

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-028386

CELL THERAPEUTICS, INC.
(Exact name of registrant as specified in its charter)

Washington	91-1533912
(State of Incorporation)	(I.R.S. Employer Identification No.)

201 Elliott Avenue West, Suite 400
Seattle, Washington 98119
(Address of principal executive offices)

Registrant's telephone number, including area code: (206) 282-7100

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, no par value
Preferred Stock Purchase Rights
(Title of classes)

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

On March 15, 2000, Cell Therapeutics, Inc. had 21,294,772 outstanding shares of Common Stock. Of those, 17,773,882 shares of Common Stock were held by nonaffiliates. The aggregate market value of such Common Stock held by nonaffiliates, based on the closing price of such shares on the Nasdaq National Market on March 15, 2000, was approximately $426,573,168. Shares of Common Stock held by each executive officer and director and by each person known to the Company who beneficially owns more than 5% of the outstanding Common Stock have been excluded in that such persons may under certain circumstances be

deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

DOCUMENTS INCORPORATED BY REFERENCE:

Proxy Statement for the registrant's 2000 Annual Meeting of Shareholders (Part III)

PART I

Item 1. Business

Overview

We focus on developing, acquiring and commercializing novel treatments for cancer. Our goal is to build a leading, vertically-integrated biopharmaceutical company with a diversified portfolio of oncology drugs and drug candidates. Our research and in-licensing activities are concentrated on identifying new, less toxic and more effective ways to treat cancer. We plan to submit a NDA for ATO for the treatment of patients with resistant or relapsed APL by the end of March 2000. We received fast-track designation from the FDA for this indication and expect to receive priority review, which would expedite the FDA's review of our application. The FDA's current goal is to act on 90% of priority NDAs within six months of receipt. ATO is also in phase II or III clinical trials for ten other cancer indications. In addition, we are developing a novel cancer drug delivery technology that links chemotherapy drugs to a polymer to improve the efficacy and reduce the side effects of these drugs. Our first application, PG-TXL, is a polyglutamate polymer linked to the active ingredient in Taxol, which is the highest selling chemotherapy agent in the world. We are currently conducting a phase I trial using PG-TXL to treat solid tumors and also are developing other drug conjugates. We have another product candidate, Apra, in a phase II clinical trial for treatment of soft tissue sarcomas.

The Oncology Market

Overview. Cancer is the second leading cause of death in the United States, resulting in over 550,000 deaths annually. The National Cancer Advisory Board reports that more than 8 million people in the United States have cancer, and it is estimated that one in three Americans will develop cancer in their lifetime. Approximately 1.2 million new cases of cancer are diagnosed each year in the United States.

The most commonly used methods for treating cancer patients are surgery, radiation and chemotherapy. A cancer patient usually receives a combination of these treatments depending upon the type and extent of the disease. At some point in their disease treatment, 60% of all cancer patients will receive radiation therapy and 50% of all cancer patients will receive chemotherapy. Unfortunately, there are significant limitations and complications associated with radiation and chemotherapy that result in a high rate of treatment failure. The principal limitations of chemotherapy include:

- treatment related toxicities
- inability to selectively target killing effects to cancer cells
- the development of resistance to the cancer killing effects of chemotherapy

Treatment related toxicities. The majority of current chemotherapy agents kill cancer cells by disrupting the cell division process. Chemotherapy drugs disrupt the process by killing cells once they begin to undergo division and replication. Although this mechanism often works in cancer cells, which grow rapidly through cell division, non-cancerous cells are also killed because they too undergo routine cell division. This is especially true for cells that line the mouth, stomach and intestines, hair follicles, blood cells and reproductive cells (sperm and ovum). Because the mechanism by which conventional cancer drugs work is not limited to cancer cells, their use is often accompanied by toxicities. These toxicities limit the effectiveness of

cancer drugs and seriously impact the patient's quality of life.

Selective targeting of tumor tissue. When administered, chemotherapy drugs circulate through the bloodstream, reaching both tumor and normal tissues. Normal tissues are generally as sensitive as tumor cells to the killing effects of chemotherapy. These toxic effects on normal tissues prevent use of higher, potentially more effective, doses of chemotherapy.

Chemotherapy resistance. Resistance to the cancer killing effects of conventional chemotherapy drugs is a major impediment to effective treatment of cancer. Approximately 90% of all cancer patients undergoing chemotherapy ultimately develop resistance to chemotherapy and die from their disease. Because many chemotherapy drugs share similar properties, when a tumor develops resistance to a single drug, it may become resistant to many other drugs as well. Drugs that work differently from existing chemotherapies, and are not susceptible to the same mechanisms of resistance, could play a very important role in treating resistant tumors.

Strategy

Our goal is to become a leading cancer drug company. The key elements of our business strategy are to:

- Accelerate commercialization by focusing on products that qualify for fast-track designation. We initially develop our cancer drug candidates to treat life threatening types or stages of cancer for which current treatments are inadequate. The FDA has adopted fast-track and priority procedures for accelerating the approval of oncology agents addressing such needs, potentially reducing the time required to bring new drugs to market. Once approved, we would seek to expand the market potential of our products by seeking approval for indications in larger cancer patient populations. We believe this strategy will facilitate more rapid entry into the market for our products and accelerate their acceptance by health care providers and third-party payors.

- Establish specialized sales and marketing capabilities. We plan to develop our own sales and marketing capabilities in North America and establish collaborations to commercialize our products outside North America. We believe that oncologists and hematologists are a concentrated group of physicians that can be targeted successfully through a relatively small, specialized sales force. We plan to have our own sales force in place in time for us to launch ATO if and when approved by the FDA.

- Maximize the market opportunity for ATO. A substantial portion of our efforts will be devoted to the further development and commercialization of ATO. We are initially seeking approval of ATO for the treatment of patients with resistant or relapsed APL. If approved, we intend to expand the use of the product into other indications by performing clinical trials independently and in collaboration with the NCI and other cooperative oncology groups. ATO is currently in 14 clinical trials in the United States.

- Leverage our polymer drug delivery technology. We are applying our patented polymer drug delivery technology to develop improved versions of currently marketed, well known anti-cancer drugs and to newly discovered agents with the goal of improving their ease of administration, side effect profile and effectiveness. Given the proven efficacy of the agents we choose to link to our polymer, we believe this strategy will provide us a broad portfolio of cancer products with less development risk. Furthermore, we believe that linking our polymers to existing drugs will yield patentable subject matter. We also plan to make this technology available to selected collaborators, where linking our polymer to their drugs can improve the efficacy and extend the patent life of their drugs.

- In-license or acquire complementary products or technologies. We use the expertise of our management, scientific team and scientific advisory board to identify and evaluate potential product opportunities that fit within our overall portfolio strategy. We have identified and acquired attractive oncology product candidates by following three key principles:

  - We focus on identifying products that more selectively target tumor

cells (making them potentially less toxic and more effective than existing drugs) and products that kill tumor cells by unique mechanisms of action (making them potentially able to overcome resistance to existing drugs)

- We leverage key relationships at leading cancer research institutions to uncover potential new product opportunities that meet our criteria

- We act quickly to secure licensing rights once an attractive opportunity is identified

Products in Development

The following table summarizes the potential therapeutic indications for, and current development status of, our products in development. Trials designated with an asterisk are being conducted under a Cooperative Development and Research Agreement with the NCI.

Drug Candidate	Indication/Intended Use	Status
ATO (arsenic trioxide)	Relapsed acute promyelocytic leukemia, or APL	NDA being prepared
	Combination with ATRA for first line treatment of APL	Phase III *
	Refractory multiple myeloma	Phase II
	Relapsed or refractory non-Hodgkin's lymphoma, or NHL	Phase II *
	Relapsed or refractory Hodgkin's lymphoma	Phase II *
	Relapsed or refractory acute lymphoblastic leukemia, or ALL	Phase II *
	Relapsed and refractory acute myelogenous leukemia, or AML; secondary leukemia	Phase II *
	Relapsed or refractory chronic myelogenous leukemia, or CML	Phase II *
	Advanced hormone refractory prostate cancer	Phase II *
	Advanced cervical cancer	Phase II *
	Advanced renal cell cancer	Phase II *
	Combination with ascorbic acid for relapsed and refractory multiple myeloma	Phase I/II *
PG-TXL(TM) (polyglutamate paclitaxel)	Advanced cancers not previously treated with taxanes	Phase I
	Combination with anthracylines or cisplatin for earlier stage breast, lung, ovarian cancer	Phase I planned
	Taxane refractory cancers including breast and ovarian cancer	Phase II planned
PG-CPT (polyglutamate camptothecin)	Treatment of advanced colon cancer and other cancers	Preclinical
Apra(TM)	Second line treatment for soft tissue sarcoma	Phase II
	Treatment of hormone/chemotherapy-resistant prostate cancer	Phase II
	Combination with cisplatin for non-small cell lung cancer other advanced cancers	Phase I planned

Arsenic Trioxide (ATO)

We are developing ATO initially for the treatment of patients with drug resistant or relapsed APL and are planning to submit our NDA by the end of March 2000. ATO is a synthetic version of arsenic, a natural element. ATO appears to work by forcing immature cancer cells to self destruct through a process called programmed cell death or apoptosis. Apoptosis is a normal part of a normal cell's life cycle. Because cancer is often associated with a malfunction of the normal process of apoptosis, drugs that can induce apopotosis offer the hope of affecting cancer cells more selectively without the typical toxic side effects of conventional treatments. Direct induction of apoptosis represents a new method of killing tumor cells that is different from that of the majority of conventional cancer drugs. As a result, in addition to its use as single agent therapy, ATO may work well when administered in combination with other cancer therapies to produce more durable cancer response rates.

The FDA has granted ATO fast track designation based on the fact that APL is a life threatening cancer that can result in rapid death if not treated

promptly and that the use of ATO may result in remissions in patients who have not been able to attain remissions using currently approved drugs. If ATO is approved for the first indication, we plan on expanding the use of ATO in other cancers such as multiple myeloma, lymphoma, other leukemias and solid tumors if clinical trials results indicate that ATO can lead to major responses. More than 150 patients have received ATO in the United States and 14 clinical trials of ATO are underway.

We intend to protect ATO by obtaining orphan drug exclusivity in the U.S. and Europe. When granted orphan exclusivity, products usually receive seven years of marketing exclusivity in the U.S. and 10 years in the E.U. We have received orphan drug designation for the use of ATO in APL and have filed for orphan drug designation, the first step toward orphan drug exclusivity, for multiple myeloma, myelodysplasia and non-Hodgkin's lymphoma. We also plan to pursue orphan drug designation for other indications. In addition, we have exclusive rights to several patent applications filed by Memorial Sloan-Kettering Institute and the Sam Waxman Cancer Foundation which cover methods of treating a variety of cancers and conditions with ATO.

ATO for Acute Promyleocytic Leukemia. APL is a malignant disorder of the white blood cells which typically occurs in patients over the age of 30. Approximately 1,500 to 2,000 patients are diagnosed with APL each year in the United States. Current treatment for APL includes the use of all-trans retinoic acid, commonly called ATRA, followed by anthracyline based chemotherapy. Without chemotherapy, 90% of patients will relapse within 6 months of ATRA treatment. Combined with chemotherapy, still only about 50% of APL patients will survive three years or longer. The high treatment failure rates may be explained by the fact that combination treatment results in eradication of the mutant APL gene in the bone marrow in only 20% to 30% of patients. For patients who relapse following ATRA and chemotherapy, survival rates are low, with median survival being limited to just four to five months and only approximately 20% of patients surviving one year. Moreover, these patients are exposed to, and some actually die from, the toxic effects of high cumulative doses of anthracycline chemotherapy.

