 million was determined by the arbitrator to be outstanding Excluded Liabilities under the Limited Liability Company Interest Assignment Agreement entered into between Spectrum and CTI, dated March 15, 2009, of which $2.0 million was included in our *accounts payable* balance as of the settlement date. Accordingly, Spectrum is responsible for paying certain liabilities incurred or to be incurred by us totaling $3.2 million, including an obligation payable to Bayer for a clinical trial. The arbitrator s award to Spectrum also included $2.1 million related to expenses incurred by RIT Oncology. On May 26, 2009, we paid Spectrum $0.8 million. For the year ended December 31, 2009, we recorded $3.2 million in *settlement expense* related to the arbitrator s decision. This amount includes the escrow amount released to Spectrum, our payment to Spectrum and $0.9 million in receivables that we recognized in prior periods and were owed to us by RIT Oncology. The settlement amount is also net of $2.0 million in payables assumed by Spectrum on our behalf.

In April 2007, we entered into a settlement agreement with the United States Attorney s Office, or USAO, for the Western District of Washington arising out of their investigation into certain of our prior marketing practices relating to TRISENOX® (arsenic trioxide). We made the settlement payment of $10.6 million in April 2007. The settlement agreement did not address separate claims brought against us by the private party plaintiff for his attorneys fees and expenses. After further litigation concerning attorneys fees and expenses, on January 28, 2009 all remaining claims were settled for $0.5 million, and in consequence, the case has been fully and finally resolved. The settlement amount was recorded to *settlement expense* for the year ended December 31, 2008 and included in *accrued expenses* as of December 31, 2008.

On May 1, 2008, Ingenix Pharmaceutical Services, Inc., or Ingenix, a contract research organization, sent a letter claiming that we owed Ingenix $2.2 million pursuant to clinical support work. All of these charges had been previously invoiced to us, but the invoices were being evaluated for the association of the work being billed to the contract assignments, as well as the relationship of the pass-through costs to approvable work. On November 6, 2008, Ingenix filed a demand for arbitration of this dispute with the American Arbitration Association, seeking damages of $2.2 million. On September 28, 2009, we entered into a settlement agreement and release with Ingenix pursuant to which we paid Ingenix $1.6 million and each party agreed to a full release of the other party from any and all claims related to this dispute. The amount was paid in October 2009 and was used to relieve $0.3 million in payables that were recorded on our books for Ingenix services and $1.3 million was recorded to *settlement expense* for the year ended December 31, 2009.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On August 3, 2009, Sicor Italia, or Sicor, filed a lawsuit in the Court of Milan court to compel us to source pixantrone from Sicor according to the terms of a supply agreement executed between Sicor and NovusPharma on October 4, 2002. A hearing was held on January 21, 2010 to discuss preliminary matters and set a schedule for future filings and hearings. The next hearing date is scheduled for November 11, 2010. Sicor alleges that the agreement was not terminated according to its terms. We assert that the supply agreement in question was properly terminated and that we have no further obligation to comply with its terms. No estimate of a loss, if any, can be made at this time in the event that we do not prevail.

On December 23, 2008, CONSOB sent a notice to us requesting that we issue (i) immediately, a press release providing, among other things, information about our debt restructuring plan, the current state of compliance with the relevant covenants regulating our debt and the equity line of credit agreement we entered into with Midsummer Investment Ltd. on July 29, 2008, and (ii) by the end of each month and starting from the month of December 2008, a press release providing certain information relating to our management and financial situation, updated to the previous month, or the Monthly CONSOB Press Release. On July 31, 2009, CONSOB sent us a notice asserting three violations of the provisions of Section 114, paragraph 5 of the Italian Legislative Decree no. 58/98. The sanctions established by the Section 193, paragraph 1 of the Italian Legislative Decree no. 58/1998 for such violations are pecuniary administrative sanctions amounting to between 5,000 and 500,000, applicable to each one of the three asserted violations. According to the applicable Italian legal provisions, CONSOB may impose such administrative sanctions by means of a decree stating the grounds of its decision only after evaluating our possible defenses that were submitted to CONSOB on August 28, 2009 (within 30 days of July 31, 2009, the notification date of the relevant charges, according to the applicable Italian rules).

On April 14, 2009 and December 21, 2009, the Italian Tax Authority, or ITA, issued notices of assessment to CTI (Europe) based on the ITA s audit of CTI (Europe) s VAT returns for the years 2003 and 2005, respectively. The ITA audits concluded that CTI (Europe) did not collect and remit VAT on certain invoices issued to non-Italian clients for services performed by CTI (Europe). The assessment for the year 2003 is 0.5 million, or approximately $0.8 million as of December 31, 2009, including interest and penalties. The assessment for the year 2005 is 5.5 million, or approximately $7.7 million as of December 31, 2009, including interest and penalties. We believe that the services were non-VAT taxable consultancy services and that the VAT returns are correct as originally filed. As such, we have not booked an impairment to the carrying amount of our VAT receivable and we intend to vigorously defend ourselves against the assessment and have requested a dismissal on procedural grounds and merits of the case.

In addition to the litigation discussed above, we are from time to time subject to legal proceedings and claims arising in the ordinary course of business, some of which may be covered in whole or in part by insurance.

Table of Contents

CELL THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Unaudited Quarterly Data

The following table presents summarized unaudited quarterly financial data (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009				
Revenues	$ 20	$ 20	$ 20	$ 20
Gross profit	20	20	20	20
Operating expenses, net	(6,586)	(21,720)	(27,091)	(26,242)
Net loss attributable to CTI	(14,967)	(18,027)	(35,024)	(27,377)
Net loss attributable to CTI common shareholders	(13,124)	(27,426)	(48,836)	(27,377)
Net loss per common share basic and diluted	(0.05)	(0.06)	(0.09)	(0.05)
2008				
Revenues	$ 3,394	$ 2,890	$ 2,600	$ 2,548
Gross profit	2,504	2,123	1,908	1,653
Operating expenses, net	(28,352)	(28,679)	(20,458)	(11,226)
Net loss attributable to CTI	(38,164)	(58,023)	(45,589)	(38,253)
Net loss attributable to CIT common shareholders	(54,604)	(59,316)	(47,646)	(41,341)
Net loss per common share basic and diluted	(7.68)	(5.18)	(2.83)	(0.52)

22. Subsequent Events

In January 2010, we entered into a securities purchase agreement and, pursuant to a registered offering, we issued an aggregate of 30,000 shares of our Series 3 preferred stock, no par value, which were initially convertible into an aggregate of 24.7 million shares of our common stock and warrants to purchase up to 8.6 million shares of our common stock for gross proceeds of $30.0 million. The warrants have an exercise price of $1.18 per share of our common stock, are exercisable immediately and expire one year and one day after the date of issuance. In connection with the offering, we also issued to the placement agent a warrant to purchase up to 0.2 million shares of our common stock at an exercise price of $1.517 per share. These warrants also are exercisable immediately and expire one year and one day after the date of issuance.

Each share of Series 3 preferred stock is entitled to a liquidation preference equal to the stated value plus any accrued and unpaid dividends before the holders of our common stock or any other junior securities receive any payments upon such liquidation. The Series 3 preferred stock is not entitled to dividends except to share in any dividends actually paid on our common stock or any pari passu or junior securities. The Series 3 preferred stock is convertible into common stock, at the option of the holder, at an initial conversion price of $1.21375 per share, provided that no holder of Series 3 preferred stock may request a conversion of its shares if such conversion would result in the holder and its affiliates owning 10% or more of our common stock. The Series 3 preferred stock has no voting rights except for limited protective provisions and except as is otherwise required by law.

All 30,000 shares of the Series 3 preferred stock were converted during January 2010 for 24.7 million shares of our common stock.

Table of Contents

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

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, under the supervision and with the participation of our Chief Executive Officer and Executive Vice President, Finance and Administration, or EVP of Finance, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Annual Report on Form 10-K. Based upon that evaluation, our Chief Executive Officer and EVP of Finance have concluded that, as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were effective.

(b) Management s Annual Report on Internal Controls

Management of Cell Therapeutics, Inc., together with its consolidated subsidiaries (the Company), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of the end of the Company s 2009 fiscal year, management conducted an assessment of the effectiveness of the Company s internal control over financial reporting based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company s internal control over financial reporting as of December 31, 2009 was effective.

The registered independent public accounting firm of Stonefield Josephson, Inc., as auditors of the Company s consolidated financial statements, has audited our internal controls over financial reporting as of December 31, 2009, as stated in their report, which appears herein.

(c) Changes in Internal Controls

During the second half of 2008, we began the implementation of Oracle EBS for financial reporting which was completed as of January 1, 2009. While we expect future changes and enhancements in our controls as a result of the new system, for the year ended December 31, 2009, there were no significant changes in our internal controls as a result of the implementation.

Except as described above, there have been no changes to our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance
Directors

The following table set forth certain information with respect to our directors as of December 31, 2009:

Name	Age	Director Since	Class	Term Expiration
John H. Bauer(3)	69	2005	I	2010 Annual Meeting
James A. Bianco, M.D.	53	1991	II	2011 Annual Meeting
Vartan Gregorian, Ph.D.(3)(4)	75	2001	II	2011 Annual Meeting
Richard L. Love(2).	66	2007	III	2012 Annual Meeting
Mary O. Mundinger, Dr. PH(4)	72	1997	III	2012 Annual Meeting
Phillip M. Nudelman, Ph.D.(1)(2)(3)(4)	74	1994	I	2010 Annual Meeting
Jack W. Singer, M.D.	67	1991	III	2012 Annual Meeting
Frederick W. Telling, Ph.D.(2)(3)	58	2006	II	2011 Annual Meeting

(1) Chairman of the Board of Directors.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.
(4) Member of the Nominating and Governance Committee.

Mr. Bauer was appointed to the Board in October 2005. Mr. Bauer serves as an executive advisor and Chief Financial Officer at DigiPen Institute of Technology. He was formerly Executive Vice President for Nintendo of America Inc. from 1994 to 2004. While at Nintendo of America Inc., he had direct responsibility for all administrative and finance functions, and since 2004, he has also served as a consultant to Nintendo of America Inc. From 1963 to 1994, he worked for Coopers & Lybrand, including serving as the business assurance (audit) practice Partner. He was also a member of Coopers & Lybrand s Firm Council, the senior policy making and governing board for the firm. Mr. Bauer is also a member of the board of directors of Caliber Data, Inc., RIPL Corporation and Zones, Inc. Mr. Bauer received his B.S. degree in accounting from St Edward s University.

Dr. Bianco is the Company s principal founder and served as the Company s President and Chief Executive Officer and director from February 1992 to July 2008. With the addition of Craig W. Philips as President in August 2008, Dr. Bianco now serves as the Company s Chief Executive Officer and director. Prior to founding the Company, Dr. Bianco was an assistant professor of medicine at the University of Washington, Seattle, and an assistant member in the clinical research division of the Fred Hutchinson Cancer Research Center. From 1990 to 1992, Dr. Bianco was the director of the Bone Marrow Transplant Program at the Veterans Administration Medical Center in Seattle. Dr. Bianco currently serves on the board of directors of Arts Fund, Fred Hutchinson Business Alliance, Jose Carreras International, Leukemia Foundation, Marsha Rivkin Center for Ovarian Cancer Research, Nakea, LLC, and Seattle Police Foundation. Dr. Bianco received his B.S. degree in biology and physics from New York University and his M.D. from Mount Sinai School of Medicine. Dr. Bianco is the brother of Louis A. Bianco, the Company s Executive Vice President, Finance and Administration.

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

Table of Contents

Mr. Love has been one of the Company s directors since September 2007. Mr. Love is presently the managing director of Translational Accelerators, LLC. Mr. Love is also a director of Applied Microarrays Inc., Ascalon, MedTrust OnLine, LLC, ImaRx Therapeutics Inc., PAREXEL International, SalutarisMD Inc., and, prior to its acquisition by the Company in July 2007, served as chairman of the board of Systems Medicine, Inc. He started two biopharmaceutical companies, Triton Biosciences Inc. and ILEX Oncology Inc; he served as chief executive officer for Triton Biosciences from 1983 to 1991, and as chief executive officer for ILEX Oncology 1994 to 2001. In addition, Mr. Love has served in executive positions at not-for-profit organizations, including the Cancer Therapy and Research Center, The San Antonio Technology Accelerator Initiative and the Translational Genomics Research Institute. Mr. Love received his B.S. and M.S. degrees in chemical engineering from Virginia Polytechnic Institute.

Dr. Mundinger has been one of the Company s directors since April 1997. Since 1986, she has been a dean and professor at the Columbia University School of Nursing, and an associate dean on the faculty of medicine at Columbia University. Dr. Mundinger received her doctorate in public health from Columbia s School of Public Health.

Dr. Nudelman has been one of the Company s directors since March 1994. From 2000 to 2007, he served as the President and Chief Executive Officer of The Hope Heart Institute and recently retired as a member of the board of directors for Hope Heart Institute. From 1998 to 2000, he was the Chairman of the board of Kaiser/Group Health, retiring in 2000 as Chief Executive Officer Emeritus. From 1990 to 2000, Dr. Nudelman was the President and Chief Executive Officer of Group Health Cooperative of Puget Sound, a health maintenance organization. He also currently serves on the board of directors of OptiStor Technologies, Inc. and Zynchros, Inc. Dr. Nudelman served on the White House Task Force for Health Care Reform from 1992 to 1994 and the President s advisory Commission on Consumer Protection and Quality in Health Care from 1996 to 1998. He has also served on the Pew Health Professions Commission and the AMA Task Force on Ethics, the Woodstock Ethics Commission, and currently serves as Chairman of the American Association of Health Plans. Dr. Nudelman received his B.S. degree in microbiology, zoology and pharmacy from the University of Washington, and holds an M.B.A. and a Ph.D. in health systems management from Pacific Western University.

Dr. Singer is one of the Company s founders and directors and currently serves as the Company s Executive Vice President, Chief Medical Officer. Dr. Singer has been one of the Company s directors since its inception in September 1991. From July 1995 to January 2004, Dr. Singer was the Company s Executive Vice President, Research Program Chairman and from April 1992 to July 1995, he served as the Company s Executive Vice President, Research and Development. Prior to joining the Company, Dr. Singer was a professor of medicine at the University of Washington and a full member of the Fred Hutchinson Cancer Research Center. From 1975 to 1992, Dr. Singer was the Chief of Medical Oncology at the Veterans Administration Medical Center in Seattle. Dr. Singer received his M.D. from State University of New York, Downstate Medical College.