The initial pilot trial results and accompanying editorial were published in the November 5, 1998 issue of The New England Journal of Medicine. The results of this study were confirmed in a recently completed pivotal trial whose preliminary results were presented at the 1999 Annual Meeting of the American Society of Hematology. As reported in the two trials, 30 of 34 (88%) patients with resistant APL and 16 of 18 (89%) patients with relapsed APL achieved a complete remission with ATO.

Investigators reported that in the pivotal trial, 40 patients with relapsed APL following chemotherapy and/or bone marrow transplants were treated with low dose intravenous ATO over a one to two hour daily infusion until remission was achieved. Patients required on average 30 days of treatment and, following a month off treatment, received an additional 25 days of maintenance therapy. Of the 40 patients treated, 34 patients (85%) achieved a complete response, with 73% of the patients demonstrating molecular eradication of the malignant APL gene on bone marrow testing. Although the median survival has not yet been reached, median survival already exceeds 12 months, substantially higher than the four to five months generally observed in these patients. Side effects of ATO noted in that study by the investigators were mild and manageable, for the most part, as outpatients. The most common side effects included fever, weight gain, fatigue, skin rash, numbness in the hands and an asymptomatic change in electrocardiogram, or EKG.

Based on these results, we plan to submit a NDA in the United States by the end of March 2000 and for marketing approval in Europe by the end of the year. Also, given the high complete response rates reported for ATO in the end-stage, salvage therapy setting for APL, the NCI is currently conducting a randomized phase III of ATRA and ATO as first line therapy for APL. If successful, we would plan to file a supplemental NDA for ATO as first line treatment for APL.

ATO for Multiple Myeloma. Multiple myeloma is a malignant disease of the bone marrow that is invariably fatal. It is the second most common blood cell malignancy, affecting approximately 40,000 people in the United States with over 13,000 new cases reported annually. The disease is initially treated with oral chemotherapy drugs. Once the disease can no longer be controlled with oral drugs, treatments include aggressive high dose chemotherapy, bone marrow

transplant and recently, thalidomide. Fewer than 50% of patients experience a response to these treatment options.

In December 1999, investigators reported interim results of a phase II study conducted at the University of Arkansas on the use of ATO in nine patients with advanced stage multiple myeloma who had failed treatment with high dose chemotherapy and bone marrow transplants and who had also failed treatment with thalidomide. Three of nine patients (33%) had a response to ATO. However, only four patients had completed more than 30 days of ATO therapy at the time of the report, of which two had a major response (>50% reduction in myeloma protein levels), one had stable disease and one progressed. The investigators concluded that ATO had activity in end stage, high risk myeloma and should be investigated in earlier stage disease prior to use of thalidomide. We are currently conducting a phase II trial of ATO in earlier stage myleoma. In addition, the NCI is conducting a phase I/II trial of ATO in combination with ascorbic acid for treating relapsed and refractory myeloma. We are seeking orphan drug designation for the treatment of myeloma with ATO.

ATO for Advanced Hematologic Malignancies. Hematologic malignancies are cancers of the blood system, and include leukemias and lymphomas. In 1998, more than 80,000 people had acute and chronic leukemia and approximately 31,000 new cases are diagnosed annually in the United States. Non-Hodgkin's lymphoma affects almost 180,000 people in the United States, with approximately 55,000 new cases reported in the U.S. in 1999. For patients who relapse, fewer than 25% survive five years, with the majority dying within 14 months of relapse. Clinical trials with ATO have demonstrated encouraging responses in advanced leukemias other than APL and myeloma, including CML, AML and myelodysplasia. Promising results have also been achieved in advanced lymphomas including non-Hodgkin's lymphoma. The NCI is conducting six phase II or phase III clinical trials investigating the utility of ATO in treating advanced leukemia and lymphoma. If these trials are successful and provide sufficient data, we intend to use data from these trials, where appropriate, to support additional uses and indications for ATO.

ATO for Solid Tumors. Solid tumors include malignancies that develop in various tissues throughout the body, as opposed to hematologic cancers described above. Genitourinary cancers, such as cervical, renal cell and prostate cancer, affect approximately 850,000 patients in the United States, with over 240,000 new cases diagnosed annually. Preclinical tests and clinical trials have demonstrated that ATO may have significant anti-tumor activity among patients with cervical, renal cell and prostate cancer. The NCI is currently conducting three phase II trials in these cancers to further evaluate these preliminary observations. If these trials are successful and provide sufficient data, we intend to use the information from these trials and new trials in other solid tumors to extend the indications of ATO.

Polyglutamate Drug Delivery Technology

We are also developing a new way to deliver cancer drugs more selectively to tumor tissue with the goal of reducing the toxic side effects and improving the anti-tumor activity of existing chemotherapy agents. Our technology links cancer drugs to proprietary polyglutamate polymers. Polyglutamate, which we call PG, is a biodegradable polymer made of glutamic acid, a naturally occurring amino acid. To build these polymers, we repetitively link together glutamic acid molecules to an optimized size. Unlike blood vessels found in normal tissues, tumor blood vessels contain openings or pores. Because of these pores, tumors are more permeable to molecules, such as our PG polymers, that are within a specific size range. As the polymer, carrying its tumor

killing drug, circulates in the bloodstream and passes through the tumor blood vessels, it becomes trapped in the tumor tissue allowing a significantly greater percentage of the anticancer drug to accumulate preferentially in tumor tissue as compared to normal tissue. The toxicity of the chemotherapy drug may be further reduced because the drug is inactive as long as it is bound to the polymer. Once the polymer drug conjugate enters the tumor, the polymer is digested, freeing the cancer killing drug.

Based on preclinical animal studies, we believe that our polyglutamate-chemotherapy drug conjugates may be able to achieve a number of benefits over existing chemotherapy drugs:

. More drug reaches the tumor

. Increased efficacy using the same amount of drug

. Ability to use higher doses of the active drug

. Less toxicity at the same or higher doses of drug

. Broader applicability due to differentiated tumor uptake mechanism

. Potential to overcome resistance to the underlying chemotherapy drug

In addition, we believe that linking our polymers to existing drugs will yield patentable subject matter and that our polymer-drug conjugates will not infringe any third-party patents covering the underlying drug. However, there can be no assurance that we will receive a patent for our polymer conjugates or that we will not be challenged by the holder of a patent covering the underlying drug.

We licensed the worldwide exclusive rights to PG and related polymers and their applications from PG-TXL Company in 1998. The technology was originally developed at the MD Anderson Cancer Center. The initial patent, which issued in November 1999, covers the ability to use PG coupled with commonly used cancer drugs such as paclitaxel, docetaxel, etopside, teniposide, camptothecin or epothilone. These drug classes represented over 40% of U.S. chemotherapy sales in 1998.

Our strategy is to use this novel polymer to build a portfolio of potentially safer and more effective versions of well-known anti-cancer agents. We believe that our PG drug development program may lower the risks inherent in developing new drugs because we are linking PG to well defined and widely used chemotherapy drugs. We are initially focusing our development efforts on applying PG to two of the fastest growing classes of anticancer drugs, taxanes and the camptothecins.

PG-TXL(TM) (polyglutamate paclitaxel). PG-TXL is PG linked to paclitaxel, the active ingredient in Taxol, the world's best selling cancer drug. Taxol is difficult to administer because it must be mixed in castor oil and ethanol, which is toxic when given intravenously, and requires a lengthy three hour intravenous infusion. PG-TXL is 80,000 fold more water soluble than paclitaxel, allowing it to be administered in just two tablespoons of water in minutes. Also, because PG-TXL is water soluble, its administration should not require premedication with steroids and antihistamines to prevent severe reactions. PG-TXL may also allow for delivery of higher doses that can be achieved with the currently marketed version of paclitaxel.

It is estimated that more than 2 million people have breast, ovarian, lung and colon cancer, with more than 470,000 new cases diagnosed each year in the United States. Despite the difficulties associated with administration and serious dose limiting toxicities, 1999 U.S. sales of Taxol and Taxotere grew to $1.2 billion, with worldwide sales approaching $2.0 billion. The majority of taxane usage has been in breast, ovarian and lung cancer indications. Most recently, Taxol received approval as a first line treatment in node positive breast cancer, which is expected to add up to an additional 75,000 eligible patients annually in the U.S.

We have performed multiple preclinical animal studies using PG-TXL and comparing PG-TXL to paclitaxel alone. Our results suggested superior efficacy and lower toxicity for PG-TXL, and an ability for PG-TXL to treat tumors resistant to Taxol. Specifically:

. In animal testing, when administered at equivalent doses of paclitaxel, treatment with PG-TXL cured established breast cancer tumors whereas treatment with paclitaxel only slowed tumor growth by several days.

. When examined for the ability of PG-TXL to accumulate in tumor tissue, administration of PG-TXL to tumor bearing animals resulted in 600% more paclitaxel reaching the tumor than an equivalent dose of paclitaxel alone. At the end of seven days, there was still as much paclitaxel in the tumor being released from the polymer than the maximum amount that was achieved on day one with free paclitaxel.

. PG-TXL significantly enhanced anti-tumor activity in tumors that are

resistant to the killing effects of paclitaxel suggesting the polymer may expand the potential utility of paclitaxel to a wider population of cancer types than the currently available form of the drug can achieve.

The Cancer Research Campaign is currently sponsoring a U.K. phase I clinical trial of PG-TXL which we expect to be completed by the end of 2000. We plan to begin phase II trials in the U.S. and the U.K. in the second half of 2000. Our registration strategy for PG-TXL is to examine its potential safety and efficacy as single agent therapy in solid tumors that either have become unresponsive to Taxol or Taxotere or for which Taxol and Taxotere are not indicated. We believe this strategy could allow us to accelerate the development and regulatory submission for PG-TXL under the FDA fast track program. We also intend to investigate the safety and efficacy of PG-TXL when used in combination with drugs commonly used in first line treatment regimens in combination with Taxol or Taxotere, such as cisplatin or doxorubicin.

The phase I trial is testing PG-TXL in patients with cancers who have failed other chemotherapies but who have not previously been treated with taxanes such as Taxol or Taxotere. We expect to enroll 12 to 18 patients to determine the maximum tolerated dose of PG-TXL when administered by a 10 to 30 minute infusion every three weeks. We chose to initiate human trials in the U.K. because of the CRC's experience with polymer cancer drug conjugates and because of the ability to perform trials in patients who have not received taxol. We believe this data will expedite initiation of phase II testing in the United States.

PG-CPT (polyglutamate camptothecin). PG-CPT (polyglutamate camptothecin) is camptothecin linked to PG. Camptothecins are an important and rapidly growing class of anticancer drugs. However, like taxanes, their full clinical benefit is limited by poor solubility and significant toxicity. To avert solubility limitations, oral analogs such as Hycamtin and Camptosar were developed. However, conversion to oral dosage forms has been accompanied by a reduction in antitumor potency. Despite these limitations, camptothecins are becoming standard drugs in the treatment of advanced colon, lung and ovarian cancer. U.S. sales for camptothecins exceeded $330 million in 1999.

Linking camptothecin to PG renders it water soluble and in animal studies permits up to 400% more drug to be administered without an increase in toxicity. PG-CPT demonstrated significantly enhanced anti-tumor activity in animal models of lung, colon and breast cancer, with up to 500% improvement over the free drug. We are currently optimizing a camptothecin for selection as a clinical development candidate and plan to file an IND by mid 2001.

Apra

Apra belongs to a new class of cancer drugs, called phospholipid regulators, developed by our scientists. At effective concentrations, Apra selectively kills tumor cells but spares normal cells. Also, because the structure and mechanism of action for Apra are unique, tumors that are or become resistant to standard anti-cancer drugs may not be resistant to Apra. Preclinical studies have demonstrated that Apra, when used in combination with conventional agents such as the widely used cancer drug cisplatin, can sensitize tumors to the killing effects of cisplatin making the combination treatment more effective than either agent used alone.