Dr. Telling has been one of the Company s directors since December 2006. Prior to his retirement in 2007, Dr. Telling was a corporate officer of Pfizer, most recently as Vice President of Corporate Policy and Strategic Management since 1994. He joined Pfizer in 1977 and was responsible for strategic planning and policy development throughout the majority of his career. He currently serves on the board of directors of Eisai N.A., Medex, Inc. and Aequus Biopharma, Inc. a subsidiary of the Company. Dr. Telling is also a member of the Committee for Economic Development, IBM s Healthcare & Life Sciences Advisory Council, the March of Dimes National Foundation Board, ORBIS, the EAA, and the United Hospital Fund. Dr. Telling received his BA from Hamilton College and his Masters of Industrial and Labor Relations and Ph.D. in Economics and Public Policy from Cornell University.

Table of Contents

Executive Officers

The following table sets forth certain information with respect to our executive officers as of December 31, 2009:

Name	Age	Position
James A. Bianco, M.D.	53	Chief Executive Officer
Louis A. Bianco	57	Executive Vice President, Finance and Administration
Daniel G. Eramian	61	Executive Vice President, Corporate Communications
Craig W. Philips	49	President
Jack W. Singer, M.D.	67	Executive Vice President, Chief Medical Officer

For biographical information concerning Dr. James Bianco and Dr. Jack Singer, who are each directors of the Company as well as executive officers, please see the discussion under the heading Directors.

Mr. Bianco is one of our founders and has been our Executive Vice President, Finance and Administration since February 1, 1992. He was also a director from our inception in September 1991 to April 1992 and from April 1993 to April 1995. He currently serves on the board of DiaKine Therapeutics, Inc. From January 1989 through January 1992, Mr. Bianco was a Vice President at Deutsche Bank Capital Corporation in charge of risk management. Mr. Bianco is a Certified Public Accountant and received his M.B.A. from New York University. Mr. Bianco and Dr. Bianco are brothers.

Mr. Eramian joined the Company as Executive Vice President, Corporate Communications in March 2006. Prior to joining us, Mr. Eramian was Vice President of Communications at BIO, an industry organization representing more than 1,200 biotechnology companies, academic institutions, state biotechnology centers and related organizations. Prior to that, he was Assistant Administrator of Communications at the Small Business Administration and Director of Public Affairs at the Department of Justice and Chief Spokesman for the Attorney General of the United States of America.

Mr. Philips assumed his role as the Company s President in August 2008. In that role, he manages the company s day-to-day drug development and commercial operations. Mr. Philips provided services to the Company as a consultant from April 2008 until he assumed the position of president. Prior to joining the Company, Mr. Philips was Vice President and General Manager of Bayer Healthcare Oncology from December 2006 to April 2008. Prior to Bayer Healthcare, Mr. Philips was Vice President and General Manager of Berlex Oncology from October 2004 to December 2006. He was also with Schering Plough from 1989 to 2003 in a variety of commercial and general management positions in the U.S., Canada, Southeast Asia and Australia. From 1984 to 1989 he was with Bristol Myers in a variety of commercial roles. Mr. Philips has also served as a member or a chair of the alliance executive committees, which included Onyx, Novartis, Genzyme, and Favrille. Mr. Philips received his B.Sc. in marketing and M.B.A. from Ohio State University.

Audit Committee Financial Expert

The Company s board of directors has determined that Audit Committee member John Bauer is an Audit Committee financial expert as defined by Item 401(h) of Regulations S-K of the Securities Exchange Act of 1934, as amended, or Exchange Act, and is independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A of the Exchange Act.

Audit Committee

The Company has an Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. John H. Bauer, Vartan Gregorian, Ph.D., Phillip M. Nudelman, Ph.D. and Frederick W. Telling, Ph.D., are the members of the Company s Audit Committee. The Board of Directors has determined that each of Mr. Bauer, Dr. Gregorian, Dr. Nudelman and Dr. Telling is independent within the meaning of the NASDAQ independent director standards.

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance of the Exchange Act

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file with the SEC reports of ownership and reports of changes in ownership of common stock and our other equity securities. Executive officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on review of this information or written representations from reporting persons that no other reports were required, we believe that, during the 2009 fiscal year, all Section 16(a) filing requirements applicable to our executive officers, directors and greater than ten percent beneficial owners complied with Section 16(a), except for one Form 4 covering one transaction for both Mr. Bauer and Dr. Singer.

Code of Ethics

The Company has adopted a code of ethics for its senior executive and financial officers (including its principal executive officer and principal financial officer), as well as a code of ethics applicable to all employees and directors. Both codes of ethics are available on the Company s website at http://www.celltherapeutics.com/officers_and_directors. Shareholders may request a free copy of the codes of ethics from:

Cell Therapeutics, Inc.

Attention: Investor Relations

501 Elliott Avenue West, Suite 400

Seattle, WA 98119

(206) 282-7100

Any waivers of or amendments to the Company s code of ethics will be posted on its website, at http://www.celltherapeutics.com.

Corporate Governance Guidelines

The Company has adopted Corporate Governance Guidelines, which are available on the Company s website at http://www.celltherapeutics.com/officers_and_directors. Shareholders may request a free copy of the Corporate Governance Guidelines at the address and phone numbers set forth above.

Item 11. Executive Compensation
Compensation Discussion and Analysis

The Compensation Committee oversees the Board s responsibilities relating to the compensation of the Company s chief executive officer and all other executive officers of the Company with a title of executive vice president and above or who otherwise report directly to the chief executive officer. (These individuals are listed in the Summary Compensation Table below and referred to herein as the Company s named executive officers). In discharging this responsibility, the Compensation Committee evaluates and approves the Company s compensation plans, policies and programs as they affect the named executive officers.

This discussion describes and analyzes the compensation program for the named executive officers. First, it covers the Company s compensation objectives and philosophy, the cornerstone of which is pay for performance. Next, it reviews the process the Compensation Committee follows in deciding how to compensate the named executive officers and provides a brief overview of the principal components of the Company s compensation program, including a detailed discussion and analysis of the Compensation Committee s specific decisions about the compensation of the Company s named executive officers for fiscal 2009.

Compensation Objectives and Philosophy

The Company believes that compensation of its executive officers should encourage creation of shareholder value and achievement of strategic corporate objectives. The Company attempts to align the interests of its

116

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, the Company believes that it is important to provide executives with performance-based incentives that are tied to key corporate goals critical to the Company s long-term success and viability.

The elements of compensation for the named executive officers include base salaries, annual cash incentives, long-term equity incentives, and perquisites, as well as severance benefits in connection with certain terminations of employment and additional benefits which are available to most other employees, including a 401(k) plan, employee stock purchase plan, health and welfare programs, and life insurance. In general, base salaries, perquisites and other benefit programs, and severance and other termination benefits are primarily intended to attract and retain highly qualified executives as they provide predictable compensation levels that reward executives for their continued service. Annual cash incentives are primarily intended to motivate executives to achieve specific strategies and operating objectives, while long-term equity incentives are primarily intended to align executives long-term interests with those of the Company s shareholders. 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.

In light of the general current economic climate, the Company s compensation philosophy and objectives for fiscal 2009 continued to focus heavily (through the grant of the long-term equity incentives described below) on retention of the Company s senior management team through this challenging time while further linking management s potential rewards with shareholder value.

Compensation Process

As part of its process for determining the compensation for the named executive officers, the Compensation Committee considers competitive market data. As authorized by its charter, the Compensation Committee has engaged Milliman, Inc. (Milliman), an independent executive compensation consultant, to review the Company s compensation plans, policies and programs that affect executive officers and to provide advice and recommendations on competitive market practices and specific compensation decisions. Milliman has worked directly with the Compensation Committee to assist the Compensation Committee in satisfying its responsibilities and will undertake no projects for management except at the request of the Compensation Committee chair and in the capacity of the Compensation Committee s agent. To date, Milliman has not undertaken any projects for management or provided any services to the Company other than its services to the Compensation Committee.

In order to assess competitive market data for executive compensation, the Compensation Committee works with its compensation consultant to develop a peer group of companies with which the Company competes for executive talent (which may or may not be the same organizations that the company competes with directly on a business level). In early 2009, Milliman assisted the Compensation Committee in reviewing the peer group identified for 2008, focusing most closely on industry type and organization size/complexity, with the best indicators of organization size in the Company s industry being number of employees and enterprise value, although each company s revenue and net income were also considered. Following this process, the Compensation Committee selected the following peer group for fiscal 2009 compensation decisions, all of which are biotechnology organizations with an oncology focus and at a stage of company development that is comparable to the Company in the current or near-term stage: Arena Pharmaceuticals, Inc., Ariad Pharmaceuticals, Inc., Array BioPharma, Inc., Cougar Biotechnology, Inc., Dendreon Corp., IDM Pharma, Inc., Intermune, Inc., Medviation, Inc., Progenics Pharmaceuticals Inc., Rigel Pharmaceutical, Inc., Seattle Genetics, Inc., Spectrum Pharmaceuticals, Inc. and ZymoGenetics, Inc.

Once the peer group is established, the Compensation Committee then reviews the base salaries, annual cash-incentive compensation, long-term equity incentive compensation and total compensation for the Company s executive officers as compared to the compensation paid by the companies within the Company s peer group, comparing each executive officer to their counterparts in similar positions with the peer group companies. However, the Compensation Committee does not base its decisions on targeting compensation levels to specific benchmarks against the peer group. Instead, the Compensation Committee refers to the peer group compensation data as background information regarding competitive pay levels and also considers the other factors identified below in making its decisions.

In addition to consideration of the peer group data, the Compensation Committee also considers the value of each item of compensation, both separately and in the aggregate, in light of Company performance, each executive officer s position within the Company, the executive officer s performance history and potential for future advancement, and, with respect to long-term equity incentive compensation, the value of existing vested and unvested outstanding equity awards. The Compensation Committee also considers the recommendations of the Company s chief executive officer with respect to the compensation for each executive other than himself. In setting compensation, the Compensation Committee also considers, among other factors, the possible tax consequences to the Company and its executive officers, the accounting consequences and the impact on shareholder dilution. The relative weight given to each of these factors varies among individual executives at the Compensation Committee s discretion and none of these factors by itself will compel a particular compensation decision.

Principal Elements of Compensation

The principal elements of compensation for the Company s executive officers are composed of base salary, annual cash incentive compensation, and long-term equity incentive compensation. The Company also provides other compensation, including certain perquisites and other benefits. The Compensation Committee generally reviews, considers and approves each element of compensation, as well as all combined elements of compensation.

Base Salaries. Base salaries, including merit-based salary increases, for the named executive officers are established based on the scope of their respective responsibilities, 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.

In January 2009, the Compensation Committee reviewed the base salaries of the named executive officers and determined that they are generally competitive with the market when compared to the Company s peer group despite the fact that the Company has not raised the base salaries of most of its executive officers in recent years. Given this continued competitiveness of the Company s base salaries combined with its current business situation and the current economic climate, and consistent with the Company s 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 2009. As a result, the named executive officers base salaries for fiscal 2009 were as follows: Dr. Bianco $650,000 (unchanged since established in 2005); Mr. Philips $402,000 (unchanged since established in his employment agreement effective August 1, 2008), Mr. Bianco $330,000 (unchanged since established in 2005), Dr. Singer $340,000 (unchanged since established in 2005), and Mr. Eramian $315,000 (unchanged since established in 2007).

Annual Cash Incentive Compensation. Annual cash incentives for the Company s executive officers are designed to reward performance for achieving key corporate goals, which the Company believes in turn should increase shareholder value. In general, the annual incentive awards for executive officers are determined based on 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, including both realization of performance goals and other notable achievements which may not have been contemplated at the time the original performance goals were established.

Table of Contents

In March 2009, the Compensation Committee established the 2009 cash incentive program for the Company s named executive officers, including target and maximum bonus opportunities for each executive as well as performance goals that would need to be achieved in order for the executive to receive such bonuses. Both target and maximum bonus opportunities under the program are determined by reference to a percentage of the executive officer s base salary. For fiscal 2009 performance, the target bonus opportunities are 50% for Dr. Bianco, 40% for Mr. Philips, and 30% of each of Mr. Bianco, Dr. Singer and Mr. Eramian, and the maximum bonus opportunities are 125% for Dr. Bianco, 100% for Mr. Philips, and 75% for each of Mr. Bianco, Dr. Singer and Mr. Eramian. These target and maximum bonus levels were determined by the Compensation Committee, after consulting with Milliman, to be appropriate based on its subjective assessment of the executive s position and ability to directly impact and responsibility for the Company s performance, and its subjective assessment of general compensation practices in place at companies in the Company peer group identified above. Bonuses under the 2009 cash incentive program will be paid out in March 2010 only if the executive officer is employed by the Company on the payment date.

There are three core elements to the 2009 cash incentive program, which together comprise each executive s cash incentive opportunity: financial performance, drug development and individual performance. As indicated in the table below, a portion of each executive s bonus opportunity was allocated to each of these elements, with the percentage of the total bonus opportunity allocated to a particular element based on the executive s position and ability to affect the outcome for that particular goal. With the exception of the individual performance element, each element is composed of sub-elements as identified below. As indicated in the table below, the individual performance element constitutes little or none of each executive s target bonus. Any bonus awarded under this element will be determined by in the sole discretion of the Compensation Committee based on its subjective assessment of the executive s performance during the fiscal year and any other factors it deems appropriate.

For the financial performance element, performance for fiscal 2009 is measured based on the Company s operating capital raised and the percentage of the Company s then-outstanding notes due in 2010-2011 that were tendered in the Company s publicly-registered tender offers for those notes (the Company Debt Measure) compared with goals established by the Compensation Committee. The executive would be entitled to receive the target bonus for the operating capital sub-element if the Company s operating capital raised for fiscal 2009 is $50 million. The executive would be entitled to receive the maximum bonus if the Company s operating capital for fiscal 2009 is $100 million (or if the Company s operating capital for fiscal 2009 is $75 million and more than 35% of the capital is raised through means other than selling or committing stock). For the Company Debt Measure, the executive would be entitled to receive the target bonus for this sub-element if the Company Debt Measure for fiscal 2009 is 50%, with the maximum bonus for this sub-element being payable if the Company Debt Measure for fiscal 2009 is 75%.

For the drug development element, the performance goals established by the Compensation Committee for fiscal 2009 related to pixantrone. The executive would be entitled to payment of his target bonus for this element if, during fiscal 2009, the Company entered into a pixantrone license agreement and completed its new drug application (NDA) submission for pixantrone (with a portion of the target bonus being payable if only one of these goals was achieved). The executive would be entitled to payment of an additional bonus for this element if the Company received approval from the U.S. Food and Drug Administration (the FDA) of pixantrone during fiscal 2009 (so that the executive would receive his maximum bonus for this element only if all three of these sub-elements were achieved).

Table of Contents

The following table presents the relative weightings between sub-elements of each executive s target and maximum cash incentive opportunity for fiscal 2009 (with the incentive opportunity for each sub-element being expressed as a percentage of the executive s base salary). The relative weightings are intended as guidelines, with the Compensation Committee having final authority to determine weightings and the appropriate final bonus amounts.

	Financial				Drug Development			Individual Performance	
	Operating Capital		Company Debt		Pix License Agreement	Pix NDA Submission	Pix FDA Approval	Target	Maximum
Name	Target	Maximum	Target	Maximum					
James A. Bianco, M.D.	15%	45%	5%	10%	10%	15%	25%	5%	20%
Craig W. Philips	10%	35%	5%	10%	10%	5%	30%	5%	10%
Louis A. Bianco	18%	35%	2%	5%	5%	5%	10%	0%	15%
Jack W. Singer, M.D.	2.5%	10%	5%	10%	10%	10%	25%	0%	5%
Daniel G. Eramian	10%	25%	5%	5%	7.5%	7.5%	15%	0%	15%

At the time this Annual Report on Form 10-K was filed with the SEC, the named executive officers incentives for fiscal 2009 under the cash incentive program had not been determined. When these amounts have been determined, the Company will file a report with the SEC on Form 8-K in accordance with SEC rules that provides the incentive amounts and a new total compensation figure for each of the named executive officers.

Long-Term Equity Incentive Compensation. As discussed above, in light of the business environment and existing challenges facing it, the Compensation Committee 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 is 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 chief executive officer, and (v) supplying a mechanism for motivating the chief executive officer and the executive team during the upcoming critical time period.

The Compensation Committee awards long-term equity incentive compensation to the Company s executive officers to align their interests with those of the Company s shareholders, to provide additional incentives to the Company s executive officers to improve the long-term performance of the Company s common stock and to achieve the Company s corporate goals and strategic objectives and to retain the Company s executive officers. While stock options have been granted in the past, the Company s current practice is primarily to grant long-term incentive awards to the named executive officers in the form of shares of restricted stock or units payable in stock when certain performance goals have been achieved in recognition of the achievement of these goals. In general, the restricted stock vests over a period of years following the date of grant and may be subject to the achievement within a specified period of critical corporate goals and strategic objectives established by the Compensation Committee. Thus, restricted shares are designed both to link executives interests with those of the Company s shareholders as the shares value is based on the value of the Company s common stock and to provide a long-term retention incentive for the vesting period as they generally have value regardless of stock price volatility.

In determining the size of the Company s long-term equity incentive awards, the Compensation Committee reviews competitive market data for similar positions in the Company s peer companies, the executive officer s performance history and/or potential for future responsibility and promotion, the chief executive officer s recommendations (with respect to executives other than himself) and the value of existing vested and unvested outstanding equity awards. 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.

Table of Contents

Equity Awards Approved in Fiscal 2009. Of special concern to the Compensation Committee was the sharp decline in the trading prices for the Company s common stock at the end of fiscal 2008 and continuing into fiscal 2009. The Compensation Committee believed that this decline greatly diminished the value of the Company equity awards then held by the named executive officers and the retention and incentives values those awards were intended to convey. The Compensation Committee, with input from the Board, also believed that it was imperative to retain the Company s senior management team through this challenging time. In late 2008 and throughout early fiscal 2009 the Compensation Committee, with input from the Board and in consultation with Milliman, considered potential equity award strategies to both retain and incentivize the named executive officers, and the relative sizes of long-term equity incentives (as a percentage of the outstanding equity of the company) that are frequently awarded by new businesses (or businesses in transition to new management teams) to their management teams as this was believed to be an appropriate comparison to the Company given the sharp decline in the trading value of the Company s common stock. The sizes (numbers of shares awarded) of all of the equity awards granted by the Company to the named executive officers in fiscal 2009, as described more specifically below, were inherently subjective, determined by the Compensation Committee in its discretion, after consulting with Milliman, and taking into account its general assessment of each executive s overall responsibilities and contributions, the other factors noted under Long-Term Equity Incentive Compensation above, and its subjective assessment of the equity award grant practices referenced in the preceding sentence.

The first step in the Compensation Committee s approach to the fiscal 2009 equity awards was the grant, in March 2009, of retention restricted stock awards to each of the named executive officers. These grants are scheduled to vest over a two-year period, subject to the executive s continued employment with the Company through the vesting date. The number of shares awarded to each of the executive officers pursuant to his retention award is reflected in the Grants of Plan-Based Awards Table Fiscal 2009 on the line corresponding to the March 25, 2009 grant date for these awards. The time-based vesting schedule (as opposed to a performance-based vesting schedule) for these grants was believed to be appropriate to help ensure retention, but since the ultimate value of the awards is linked to stock price the grants also continue to link executives interests with those of shareholders.

The Compensation Committee determined that it was critical to focus management on the goal of restoring shareholder value and, as the second step in the Compensation Committee s approach to the fiscal 2009 equity awards, it communicated to management that bonuses of fully-vested stock would be considered if the Company achieved certain regulatory approvals or if the Company achieved certain values for its common stock. The share appreciation goals were based on 500% and 1,000% increases in the value of a share of the Company s common stock over the per-share closing price of a share of Company common stock of $0.14 on March 23, 2009. In June 2009, the 30-day moving average of the Company s stock price reached $1.54, an increase of more than 1,000% over the March 23 level. Accordingly, on July 31, 2009 and again on November 10, 2009 the Compensation Committee approved bonuses to the named executive officers in the form of fully vested shares of Company common stock in connection with the attainment of these prices for the Company s stock. The numbers of shares awarded (on a pre-tax basis) to each of the executive officers is reflected in the Grants of Plan-Based Awards Table Fiscal 2009 on the lines corresponding to these two particular grant dates. The actual number of shares delivered to the executive officers on payment of these bonuses was reduced by the number of shares (valued at their then current value) required to satisfy applicable tax withholding obligations. (The regulatory goals noted in this paragraph are consistent with the goals that were ultimately formally adopted by the Compensation Committee in December 2009 and are discussed below).

Finally, in December 2009, the Compensation Committee decided to grant restricted stock units that will be payable in fully vested shares of the Company s common stock upon the achievement of a particular performance goal, subject to the goal s being achieved before December 31, 2011 and the individual s continued employment or service with the Company. (The Company refers to these awards as the December 2009 Performance Awards). The Compensation Committee believed these awards at the grant levels identified below would provide an appropriate level of incentive to executives to help achieve the performance goals noted below, to help maximize and restore shareholder value, and to help provide enhanced retention incentives.

Table of Contents

The performance goals under the December 2009 Performance Awards are as follows:

(a) OPAXIO marketing authorization application (MAA) approval (OPAXIO MAA Approval);

(b) OPAXIO NDA approval (OPAXIO NDA Approval);

(c) achievement by the Company of fiscal year sales equal to or greater than $50,000,000 (the $50M Sales Goal);

(d) achievement by the Company of fiscal year sales equal to or greater than $100,000,000 (the $100M Sales Goal);

(e) pixantrone NDA Approval (Pix NDA Approval);

(f) achievement by the Company of break-even cash flow in the fourth quarter of Fiscal Year 2010 (the Fiscal 2010 4th Quarter Break Even);

(g) achievement by the Company of earnings per share results in any fiscal year equal to or greater than $0.05 per share of Company common stock (the EPS Goal); and

(h) achievement of a price per share of Company common stock equal to $2.94 (the Share Appreciation Goal).

If one or more of the performance goals are timely achieved, an award recipient will be entitled to receive a number of shares of Company common stock (subject to the applicable share limits of the Company s equity incentive plan) determined by multiplying (1) the award percentage corresponding to that particular performance goal by (2) the total number of outstanding shares of Company common stock, determined on a non-fully diluted basis, as of the date the Compensation Committee certifies that the particular performance goal has been achieved. The award percentages corresponding to the various performance goals for each of the named executive officers are set forth in the following table:

	Performance Goals and Applicable Award Percentages							
Name	**Opaxio MAA Approval**	**Opaxio NDA Approval**	**$50M Sales Goal**	**$100M Sales Goal**	**Pix NDA Approval**	**Fiscal 2010 4th Quarter Break Even**	**EPS Goal**	**Share Appreciation Goal**
James A. Bianco, M.D.	0.15%	0.2%	0.3%	0.6%	0.45%	0.3%	0.7%	0.75%
Louis A. Bianco	0.061%	0.081%	0.122%	0.243%	0.182%	0.122%	0.284%	0.305%
Daniel G. Eramian	0.045%	0.06%	0.09%	0.18%	0.135%	0.09%	0.21%	0.225%
Craig W. Philips	0.09%	0.12%	0.18%	0.36%	0.27%	0.18%	0.42%	0.45%
Jack W. Singer, M.D.	0.061%	0.081%	0.122%	0.243%	0.182%	0.122%	0.284%	0.305%

A performance goal will not be considered achieved unless and until the date on which the Compensation Committee certifies that is has been achieved. If a change in control of the Company occurs, and if the award recipient is then still employed by or is providing services to the Company or one of its subsidiaries, the award recipient will be entitled to receive the full award percentage with respect to any performance goal which was not otherwise achieved before the date of the change in control (as though that performance goal had been fully achieved as of the time of the change in control), except that in the case of the Share Appreciation Goal, the vesting of the award will be determined based on the Company s stock price at the time of the change in control.

On the lines corresponding to the December 15, 2009 date of grant of these awards, the Grants of Plan-Based Awards Table Fiscal 2009 reflects the number of shares that would be issued to each named executive officer upon timely achievement of the related performance goal based on the applicable payout percentage and the number of shares of the Company s common stock issued and outstanding on December 15, 2009. The actual number of shares issued for each award may be different from the share number reported in the table depending on whether the performance goal is achieved and, if achieved, the number of shares of the Company s common stock issued and outstanding at the time the Compensation Committee certifies that the related performance goal has been achieved. The grant levels for the December 2009 Performance Awards granted to each named

122

executive officer were inherently subjective, determined by the Compensation Committee in its discretion taking into account its general assessment of each executive s overall responsibilities and contributions and the other factors noted under Long-Term Equity Incentive Compensation above.

Perquisites and Other Benefits. The named executive officers receive certain perquisites and other benefits provided by or paid for by the Company. 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, and certain of the Company s named executive officers occasionally use a chartered aircraft for business related travel (such business purpose is approved in advance by the Chair of the Board). When space was available, certain spouses or other family members accompanied the named executive officers on such trips. In those cases, there was no additional cost to the Company of having additional passengers on such flights.

The Company provides these perquisites and other benefits as a means of providing additional compensation to its named executive officers and, in some cases, to make certain benefits available in a convenient and efficient manner in light of the demands and time constraints imposed on its executives. The Company reviews the perquisites and other benefits provided to its named executive officers periodically and, in light of the general current economic environment, determined during fiscal 2009 that it would eliminate any tax gross-up benefits for its executives (except for the tax gross-ups noted below in the context of a change in control of the Company).

Post-Termination Protection and Payments

The Company has entered into severance agreements with each of the named executive officers. The Compensation Committee believes these agreements are important in attracting and retaining key executive officers. Under these agreements, the executive would be entitled to severance benefits in the event of a termination of the executive s employment by the Company without cause or by the executive for good reason. The Company has determined that it is appropriate to provide each named executive officer with severance benefits under these circumstances in light of his position with the Company and as part of his overall compensation package. The severance benefits for each named executive officer are generally determined as if he continued to remain employed by the Company for 18 months following his actual termination date (or two years in the case of Dr. Bianco). Because the Company believes that a termination by an executive for good reason (or constructive termination) is conceptually the same as an actual termination by the Company without cause, the Company believes it is appropriate to provide severance benefits following such a constructive termination of the executive s employment.

If a change in control of the Company occurs, outstanding equity awards, including awards held by the Company s named executive officers, will generally become fully vested if they are not assumed by the successor entity. In addition, the severance agreements with each of the named executive officers (other than Mr. Philips) provide for the executive to be reimbursed for the full amount of any excise taxes imposed on their severance payments and any other payments under Section 4999 of the Internal Revenue Code. Each of the named executive officers (including Mr. Philips) would also be entitled to reimbursement for any excise taxes imposed under Section 4999 upon vesting of the December 2009 Performance Awards granted to these executives as described above. The Company provides the named executive officers with a gross-up for any parachute payment excise taxes that may be imposed because the Company determined the appropriate level of benefits for each named executive officer without factoring in the adverse effects that may result from imposition of these excise taxes. The excise tax gross-up is intended to make the named executive officer whole for any adverse tax consequences they may become subject to under Section 4999 of the Internal Revenue Code, and to preserve the level of benefits that the Company has determined to be appropriate in these circumstances.

For more information regarding these severance arrangements, please see Potential Payments upon Termination or Change in Control below.

Table of Contents

Tax Deductibility of Pay

Section 162(m) of the Internal Revenue 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 the Company s chief executive officer and certain other executive officers. There is an exception to the $1,000,000 limitation for performance-based compensation meeting certain requirements. In general, stock options granted under the Company s stock incentive plans are intended to comply with the applicable requirements for this exemption, and the Compensation Committee generally considers the limitations imposed by Section 162(m) among other factors in making its compensation decisions. However, the Compensation Committee reserves the right to design programs that recognize a full range of performance criteria important to the Company s success, even where the compensation paid under such programs may not be deductible. The Compensation Committee will continue to monitor the tax and other consequences of the Company s executive compensation program as part of its primary objective of ensuring that compensation paid to the Company s executive officers is reasonable, performance-based and consistent with the Company s goals and the goals of the Company s shareholders.

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 Annual Report on 10-K into any filing under the Securities Act of 1933, as amended (the Securities Act), or under the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under the Securities Act or the Exchange Act.

Compensation Committee Report

The Compensation Committee reviewed this Compensation Discussion and Analysis and discussed its contents with Company management. Based on this review and discussions, the Compensation Committee has recommended to the Board that this Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

Respectfully submitted by the Compensation Committee:

Frederick W. Telling, Ph.D., Chair

Richard L. Love

Phillip M. Nudelman, Ph.D.

Compensation Committee Interlocks and Insider Participation

The directors listed at the end of the Compensation Committee Report above were each members of the Compensation Committee during all of fiscal 2009. No director who served on the Compensation Committee during fiscal 2009 is or has been an executive officer of the Company or had any relationships requiring disclosure by the Company under the SEC s rules requiring disclosure of certain relationships and related-party transactions. None of the Company s executive officers served as a director or a member of a compensation committee (or other committee serving an equivalent function) of any other entity, any executive officer of which served as a member of the Board or the Compensation Committee during fiscal 2009.