We are currently conducting two phase II trials of Apra in patients with drug resistant soft tissue sarcoma and prostate cancer. The FDA has granted orphan drug designation for Apra in the treatment of both sarcoma and refractory prostate cancer. Our strategy is to initially pursue fast track designation for sarcoma and then seek to expand the potential indications of the drug by investigating it in combination with conventional cancer drugs for larger disease indications such as non-small cell lung cancer and prostate cancer.

Apra for Sarcoma. Sarcomas are malignant tumors of the muscle, cartilage or cells which make up the connective tissues of other organs. Over 12,000 patients have sarcoma in the United States, with 7,000 new cases diagnosed each year. First line chemotherapy treatment for sarcomas consists primarily of anthracycline therapy, which produces responses in approximately 10% to 20% of patients. Patients with sarcoma that do not respond to chemotherapy generally die within 12 months.

We previously completed two phase I trials in 52 patients with end stage cancers which provide preliminary data on the maximum tolerated dose, safety and potential efficacy of Apra when used alone in the treatment of advanced stage cancers. Among those 52 patients, 17 had advanced stage sarcoma. Six of 17 (35%) had a response with 5 of 6 (83%) remaining alive a median of 19 months from commencing therapy. Based on these results, we initiated a phase II trial of Apra as second line treatment for sarcoma. In November 1999, investigators reported encouraging data among the first 24 evaluable patients. Based upon the responses that were observed in a particular subtype of sarcoma called gastrointestinal stromal cell sarcoma, or GIST, we announced we were expanding the size of the sarcoma trial from 40 patients to 80 patients. We expect to complete enrollment for this trial by the end of 2000.

Apra for Treatment of Other Cancers. We are also investigating whether the combination of Apra with cisplatin, a commonly used cancer drug for solid tumors, can result in better tumor response rates than with cisplatin alone. We intend to initiate a phase Ib trial of Apra in combination with cisplatin for lung cancer and other advanced cancers in the second half of 2000. Our strategy is to expand the use of Apra over time to larger cancer markets such as lung cancer and prostate cancer where Apra may improve efficacy when combined with conventional cancer drugs.

Collaboration and Licensing Arrangements

BioChem Pharma. We have a collaboration and supply agreement with BioChem Pharma for the development and commercialization of Apra in Canada. Under this collaboration agreement, BioChem Pharma will be responsible for obtaining regulatory approval for Apra in Canada. Although BioChem Pharma will have no obligation to conduct any research and development activities, it will have the right to have us perform clinical trials in Canada at BioChem Pharma's expense. BioChem Pharma will have the exclusive right to commercialize Apra in Canada, subject to the payment of royalties to us. We will also receive payments under the collaboration agreement if certain milestones are achieved. BioChem Pharma may terminate this agreement with respect to any product at any time for any reason upon 30 days' notice.

PG-TXL Company, L.P. On June 30, 1998, we entered into an agreement with PG-TXL Company, L.P. granting us an exclusive worldwide license for the rights to PG-TXL and to all potential uses of PG-TXL Company's polymer technology. Under the terms of the agreement, we acquired the rights to fund the research, development, manufacture, marketing and sale of anti-cancer drugs developed using this polymer technology. We are obligated to make payments upon the attainment of significant development milestones, as defined in the agreement. We are obligated to meet certain development requirements by June 30, 2002 to maintain these exclusive license rights.

Johnson & Johnson. In November 1996, we entered into a Collaboration and License Agreement with Johnson & Johnson for the joint development and commercialization of lisofylline. Neither party is currently pursuing any further development of lisofylline at this time.

Patents and Proprietary Rights

We dedicate significant resources to protecting our intellectual property. We have acquired through our acquisition of PolaRx rights to four pending patent applications covering dosage formulations, methods of administration and methods of use for various forms of arsenic trioxide and related compounds. We have exclusive rights to one issued patent and 21 U.S. and foreign pending patent applications relating to our polymer drug delivery technology. Thirteen issued U.S. patents cover the chemical entity, pharmaceutical compositions and methods of use of Apra and related compounds. We intend to file additional patent applications when

appropriate, with respect to improvements in our core technology and to specific products and processes that we develop. There can be no assurance that any patents will issue from any present or future applications or, if patents do issue, that such patents will be issued on a timely basis or that claims allowed on issued patents will be sufficient to protect our technology. In addition, there can be no assurance that the patents issued to us will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide proprietary protection or commercial advantage to us. With respect to such issued U.S. patents or any patents that may issue in the

future, there can be no assurance that they will effectively protect the technology involved, foreclose the development of competitive products by others or otherwise be commercially valuable.

We have sought and intend to aggressively seek patent protection in the United States, Europe and Japan to protect any products that we may develop. We also intend to seek patent protection or rely upon trade secrets to protect certain of our enabling technologies that will be used in discovering and evaluating new drugs which could become marketable products. However, there can be no assurance that such steps will effectively protect the technology involved. To protect any such trade secrets and other proprietary information, we rely on confidentiality and material transfer agreements with our corporate partners, employees, consultants, outside scientific collaborators and sponsored researchers and other advisors. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for breach or that our trade secrets will not otherwise become known or independently discovered by competitors. We also have members of our Scientific Advisory and Clinical Boards, our consultants and, in most cases, our employees enter into agreements requiring disclosure to us of ideas, developments, discoveries or inventions conceived during employment or consulting and assignment to us of proprietary rights to such matters related to our business and technology.

Manufacturing

We currently use, and expect to continue to be dependent upon, contract manufacturers to manufacture each of our product candidates. We have established a quality control and quality assurance program, including a set of standard operating procedures and specifications, designed to ensure that our products are manufactured in accordance with cGMPs and other applicable domestic and foreign regulations. There can be no assurance that these manufacturers will meet our requirements for quality, quantity or timeliness.

We will need to develop additional manufacturing resources, and may seek to enter into additional collaborative arrangements with other parties which have established manufacturing capabilities or may elect to have a third party manufacture our products on a contract basis. We have an agreement with a third-party vendor to furnish ATO, PG-TXL and Apra drug substances for clinical studies and in the case of ATO, for initial commercial launch, if and when approved by the FDA. We will be dependent upon these third parties to supply us in a timely manner with products manufactured in compliance with cGMPs or similar standards imposed by foreign regulators. Contract manufacturers may violate cGMPs, and the FDA has intensified its oversight of drug manufacturers. There can be no assurance that the FDA would not take action against a contract manufacturer who violates cGMPs. Such actions may include requiring the contract manufacturer to cease its manufacturing activities.

Marketing

We intend to develop our own sales and marketing infrastructure in North America to commercialize our portfolio of oncology products. We plan to enter into commercialization arrangements to market our products outside of North America.

We have no experience in marketing, sales or distribution. We believe, however, that the United States oncology market is accessible by a limited marketing staff and field sales organization. This market is highly concentrated. It is comprised primarily of the approximately 5,000 physicians who order the vast majority of cancer therapeutics.

Competition

Competition in the pharmaceutical and biotechnology industries is intense. We face competition from a variety of companies focused on developing oncology drugs. We compete with large pharmaceutical companies and with other specialized biotechnology companies. Many of our existing or potential competitors have substantially greater financial, technical and human resources than us and may be better equipped to develop, manufacture and market products. Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large pharmaceutical and established biotechnology companies. Many of these

competitors have significant products that have been approved or are in development and operate large, well funded research and development programs.

We expect to encounter significant competition for the principal pharmaceutical products we plan to develop. Companies that complete clinical trials, obtain required regulatory approvals and commence commercial sales of their products before their competitors may achieve a significant competitive advantage. Accordingly, the relative speed with which we and any future collaborators can develop products, complete preclinical testing and clinical trials and approval processes, and supply commercial quantities of the products to the market are expected to be important competitive factors. A number of biotechnology and pharmaceutical companies are developing new products for the treatment of the same diseases being targeted by us. In some instances, such products have already entered late-stage clinical trials or received FDA approval. Significant levels of research in biotechnology, medicinal chemistry and pharmacology occur in academic institutions, governmental agencies and other public and private research institutions. These entities have become increasingly active in seeking patent protection and licensing revenues for their research results. They also compete with us in recruiting and retaining skilled scientific talent.

We believe that our ability to compete successfully will be based on our ability to create and maintain scientifically advanced technology, develop proprietary products, attract and retain scientific personnel, obtain patent or other protection for its products, obtain required regulatory approvals and manufacture and successfully market our products either alone or through outside parties. We will continue to seek licenses with respect to technology related to our field of interest and may face competition with respect to such efforts.

Government Regulation

The research, development, testing, manufacture, labeling, promotion, advertising, distribution, and marketing, among other things, of our products are extensively regulated by governmental authorities in the United States and other countries. In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act ("the FDCA") and its implementing regulations. Failure to comply with the applicable U.S. requirements may subject us to administrative or judicial sanctions, such as FDA refusal to approve pending new drug applications, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, and/or criminal prosecution.

Drug Approval Process. None of our drugs may be marketed in the U.S. until the drug has received FDA approval. We have not yet submitted an application for approval for any of our drug product candidates. The steps required before a drug may be marketed in the U.S. include:

- preclinical laboratory tests, animal studies, and formulation studies
- submission to the FDA of an investigational new drug application, or IND, for human clinical testing, which must become effective before human clinical trials may begin
- adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug for each indication
- submission to the FDA of a NDA
- satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the drug is produced to assess compliance with current Good Manufacturing Procedures ("cGMP") and
- FDA review and approval of the NDA.

Preclinical tests include laboratory evaluation of product chemistry, toxicity, and formulation, as well as animal studies. The results of the preclinical tests, together with manufacturing information and analytical data, are submitted to the FDA as part of an IND, which must become effective before human clinical trials may begin. An IND will automatically become effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions about issues such as the conduct of the trials as

outlined in the IND. In such a case, the IND sponsor and the FDA must resolve any outstanding FDA concerns or questions before clinical trials can proceed. We cannot be sure that submission of an IND will result in FDA allowing clinical trials to begin.

Clinical trials involve the administration of the investigational drug to human subjects under the supervision of qualified investigators. Clinical trials are conducted under protocols detailing the objectives of the study, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated. Each protocol must be submitted to the FDA as part of the IND.

Clinical trials typically are conducted in three sequential phases, but the phases may overlap or be combined. Each trial must be reviewed and approved by an independent Institutional Review Board before it can begin. Study subjects must sign an informed consent form before participating in a clinical trial. Phase I usually involves the initial introduction of the investigational drug into people to evaluate its safety, dosage tolerance, pharmacodynamics, and, if possible, to gain an early indication of its effectiveness. Phase II usually involves trials in a limited patient population to (i) evaluate dosage tolerance and appropriate dosage; (ii) identify possible adverse effects and safety risks; and (iii) evaluate preliminarily the efficacy of the drug for specific indications. Phase III trials usually further evaluate clinical efficacy and test further for safety by using the drug in its final form in an expanded patient population. There can be no assurance that phase I, phase II, or phase III testing will be completed successfully within any specified period of time, if at all. Furthermore, the Company or the FDA may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

Assuming successful completion of the required clinical testing, the results of the preclinical studies and of the clinical studies, together with other detailed information, including information on the manufacture and composition of the drug, are submitted to the FDA in the form of an NDA requesting approval to market the product for one or more indications. Before approving an NDA, the FDA usually will inspect the facility or the facilities at which the drug is manufactured, and will not approve the product unless cGMP compliance is satisfactory. If FDA evaluates the NDA and the manufacturing facilities as acceptable, the FDA will issue an approval letter. If the FDA evaluates the NDA submission or manufacturing facilities as not acceptable, the FDA will outline the deficiencies in the submission and often will request additional testing or information. Even if we submit the requested additional information, the FDA ultimately may decide that the NDA does not satisfy the regulatory criteria for approval. The testing and approval process requires substantial time, effort, and financial resources, and we cannot be sure that any approval will be granted on a timely basis, if at all. After approval, certain changes to the approved product, such as adding new indications, manufacturing changes, or additional labeling claims are subject to further FDA review and approval.