Table of Contents

EXECUTIVE COMPENSATION

Summary Compensation Table Fiscal 2007-2009

The following table sets forth information concerning compensation for services rendered to the Company by the Chief Executive Officer, or the CEO, the Executive Vice President, Finance and Administration, and the Company s next three most highly compensated executive officers for fiscal years 2007, 2008 and 2009 by each of the named executive officers. Collectively, these are the named executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Stock Awards ($)(2)(3)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($) (1)	All Other Compensation ($) (4)	Total ($)
James A. Bianco, M.D.	2009	650,000		11,275,903			81,127	12,007,030
Chief Executive Officer	2008	650,000	362,793	57,000		216,645	219,718	1,506,156
	2007	650,000	487,500	531,657	373,766		154,881	2,197,804
Louis A. Bianco	2009	330,000		4,512,112			13,249	4,855,361
Executive Vice President, Finance and	2008	330,000	99,000	28,500		66,000	16,472	539,972
Administration	2007	330,000	148,500	167,038	95,656		16,622	757,816
Daniel G. Eramian	2009	315,000		3,382,770			315	3,698,085
Executive Vice President, Corporate Communications	2008	315,000	78,750	28,500		63,000	518	485,768
	2007	315,000	141,750	151,805	86,147		3,091	697,793
Craig W. Philips								
President	2009	402,000		6,765,543			14,775	7,182,318
	2008	167,500	22,344	147,500	23,147	44,656		405,147
Jack W. Singer, M.D.	2009	340,000		4,512,112			40,490	4,892,602
Executive Vice President, Chief Medical Officer	2008	340,000	85,000	28,500		68,000	46,748	568,248
	2007	340,000	153,000	167,038	95,656		55,369	811,063

(1) As noted above, at the time this Annual Report on 10-K was filed with the SEC, the named executive officers incentives for fiscal 2009 under the cash incentive program had not been determined. When these amounts have been determined, the Company will file a report with the SEC on Form 8-K in accordance with SEC rules that provides the incentive amounts and a new total compensation figure for each of the named executive officers. Please see the Compensation Discussion and Analysis above for a description of the cash incentive program for the named executive officers for fiscal 2009. The target and maximum amounts for each named executive officer s fiscal 2009 incentive opportunity are reported in the Grants of Plan-Based Awards table below.

(2) In accordance with recent changes in the SEC s disclosure rules, the amounts reported in the Stock Awards and Option Awards columns of the table above for fiscal 2009 reflect the fair value on the grant date of the stock awards (including restricted stock, stock bonuses and the December 2009 Performance Awards) and option awards, respectively, granted to the Company s Named Executive Officers during fiscal 2009. These values have been determined under generally accepted accounting principles used to calculate the value of equity awards for purposes of the Company s financial statements. For a discussion of the assumptions and methodologies used to calculate the amounts reported above, please see the discussion of equity awards contained in Note 13, *Stock-Based Compensation.*

Under generally accepted accounting principles, compensation expense with respect to stock awards and option awards granted to the Company s employees and directors is generally recognized over the vesting periods applicable to the awards. The SEC s disclosure rules previously required that the Company present stock award and option award information for 2008 and 2007 based on the amount recognized during the corresponding year for financial statement reporting purposes with respect to these awards (which meant, in effect, that in any given year the Company could recognize for financial statement reporting purposes amounts with respect to grants made in that year as well as with respect to grants from past years that vested in or were still vesting during that year). However, the recent changes in the SEC s disclosure rules require that the Company now present the stock award and option award amounts in the applicable columns of the table above with respect to fiscal years 2008 and 2007 on a similar basis as the fiscal 2009 presentation

125

using the grant date fair value of the awards granted during the corresponding year (regardless of the period over which the awards are scheduled to vest). Since this requirement differs from the SEC s past disclosure rules, the amounts reported in the table above for stock award and option awards in fiscal years 2008 and 2007 differ from the amounts previously reported in the Company s Summary Compensation Table for these years. As a result, each named executive officer s total compensation amounts for fiscal years 2008 and 2007 also differ from the amounts previously reported in the Company s Summary Compensation Table for these years.

(3) The amounts reported in the Stock Awards column of the table above for fiscal 2009 and fiscal 2007 include the grant date fair value of performance-based stock awards (including the December 2009 Performance Awards) granted to the named executive officers in each of these years based on the probable outcome (as of the grant date) of the performance-based conditions applicable to the awards, as determined under generally accepted accounting principles. The following table presents the aggregate grant date fair value of the December 2009 Performance Awards included in the Stock Awards column for each of these years and the aggregate grant date value of these awards assuming that the highest level of performance conditions will be achieved. The balance of the amounts reported in the Stock Awards column above for fiscal 2009 is the grant date fair value of the stock bonuses awarded in July and November 2009 based on 500% and 1,000% increases in the value of a share of the Company s common stock over the per-share closing price of a share of Company common stock of $0.14 on March 23, 2009.

	2007 Performance Awards		**2009 Performance Awards**	
Name	**Aggregate Grant Date Fair Value (Based on Probable Outcome) ($)**	**Aggregate Grant Date Fair Value (Based on Maximum Performance) ($)**	**Aggregate Grant Date Fair Value (Based on Probable Outcome) ($)**	**Aggregate Grant Date Fair Value (Based on Maximum Performance) ($)**
James A. Bianco, M.D.	2,419	456,019	4,528,069	14,821,909
Louis A. Bianco	726	151,926	1,841,415	6,015,644
Daniel G. Eramian	605	151,805	1,358,421	4,446,573
Craig W. Philips			2,716,842	8,893,145
Jack W. Singer, M.D.	726	151,926	1,841,415	6,015,644

(4) The following table provides detail on the amounts reported in the All Other Compensation column of the table above for each named executive officer:

Name	**Tax Gross-ups ($)**		**Insurance Premiums ($)**	**401(k) Match ($)**	**Other Personal Benefits ($)(7)**		**Total ($)**
James A. Bianco, M.D.	4,912	(1)	50,759		25,456	(5)	81,127
Louis A. Bianco	3,490	(2)	6,084	3,675			13,249
Daniel G. Eramian	315	(3)					315
Craig W. Philips				3,675	11,100	(6)	14,775
Jack W. Singer, M.D.	10,265	(4)	26,550	3,675			40,490

(1) This amount represents tax reimbursements for taxable compensation related to health and disability premiums. These tax reimbursements were terminated in fiscal 2009.

(2) This amount represents tax reimbursements for taxable compensation related to disability and life insurance premiums. These tax reimbursements were terminated in fiscal 2009.

(3) This amount represents tax reimbursements for taxable compensation related to tax preparation fees. These tax reimbursements were terminated in fiscal 2009.

(4) This amount represents tax reimbursements for taxable compensation related to tax preparation fees and health and disability insurance premiums. These tax reimbursements were terminated in fiscal 2009.

(5) This amount includes $20,735 for family member s travel on commercial aircraft and $4,721 for health club dues.

(6) This amount includes $9,000 for automobile allowance and $2,100 for tax preparation fees.

(7) Certain named 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, there was no incremental cost to the Company of having

additional passengers on the chartered aircraft, and as a result, no amount is reflected in this table with respect to this benefit.

Table of Contents

Compensation of Named Executive Officers

The Summary Compensation Table above quantifies the value of the different forms of compensation earned by or awarded to the Company s named executive officers for the fiscal years indicated above. The primary elements of each named executive officer s total compensation reported in the table are base salary, an annual bonus, and long-term equity incentives consisting of awards of restricted stock and restricted stock units. Named executive officers also received the other benefits listed in the All Other Compensation column of the Summary Compensation Table, as further described in the footnotes to the table.

The Summary Compensation Table should be read in conjunction with the tables and narrative descriptions that follow. The Grants of Plan-Based Awards table, and the accompanying description of the material terms of the equity awards granted in fiscal 2009, provides information regarding the long-term equity incentives awarded to the named executive officers in fiscal 2009. The Outstanding Equity Awards at Fiscal Year-End and Option Exercises and Stock Vested tables provide further information on the named executive officers potential realizable value and actual value realized with respect to their equity awards. The Potential Payments upon Termination or Change in Control section provides information on the benefits the named executive officers may be entitled to receive in connection with certain terminations of their employment and/or a change in control of the Company.

Description of Employment Agreements Cash Compensation

In December 2008, the Company entered into an employment agreement with Dr. Bianco that replaced his original employment agreement entered into in 2005. The employment agreement has a two-year term. The agreement provides that Dr. Bianco will receive an initial annualized base salary of $650,000, subject to review by the Compensation Committee. Based on its review, the Compensation Committee may increase (but not reduce) the base salary level. The agreement also provides for annual bonuses for Dr. Bianco with a target annual bonus of at least 50% of his base salary and for an additional bonus to be paid if certain stretch performance goals established by the Compensation Committee for the applicable year are achieved. The agreement also provides for Dr. Bianco to participate in the Company s usual benefit programs for senior executives, payment by the Company of premiums for universal life insurance with a coverage amount of not less than $5,000,000 (up to an annual limit of $41,500, subject to adjustment) and certain other personal benefits set forth in the agreement. Provisions of Dr. Bianco s agreement relating to outstanding equity incentive awards and post-termination of employment benefits are discussed below under the applicable sections of this Annual Report on Form 10-K.

In April 2008, the Company entered into an employment agreement with Mr. Philips. The employment agreement does not have a specified term. The agreement provides that Mr. Philips will receive an initial annualized base salary of $402,000, subject to annual review by the Compensation Committee, and will be eligible to receive an annual bonus, with the target annual bonus being 40% of his base salary. The agreement also provides for Mr. Philips to participate in the Company s usual benefit programs for senior executives and to receive an auto allowance of $750 per month. Provisions of Mr. Philips agreement relating to outstanding equity incentive awards and post-termination of employment benefits are discussed below under the applicable sections of this Annual Report on Form 10-K.

Table of Contents

Grants of Plan-Based Awards Fiscal 2009

The following table presents information regarding the incentive awards granted to the named executive officers for fiscal 2009.

Name/Award Type	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards (1) Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($) (2)
James A. Bianco, M.D.											
Annual Bonus	N/A		325,000	812,500							
Stock Bonus	3/25/09							2,896,557			695,174
Stock Bonus	7/31/09							2,149,658			3,181,494
Stock Bonus	11/10/09							2,900,168			2,871,166
Performance Award(3)	12/15/09					880,501					
Performance Award(4)	12/15/09					1,174,002					
Performance Award(5)	12/15/09					1,761,003					
Performance Award(6)	12/15/09					3,522,006					
Performance Award(7)	12/15/09					2,641,504					
Performance Award(8)	12/15/09					1,761,003					
Performance Award(9)	12/15/09					4,109,007					
Performance Award(10)	12/15/09					4,402,507					4,528,069
Louis A. Bianco											
Annual Bonus	N/A		99,000	247,500							
Stock Bonus	3/25/09							868,967			208,552
Stock Bonus	7/31/09							875,981			1,296,452
Stock Bonus	11/10/09							1,177,468			1,165,693
Performance Award(3)	12/15/09					358,071					
Performance Award(4)	12/15/09					475,471					
Performance Award(5)	12/15/09					716,141					
Performance Award(6)	12/15/09					1,426,412					
Performance Award(7)	12/15/09					1,068,342					
Performance Award(8)	12/15/09					716,141					
Performance Award(9)	12/15/09					1,667,083					
Performance Award(10)	12/15/09					1,790,353					1,841,415

Table of Contents

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (1)						
Name/Award Type	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**All Other Stock Awards: Number of Shares of Stock or Units (#)**	**All Other Option Awards: Number of Securities Underlying Options (#)**	**Exercise or Base Price of Option Awards ($/Sh)**	**Grant Date Fair Value of Stock and Option Awards ($) (2)**
Daniel G. Eramian											
Annual Bonus	N/A		94,500	236,250							
Stock Bonus	3/25/09							868,967			208,552
Stock Bonus	7/31/09							644,897			954,448
Stock Bonus	11/10/09							870,050			861,350
Performance Award(3)	12/15/09					264,150					
Performance Award(4)	12/15/09					352,201					
Performance Award(5)	12/15/09					528,301					
Performance Award(6)	12/15/09					1,056,602					
Performance Award(7)	12/15/09					792,451					
Performance Award(8)	12/15/09					528,301					
Performance Award(9)	12/15/09					1,232,702					
Performance Award(10)	12/15/09					1,320,752					1,358,421
Craig W. Philips											
Annual Bonus	N/A		160,800	402,000							
Stock Bonus	3/25/09							1,737,934			417,104
Stock Bonus	7/31/09							1,289,795			1,908,897
Stock Bonus	11/10/09							1,740,101			1,722,700
Performance Award(3)	12/15/09					528,301					
Performance Award(4)	12/15/09					704,401					
Performance Award(5)	12/15/09					1,056,602					
Performance Award(6)	12/15/09					2,113,203					
Performance Award(7)	12/15/09					1,584,903					
Performance Award(8)	12/15/09					1,056,602					
Performance Award(9)	12/15/09					2,465,404					
Performance Award(10)	12/15/09					2,641,504					2,716,842
Jack W. Singer, M.D.											
Annual Bonus	N/A		102,000	255,000							
Stock Bonus	3/25/09							868,967			208,552
Stock Bonus	7/31/09							875,981			1,296,452
Stock Bonus	11/10/09							1,177,468			1,165,693
Performance Award(3)	12/15/09					358,071					
Performance Award(4)	12/15/09					475,471					
Performance Award(5)	12/15/09					716,141					
Performance Award(6)	12/15/09					1,426,412					
Performance Award(7)	12/15/09					1,068,342					
Performance Award(8)	12/15/09					716,141					
Performance Award(9)	12/15/09					1,667,083					
Performance Award(10)	12/15/09					1,790,353					1,841,415

129

Table of Contents

(1) This column reflects the December 2009 Performance Awards granted to each named executive officer. As described in the Compensation Discussion and Analysis above, these awards will be payable in shares of the Company s common stock if certain performance goals are achieved on or before December 31, 2011,
with the number of shares payable upon achievement of the related performance goal to be determined by multiplying the payout percentage that has been assigned by the Compensation Committee to that goal for purposes of the named executive officer s award by the number of shares of the Company s common stock issued and outstanding at the time the Compensation Committee certifies that the particular goal has been achieved. For each award, the Target column reflects the number of shares that would be issued upon timely achievement of the related performance goal based on the applicable payout percentage and the number of shares of the Company s common stock issued and outstanding on December 15, 2009. The actual number of shares issued for each award upon timely achievement of the related performance goal may be different from the number reported in the table above depending on the number of shares of the Company s common stock issued and outstanding at the time the Compensation Committee certifies that the goal has been achieved.

(2) The amounts reported in this column reflect the fair value of these awards on the grant date as determined under the generally accepted accounting principles used to calculate the value of equity awards for purposes of the Company s financial statements. For a discussion of the assumptions and methodologies used to value the awards reported in this column, please see footnote (2) to the Summary Compensation Table. With respect to equity incentive plan awards, this column reflects the grant date fair value of such awards based on the probable outcome (as of the grant date) of the performance-based conditions applicable to the awards, as determined under generally accepted accounting principles.
(3) The vesting of these awards is subject to the Company s obtaining MAA approval of OPAXIO on or before December 31, 2011.
(4) The vesting of these awards is subject to the Company s obtaining NDA approval of OPAXIO on or before December 31, 2011.
(5) The vesting of these awards is subject to achievement by the Company of fiscal year sales equal to or greater than $50 million on or before December 31, 2011.
(6) The vesting of these awards is subject to achievement by the Company of fiscal year sales equal to or greater than $100 million on or before December 31, 2011.
(7) The vesting of these awards is subject to the Company s obtaining NDA approval of pixantrone on or before December 31, 2011.
(8) The vesting of these awards is subject to achievement by the Company of break-even cash flow in the fourth quarter of fiscal 2010.
(9) The vesting of these awards is subject to achievement by the Company of earnings per share results in any fiscal year equal to or greater than $0.05 per share of Company common stock on or before December 31, 2011.
(10) The vesting of these awards is subject to the Company s achievement of a price per share of the Company s common stock equal to $2.94 on or before December 31, 2011.

Description of Plan-Based Awards

Each of the Non-Equity Incentive Plan Awards reported in the Grants of Plan-Based Awards Table was granted under the Company s 2009 annual incentive program. The material terms of these annual incentive awards are described in the Compensation Discussion and Analysis above.

Each of the equity awards reported in the table above was granted under the 2007 Equity Plan. The 2007 Equity Plan is administered by the Compensation Committee. The Compensation Committee has authority to interpret the 2007 Equity Plan provisions and make all required determinations under the 2007 Equity Plan. This authority includes making required proportionate adjustments to outstanding awards upon the occurrence of certain corporate events such as reorganizations, mergers and stock splits, and making provision to ensure that any tax withholding obligations incurred in respect of awards are satisfied. Awards granted under the 2007 Equity Plan are generally only transferable to a beneficiary of a named executive officer upon his death. However, the Compensation Committee may establish procedures for the transfer of awards to other persons or entities, provided that such transfers comply with applicable securities laws and, with limited exceptions set forth in the 2007 Equity Plan document, are not made for value.

Under the terms of the 2007 Equity Plan, if there is a change in control of the Company, each named executive officer s outstanding awards granted under the 2007 Equity Plan will generally become fully vested and, in the case of options, exercisable, unless the Compensation Committee provides for the substitution, assumption, exchange or other continuation or settlement (in cash, securities or property) of the outstanding awards. Any options that become vested in connection with a change in control generally must be exercised prior to the change in control, or they may terminate or be terminated in such circumstances.

Restricted Stock. The awards granted in March 2009 reported in the table above represent grants of restricted stock to each of the named executive officers. Each of these awards is scheduled to vest in three equal

Table of Contents

installments, with the first installment vesting six months after the grant date and the second and third installments vesting on the first and second anniversaries of the grant date. Prior to the time the shares become vested, the named executive officer generally does not have the right to dispose of the restricted shares, but does have the right to vote and receive dividends (if any) paid by the Company in respect of the restricted shares.

Stock Bonuses. The awards granted in July 2009 and November 2009 reported in the table above represent grants of fully-vested shares to each of the named executive officers. These grants were made in connection with the appreciation of the Company s stock price to specified levels as described in the Compensation Discussion and Analysis above.

Performance Awards. The awards granted in December 2009 reported in the table above represent the December 2009 Performance Awards. These awards represent a contractual right to receive shares of the Company s common stock upon vesting of the award. See the Compensation Discussion and Analysis above for a description of the performance and other vesting conditions applicable to the awards and the footnotes to the table above for the number of shares that would be payable upon vesting of the awards granted to the named executive officers. The named executive officer does not have the right to vote or dispose of the awards or any other shareholder rights with respect to the awards.

Table of Contents

Outstanding Equity Awards at Fiscal 2009 Year-End

The following table presents information regarding the outstanding equity awards held by each of the Company s named executive officers as of December 31, 2009, including the vesting dates for the portions of these awards that had not vested as of that date.

		Option Awards				Stock Awards			
Name	Grant Date	Number of Shares Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Unites of Stock That Have Not Vested ($)(1)	Equity Incentive Plan Awards; Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards; Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(1)
James A. Bianco, M.D	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	2,994		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				
	1/18/2007	4,000	2,000(2)	68.00	1/18/2017				
	12/27/2007	10,000		18.90	12/27/2017				
	12/27/2007							24,000(3)	27,360
	3/25/2009					1,931,038(4)	2,201,383		
	12/15/09							20,364,749(5)	23,215,814
Louis A. Bianco	11/30/2000	750		1,718.80	11/30/2010				
	11/30/2001	1,033		1,091.80	11/30/2011				
	7/30/2002	701		139.40	7/30/2012				
	12/3/2002	1,115		379.80	12/3/2012				
	12/11/2003	1,486		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	1,167	583(2)	68.00	1/18/2017				
	12/27/2007	3,600		18.90	12/27/2017				
	12/27/2007							8,000(3)	9,120
	3/25/2009					579,311(4)	660,415		
	12/15/2009							8,263,956(5)	9,420,910
Daniel G. Eramian	3/31/2006	2,375		76.40	3/31/2016				
	6/22/2006	750		56.80	6/22/2016				
	1/18/2007	1,000	500(2)	68.00	1/18/2017				
	12/27/2007	3,600		18.90	12/27/2017				
	12/27/2007							8,000(3)	9,120
	3/25/2009					579,311(4)	660,415		
	12/15/2009							6,109,425(5)	6,964,744
Craig W. Philips	6/5/2008	5,000	10,000(6)	5.80	6/5/2018				
	6/5/2008					16,667(7)	18,999		
	3/25/2009					1,158,622(4)	1,320,829		
	12/15/2009							12,218,849(5)	13,929,488
Jack W. Singer, M.D.	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	767		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	1,167	583(2)	68.00	1/18/2017				
12/27/2007	3,600		18.90	12/27/2017				
12/27/2007							8,000(3)	9,120
3/25/2009					579,311(4)	660,415		
12/15/2009							8,263,956(5)	9,420,910

Table of Contents

(1) The dollar amounts shown in these columns are determined by multiplying the applicable number of shares or units by $1.14 (the closing price of the Company s common stock on the last trading day of fiscal 2009).
(2) These option grants vest over three years, with one-third of the grant vesting on each of January 18, 2008, January 18, 2009 and January 18, 2010, subject to continued service with the Company.
(3) One-half of the shares subject to these grants will vest if the Company obtains FDA approval of OPAXIO prior to December 31, 2010, subject to continued service with the Company. The remaining one-half of the shares will not vest due to the divestiture of Zevalin (the shares would have vested if the Company had obtained a specific annual net sales threshold for Zevalin prior to December 31, 2010).
(4) These shares vest over two years, with 1/3 of the shares vesting on each of September 25, 2009, March 25, 2010 and March 25, 2011, subject to continued service with the Company.
(5) These entries reflect the December 2009 Performance Awards that will be payable in shares of the Company s common stock if certain performance goals (identified above in the footnotes to the Grants of Plan-Based Awards table) are achieved on or before December 31, 2011, with the number of shares payable upon achievement of the related performance goal to be determined by multiplying the payout percentage that has been assigned by the Compensation Committee to that goal for purposes of the named executive officer s award by the number of shares of the Company s common stock issued and outstanding at the time the Compensation Committee certifies that particular goal has been achieved. The table above reports the aggregate number of shares that would be issued upon timely achievement of all of the performance goals based on the applicable payout percentages and the number of shares of the Company s common stock issued and outstanding on December 31, 2009. The actual number of shares issued for each award upon timely achievement of the related performance goal may be different from the number reported in the table above depending on the number of shares of the Company s common stock issued and outstanding at the time the Compensation Committee certifies that the goal has been achieved.
(6) This option grant vests over three years, with one-third of the grant vesting on each of April 26, 2009, April 26, 2010 and April 26, 2011, subject to continued service with the Company.
(7) The shares subject to this grant vest over three years, with 17,334 shares having vested on April 26, 2009, 8,333 shares vesting on April 26, 2010 and 8,333 shares vesting on April 26, 2011, subject to continued service with the Company.

Option Exercises and Stock Vested Fiscal 2009

The following table presents information regarding the vesting during fiscal 2009 of stock awards previously granted by the Company to the named executive officers. No executive officer exercised any stock options granted by the Company during fiscal 2009.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(1)
James A. Bianco, M.D.			6,165,345	7,416,404
Louis A. Bianco			2,418,105	2,904,569
Daniel G. Eramian			1,879,603	2,258,221
Craig W. Philips			3,701,542	4,439,260
Jack W. Singer, M.D.			2,418,105	2,904,569

(1) The dollar amounts shown in this column for stock awards are determined by multiplying the number of shares or units, as applicable, that vested by the per-share closing price of the Company s common stock on the vesting date.

Potential Payments upon Termination or Change in Control

The following section describes the benefits that may become payable to the named executive officers in connection with a termination of their employment and/or a change in control of the Company.

James A. Bianco, M.D. Pursuant to his employment agreement described above, if Dr. Bianco s employment is terminated by the Company without cause or if he resigns for good reason (as the terms cause and good reason are defined in the agreement), he will receive the following severance benefits: (i) cash severance equal to two years of his base salary, (ii) reimbursement for up to two years by the Company for COBRA premiums to continue his medical coverage and that of his eligible dependents, (iii) continued payment for up to two years by the Company of premiums to maintain life insurance paid for by the Company at the time of his termination, and (iv) a cash payment for the value of his accrued and unpaid vacation. In addition, Dr. Bianco would be entitled to accelerated vesting of all of his then-outstanding and unvested stock-based compensation, and his outstanding stock options would remain exercisable for a period of two years following the severance date. In the event of a change of control of the Company, if Dr. Bianco is terminated without cause

133

or resigns for good reason, he will receive cash severance in the form of a lump sum payment equal to two years of his base salary, plus an amount equal to the greater of the average of his three prior years bonuses or thirty percent of his base salary, as well as the benefits described in clauses (ii) through (iv) above. Dr. Bianco s right to receive these severance benefits is conditioned upon his executing a release of claims in favor of the Company and complying with certain restrictive covenants set forth in the agreement. Further, if the Company is required to restate financials due to its material noncompliance with any financial reporting requirement under the U.S. securities laws during any period for which Dr. Bianco was chief executive officer of the Company or Dr. Bianco acts in a manner that would have constituted cause for his termination had he been employed at the time of such act, Dr. Bianco will not be entitled to any severance benefits that have not been paid, and will be required to repay any portion of the severance to the Company that has already been paid. The agreement further provides that if there is a change of control of the Company during Dr. Bianco s employment with the Company, all of his then-outstanding and unvested stock-based compensation will fully vest and all outstanding stock options will remain exercisable for a period of two years following Dr. Bianco s severance date. In addition, in the event that Dr. Bianco s benefits under the agreement are subject to the excise tax imposed under Section 280G of the Internal Revenue Code, or Section 280G, the Company will make an additional payment to him so that the net amount of such payment (after taxes) he receives is sufficient to pay the excise tax due.

Craig W. Philips. Pursuant to his employment agreement described above, if Mr. Philips employment is terminated by the Company without cause or if he resigns for good cause (as the terms cause and good cause are defined in the agreement), he will receive the following severance benefits: (i) cash severance equal to 18 months of his base salary, (ii) reimbursement for up to 18 months by the Company for COBRA premiums to continue his health coverage and that of his eligible dependents, and (iii) a cash payment for the value of his accrued and unpaid vacation. In addition, Mr. Philips would be entitled to accelerated vesting of any portion of his then-outstanding and unvested stock-based compensation that was scheduled to vest within one year following the date of his termination. If a change in control of the Company occurs and, within 12 months following the change in control, Mr. Philips employment is terminated by the Company without cause or Mr. Philips voluntarily resigns for any reason, he would be entitled to accelerated vesting of all of his then-outstanding and unvested stock-based compensation in addition to the benefits described in clauses (i) through (iii) above. Mr. Philips right to receive these severance benefits is conditioned upon his executing a release of claims in favor of the Company and complying with certain restrictive covenants set forth in the agreement.

If Mr. Philips employment is terminated on account of disability, in addition to any short-term or long-term disability benefits he may be entitled to under any Company group disability plans, the Company will pay Mr. Philips a pro rata share of his target bonus for the year in which his termination occurs, and the Company will also pay Mr. Philips COBRA premiums for the period of time he is eligible for COBRA.

Other Named Executive Officers. The Company has entered into severance agreements with each of Mr. Bianco, Dr. Singer and Mr. Eramian. These agreements provide that in the event the executive is discharged from employment by the Company without cause or resigns for good reason (as each such term is defined in the agreements), he will receive the following severance benefits: (i) cash severance equal to 18 months of his base salary, plus an amount equal to the greater of the average of his three prior years bonuses or thirty percent of his base salary, (ii) reimbursement for up to 18 months by the Company for COBRA premiums to continue his medical coverage and that of his eligible dependents, (iii) continued payment for up to 18 months by the Company of premiums to maintain life insurance paid for by the Company at the time of his termination, and (iv) a cash payment for the value of his accrued and unpaid vacation. In addition, the executive would be entitled to accelerated vesting of all of his then-outstanding and unvested stock-based compensation, and his outstanding stock options would remain exercisable for a period of 21 months following the severance date. In addition, in the event that the executive s benefits under the agreement are subject to the excise tax imposed under Section 280G, the Company will make an additional payment to him so that the net amount of such payment (after taxes) he receives is sufficient to pay the excise tax due. The executive s right to receive these severance benefits is conditioned upon his executing a release of claims in favor of the Company and not breaching his inventions and proprietary information agreement with the Company.