FDA's "fast track" program is intended to facilitate the development and expedite the review of drugs intended for the treatment of serious or life-threatening diseases and that demonstrate the potential to address unmet medical needs for such conditions. Under this program, FDA can, for example, review portions of an NDA for a fast track product before the entire application is complete, thus potentially beginning the review process at an earlier time. We have received fast track designation for ATO for the treatment of patients with drug resistant or relapsed APL and we intend to seek to have some of our other drug products designated as fast track products, with the goal of reducing review time. There can be no guarantee that FDA will grant any of our additional requests for fast track designation, that any fast track designation would affect the time of review, or that FDA will approve the NDA submitted for any of our drug candidates, whether or not fast track designation is granted. Additionally, FDA approval of a fast track product can include restrictions on the product's use or distribution (such as permitting use only for specified medical procedures or limiting distribution to physicians or facilities with special training or experience), and can be conditioned on the performance of additional clinical studies after approval.

FDA procedures also provide priority review of NDAs submitted for drugs that, compared to currently marketed products, offer a significant improvement in the treatment, diagnosis, or prevention of a disease.

NDAs that are granted priority review are intended to be acted upon more quickly than NDAs given standard review. FDA's current goal is to act on 90% of priority NDAs within six months of receipt. We anticipate seeking priority review of ATO for the indication of relapsed APL and intend to do so with regard to some of our other drug candidates. There can be no guarantee that FDA will grant priority review status in any instance, that priority review status will affect the time of review, or that FDA will approve the NDA submitted for any of our drug candidates, whether or not priority review status is granted.

Post-Approval Requirements. If FDA approval of one or more of our drug products is obtained, we will be required to comply with a number of post-approval requirements. For example, holders of an approved NDA are required to report certain adverse reactions to the FDA, and to comply with certain requirements concerning advertising and promotional labeling for their products. Also, quality control and manufacturing procedures must continue to conform to cGMP after approval, and the FDA periodically inspects manufacturing facilities to assess compliance with cGMP. Accordingly, manufacturers must continue to expend time, money, and effort in the area of production and quality control to maintain cGMP compliance. We use and will continue to use third-party manufacturers to produce our products in clinical and commercial quantities, and we cannot be sure that future FDA inspections will not identify compliance issues at our facilities or at the facilities of our contract manufacturers that may disrupt production or distribution, or require substantial resources to correct. In addition, discovery of problems with a product after approval may result in restrictions on a product, manufacturer, or holder of an approved NDA, including withdrawal of the product from the market. Also, new government requirements may be established that could delay or prevent regulatory approval of our products under development.

Orphan Drug. The FDA may grant orphan drug designation to drugs intended to treat a "rare disease or condition," which generally is a disease or condition that affects fewer than 200,000 individuals in the United States. Orphan drug designation must be requested before submitting an NDA. After the FDA grants orphan drug designation, the identity of the therapeutic agent and its potential orphan use are publicly disclosed by the FDA. Orphan drug designation does not convey an advantage in, or shorten the duration of, the regulatory review and approval process. If a product which has an orphan drug designation subsequently receives the first FDA approval for the indication for which it has such designation, the product is entitled to orphan exclusivity, meaning that the FDA may not approve any other applications to market the same drug for the same indication, except in certain very limited circumstances, for a period of seven years.

We have obtained orphan drug designation for ATO to treat patients with drug resistant or relapsed APL, and for Apra to treat patients with soft tissue sarcoma and refractory prostate cancer. We have also filed for orphan drug designation for ATO for the treatment of patients with refractory multiple myeloma, myelodysplasia, and non-Hodgkins lymphoma. However, we cannot be sure that ATO will receive an orphan drug designation for these indications, or that ATO, Apra, or any of our drug products will receive orphan drug exclusivity for any indication. Also, it is possible that our competitors could obtain approval, and attendant orphan drug exclusivity, for products that would preclude us from marketing our products for specified indications for some time.

Non-United States Regulation. Before our products can be marketed outside of the United States, they are subject to regulatory approval similar to that required in the United States, although the requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country. No action can be taken to market any product in a country until an appropriate application has been approved by the regulatory authorities in that country. The current approval process varies from country to country, and the time spent in gaining approval varies from that required for FDA approval. In certain countries, the sales price of a product must also be approved. The pricing review period often begins after market approval is granted. No assurance can be given that even if a product is approved by a regulatory authority, satisfactory prices will be approved for such product.

Environmental Regulation

In connection with its research and development activities and its manufacturing materials and products, we are subject to federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials, biological specimens and wastes. Although we believe that we have complied with these laws, regulations and policies in all material respects and has not been required to take any significant action to correct any noncompliance, there can be no assurance that we will not be required to incur significant costs to comply with environmental and health and safety regulations in the future. Our research and development involves the controlled use of hazardous materials, including but not limited to certain hazardous chemicals and radioactive materials. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. In the event of such an accident, we could be held liable for any damages that result and any such liability could exceed our resources.

Employees

As of March 15, 2000, we employed 97 individuals, including 35 holding doctoral or other advanced degrees. Our employees do not have a collective bargaining agreement. We consider our relations with our employees to be good.

Scientific and Clinical Advisory Boards

We have a Scientific Advisory Board which consists of recognized scientists with expertise in the fields of immunology, cell and molecular biology, and synthetic and medical chemistry. Our Scientific Advisory Board meets with our management and key scientific employees on a semi-annual basis and in smaller groups or individually from time to time on an informal basis. The members assist us in identifying scientific and product development opportunities, reviewing with management the progress of our specific projects and recruiting and evaluating our scientific staff. We also have a Clinical Advisory Board which assists us from time to time on clinical matters.

The following are members of our Scientific Advisory Board:

Lewis Cantley, Ph.D., is a noted authority in cellular biochemical signaling pathways that employ phosphatidyl inositol and its metabolites and is the discoverer of one of the most critical enzymes in those pathways, the PI3 Kinase. He is currently Professor of Cell Biology at Harvard Medical School and Chief of the Division of Signal Transduction in the Department of Medicine, Beth Israel Hospital, Boston and the author of over 180 publications.

Edward A. Dennis, Ph.D., is the Vice Chair of Medical Biochemistry at the University of California, San Diego. He is a noted authority on phospholipases, cell signaling and phospholipid metabolism. Dr. Dennis serves on the Scientific Advisory Board and Management Committee of, and chairs the Management Executive Board of, the Keystone Symposia. He sits on the Editorial Board of the Journal of Cellular Biochemistry and on the Publications Committee of the American Society for Biochemistry and Molecular Biology. He has authored over 185 manuscripts.

Edwin Krebs, M.D., is a Professor Emeritus, Department of Pharmacology and Biochemistry, at the University of Washington in Seattle and a Senior Investigator Emeritus at the Howard Hughes Medical Institute. He is a recognized authority on mechanisms of action of second messengers, including protein kinases and phosphorylation reactions. He is the recipient of numerous awards and honors and has authored 297 manuscripts. In 1992, Dr. Krebs was awarded the Nobel Prize in Physiology of Medicine for his work on second messenger pathways.

L. Jackson Roberts, II, M.D., is an internationally recognized authority on the oxidative metabolism of polyunsaturated fatty acids. He is known for having identified PGD2 on the major mast cell lipid mediator and, more recently, for having originated the field of studying non enzymatically-generated prostanoids, including the isprostanes and neuroprostanes. He is currently Profession of Pharmacology and Medicine at Vanderbilt University and is the author of over 170 publications.

The following are members of our Clinical Advisory Board:

Donnall Thomas, M.D., is the Chairman of our Clinical Advisory Board. He is the former Associate Director of Clinical Research and presently a Professor Emeritus at the Fred Hutchinson Cancer Research Center, of which he was a founding member. His research has spanned a wide array of fields from radiation biology to developmental immunology, and from cancer causing genes to gene transfer therapies. For his pioneering work in bone marrow transplant, Dr. Thomas was awarded the Nobel Prize for Medicine in 1990. Among the other honors awarded to Dr. Thomas in recognition of his medical research are the American Cancer Society Award for Distinguished Service in Basic Research and the Kettering Prize of the General Motors Cancer Research Foundation. He is a member of the U.S. Academy of Sciences.

Karen H. Antman, M.D., is the Chief of the Division of Medical Oncology, College of Physicians & Surgeons of Columbia University. Dr. Antman is an expert in emerging treatment strategies for solid tumors, notably breast cancer and sarcomas. From 1994 to 1995 she served as President of the American Society of Clinical Oncology. Since 1993, Dr. Antman has served on the Sarcoma Committee of the Southwest Oncology Groups, and has been its chairperson since 1995. From 1993 to 1994 she was program committee chair of the American Association for Cancer Research. She is on the editorial board of several prestigious journals, including Associate Editor of The New England Journal of Medicine.

Factors Affecting Our Operating Results

This annual report on Form 10-K contains "forward-looking" statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this annual report on Form 10-K.

If we do not successfully develop products, we may be unable to generate any revenue.

Our leading drug candidates, arsenic trioxide, or ATO, PG-TXL and Apra, are currently in clinical trials. These clinical trials of the drug candidates involve the testing of potential therapeutic agents, or effective treatments, in humans in three phases (phases I, II, and III) to determine the safety and efficacy of the drug candidates necessary for an approved drug. Many drugs in human clinical trials fail to demonstrate the desired safety and efficacy characteristics. Even if our drugs progress successfully through initial human testing, they may fail in later stages of development. A number of companies in the pharmaceutical industry, including CTI, have suffered significant setbacks in advanced clinical trials, even after reporting promising results in earlier trials. For example, in our first phase III human trial for lisofylline, completed in March 1998, we failed to meet our two primary endpoints, or goals, even though we met our endpoints in two earlier phase II trials for lisofylline. As a result, we are no longer developing lisofylline as a potential product. In addition, data obtained from clinical trials are susceptible to varying interpretations. Government regulators and our collaborators may not agree with our interpretation of our future clinical trial results. The clinical trials of ATO, PG-TXL and Apra or any of our future drug candidates may not be successful.

Many of our drug candidates are still in research and preclinical development, which means that they have not yet been tested on humans. We will need to commit significant time and resources to develop these and additional product candidates. We are dependent on the successful completion of clinical trials and obtaining regulatory approval in order to generate revenues. The failure to generate such revenues may preclude us from continuing our research and development of these and other product candidates.

Even if our drug candidates are successful in clinical trials, they may not be successfully commercialized.

Since our inception in 1991, we have dedicated substantially all of our resources to the research and development of our technologies and related compounds. All of our compounds currently are in research or development, and none has been submitted for marketing approval. There can be no assurance that any of our other compounds will enter human clinical trials on a timely basis,

if at all, or that we will develop any product candidates suitable for commercialization. Prior to commercialization, each product candidate will require significant additional research, development and preclinical testing and extensive clinical investigation before submission of any regulatory application for marketing approval. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons. Potential products may:

- be found ineffective or cause harmful side effects during preclinical testing or clinical trials
- fail to receive necessary regulatory approvals
- be difficult to manufacture on a large scale
- be uneconomical to produce
- fail to achieve market acceptance
- be precluded from commercialization by proprietary rights of third parties

We cannot assure you that our product development efforts or that our collaborative partners' efforts will be successfully completed, that required regulatory approvals will be obtained or that any products, if introduced, will be successfully marketed or achieve customer acceptance.

Several of our drug candidates are based on novel technologies that have not yet been proven.

Many of our product candidates are based upon novel delivery technologies which we are using to discover and develop drugs for the treatment of cancer. This technology has not been proven. Furthermore, preclinical results in animal studies may not predict outcome in human clinical trials. Our product candidates may not be proven safe or effective. If this technology does not work, our drug candidates may not develop into commercial products.