Table of Contents

Quantification of Severance and Change in Control Benefits. The tables below quantify the benefits that would have been payable to each of the named executive officers if the executive s employment had terminated under the circumstances described above and/or a change in control of the Company had occurred on December 31, 2009. The first table presents the benefits the executive would have received if such a termination had occurred outside of the context of a change in control. The second table presents the benefits the executive would have received if such a termination occurred in connection with a change in control.

Severance Benefits (Outside of Change of Control)

Name	Cash Severance ($)(1)	Continuation of Health/Life Benefits ($)(2)	Cash-Out of Accrued and Unpaid Vacation ($)	Equity Acceleration ($)(3)	Total ($)
James A. Bianco, M.D.	1,300,000	154,704	213,357	25,444,557	27,112,618
Louis A. Bianco	625,900	48,960	38,075	10,090,444	10,803,379
Daniel G. Eramian	587,725	39,852	36,345	7,634,279	8,298,201
Craig W. Philips	603,000	46,314(4)	25,704	14,599,403	15,274,421
Jack W. Singer, M.D.	639,200	46,962	39,229	10,090,444	10,815,835

(1) For Dr. Bianco and Mr. Philips, this amount represents two years and 18 months of the executive s base salary, respectively. For each of the other named executive officers, this amount represents the sum of (i) 18 months of the executive s base salary, and (ii) the greater of the executive s average annual bonus for the preceding three years or 30% of the executive s base salary.

(2) This amount represents the aggregate estimated cost of the premiums that would be charged to continue health coverage for the applicable period pursuant to COBRA for the executive and his eligible dependents (to the extent that such dependents were receiving health benefits as of December 31, 2009). For Dr. Bianco, this amount also includes the cost of continued payment by the Company of his life insurance premiums for two years. For each of the other named executive officers, except for Mr. Philips, this amount also includes the cost of continued payment by the Company of their life insurance premiums for 18 months.

(3) This amount represents the intrinsic value of the unvested portions of the executive s awards that would have accelerated on a termination of the executive s employment as described above. For options, this value is calculated by multiplying the amount (if any) by which $1.14 (the closing price of the Company s common stock on the last trading day of fiscal 2009) exceeds the exercise price of the option by the number of shares subject to the accelerated portion of the option. For restricted stock awards and the December 2009 Performance Awards, this value is calculated by multiplying $1.14 by the number of shares subject to the accelerated portion of the award, based in the case of the December 2009 Performance Awards on the applicable payout percentage and the number of shares of the Company s common stock issued and outstanding on the last trading day of fiscal 2009. As noted above, each executive would have been entitled to full acceleration of his then-outstanding equity awards on such a termination, except that Mr. Philips would have been entitled to accelerated vesting with respect to any portion of his then-outstanding equity awards that were scheduled to vest within one year of his termination. Dr. Bianco s stock options would also remain exercisable for two years following his termination, subject to earlier termination at the end of the maximum term of the option or in connection with a change in control of the Company.

(4) As noted above, if Mr. Philips employment terminated due to disability, he would be entitled to continued payment of his COBRA premiums for the period of time he is eligible for COBRA and a pro rata share of his target bonus for the year in which his termination occurs.

Table of Contents

Change of Control Severance Benefits

Name	Cash Severance ($)(1)	Continuation of Health Benefits ($)(2)	Cash-Out of Accrued and Unpaid Vacation ($)	Equity Acceleration ($)(3)	Section 280G Gross-Up ($)(4)	Total ($)
James A. Bianco, M.D.	1,825,646	154,704	213,357	20,397,641	8,690,642	31,281,990
Louis A. Bianco	625,900	48,960	38,075	8,038,032	3,481,671	12,232,638
Daniel G. Eramian	587,725	39,852	36,345	6,120,204	2,621,179	9,405,305
Craig W. Philips	603,000	46,314	25,704	12,241,167	5,175,986	18,092,171
Jack W. Singer, M.D.	639,200	46,962	39,229	8,038,032	3,454,322	12,217,745

(1) For each of the named executive officers, except for Mr. Philips, this amount represents the sum of (i) 18 months of the executive s base salary (or, in the case of Dr. Bianco, two years of his base salary), and (ii) the greater of the executive s average annual bonus for the preceding three years or 30% of the executive s base salary. For Mr. Philips, this amount represents 18 months of his base salary.

(2) See footnote (2) to the table above.

(3) See footnote (3) to the table above. Dr. Bianco would be entitled to full acceleration of his outstanding equity awards on a change in control without regard to whether his employment terminates. Each of the other executives would be entitled to full acceleration of his outstanding equity awards on a termination of his employment in the circumstances described above. The values reported in this column are lower than the values reported in the corresponding column of the Severance Benefits (Outside of Change of Control) table above because, as noted in the discussion of the December 2009 Performance Awards in the Compensation Discussion and Analysis above, the vesting of the portion of these awards related to the Share Appreciation Goal upon a change in control of the Company will be determined based on the Company s stock price at the time of the change in control. If a change in control had occurred on December 31, 2009, the Share Appreciation Goal portion of these awards would not have vested based on the $1.14 per-share closing price of the Company s common stock on that date and would have been cancelled on that date.

(4) For purposes of this calculation, the Company has assumed that the executive s outstanding equity awards would be accelerated and, in the case of options, terminated in exchange for a cash payment upon a change in control that triggered excise taxes under Sections 280G and 4999 of the Internal Revenue Code. As noted above, the severance agreements for each of the named executive officers other than Mr. Philips and the award agreements for the December 2009 Performance Awards for each of the executives (including Mr. Philips) provide for a Section 280G gross-up payment.

136

Table of Contents

DIRECTOR COMPENSATION

Non-Employee Director Compensation Table

The following table presents information regarding the compensation paid for fiscal 2009 to members of the Board of Directors who are not also employees of the Company (referred to herein as non-employee directors). The compensation paid to Dr. Bianco and Dr. Singer, who are also employed by the Company, for fiscal 2009 is presented above in the Summary Compensation Table and the related explanatory tables. Dr. Bianco and Dr. Singer are generally not entitled to receive additional compensation for their services as directors.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)(2)(3)	Option Awards ($)(1)(2)(3)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
John H. Bauer	120,500	1,194,175	16,758				1,331,433
Vartan Gregorian, Ph.D.	104,250	1,194,175	16,758				1,315,183
Richard L. Love	119,750	1,194,175	16,758				1,330,683
Mary O. Mundinger, Dr. PH	102,500	1,194,175	16,758				1,313,433
Phillip M. Nudelman, Ph.D.	166,000	1,780,562	16,758				1,963,320
Frederick W. Telling, Ph.D.	138,750	1,194,175	16,758				1,349,683

(1) The amounts reported in the Stock Awards and Option Awards columns of the table above reflect the fair value on the grant date of the stock awards and option awards, respectively, granted to the Company s non-employee directors during fiscal 2009 as determined under generally accepted accounting principles used to calculate the value of equity awards for purposes of the Company s financial statements. For a discussion of the assumptions and methodologies used to calculate the amounts reported above, please see the discussion of equity awards contained in Note 13, *Stock-Based Compensation.*

(2) The table below presents the number of outstanding and unexercised option awards and the number of shares subject to unvested stock awards (including the December 2009 Performance Awards) held by each of the Company s non-employee directors as of December 31, 2009. This table includes the December 2009 Performance Awards granted to each of the non-employee directors under the Company s equity grant program. As described in the Compensation Discussion and Analysis above, these awards will be payable in shares of the Company s common stock if certain performance goals are achieved on or before December 31, 2011, with the number of shares payable upon achievement of the related performance goal to be determined by multiplying the payout percentage that has been assigned by the Compensation Committee to that goal for purposes of the non-employee director s award by the number of shares of the Company s common stock issued and outstanding at the time that particular goal is achieved. The table below reflects the aggregate number of shares that would be issued upon timely achievement of all of the performance goals based on the applicable payout percentages and the number of shares of the Company s common stock issued and outstanding on December 31, 2009. The actual number of shares issued for each award upon timely achievement of the related performance goal may be different from the number reported in the table above depending on the number of shares of the Company s common stock issued and outstanding at the time the goal is achieved.

Director	Number of Shares Subject to Outstanding Options as of 12/31/09	Number of Unvested Restricted Shares/Units as of 12/31/09
John H. Bauer	35,400	2,410,644
Vartan Gregorian, Ph.D.	36,525	2,410,644
Richard L. Love	35,400	2,410,744
Mary O. Mundinger, Dr. PH	36,875	2,410,644
Phillip M. Nudelman, Ph.D.	36,773	3,611,869
Frederick W. Telling, Ph.D.	35,100	2,410,644

137

Table of Contents

(3) On April 1, 2009, Dr. Nudelman was granted an award of 482,759 shares of common stock and each of the other non-employee directors was granted an award of 321,839 shares. These awards had a grant date fair value of $173,793 and $115,862, respectively. On July 31, 2009, Dr. Nudelman was granted an award of 322,449 shares of common stock and each of the other non-employee directors was granted an award of 214,966 shares. These awards had a grant date fair value of $477,225 and $318,150, respectively. On November 13, 2009, Dr. Nudelman was granted an award of 435,025 shares of common stock and each of the other non-employee directors was granted an award of 290,017 shares. These awards had a grant date fair value of $428,935 and $285,957, respectively.

On October 20, 2009, each of the non-employee directors was granted an award of 20,000 restricted shares and an option to purchase 30,000 shares pursuant to the Company s non-employee director compensation program described below. Each of the restricted stock awards had a grant date fair value of $21,400, and each of the options had a grant date fair value of $16,758.

On December 15, 2009, each of the non-employee directors was granted a December 2009 Performance Award under the Company s equity grant program. See footnote (2) above for a description of the December 2009 Performance Awards. The award granted to each non-employee director had an aggregate grant date fair value of $452,807, except that the award granted to Dr. Nudelman had an aggregate grant date fair value of $679,210.

See footnote (1) above for the assumptions used to value each of these awards.

Non-Employee Director Compensation

Equity Grants. Under the Company s Revised Director Compensation Policy, as approved by the Board effective July 1, 2009, the Company s non-employee directors receive compensation as follows: (i) each new non-employee director is granted 108,000 shares of restricted stock and options to purchase 36,000 shares of the Company s common stock upon joining the Board, each such grant to vest over three years in substantially equal annual installments, subject to the non-employee director s continued service to the Company through the applicable vesting date; and (ii) on the date of each Annual Meeting, each continuing non-employee director is granted an award of 20,000 shares of restricted stock and an option to purchase 30,000 shares of the Company s common stock, each such grant to vest in full upon the earlier of (x) the one-year anniversary of the date of grant, and (y) the date immediately preceding the date of the Annual Meeting for the year following the year of grant for the award, subject to the non-employee director s continued service to the Company through the vesting date.

As described in the Equity Awards Approved in Fiscal 2009 section of the Compensation Discussion and Analysis above, the Company granted stock bonuses to the named executive officers during fiscal 2009 in connection with the Company s stock price attaining certain levels of appreciation, and in December 2009, the Compensation Committee approved the grants of the December 2009 Performance Awards to the named executive officers that will be payable in fully vested shares of Company common stock if the Company achieves certain financial and operational performance goals. Each of the non-employee directors also received grants of stock bonuses on three occasions during fiscal 2009 in connection with the Company attaining certain levels of stock price appreciation. In December 2009, the Board of Directors approved the grant to each non-employee director of a December 2009 Performance Award that will be payable in fully vested shares of the Company s common stock upon the achievement of the performance goals identified for the named executive officers awards in the Compensation Discussion and Analysis above, subject to the goal s being achieved before December 31, 2011 and the director s continued service with the Company. The number of shares that will be payable in respect of each award will be determined based on the applicable payout percentage assigned to that particular goal and the number of the Company s issued and outstanding shares at the time the goal is achieved.

Table of Contents

Retainers and Meeting Fees. In addition, non-employee directors are entitled under the Revised Director Compensation Policy to annual retainers and fees for attending Board and committee meetings as set forth in the following table:

		Meeting Fees ($)	
	Annual Cash Retainer ($)	Board	Committee
Board Member, other than Chairman of the Board	40,000	2,750	
Chairman of the Board	75,000	2,750	
Audit Committee Member			1,250
Audit Committee Chair	12,500		1,250
Compensation Committee Member			1,250
Compensation Committee Chair	12,500		1,250
Nominating and Governance Committee Member			1,250
Nominating and Governance Committee Chair	12,500		1,250

Prior to July 2009, the annual retainers for the Chairman of the Board and the other Board members were $52,500 and $25,000, respectively, and the annual retainers for the committee chairs were $10,000. The fees for attending Board and committee meetings were $2,000 and $1,000, respectively.

All non-employee directors are also reimbursed for their expenses incurred in attending Board meetings and committee meetings, as well as other Board-related travel expenses.

Table of Contents

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

The following table provides certain information regarding beneficial ownership of common stock as of February 1, 2010, by (1) each shareholder known by the Company to be the beneficial owner of more than 5% of the Company s outstanding shares of common stock, (2) each of the Company s directors, (3) each of the Company s principle executive officer, or the PEO, principal financial officer, or the PFO,, and the three most highly compensated executive officers other than the PEO and PFO who were still serving as executive officers as of December 31, 2009, and (4) all directors and executive officers as a group:

	Common Stock		
Name and Address of Beneficial Owner(1)	**Number of Shares Beneficially Owned(2)**	**Shares Subject to Convertible Securities(3)**	**Percentage Ownership(2)**
James A. Bianco, M.D.**(4)	4,604,850	46,869	*
John H. Bauer**(5)	793,547	5,400	*
Louis A. Bianco(6)	2,151,054	17,935	*
Daniel G. Eramian(6)	1,798,720	8,225	*
Vartan Gregorian, Ph.D.**(5)	899,797	6,525	*
Richard L. Love**(7)	1,516,212	5,100	*
Mary O. Mundinger, DrPH**(5)	860,063	6,875	*
Phillip M. Nudelman, Ph.D.**(5)	1,163,079	6,773	*
Craig W. Philips(8)	3,544,397	5,000	*
Jack W. Singer, M.D.**(6)	2,161,696	21,117	*
Frederick W. Telling, Ph.D.**(5)	898,185	5,100	*
All directors and executive officers as a group (11 persons)(9)	20,391,600	134,919	3.3%

* Less than 1%

** Denotes director of the Company

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

(2) Beneficial ownership generally includes voting or investment power with respect to securities and is calculated based on 615,643,575 shares of the Company s common stock outstanding as of February 1, 2010. This table is based upon information supplied by officers, directors and other investors including information from Schedules 13D, 13G and 13F and Forms 3 and 4 filed with the SEC. Shares of common stock subject to options, warrants or other securities convertible into common stock that are currently exercisable or convertible, or exercisable or convertible within 60 days of February 1, 2010, are deemed outstanding for computing the percentage of the person holding the option, warrant or convertible security but are not deemed outstanding for computing the percentage of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of stock beneficially owned.