Our clinical trials could take longer to complete than expected.

Although for planning purposes we forecast the commencement and completion of clinical trials, the actual timing of these events can vary dramatically due to factors such as delays, scheduling conflicts with participating clinicians and clinical institutions and the rate of patient accruals. We cannot assure you that clinical trials involving our product candidates will commence or be completed as forecasted. We have limited experience in conducting clinical trials. In certain circumstances we rely on academic institutions or clinical research organizations to conduct, supervise or monitor some or all aspects of clinical trials involving our products. In addition, certain clinical trials for our products will be conducted by government-sponsored agencies and consequently will be dependent on governmental participation and funding. We will have less control over the timing and other aspects of these clinical trials than if we conducted them entirely on our own. We cannot assure you that these trials will commence or be completed as we expect or that they will be conducted successfully. Failure to commence or complete, or delays in, any of our planned clinical trials could delay or prevent the commercialization of our products and harm our business.

If we continue to incur net losses, we may not achieve or maintain profitability.

We were incorporated in 1991 and have incurred a net operating loss every year. As of December 31, 1999, we had an accumulated deficit of approximately $158.4 million. We have not generated any product revenue from sales to date. We may never generate revenue nor become profitable, even if we are able to commercialize any products. We will need to conduct significant research, development, testing and regulatory compliance activities that, together with projected general and administrative expenses, we expect will result in substantial increasing operating losses for at least the next several years. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

If we fail to adequately protect our intellectual property, our competitive position could be harmed.

Development and protection of our intellectual property are critical to our business. If we do not adequately protect our intellectual property, competitors may be able to practice our technologies. Our success depends in part on our ability to:

- obtain patent protection for our products or processes both in the United States and other countries
- protect trade secrets
- prevent others from infringing on our proprietary rights

In particular we believe that linking our polymers to existing drugs will yield patentable subject matter. We do not believe that our polymer-drug conjugates will infringe any third-party patents covering the underlying drug. However, there can be no assurance that we will receive a patent for our polymer conjugates or that we will not be challenged by the holder of a patent covering the underlying drug.

The patent position of biopharmaceutical firms generally is highly uncertain and involves complex legal and factual questions. The U.S. Patent and Trademark Office has not established a consistent policy regarding the breadth of claims that it will allow in biotech patents. If it allows broad claims, the number and cost of patent interference proceedings in the U.S. and the risk of infringement litigation may increase. If it allows narrow claims, the risk of infringement may decrease, but the value of our rights under our patents, licenses and patent applications may also decrease.

We cannot assure you that patent applications in which we have rights will ever issue as patents or that the claims of any issued patents will afford meaningful protection for our technologies or products. In addition, patents issued to us or our licensors may be challenged and subsequently narrowed, invalidated or circumvented. Litigation, interference proceedings or other governmental proceedings that we may become involved in with respect to our proprietary technologies or the proprietary technology of others could result in substantial cost to us. Patent litigation is widespread in the biotechnology industry, and any patent litigation could harm our business. Costly litigation might be necessary to protect our orphan drug designations or patent position or to determine the scope and validity of third-party proprietary rights, and we may not have the required resources to pursue such litigation or to protect our patent rights. An adverse outcome in litigation with respect to the validity of any of our patents could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us to cease using a product or technology.

We also rely upon trade secrets, proprietary know-how and continuing technological innovation to remain competitive. Third parties may independently develop such know-how or otherwise obtain access to our technology. While our employees, consultants and corporate partners with access to proprietary information are generally required to enter into confidentiality agreements, these agreements may not be honored.

If any of our license agreements for intellectual property underlying ATO, PG-TXL or any other product are terminated, we may lose our rights to develop or market that product.

Patents issued to third parties may cover our products as ultimately developed. We may need to acquire licenses to these patents or challenge the validity of these patents. We may not be able to license any patent rights on acceptable terms or successfully challenge such patents. The need to do so will depend on the scope and validity of these patents and ultimately on the final design or formulation of the products and services that we develop.

We have licensed intellectual property, including patent applications from Memorial Sloan Kettering Cancer Institute, Samuel Waxman Cancer Research Foundation, Beijing Medical University and others, including the intellectual property underlying our most advanced product candidate, ATO. We have also in-licensed the intellectual property relating to our polymer drug delivery technology, including PG-TXL. Some of our product development programs depend on our ability to maintain rights under these licenses. Each licensor has the power

to terminate its agreement with us if we fail to meet our obligations under that license. We may not be able to meet our obligations under these licenses. If we default under any of these license agreements, we may lose our right to market and sell any products based on the licensed technology.

Our products could infringe on the intellectual property rights of others, which may cause us to engage in costly litigation and, if we are not successful, could cause us to pay substantial damages and prohibit us from selling our products.

Although we attempt to monitor the patent filings of our competitors in an effort to guide the design and development of our products to avoid infringement, third parties may challenge the patents that have been issued or licensed to us. We may have to pay substantial damages, possibly including treble damages, for past infringement if it is ultimately determined that our products infringe a third party's patents. Further, we may be prohibited from selling our products before we obtain a license, which, if available at all, may require us to pay substantial royalties. Even if infringement claims against us are without merit, defending a lawsuit takes significant time, may be expensive and may divert management attention from other business concerns.

Our lack of operating experience may cause us difficulty in managing our growth.

We have no experience in selling pharmaceutical products and only limited experience in negotiating, establishing and maintaining strategic relationships, in manufacturing or procuring products in commercial quantities and conducting other later-stage phases of the regulatory approval process. Furthermore, our first leading drug candidate, ATO, was only recently acquired in January from PolaRx. We have no experience with respect to the launch of a commercial product. Our ability to manage our growth, if any, will require us to improve and expand our management and our operational and financial systems and controls (particularly with respect to ATO). If our management is unable to manage growth effectively, our business and financial condition would be materially harmed. In addition, if rapid growth occurs, it may strain our operational, managerial and financial resources.

If we fail to keep pace with rapid technological change in the biotechnology and pharmaceutical industries, our products could become obsolete.

Biotechnology and related pharmaceutical technology have undergone and are subject to rapid and significant change. We expect that the technologies associated with biotechnology research and development will continue to develop rapidly. Our future will depend in large part on our ability to maintain a competitive position with respect to these technologies. Any compounds, products or processes that we develop may become obsolete before we recover any expenses incurred in connection with developing these products.

We are faced with direct and intense competition from our rivals in the biotechnology and pharmaceutical industries.

The biotechnology and pharmaceutical industries are intensely competitive. We have numerous competitors in the United States and elsewhere. Our competitors include major, multinational pharmaceutical and chemical companies, specialized biotechnology firms and universities and other research institutions. Many of these competitors have greater financial and other resources, larger research and development staffs and more effective marketing and manufacturing organizations, than we do. In addition, academic and government institutions have become increasingly aware of the commercial value of their research findings. These institutions are now more likely to enter into exclusive licensing agreements with commercial enterprises, including our competitors, to market commercial products.

Our competitors may succeed in developing or licensing technologies and drugs that are more effective or less costly than any we are developing. Our competitors may succeed in obtaining FDA or other regulatory approvals for drug candidates before we do. In particular, we face direct competition from many companies focusing on delivery technologies. Drugs resulting from our research and development efforts, if approved for sale, may not compete successfully with our competitors' existing products or products under development.

If we fail to raise substantial additional capital, we will have to curtail or cease operations.

We expect that our existing capital resources and the interest earned thereon will enable us to maintain our current and planned operations through at least mid-2001. Beyond that time, if our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds to continue the development of our technologies and complete the commercialization of products, if any, resulting from our technologies. We will require substantial funds to: (1) continue our research and development programs, (2) in-license or acquire additional technologies, and (3) conduct preclinical studies and clinical trials. We may need to raise additional capital to fund our operations repeatedly. We may raise such capital through public or private equity financings, partnerships, debt financings, bank borrowings, or other sources. Our capital requirements will depend upon numerous factors, including the following:

- the establishment of additional collaborations
- the development of competing technologies or products
- changing market conditions
- the cost of protecting our intellectual property rights
- the purchase of capital equipment
- the progress of our drug discovery and development programs, the progress of our collaborations and receipt of any option/license, milestone and royalty payment resulting from those collaborations
- in-licensing and acquisition opportunities

Additional funding may not be available on favorable terms or at all. If adequate funds are not otherwise available, we may curtail operations significantly. To obtain additional funding, we may need to enter into arrangements that require us to relinquish rights to certain technologies, drug candidates, products and/or potential markets. To the extent that additional capital is raised through the sale of equity, or securities convertible into equity, you may experience dilution of your proportionate ownership of the company.

Our stock price is extremely volatile, which may affect our ability to raise capital in the future.

The market price for securities of biopharmaceutical and biotechnology companies, including that of ours, historically has been highly volatile, and the market from time to time has experienced significant price and volume fluctuations that are unrelated to the operating performance of such companies. For example, in the last twelve months, our stock price has ranged from a low of $1.3125 to a high of $52.00. Fluctuations in the trading price or liquidity of our common stock may adversely affect our ability to raise capital through future equity financings.

Factors that may have a significant impact on the market price and marketability of our common stock include:

- announcements of technological innovations or new commercial therapeutic products by us, our collaborative partners or our present or potential competitors
- our quarterly operating results
- announcements by us or others of results of preclinical testing and clinical trials
- developments or disputes concerning patent or other proprietary rights
- developments in our relationships with collaborative partners
- acquisitions

. litigation

. adverse legislation, including changes in governmental regulation and the status of our regulatory approvals or applications

. third-party reimbursement policies

. changes in securities analysts' recommendations

. changes in health care policies and practices

. economic and other external factors

. general market conditions

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. If a securities class action suit is filed against us, we would incur substantial legal fees and our management's attention and resources would be diverted from operating our business in order to respond to the litigation.

Our dependence on third-party manufacturers means that we may not have sufficient control over the manufacture of our products.

We currently do not have internal facilities for the manufacture of any of our products for clinical or commercial production. We will need to develop additional manufacturing resources, enter into collaborative arrangements with other parties which have established manufacturing capabilities or elect to have other third parties manufacture our products on a contract basis. For example, we are a party to an agreement with Aerojet to furnish Apra bulk drug substance for future clinical studies. We are dependent on such collaborators or third parties to supply us in a timely way with products manufactured in compliance with standards imposed by the FDA and foreign regulators. The manufacturing facilities of contract manufacturers may not comply with applicable manufacturing regulations of the FDA nor meet our requirements for quality, quantity or timeliness.

We may face difficulties in achieving acceptance of our products in the market due to our lack of sales and marketing capabilities and other factors.

We have no direct experience in marketing, sales or distribution. The creation of infrastructure to commercialize pharmaceutical products is an expensive and time-consuming process. In the event that ATO achieves regulatory approval, we will need to build a sales and marketing force to market the product. Should we have to market and sell our other products directly, we would need to further develop a marketing and sales force with sufficient technical expertise and distribution capability. We may be unable to develop the necessary marketing and sales capabilities and we may fail to gain market acceptance for our products.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to pursue collaborations or develop our own products.

We are highly dependent on Dr. James A. Bianco, Chief Executive Officer, and Dr. Jack Singer, Executive Vice President, Research Program Chairman. The loss of these principal members of our scientific or management staff, or failure to attract or retain other key scientific personnel employees, could prevent us from pursuing collaborations or developing our products and core technologies. Recruiting and retaining qualified scientific personnel to perform research and development work are critical to our success. There is intense competition for qualified scientists and managerial personnel from numerous pharmaceutical and biotechnology companies, as well as from academic and government organizations, research institutions and other entities. In addition, we rely on consultants and advisors, including our scientific and clinical advisors, to assist us in formulating our research and development strategy. All of our consultants and advisors are employed by other employers or are self-employed, and have commitments to or consulting or advisory contracts with other entities that may limit their availability to us.

If we fail to obtain regulatory approvals, we will be unable to commercialize our products.

We do not have a drug product approved for sale in the U.S. or any foreign market. We must obtain approval from the FDA in order to sell our drug products in the U.S. and from foreign regulatory authorities in order to sell our drug products in other countries. We have not yet submitted any application for approval to the FDA. Once an application is submitted, the FDA could reject the application or require us to conduct additional clinical or other studies as part of the regulatory review process. Delays in obtaining or failure to obtain FDA approvals would prevent or delay the commercialization of our drug products, which prevent, defer or decrease our receipt of revenues.

The regulatory review and approval process is lengthy, expensive and uncertain. Extensive preclinical and clinical data and supporting information must be submitted to the FDA for each indication for each drug in order to secure FDA approval. We have limited experience in obtaining such approvals, and cannot be certain when we will receive these regulatory approvals, if ever.

In addition to initial regulatory approval, our drug products will be subject to extensive and rigorous ongoing domestic and foreign government regulation, as we discuss in more detail in "Business--Government Regulation." Any approvals, once obtained, may be withdrawn if compliance with regulatory requirements is not maintained or safety problems are identified. Failure to comply with these requirements may subject us to stringent penalties.

Because there is a risk of product liability associated with our products, we face potential difficulties in obtaining insurance.

Our business exposes us to potential product liability risks inherent in the testing, manufacturing and marketing of human pharmaceutical products, and we may not be able to avoid significant product liability exposure. Except for insurance covering product use in our clinical trials, we do not currently have any product liability insurance, and it is possible that we will not be able to obtain or maintain such insurance on acceptable terms or that any insurance obtained will provide adequate coverage against potential liabilities. Our inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or limit the commercialization of any products we develop. A successful product liability claim in excess of our insurance coverage could exceed our net worth.

Uncertainty regarding third-party reimbursement and health care cost containment initiatives may limit our returns.

Our ability to commercialize our products successfully will be affected by the ongoing efforts of governmental and third-party payors to contain or reduce the cost of health care. Governmental and other third-party payors increasingly are attempting to contain health care costs by:

- challenging the prices charged for health care products and services
- limiting both coverage and the amount of reimbursement for new therapeutic products
- denying or limiting coverage for products that are approved by the FDA but are considered experimental or investigational by third-party payors
- refusing in some cases to provide coverage when an approved product is used for disease indications in a way that has not received FDA marketing approval

In addition, the trend toward managed health care in the United States, the growth of organizations such as health maintenance organizations, and legislative proposals to reform healthcare and government insurance programs could significantly influence the purchase of healthcare services and products, resulting in lower prices and reducing demand for our products.

Even if we succeed in bringing any of our proposed products to the market, they may not be considered cost-effective and third-party reimbursement might not be available or sufficient. If adequate third-party coverage is not available, we may not be able to maintain price levels sufficient to realize an appropriate return on our investment in research and product development. In addition, legislation and regulations affecting the pricing of pharmaceuticals may change in ways adverse to us before or after any of our proposed products are approved for marketing. While we cannot predict whether any such legislative or regulatory proposals will be adopted, the adoption of such proposals could make it difficult or impossible to sell our products.

Although we believe that we adequately prepared for Year 2000 issues, it is possible that Year 2000 problems of other companies could impact our business.

Although we have not experienced any Year 2000 problems, the systems of other companies on which we rely may still remain vulnerable to the Year 2000 issue. Potential impacts could include, but are not limited to, future revenue delays due to delayed research, development, clinical trials or agency approvals. We presently believe the Year 2000 issue will not pose significant operational problems for our computer systems or third-party relationships. We believe that the Year 2000 issues have been effectively avoided, but we have developed for each critical activity a contingency plan to allow operations to continue even if significant issues are experienced.

Since we use hazardous materials in our business, we may be subject to claims relating to improper handling, storage or disposal of these materials.

Our research and development activities involve the controlled use of hazardous materials, chemicals and various radioactive compounds. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be eliminated completely. In the event of such an accident, we could be held liable for any damages that result and any such liability not covered by insurance could exceed our resources. Compliance with environmental laws and regulations may be expensive, and current or future environmental regulations may impair our research, development or productions efforts.

Our ability to conduct animal testing could be limited in the future.

Certain of our research and development activities involve animal testing. Such activities have been the subject of controversy and adverse publicity. Animal rights groups and other organizations and individuals have attempted to stop animal testing activities by pressing for legislation and regulation in these areas. To the extent the activities of these groups are successful, our business could be materially harmed.

Because our charter documents contain certain anti-takeover provisions and we have a rights plan, it may be more difficult for a third party to acquire us, and the rights of some shareholders could be adversely affected.

Our Restated Articles of Incorporation and Bylaws contain provisions that may make it more difficult for a third party to acquire or make a bid for us. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. In addition, shares of our preferred stock may be issued in the future without further shareholder approval and upon such terms and conditions and having such rights, privileges and preferences, as the board of directors may determine. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of any holders of preferred stock that may be issued in the future. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of our outstanding voting stock. We have no present plans to issue any shares of preferred stock. In addition, we have adopted a shareholder rights plan that, along with certain provisions of our Restated Articles of Incorporation, may have the effect of discouraging certain transactions involving a change of control of the company.

Item 2. Properties

We lease approximately 66,000 square feet of space at 201 Elliott Avenue West in Seattle, Washington for our executive office, laboratory and administrative operations. The lease expires on January 31, 2003, with two consecutive five-year renewal options at the then prevailing market rent. We believe our existing and planned facilities are adequate to meet our present requirements. Despite a decrease in local vacancy rates for commercial space, we currently anticipate that additional space will be available to us, when needed, on commercially reasonable terms.

Item 3. Legal Proceedings

We are not a party to any material legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common stock commenced trading on the Nasdaq National Market under the symbol "CTIC" March 21, 1997. The following table sets forth, for the periods indicated the high and low reported sales prices per share of the common stock as reported on the Nasdaq National Market.

	High	Low
1997		
First Quarter (commencing March 21, 1997)	$10 7/8	$10
Second Quarter	13 5/8	7 5/8
Third Quarter	16 1/4	10 5/8
Fourth Quarter	18 3/4	14 7/8
1998		
First Quarter	$16 3/4	$ 4
Second Quarter	4 3/4	2 1/2
Third Quarter	3 3/16	1 1/2
Fourth Quarter	3 3/4	1 3/4
1999		
First Quarter	$ 4 5/8	$2 13/16
Second Quarter	5	2 1/16
Third Quarter	3 9/32	2 1/32
Fourth Quarter	7 1/2	1 5/16
2000		
First Quarter (through March 23, 2000)	$ 52	$5 5/16

On March 23, 2000, the last reported sale price of our common stock on the Nasdaq National Market was $27.00 per share. As of February 29, 2000, there were approximately 335 holders of record of our common stock.

Dividend Policy

The Company has not declared or paid any cash dividends on its capital stock since its inception. The Company currently intends to retain all of its cash and any future earnings to finance the growth and development of its business and therefore does not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

Recent Sales of Unregistered Securities

In November 1999, we issued an aggregate of 6,198,087 shares of Series D preferred stock and warrants in connection with a private placement. These

shares are convertible into common stock at the option of the holder. We relied upon the exeption provided by Section 4(2) of the Securities Act.

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data set forth below with respect to our consolidated statements of operations for each of the three years in the period ended December 31, 1999 and for the period from September 4, 1991 (date of incorporation) to December 31, 1999, and with respect to the consolidated balance sheets at December 31, 1998 and 1999, are derived from the audited consolidated financial statements of the Company included elsewhere in this report, and is qualified by reference to such financial statements and the notes related thereto. The selected consolidated balance sheet data at December 31, 1995, 1996 and 1997 and the selected consolidated statement of operations data for the years ended December 31, 1995 and 1996 are derived from our audited financial statements not included in this report. The data set forth below should be read in conjunction with Item 7. "--Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto appearing at Item 8 of this report.

	Year Ended December 31,					Period from September 4, 1991 (Date of Incorporation) To December 31,
	1995	1996	1997	1998	1999	1999
	(in thousands, except per share data)					
Consolidated Statements of Operations Data:						
Revenues:						
Collaboration agreements	$ 100	$ 9,121	$ 11,831	$ 13,200	$ --	$ 34,252
Operating expenses:						
Research and development	14,606	16,109	27,285	29,942	27,682	145,069
General and administrative	6,145	7,602	10,090	10,889	9,788	56,221
Total operating expenses	20,751	23,711	37,375	40,831	37,470	201,290
Loss from operations	(20,651)	(14,590)	(25,544)	(27,631)	(37,470)	(167,038)
Other income (expense):						
Investment income	1,167	1,174	2,895	3,094	1,692	11,654
Interest expense	(509)	(512)	(377)	(435)	(502)	(2,967)
Net loss	(19,993)	(13,928)	(23,026)	(24,972)	(36,280)	(158,351)
Preferred stock dividend	--	--	--	--	(5,201)	(5,201)
Net loss	$(19,993)	$(13,928)	$(23,026)	$(24,972)	$(41,481)	$(163,552)
Basic and diluted net loss per common share(1)	$ (4.19)	$ (2.82)	$ (1.98)	(1.62)	$ (2.67)	
Shares used in computation of basic and diluted net loss per common share	4,771	4,939	11,634	15,410	15,552	

	December 31,

	1995	1996	1997	1998	1999
	(in thousands)				
Consolidated Balance Sheets Data:					
Cash, cash equivalents, and securities available-for-sale	$ 21,906	$ 30,987	$ 70,444	$ 46,435	$ 23,880
Collaboration agreement receivables	--	--	3,683	3,254	--
Working capital	18,342	26,300	67,594	44,143	17,705
Total assets	28,048	37,002	80,433	58,156	30,848
Long-term obligations, less current portion	2,606	2,005	2,039	3,888	2,653
Deficit accumulated during development stage	(60,144)	(74,083)	(97,098)	(122,070)	(158,350)
Total shareholders' equity	21,858	30,054	71,760	47,165	20,904

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(1) See Note 1 of Notes to Consolidated Financial Statements for a description of the computation of the number of shares and net loss per common share.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We focus on developing, acquiring and commercializing novel treatments for cancer. Our goal is to build a leading, vertically-integrated pharmaceutical company with a diversified portfolio of oncology drugs and drug candidates.

Since commencement of operations in 1992, we have been engaged in research and development activities, including conducting preclinical studies and clinical trials. We have not received any revenue from product sales to date. As of December 31, 1999, we had incurred aggregate net losses of approximately $158.4 million since inception. We expect to continue to incur significant additional operating losses over the next several years from our research and development efforts. Operating losses may fluctuate from quarter to quarter as a result of differences in the timing of expenses incurred and revenues recognized.

In the fourth quarter of 1995, we began to receive revenue under a collaboration agreement with BioChem Pharma, Inc., and in the fourth quarter of 1996, we began to receive revenue under a collaboration agreement with subsidiaries of Johnson & Johnson. Under the terms of the collaboration, Johnson & Johnson paid 60% of the U.S. development costs of lisofylline, a product we are no longer developing. In November 1998, after reviewing the results of our phase III clinical trial for lisofylline, we and Johnson & Johnson formally amended our collaboration. Under the terms of the amended collaboration, Johnson & Johnson agreed to pay us $13.1 million for development cost reimbursements for the year ended December 31, 1998, and we anticipate no further payments under this agreement.

On June 30, 1998, we entered into an agreement with PG-TXL Company, L.P. and scientists at the M.D. Anderson Cancer Center, granting us an exclusive worldwide license to the rights to PG-TXL, and to all potential uses of its polymer technology. Under the terms of the agreement, we will fund the research, development, manufacture, marketing and sale of drugs developed using PG-TXL's polymer technology.