(3) Shares subject to convertible securities included in this column reflects all options, warrants and convertible debt held by the holder exercisable within 60 days after February 1, 2010. These shares are also included in the column titled Number of Shares Beneficially Owned.

(4) Number of shares beneficially owned includes 1,955,038 shares of unvested restricted stock, 24,000 of which have contingent vesting terms. Of these contingent shares, 12,000 shares will vest if the Company obtains FDA approval of OPAXIO prior to December 31, 2010 and 12,000 shares will not vest due to the divestiture of Zevalin (such shares would have vested if the Company had obtained a specific annual net sales threshold for Zevalin prior to December 31, 2010). Includes 20 shares held by Dr. Bianco s wife and two shares held by Dr. Bianco s wife as custodian.

(5) Number of shares beneficially owned includes 20,000 shares of unvested restricted stock.

(6) Number of shares beneficially owned includes 587,311 shares of unvested restricted stock, 8,000 of which have contingent vesting terms. Of these contingent shares, 4,000 shares will vest if the Company obtains FDA approval of OPAXIO prior to December 31, 2010 and 4,000 will not vest due to the divestiture of

140

Zevalin (such shares would have vested if the Company had obtained a specific annual net sales threshold for Zevalin prior to December 31, 2010). Includes 1,118 shares held by Mr. Bianco in trust for his children.

(7) Number of shares beneficially owned includes 20,100 shares of unvested restricted stock.

(8) Number of shares beneficially owned includes 1,175,288 shares of unvested restricted stock.

(9) Number of shares beneficially owned includes 5,012,359 shares of unvested restricted stock for all directors and executive officers as a group, of which 48,000 shares are contingent and would vest as described in the above footnotes.

Equity Compensation Plan Information

The following table gives information about the Company s common stock that may be issued upon the exercise of options, warrants and rights under all of the Company s existing compensation plans as of December 31, 2009, including the 2007 Equity Plan, 1994 Equity Incentive Plan and the ESPP.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Plans Approved by Shareholders(1)	622,250(2)	$ 80.17	1,474,591
Plan Not Approved by Shareholders		$	
Totals	622,250	$ 80.17	1,474,591

(1) All of the shares reported in Column (c) were available for issuance under the ESPP. As described above, the Compensation Committee approved the December 2009 Performance Awards under the 2007 Equity Plan that would be payable in shares of the Company s common stock upon satisfaction of the performance and other requirements imposed on the award. Columns (a) and (b) of this table are presented without giving effect to the December 2009 Performance Awards as the number of shares that would be issuable in payment of these awards depends on the Company s total issued and outstanding shares at the time of payment and was therefore not determinable as of December 31, 2009. Column (c) is presented after giving effect to the December 2009 Performance Awards (assuming the performance goals applicable to these awards were achieved). As of December 31, 2009, 36,078,425 shares of the Company s common stock were available for award grant purposes under the 2007 Equity Plan (before giving effect to the December 2009 Performance Awards) and all of these shares would have been used to pay the December 2009 Performance Awards if the performance goals applicable to these awards had been achieved. If the December 2009 Performance Awards become payable and sufficient shares are not available under the 2007 Equity Plan (after reserving sufficient shares to cover the other awards then outstanding under the 2007 Equity Plan), the number of shares payable with respect to the December 2009 Performance Awards will be proportionately reduced such that the share limits of the 2007 Equity Plan will not be exceeded.

(2) Of these shares, 582,496 were subject to options then outstanding under the 2007 Equity Plan, and 39,754 were subject to options then outstanding under the 1994 Equity Incentive Plan. The Company s authority to grant new awards under the 1994 Equity Incentive Plan has terminated.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Related Party Transactions

Pursuant to our Code of Business Conduct and Ethics and our Amended and Restated Charter for the Audit Committee of the Board of Directors of Cell Therapeutics, Inc., any potential related party transaction must be fully disclosed to our Chief Financial Officer. Upon review, if our Chief Financial Officer determines that the transaction is material to the Company, then the Company s Audit Committee must review and approve in writing in advance such related party transaction. Item 404(a) of Regulation S-K requires the company to disclose in its Annual Report on Form 10-K any transaction involving more than $120,000 in which the

Table of Contents

Company is a participant and in which any related person has or will have a direct or indirect material interest. A related person is any executive officer, director, nominee for director, or holder of 5% or more of the Company s common stock, or an immediate family member of any of those persons.

Certain Transactions with Related Persons

In May 2007, we formed Aequus Biopharma, Inc., or Aequus, a majority owned subsidiary of which our ownership was approximately 69% as of December 31, 2009. We entered into a license agreement with Aequus whereby Aequus gained rights to our Genetic Polymer technology which Aequus will continue to develop. The Genetic Polymer technology may speed the manufacture, development, and commercialization of follow-on and novel protein-based therapeutics.

In May 2007, we also entered into an agreement to fund Aequus in exchange for a convertible promissory note that becomes due and payable in five years and earns interest at a rate of 6% per annum. The note can be converted into equity at any time prior to its maturity upon CTI s demand, or upon other triggering events. The number of shares of Aequus equity securities to be issued upon conversion of this note is equal to the quotient obtained by dividing (i) the outstanding balance of the note by (ii) 100% of the price per share of the equity securities. We funded Aequus $0.6 million, $0.3 million and $0.5 million during the years ended December 31, 2009, 2008 and 2007, respectively. In addition, we entered into a services agreement to provide certain administrative and research and development services to Aequus. The amounts charged for these services, if unpaid by Aequus within 30 days, will be considered additional principal advanced under the promissory note.

Our President and Chief Executive Officer, James A. Bianco, M.D. and our Executive Vice President, Chief Medical Officer, Jack W. Singer, M.D. are both minority shareholders of Aequus, each owning approximately 4.9% of the equity in the company. Additionally, both Dr. Bianco and Dr. Singer are members of Aequus board of directors and each have entered into a consulting agreement with Aequus. Additionally, Frederick W. Telling, Ph.D., a member of our board of directors, owns approximately 1% of Aequus and is also a member of Aequus board of directors.

We own 4.5% of the equity of DiaKine Therapeutics, Inc., or DiaKine. Louis A. Bianco currently serves on the Board of Directors of DiaKine and Jack W. Singer, M.D. recently resigned from the Board of Directors of DiaKine. In 2005, we entered into a license agreement with DiaKine for the exclusive license of Lisofylline material to DiaKine. In connection with the license agreement, we also entered into a joint representation letter with DiaKine and a law firm for legal services provided by the law firm with respect to the Lisofylline material. Pursuant to the license agreement, DiaKine agreed to pay all fees of legal services provided by the law firm with respect to the Lisofylline material. Pursuant to the joint representation letter, we agreed to be jointly responsible to the law firm with DiaKine for the payment of such fees to the law firm. In 2009, DiaKine failed to pay certain amounts payable to the law firm pursuant to the joint representation letter. In February, 2010, we severed the joint representation letter with DiaKine and paid the outstanding third-party payables owed to the law firm in the amount of $206,000. In connection, DiaKine issued to us an unregistered convertible subordinated note due February 2013 in the amount of $206,000. The note is convertible into equity of DiaKine upon the occurrence of certain events, including certain financings of DiaKine and a sale of DiaKine.

In July 2007, we acquired Systems Medicine, Inc., or SMI, a privately-held oncology company. SMI continues to operate as our wholly-owned subsidiary. Richard L. Love previously owned shares of SMI. His shares were exchanged in July 2007 for shares of our common stock and a contingent right to receive future earn out payments in connection with our acquisition of SMI. The contingent right to future earn out payments was satisfied by immediate payment to Mr. Love of shares of our common stock in November 2009 and we registered those shares and voting agreement.

Phillip M. Nudelman serves on the Board of Directors of OptiStor Technologies, Inc. (OptiStor). We made payments of $0.8 million to OptiStor for hardware and software in 2009.

Table of Contents

Corey Masten-Legge, a stepson of James A. Bianco, M.D., is employed as a corporate attorney in our legal department. Mr. Masten-Legge earned approximately $150,000 in base salary and bonus in 2009.

Director Independence

The Board of Directors has adopted standards concerning director independence which meet the NASDAQ independence standards and, with respect to the Audit Committee, the rules of the SEC.

The Company, the Nominating and Governance Committee and the Board of Directors are involved in the process for determining the independence of acting directors and director nominees. The Company solicits relevant information from directors and director nominees via a questionnaire, which covers material relationships, compensatory arrangements, employment and any affiliation with the Company. In addition to reviewing information provided in the questionnaire, the Company asks the Company s executive officers on an annual basis regarding their awareness of any existing or currently proposed transactions, arrangements or understandings involving the Company in which any director or director nominee has or will have a direct or indirect material interest. The Company shares its findings with the Nominating and Governance Committee and the Board of Directors regarding the NASDAQ and SEC independence requirements and any information regarding the director or director nominee that suggest that such individual is not independent. The Board of Directors discusses all relevant issues, including consideration of any transactions, relationships or arrangements which are not required to be disclosed under Item 404(a) of Regulation S-K, prior to making a determination with respect to the independence of each director.

In making independence determinations, the following relationships were considered:

- Mr. Love served in previous years in an executive position and was a consultant in the first quarter of 2008 at Translational Genomics Research Institute (TGen), a non-profit biomedical research institute, and was a consultant in the first quarter of 2008. The Company made payments to TGen in 2009 for services related to clinical trials for brostallicin, however the amounts fall within NASDAQ prescribed limits.

- Dr. Nudelman serves on the Board of Directors of the Hope Heart Institute and Dr. Nudelman s son, Mark Nudelman, serves as its President and Chief Executive Officer. The Company made a charitable donation to the Hope Heart Institute in 2009, however the amount falls within NASDAQ prescribed limits.

Based on the review described above, the Board of Directors affirmatively determined that:

- A majority of the directors are independent, and all members of the Audit, Compensation and Nominating and Governance Committees are independent, under the NASDAQ standard and, in the case of the Audit Committee, the SEC standard.

- All of the non-management directors of the Company are independent under the NASDAQ standard. The independent directors are: John H. Bauer, Vartan Gregorian, Ph.D, Richard L. Love, Mary O. Mundinger, Dr. PH, Phillip M. Nudelman, Ph.D., and Frederick W. Telling, Ph.D.

- James A. Bianco, M.D. and Jack W. Singer, M.D are not independent by virtue of their positions as Chief Executive Officer of the Company and Executive Vice President, Chief Medical Officer, respectively.

Other than as described above, in 2009, there were no transactions, relationships or arrangements not disclosed as related person transactions that were considered by the Board of Directors in determining that the applicable independence standards were met by each of the directors.

Table of Contents

Item 14. Principal Accounting Fees and Services

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

Services Rendered	Stonefield Josephson, Inc. 2009	2008
Audit Fees (1)	$ 521,000	$ 680,000
Audit-Related Fees (2)		
Tax Fees (3)		
All Other Fees (4)		

(1) *Audit Fees.* This category includes fees for professional services provided in conjunction with the audit of our financial statements and with the audit of management s assessment of internal control over financial reporting and the effectiveness of internal control over financial reporting, review of our quarterly financial statements, assistance and review of documents filed with the SEC, consents, and comfort letters and attestation services provided in connection with statutory and other regulatory filings and engagements.

(2) *Audit Related Fees.* This category includes fees for assurance and related professional services associated with due diligence related to mergers and acquisitions, consultation on accounting standards or transactions, internal control reviews and assistance with internal control reporting requirements, services related to the audit of employee benefit plans, and other attestation services not required by statute or regulation.

(3) *Tax Fees.* This category includes fees for professional services provided related to tax compliance, tax planning and tax advice.

(4) *Other Fees.* There were no other fees for services not included above.

Pre-Approval Policy

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

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules

(i) Financial Statements

Reports of Stonefield Josephson, Inc, Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Shareholders Deficit and Other Comprehensive Loss

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(ii) Financial Statement Schedules

All schedules have been omitted since they are either not required, are not applicable, or the required information is shown in the financial statements or related notes.

(iii) Exhibits

Exhibit Number	Exhibit Description	Location
2.1	Agreement and Plan of Merger by and between Cell Therapeutics, Inc. and Novuspharma, S.p.A., dated as of June 16, 2003.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on June 17, 2003 (Commission No. 001-12465).
2.2	Acquisition Agreement by and among Cell Therapeutics, Inc., Cell Technologies, Inc. and Cephalon, Inc., dated June 10, 2005.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on June 14, 2005
2.3	Acquisition Agreement among Cell Therapeutics, Inc., Cactus Acquisition Corp., Saguaro Acquisition Company LLC, Systems Medicine, Inc. and Tom Hornaday and Lon Smith dated July 24, 2007.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on July 27, 2007.
2.4	Purchase and Formation Agreement by and among Cell Therapeutics, Inc., Spectrum Pharmaceuticals, Inc. and RIT Oncology, LLC, dated as of November 26, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on December 19, 2008.

		The schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A description of the omitted schedules appears in the Table of Exhibits of Exhibit 2.1. The Registrant hereby agrees to furnish a copy of any omitted schedule to the Commission upon request.
3.1	Amended and Restated Articles of Incorporation.	Incorporated by reference to the exhibits to the Registrant s Registration Statement on Form S-3 (File No. 333-153358), filed on September 5, 2008.

Table of Contents

Exhibit Number	Exhibit Description	Location
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on February 9, 2009.
3.3	Amendment to Amended and Restated Articles of Incorporation	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on March 27, 2009.
3.4	Articles of Amendment to Amended and Restated Articles of Incorporation	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on April 13, 2009.
3.5	Articles of Amendment to Amended and Restated Articles of Incorporation	Incorporated by reference to the exhibits to the Registrant s Form 8-K, filed on December 28, 2009.
3.6	Second Amended and Restated Bylaws.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on February 22, 2010.
4.1	Indenture between Cell Therapeutics, Inc. and U.S. Bank National Association as trustee, dated June 23, 2003.	Incorporated by reference to the exhibits to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, filed on August 6, 2003.
4.2	Indenture between Cell Therapeutics, Inc. and U.S. Bank National Association as Trustee, dated April 27, 2006.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on April 28, 2006.
4.3	Indenture between Cell Therapeutics, Inc. and U.S. Bank National Association as Trustee, dated December 12, 2007.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on December 13, 2007.
4.4	Form of Warrant issued July 27, 2007.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on July 27, 2007.
4.5	Form of Warrant issued December 3, 2007.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on December 3, 2007.
4.6	Form of Warrant issued December 21, 2007.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on December 27, 2007.
4.7	Form of Warrant issued March 4, 2008.	Incorporated by reference to exhibits to the Registrant s Current Report on Form 8-K, filed on March 5, 2008
4.8	Class B Common Stock Purchase Warrant, dated April 13, 2009.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on April 13, 2009.
4.9	Common Stock Purchase Warrant, dated April 13, 2009.	Incorporated by reference to the exhibits to the Registrant s Quarterly Report on Form 10-Q, filed on August 6, 2009.