In January 2000, we acquired ATO upon our acquisition of PolaRx, a single product company that owned the rights to ATO. In connection with the acquisition, we issued 2,000,000 shares of our common stock at signing and will issue an additional 3,000,000 shares to PolaRx shareholders upon the earlier of approval of an NDA by the FDA for ATO or five years from the acquisition date. The acquisition agreement requires shareholder approval for 2,000,000 of the 3,000,000 additional shares. If our shareholders do not approve the issuance of these additional shares, we will pay the PolaRx shareholders in cash. Two additional payouts tied to sales thresholds of $10 million and $20 million in any four consecutive quarters, may be payable

in tranches of $4 million and $5 million at the then fair market value of our stock, at the time such thresholds are achieved. For annual sales of ATO in excess of $40 million, PolaRx shareholders will receive a 2% royalty on net sales payable at the then fair market value of our common stock or, in certain circumstances, cash. We assumed $5 million of PolaRx's outstanding liabilities and commitments and expect to incur substantial pre-commercialization expenses associated with the launch of ATO, should we receive marketing approval from the FDA.

Results of Operations

Years ended December 31, 1999 and 1998

Revenues. We did not record any collaboration agreement revenues during 1999. In 1998, we recorded revenues of approximately $13.1 million from our collaboration agreement with Johnson & Johnson and $100,000 under a collaboration agreement from BioChem Pharma.

Research and development. Research and development expenses decreased to approximately $27.7 million for the year ended December 31, 1999 from approximately $29.9 million for the year ended December 31, 1998. This decrease was due primarily to the winding down of manufacturing and preclinical development activities for lisofylline offset in part by development activities for PG-TXL. We have almost eliminated research and development expenses for lisofylline and anticipate increased research and development expenses in connection with our other products.

General and administrative expenses. General and administrative expenses decreased to approximately $9.8 million for the year ended December 31, 1999 from approximately $10.9 million for the year ended December 31, 1998. This decrease was due primarily to reduction in general and administrative staff personnel and operating expenses required to support our research and development activities. General and administrative expenses are expected to increase to support our expected increase in research, development and commercialization efforts.

Investment income. Investment income decreased to approximately $1.7 million for the year ended December 31, 1999 from approximately $3.1 million for the year ended December 31, 1998. This decrease was associated primarily with lower average cash balances on hand during the year ended December 31, 1999 compared to the year ended December 31, 1998.

Interest expense. Interest expense increased to approximately $502,000 for the year ended December 31, 1999 from approximately $435,000 for the year ended December 31, 1998. This increase was due primarily to higher average balances of outstanding long-term obligations.

Preferred stock dividend. We issued preferred stock and common stock warrants in November 1999. On the date of issuance, the effective conversion price of the preferred stock after allocating the portion of the proceeds to the common stock warrants based on the relative fair values, was at a discount to the price of the common stock into which the preferred stock is convertible. The discount of $5.2 million was recorded as a preferred stock dividend.

Years Ended December 31, 1998 and 1997

Revenues. During the year ended December 31, 1998, we recorded $13.2 million of collaboration agreement revenues. During the year ended December 31, 1997, we recorded approximately $11.8 million of collaboration agreement revenue from Johnson & Johnson.

Research and development. Research and development expenses increased to approximately $29.9 million for the year ended December 31, 1998 from approximately $27.3 million for the year ended December 31, 1997. This increase was due primarily to expanded development activities with respect to lisofylline, Apra, and commencing development activities for PG-TXL.

General and administrative expenses. General and administrative expenses increased to approximately $10.9 million for the year ended December 31, 1998 from approximately $10.1 million for the year ended December 31, 1997. This increase was due primarily to operating expenses associated with supporting

our increased research, development and clinical activities. Additionally, during 1998 we incurred transaction costs with respect to acquiring the rights to PG-TXL.

Investment income. Investment income increased to approximately $3.1 million for the year ended December 31, 1998 from approximately $2.9 million for the year ended December 31, 1997. The increase was associated primarily with higher average cash balances on hand during 1998 due to the proceeds from follow-on offering in the fourth quarter of 1997.

Interest expense. Interest expense increased to approximately $435,000 for the year ended December 31, 1998 from approximately $378,000 for the year ended December 31, 1997. This increase was due primarily to higher average balances of outstanding long-term obligations, partially offset by lower average interest rates on those obligations.

Liquidity and Capital Resources

We have financed our operations since inception primarily through the sale of equity securities and our collaboration with Johnson & Johnson. As of December 31, 1999, we had raised aggregate net proceeds of approximately $177.1 million through the sale of equity securities. We have received approximately $40.8 million from Johnson & Johnson including $10 million from the sale of equity securities. In addition, we financed the purchase of $16.2 million of property and equipment through financing agreements and capital lease obligations of which approximately $3.4 million remained outstanding as of December 31, 1999.

As of December 31, 1999, we had $23.9 million in cash, cash equivalents and securities available-for-sale. In February 2000, we received proceeds of $37.1 million from a private placement of common stock. Pro forma for this placement, we had $61.0 million in cash, cash equivalents and securities available-for-sale as of December 31, 1999.

We expect to generate losses from operations for several years due to substantial additional research and development costs, including costs related to clinical trials, and increased sales and marketing expenditures. We expect that our existing capital resources will enable us to maintain our current and planned operations through at least mid-2001. Our future capital requirements will depend on many factors, including:

- success of our sales and marketing efforts
- progress in and scope of our research and development activities
- competitive market developments
- success in acquiring complementary products, technologies or businesses

Future capital requirements will also depend on the extent to which we acquire or invest in businesses, products and technologies. If we should require additional financing due to unanticipated developments, additional financing may not be available when needed or, if available, we may not be able to obtain this financing on terms favorable to us or to our stockholders. Insufficient funds may require us to delay, scale back or eliminate some or all of our research and development programs, or may adversely affect our ability to operate as a going concern. If additional funds are raised by issuing equity securities, substantial dilution to existing stockholders may result.

Income Taxes

As of December 31, 1999, we had available for Federal income tax purposes net operating loss carryforwards of approximately $152.0 million and research and development credit carryforwards of approximately $5.6 million. These carryforwards begin to expire in 2007. Our ability to utilize these net operating loss and research and development credit carryforwards is subject to annual limitations of $5.6 million for losses incurred prior to March 26, 1997 and may be subject to additional limitations thereafter pursuant to the "change in ownership" rules under Section 382 of the Internal Revenue Code of 1986.

Quantitative and Qualitative Disclosure about Market Risk

We are exposed to market risk related to changes in interest rates that could adversely affect the value of our investments. We do not use derivative financial instruments for speculative or trading purposes. We maintain a short-term investment portfolio consisting of interest bearing securities with an average maturity of less than one year. These securities are classified as "available-for-sale" securities. These securities are interest bearing and thus subject to interest rate risk and will fall in value if market interest rates increase. Because we have the ability to hold our fixed income investments until maturity, we do not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates on our securities portfolio.

We have operated primarily in the United States and all revenues to date have been in U.S. dollars. Accordingly, we do not have material exposure to foreign currency rate fluctuations. We have not entered into any foreign exchange contracts to hedge any exposure to foreign currency rate fluctuations because such exposure is immaterial.

Year 2000

Based on a review of our computer and business systems and significant third party vendors, we have concluded that the change from the year 1999 to the year 2000 did not have an effect on our day-to-day operations or otherwise pose significant operational problems. However, we will continue to monitor our mission critical computer applications and those of our suppliers and vendors throughout the year 2000 to ensure that any latent year 2000 matters that may arise are promptly addressed.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8.Consolidated Financial Statements

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Cell Therapeutics, Inc.

We have audited the accompanying consolidated balance sheets of Cell Therapeutics, Inc. (a development stage company) as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999 and for the period from September 4, 1991 (date of incorporation) to December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial

statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cell Therapeutics, Inc. (a development stage company) at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 and for the period from September 4, 1991 (date of incorporation) to December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Seattle, Washington
February 25, 2000

CELL THERAPEUTICS, INC.
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

	December 31, 1999	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,674,386	$ 4,362,486
Securities available-for-sale	18,205,630	42,072,276
Interest receivable	367,636	637,330
Collaboration agreement receivables	--	3,254,491
Prepaid expenses and other current assets	748,506	920,136
Total current assets	24,996,158	51,246,719
Property and equipment, net	5,035,683	6,825,897
Other assets and deferred charges	816,050	83,879
Total assets	$ 30,847,891	$ 58,156,495
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,224,994	$ 1,106,832
Accrued expenses	4,940,626	4,816,385
Current portion of long-term obligations	1,125,211	1,180,702
Total current liabilities	7,290,831	7,103,919
Long-term obligations, less current portion	2,653,111	3,887,603
Commitments		
Shareholders' equity:		
Preferred Stock, no par value:		
Authorized shares--10,000,000		
Series A and B, 161,118.645 shares designated, none issued or outstanding	--	--
Series D, 10,000 shares designated, issued and outstanding, liquidation preference--$10,000,000	11,384,029	--
Common Stock, no par value:		
Authorized shares--100,000,000		
Issued and outstanding shares--15,595,536 and		

15,534,359 at December 31, 1999 and 1998, respectively	168,235,338	169,618,635
Notes receivable from officers	(330,000)	(380,000)
Deficit accumulated during development stage	(158,350,182)	(122,070,032)
Accumulated other comprehensive loss	(35,236)	(3,630)
Total shareholders' equity	20,903,949	47,164,973
Total liabilities and shareholders' equity	$ 30,847,891	$ 58,156,495

See accompanying notes.

CELL THERAPEUTICS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,			September 4, 1991 (Date of Incorporation) To
	1999	1998	1997	December 31, 1999
Revenues:				
Collaboration agreements	$ --	$ 13,200,426	$ 11,831,420	$ 34,252,652
Operating expenses:				
Research and development	27,682,174	29,941,772	27,284,544	145,069,602
General and administrative	9,788,292	10,889,402	10,090,253	56,220,765
	37,470,466	40,831,174	37,374,797	201,290,367
Loss from operations	(37,470,466)	(27,630,748)	(25,543,377)	(167,037,715)
Other income (expense):				
Investment income	1,691,912	3,094,116	2,894,627	11,654,414
Interest expense	(501,596)	(435,279)	(377,544)	(2,966,881)
Net loss	(36,280,150)	(24,971,911)	(23,026,294)	(158,350,182)
Preferred stock dividend	(5,200,513)	--	--	(5,200,513)
Net loss applicable to common shareholders	$(41,480,663)	$(24,971,911)	$(23,026,294)	$(163,550,695)
Basic and diluted net loss per share	$ (2.67)	$ (1.62)	$ (1.98)	
Shares used in calculation of basic and diluted net loss per share	15,551,526	15,409,848	11,634,032	

See accompanying notes.