Table of Contents

Exhibit Number	Exhibit Description	Location
4.10	Common Stock Purchase Warrant, dated May 11, 2009.	Incorporated by reference to the exhibits to the Registrant s Quarterly Report on Form 10-Q, filed on August 6, 2009.
4.11	Form of Common Stock Purchase Warrant, dated July 28, 2009.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on July 28, 2009
4.12	Form of Common Stock Purchase Warrant, dated July 28, 2009.	Incorporated by reference to the exhibits to the Registrant s Quarterly Report on Form 10-Q, filed on November 5, 2009.
4.13	Form of Common Stock Purchase Warrant, dated August 19, 2009.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on August 21, 2009.
4.14	Shareholder Rights Agreement, dated December 28, 2009, between the Registrant and Computershare Trust Company, N.A.	Incorporated by reference to the exhibits to the Registrant s Form 8-K, filed on December 28, 2009.
4.15	Form of Common Stock Purchase Warrant, dated January 19, 2010	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on January 19,2010.
10.1	Sublease Agreement between F5 Networks, Inc. and the Registrant, dated March 30, 2001, as amended April 13, 2001.	Incorporated by reference to the exhibits to the Registrant s amended Annual Report on Form 10-K/A for the year ended December 31, 2001, filed on April 30, 2002 (Commission No. 001-12465).
10.2	Third Amendment to Sublease Agreement between F5 Networks, Inc. and the Registrant, dated December 22, 2005.	Incorporated by reference to the exhibits to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 16, 2007.
10.3	Lease agreement between Elliott Park LLC and the Registrant, dated August 20, 2002.	Incorporated by reference to the exhibits to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2002, filed on March 27, 2003 (Commission No. 001-12465).
10.4*	Employment Agreement between Cell Therapeutics, Inc. and James A. Bianco, dated as of December 31, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on January 6, 2009.
10.5*	Form of Strategic Management Team Severance Agreement.	Incorporated by reference to the exhibits to the Registrant s amended Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 16, 2009.
10.6*	Form of Amendment to Strategic Management Team Severance Agreement.	Incorporated by reference to the exhibits to the Registrant s amended Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 16, 2009.
10.7*	Severance Agreement and General Release between Cell Therapeutics, Inc. and Scott Stromatt, dated April 3, 2008.	Incorporated by reference to the exhibits to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, filed on May 12, 2008.

Table of Contents

Exhibit Number	Exhibit Description	Location
10.8*	Employment Agreement between Cell Therapeutics, Inc. and Craig Philips, dated April 23, 2008	Incorporated by reference to the exhibits to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, filed on August 18, 2008.
10.9*	Consulting Agreement between Cell Therapeutics, Inc. and Craig Philips, dated April 23, 2008.	Incorporated by reference to the exhibits to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, filed on August 18, 2008.
10.10*	Amendment to Employment Agreement between Cell Therapeutics, Inc. and Craig Philips, dated December 31, 2008.	Incorporated by reference to the exhibits to the Registrant s amended Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 16, 2009.
10.11*	Form of Indemnification Agreement.	Incorporated by reference to exhibits to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2001, filed on March 29, 2002 (Commission No. 001-12465).
10.12*	Form of Italian Indemnity Agreement	Incorporated by reference to the exhibits to the Registrant s Form 8-K, filed on December 17, 2009.
10.13*	1994 Equity Incentive Plan, as amended.	Incorporated by reference to the exhibits to the Registrant s Registration Statement on Form S-8, filed on July 24, 2002.
10.14*	2007 Employee Stock Purchase Plan, as amended and restated.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on October 23, 2009.
10.15*	Form of Notice of Grant of Stock Options and Option Agreement for option grants under the Registrant s 2007 Equity Incentive Plan, as amended.	Incorporated by reference to the exhibits to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 4, 2005.
10.16*	2007 Equity Incentive Plan, as amended and restated.	Incorporated by reference to exhibits to the Registrant s Current Report on Form 8-K, filed on October 23, 2009.
10.17*	Form of Notice of Grant of Award and Award Agreement for grants of restricted stock under the Registrant s 2007 Equity Incentive Plan, as amended.	Incorporated by reference to exhibits to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 4, 2005.
10.18*	Cell Therapeutics, Inc. Novuspharma S.p.A. Stock Option Plan.	Incorporated by reference to the exhibits to the Registrant s Registration Statement on Form S-8, filed on February 13, 2004.
10.19*	Form of Nonqualified Stock Option Agreement for option grants under the Registrant s Novuspharma S.p.A. Stock Option Plan.	Incorporated by reference to the exhibits to the Registrant s Registration Statement on Form 10, filed on April 29, 1996.
10.20*	Revised Director Compensation Policy.	Filed herewith.

148

Table of Contents

Exhibit Number	Exhibit Description	Location
10.21*	English Translation of Severance Agreement, dated May 13, 2009.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on May 20, 2009.
10.22*	Form of Equity/Long-Term Incentive Award Agreement for Directors, dated December 15, 2009.	Filed herewith.
10.23*	Form of Equity/Long-Term Incentive Award Agreement for Employees, dated December 15, 2009.	Filed herewith.
10.24	License Agreement between Cell Therapeutics, Inc. and PG-TXL Company, dated as of November 13, 1998.	Incorporated by reference to the exhibits to the Registrant s Annual Report on Form 10-K for the year ended December 31, 1998, filed on March 31, 1999 (Commission No. 001-12465).
10.25	Amendment No. 1 to the License Agreement between the Registrant and PG-TXL Company, L.P., dated as of February 1, 2006.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on February 7, 2006.
10.26	Paclitaxel Purchase Agreement between Cell Therapeutics, Inc. and Natural Pharmaceuticals, Inc., dated as of September 28, 2001.	Incorporated by reference to the exhibits to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, filed on November 14, 2001 (Commission No. 001-12465).
10.27	License and Co-Development Agreement by and among Cell Therapeutics, Inc., Cell Therapeutics Europe S.r.L. and Novartis International Pharmaceutical Ltd. dated September 15, 2006.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on September 18, 2006.
10.28	Asset Purchase Agreement between Cell Therapeutics, Inc. and Biogen Idec Inc. dated August 15, 2007.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on August 21, 2007.
10.29	Security Agreement between Cell Therapeutics, Inc. and Biogen Idec Inc. dated December 21, 2007.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on December 31, 2007.
10.30	Supply Agreement between Cell Therapeutics, Inc. and Biogen Idec Inc. dated December 21, 2007.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on December 31, 2007.
10.31	Isotope Agreement between Biogen Idec Inc. and MDS Nordion Inc., as amended by a first amendment on January 21, 2008 and a second amendment on March 16, 2001.	Incorporated by reference to the exhibits to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 for registrant Biogen Idec Inc. (Commission No. 000-19311).
10.32	Third Amendment to Agreement between Biogen Idec Inc. and MDS (Canada) Inc., MDS Nordion division, successor to MDS Nordion Inc. dated November 12, 2001.	Incorporated by reference to the exhibits to the Annual Report on Form 10-K for the fiscal year ended December 31, 2001 for registrant Biogen Idec Inc. (Commission No. 000-19311).

149

Table of Contents

Exhibit Number	Exhibit Description	Location
10.33	Fourth Amendment to Agreement between Biogen Idec Inc., MDS (Canada) Inc., MDS Nordion division, successor to MDS Nordion Inc., dated June 10, 2003.	Incorporated by reference to the exhibits to the Annual Report on Form 10-K for the fiscal year ended December 31, 2003 for registrant Biogen Idec Inc. (Commission No. 000-19311).
10.34	Fifth Amendment to Agreement between Biogen Idec Inc., MDS (Canada) Inc., MDS Nordion division, successor to MDS Nordion Inc., dated June 10, 2003.	Incorporated by reference to the exhibits to the Annual Report on Form 10-K for the fiscal year ended December 31, 2003 for registrant Biogen Idec Inc. (Commission No. 000-19311).
10.35	First Amendment to Asset Purchase Agreement between Cell Therapeutics, Inc. and Biogen Idec Inc., dated December 9, 2008.	Incorporated by reference to the exhibits to the Registrant s amended Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 16, 2009.
10.36	Amended and Restated Security Agreement between Cell Therapeutics, Inc. and Biogen Idec Inc., dated December 15, 2008.	Incorporated by reference to the exhibits to the Registrant s amended Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 16, 2009.
10.37	Access Agreement between Cell Therapeutics, Inc. and Bayer Schering AG, dated June 16, 2008.	Incorporated by reference to the exhibits to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 20, 2008, filed on August 18, 2008.
10.38	Second Amendment to the Acquisition Agreement, dated as of August 6, 2009, by and among the Registrant and each of Tom Hornaday and Lon Smith, in their capacities as Stockholder Representatives.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on August 7, 2009.
10.39	Form of Exchange Agreement between Cell Therapeutics, Inc. and certain other parties thereto, dated December 12, 2007.	Incorporated by reference to exhibits to the Registrant s Current Report on Form 8-K, filed on December 13, 2007.
10.40	Form of Securities Purchase Agreement and between the Corporation and the investors signatory thereto, dated December 20, 2007.	Incorporated by reference to exhibits to the Registrant s Current Report on Form 8-K, filed on December 27, 2007.
10.41	Form of Exchange Agreement between Cell Therapeutics, Inc. and certain other parties thereto, dated February 13, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on February 19, 2008.
10.42	Form of Purchase Agreement between Cell Therapeutics, Inc. and certain other parties thereto, dated March 3, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on March 5, 2008.
10.43	Form of Purchase Agreement between Cell Therapeutics, Inc. and the investor signatory thereto, dated April 29, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on May 2, 2008.
10.44	Amendment of Securities Purchase Agreement and Series B Unit Purchase Warrant, dated June 10, 2008.	Incorporated by reference to exhibits to the Registrant s Current Report on Form 8-K, filed on June 13, 2008.

Table of Contents

Exhibit Number	Exhibit Description	Location
10.45	Second Amendment of Securities Purchase Agreement and Series B Unit Purchase Warrant, dated July 23, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on July 25, 2008.
10.46	Securities Purchase Agreement between Cell Therapeutics, Inc. and Midsummer Investment, Ltd., dated July 29, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on July 30, 2008.
10.47	Amendment Agreement to Securities Purchase Agreement between Cell Therapeutics, Inc. and Midsummer Investment, Ltd., dated August 6, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on August 6, 2008.
10.48	Termination of Securities Purchase Agreement between Cell Therapeutics, Inc. and Midsummer Investment, Ltd., dated March 5, 2009.	Incorporated by reference to the exhibits to the Registrant s amended Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 16, 2009.
10.49	Securities Purchase Agreement between Cell Therapeutics, Inc. and Enable Growth Partners LP, dated September 15, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on September 17, 2008.
10.50	Securities Purchase Agreement between Cell Therapeutics, Inc. and BAM Opportunity Fund LP, dated October 21, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on October 24, 2008.
10.51	Securities Purchase Agreement between Cell Therapeutics, Inc. and BAM Opportunity Fund LP, dated December 4, 2008.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on December 8, 2008.
10.52	Letter Agreement with Midsummer Investment, Ltd., SCO Capital Partners, LLC, Context Opportunistic Master Fund, LP, Context Capital Management, LLC, ALTMA Fund SICAV PLC in Respect of the Grafton Sub Fund, Rockmore Investment Mater Fund Ltd., TRUK Opportunity Fund, LLC, TRUK International Fund, LP, McMahan Securities Co., L.P., Tewksbury Investment Fund Ltd., Whitebox Hedged High Yield Partners, LP and Whitebox Combined Partners, LP, dated January 29, 2009.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on February 9, 2009.
10.53	Letter Agreement with RHP Master Fund Ltd., dated February 4, 2009.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on February 9, 2009.
10.54	Exchange Agreement, dated April 7, 2009, between the Registrant and Milfam I L.P.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on April 17, 2009.
10.55	Exchange Agreement, dated April 7, 2009, between the Registrant and CD Investment Partners Ltd.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on April 17, 2009.
10.56	Securities Purchase Agreement, dated April 13, 2009.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on April 13, 2009.

Table of Contents

Exhibit Number	Exhibit Description	Location
10.57	Securities Purchase Agreement, dated May 11, 2009.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on May 12, 2009.
10.58	Form of Securities Purchase Agreement.	Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed on August 21, 2009.
12.1	Statement Re: Computation of Ratio of Earnings to Fixed Charges.	Filed herewith.
21.1	Subsidiaries of the Registrant.	Filed herewith.
23.1	Consent of Stonefield Josephson, Inc., Independent Registered Public Accounting Firm	Filed herewith.
24.1	Power of Attorney. Contained in the signature page of this Annual Report on Form 10-K and incorporated herein by reference.	Filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.

* Indicates management contract or compensatory plan or arrangement.
Portions of these exhibits have been omitted pursuant to a request for confidential treatment.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on February 26, 2010.

Cell Therapeutics, Inc.

By: /s/ James A. Bianco
James A. Bianco, M.D.
Chief Executive Officer

POWER OF ATTORNEY

KNOW BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James A. Bianco and Louis A. Bianco, and each of them his attorney-in-fact, with the power of substitution, for him in any and all capacities, to sign any amendment of post-effective amendment to this Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the SEC, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Phillip M. Nudelman **Phillip M. Nudelman, Ph.D.**	Chairman of the Board and Director	February 26, 2010
/s/ James A. Bianco **James A. Bianco, M.D.**	Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2010
/s/ Louis A. Bianco **Louis A. Bianco**	Executive Vice President, Finance and Administration (Principal Financial Officer and Principal Accounting Officer)	February 26, 2010
/s/ John H. Bauer **John H. Bauer**	Director	February 26, 2010
/s/ Vartan Gregorian **Vartan Gregorian, Ph.D.**	Director	February 26, 2010
/s/ Richard L. Love **Richard Love**	Director	February 26, 2010
/s/ Mary O. Mundinger **Mary O. Mundinger, Dr PH**	Director	February 26, 2010
/s/ Jack W. Singer	Director	February 26, 2010

Jack W. Singer, M.D.

/s/ Frederick W. Telling	Director	February 26, 2010

Frederick Telling, Ph.D.

153