CELL THERAPEUTICS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Preferred Stock						Notes Receivable from Officers	Deficit Accumulated During the Development Stage
			Series A		Series B		Series D			
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount		
Issuance of common stock to founders for cash	1,914,313	$ 87,612	--	$ --	--	$ --	--	$ --	$ --	$ --
Cash proceeds received from the issuance of shares and warrants to chairman of the Board of Directors	178,572	2,004,000	--	--	--	--	--	--	--	--
Net proceeds from the issuance of common stock via private placement equity offering, net of offering costs of $3,467,352	2,225,139	35,083,440	--	--	--	--	--	--	--	--
Net loss for the year ended December 31, 1992	--	--	--	--	--	--	--	--	--	(5,323,737)
Balance at December 31, 1992	4,318,024	37,175,052	--	--	--	--	--	--	--	(5,323,737)
Repurchase and cancellation of common stock	(60,343)	(2,522)	--	--	--	--	--	--	--	--
Share cancellation	(1,072)	--	--	--	--	--	--	--	--	--
Net proceeds from the issuance of common stock via private placement equity offering, net of offering costs of $1,486,383	438,540	12,326,885	--	--	--	--	--	--	--	--
Net loss for the year ended December 31, 1993	--	--	--	--	--	--	--	--	--	(15,328,143)
Balance at December 31, 1993	4,695,149	49,499,415	--	--	--	--	--	--		(20,651,880)
Net proceeds from the issuance of common stock via private placement equity offering, net of offering costs of $85,823	25,001	701,677	--	--	--	--	--	--	--	--
Proceeds from stock options exercised	79	1,375	--	--	--	--	--	--	--	--
Net loss for the year ended December 31, 1994	--	--	--	--	--	--	--	--	--	(19,499,283)
Balance at December 31, 1994	4,720,229	50,202,467	--	--	--	--	--	--	--	(40,151,163)
Net proceeds from the issuance of Series A convertible preferred stock via private placement equity offering, net of offering costs of $1,478,541	--	--	95,447.004	30,496,204	--	--	--	--	--	--
Share cancellation	(179)	--	--	--	--	--	--	--	--	--
Exchange of warrants for common stock	104,418	--	--	--	--	--	--	--	--	--
Issuance of common stock for purchased research and development	98,574	1,155,750	--	--	--	--	--	--	--	--
December 1995 proceeds received from issuance of shares to a member of the Board of Directors	5,715	67,000	--	--	--	--	--	--	--	--

Proceeds from stock options exercised.....	4,653	56,264	--	--	--	--	--	--	--	--	--
Comprehensive loss:											
Unrealized gains on securities available-for-sale.....	--	--	--	--	--	--	--	--	--	--	--
Net loss for the year ended December 31, 1995.....	--	--	--	--	--	--	--	--	--	--	(19,992,475)
Comprehensive loss.....	--	--	--	--	--	--	--	--	--		--
Balance at December 31, 1995.....	4,933,410	$51,481,481	95,447.004	$30,496,204	--	$ --	--	$ --	$ --	$(60,143,638)	

	Accumulated Other Comprehensive Income/(Loss)	Total
Issuance of common stock to founders for cash.....	$ --	$ 87,612
Cash proceeds received from the issuance of shares and warrants to chairman of the Board of Directors.....	--	2,004,000
Net proceeds from the issuance of common stock via private placement equity offering, net of offering costs of $3,467,352.....	--	35,083,440
Net loss for the year ended December 31, 1992.....	--	(5,323,737)
Balance at December 31, 1992.....	--	31,851,315
Repurchase and cancellation of common stock.....	--	(2,522)
Share cancellation.....	--	--
Net proceeds from the issuance of common stock via private placement equity offering, net of offering costs of $1,486,383.....	--	12,326,885
Net loss for the year ended December 31, 1993.....	--	(15,328,143)
Balance at December 31, 1993.....	--	28,847,535
Net proceeds from the issuance of common stock via private placement equity offering, net of offering costs of $85,823.....	--	701,677
Proceeds from stock options exercised.....	--	1,375
Net loss for the year ended December 31, 1994.....	--	(19,499,283)
Balance at December 31, 1994.....	--	10,051,304
Net proceeds from the issuance of Series A convertible preferred stock via private placement equity offering, net of		

offering costs of $1,478,541.....	--	30,496,204
Share cancellation.....	--	--
Exchange of warrants for common stock.....	--	--
Issuance of common stock for purchased research and development.....	--	1,155,750
December 1995 proceeds received from issuance of shares to a member of the Board of Directors.....	--	67,000
Proceeds from stock options exercised.....	--	56,264
Comprehensive loss:		
Unrealized gains on securities available-for-sale.....	24,178	24,178
Net loss for the year ended December 31, 1995.....	--	(19,992,475)
Comprehensive loss.....	--	(19,968,297)
Balance at December 31, 1995.....	$24,178	$ 21,858,225

See accompanying notes.

CELL THERAPEUTICS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY--(Continued)

	Common Stock		Preferred Stock						Notes	Deficit Accumulated
			Series A		Series B		Series D		Receivable	During the
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	from Officers	Development Stage
Net proceeds from the issuance of Series A convertible preferred stock via private placement equity offering, net of offering costs of $130,000.....	--	$ --	50,746.268	$16,870,000	--	$ --	--	$ --	$ --	$ --
Net proceeds from the issuance of Series B convertible preferred stock via private placement equity offering, net of offering costs of $40,000.....	--	--	--	--	14,925.373	4,960,000	--	--	--	--
Exchange of warrants for common stock.....	151	--	--	--	--	--	--	--	--	--
Proceeds from stock options exercised.....	1,974	23,121	--	--	--	--	--	--	--	--
Proceeds from common stock warrants exercised.....	7,937	305,558	--	--	--	--	--	--	--	--
Comprehensive loss:										
Unrealized losses on securities available-for-sale.....	--	--	--	--	--	--	--	--	--	--
Net loss for the year ended December 31, 1996.....	--	--	--	--	--	--	--	--	--	(13,928,189)

Comprehensive loss.....	--	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1996.....	4,943,472	51,810,160	146,193.272	47,366,204	14,925.373	4,960,000	--	--	--	(74,071,827)	
Net proceeds from the issuance of common stock via initial public offering, net of offering costs of $3,197,750.....	3,000,000	26,802,250	--	--	--	--	--	--	--	--	
Net proceeds from the issuance of common stock via follow-on public offering, net of offering costs of $2,538,000.....	2,300,000	34,262,000	--	--	--	--	--	--	--	--	
Net proceeds from the issuance of common stock via private placement equity offering..	300,000	3,000,000	--	--	--	--	--	--	--	--	

	Accumulated Other Comprehensive Income/(Loss)	Total
Net proceeds from the issuance of Series A convertible preferred stock via private placement equity offering, net of offering costs of $130,000.....	$ --	$ 16,870,000
Net proceeds from the issuance of Series B convertible preferred stock via private placement equity offering, net of offering costs of $40,000.....	--	4,960,000
Exchange of warrants for common stock.....	--	--
Proceeds from stock options exercised.....	--	23,121
Proceeds from common stock warrants exercised.....	--	305,558
Comprehensive loss:		
Unrealized losses on securities available-for-sale.....	(34,995)	(34,995)
Net loss for the year ended December 31, 1996.....	--	(13,928,189)
Comprehensive loss.....	--	(13,963,184)
Balance at December 31, 1996.....	(10,817)	30,053,720
Net proceeds from the issuance of common stock via initial public offering, net of offering costs of $3,197,750.....	--	26,802,250
Net proceeds from the issuance of common stock via follow-on public offering, net of offering costs of $2,538,000.....	--	34,262,000
Net proceeds from the issuance of common stock via private placement equity offering..	--	3,000,000

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY--(Continued)

	Common Stock		Preferred Stock						Notes Receivable from Officers
			Series A		Series B		Series D		
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	
Conversion of preferred stock to common stock..	4,784,902	$ 52,326,204	(146,193.272)	$(47,366,204)	(14,925.373)	$(4,960,000)	--	$ --	$ --
Proceeds from stock options exercised and stock awards.....	50,045	592,274	--	--	--	--	--	--	--
Non-employee stock option compensation expense.....	--	100,186	--	--	--	--	--	--	--
Comprehensive loss:.....									
Unrealized losses on securities available-for-sale.....	--	--	--	--	--	--	--	--	--
Net loss for the period ended December 31, 1997.....	--	--	--	--	--	--	--	--	--
Comprehensive loss.....	--	--	--	--	--	--	--	--	--
Balance at December 31, 1997.....	15,378,419	168,893,074	--	--	--	--	--	--	--
Proceeds from stock options exercised and stock awards.....	8,570	86,992	--	--	--	--	--	--	--
Non-employee stock option compensation expense.....	--	422,923	--	--	--	--	--	--	--
Restricted shares issued to non-employees.....	51,835	--	--	--	--	--	--	--	--
Proceeds from stock sold via employee stock purchase plan....	95,535	215,646	--	--	--	--	--	--	--
Notes receivable from officers....	--	--	--	--	--	--	--	--	(380,000)
Comprehensive loss:									
Unrealized gains on securities available-for-sale.....	--	--	--	--	--	--	--	--	--
Net loss for the period ended December 31, 1998.....	--	--	--	--	--	--	--	--	--
Comprehensive loss.....	--	--	--	--	--	--	--	--	--
Balance at December 31, 1998.....	15,534,359	$169,618,635	--	$ --	--	$ --	--	$ --	$(380,000)

	Deficit Accumulated During the Development Stage	Accumulated Other Comprehensive Income/(Loss)	Total
Conversion of preferred stock to common stock..	$ --	$ --	$ --
Proceeds from stock options exercised and stock awards.....	--	--	592,274
Non-employee stock option compensation expense.....	--	--	100,186
Comprehensive loss:.....			
Unrealized losses on securities available-for-sale.....	--	(23,832)	(23,832)
Net loss for the period ended December 31, 1997.....	(23,026,294)	--	(23,026,294)

Comprehensive loss.....	--	--	(23,050,126)
Balance at December 31, 1997.....	(97,098,121)	(34,649)	71,760,304
Proceeds from stock options exercised and stock awards.....	--	--	86,992
Non-employee stock option compensation expense.....		--	422,923
Restricted shares issued to non-employees.....	--	--	--
Proceeds from stock sold via employee stock purchase plan....	--	--	215,646
Notes receivable from officers....	--	--	(380,000)
Comprehensive loss:			
Unrealized gains on securities available-for-sale.....	--	31,019	31,019
Net loss for the period ended December 31, 1998.....	(24,971,911)	--	(24,971,911)
Comprehensive loss.....	--	--	(24,940,892)
Balance at December 31, 1998.....	$(122,070,032)	$ (3,630)	$ 47,164,973

See accompanying notes.

CELL THERAPEUTICS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY--(Continued)

	Common Stock		Preferred Stock						Notes Receivable from Officers	Deficit Accumulated During the Development Stage
			Series A		Series B		Series D			
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount		
Net proceeds from the issuance of Series D convertible preferred stock and warrants to acquire common stock via private placement equity offering, net of offering costs of $755,040 (including warrants issued to placement agent value at $100,000)	--	$ 3,117,000	--	$ --	--	$ --	10,000.000	$ 6,227,960	$ --	$ --
Preferred stock dividend.....	--	(5,200,513)	--	--	--	--	--	5,156,069	--	--
Proceeds from stock options exercised and stock awards.....	4,932	14,002	--	--	--	--	--	--	--	--
Non-employee equity based compensation expense.....	--	568,767	--	--	--	--	--	--		--
Proceeds from stock sold via employee stock purchase plan....	56,245	117,447	--	--	--	--	--	--	--	--
Reclass to current asset for former officer...	--	--	--	--	--	--	--	--	50,000	--

Comprehensive loss:										
Unrealized losses on securities available-for-sale	--	--	--	--	--	--	--	--	--	--
Net loss for the period ended December 31, 1999	--	--	--	--	--	--	--	--	--	(36,280,150)
Comprehensive loss	--	--	--	--	--	--	--	--	--	--
Balance at December 31, 1999	15,595,536	$168,235,338	--	$ --	--	$ --	10,000.000	$11,384,029	$(330,000)	$(158,350,182)

	Accumulated Other Comprehensive Income/(Loss)	Total
Net proceeds from the issuance of Series D convertible preferred stock and warrants to acquire common stock via private placement equity offering, net of offering costs of $755,040 (including warrants issued to placement agent value at $100,000)	$ --	$ 9,344,960
Preferred stock dividend	--	(44,444)
Proceeds from stock options exercised and stock awards	--	14,002
Non-employee equity based compensation expense	--	568,767
Proceeds from stock sold via employee stock purchase plan	--	117,447
Reclass to current asset for former officer	--	50,000
Comprehensive loss:		
Unrealized losses on securities available-for-sale	(31,606)	(31,606)
Net loss for the period ended December 31, 1999	--	(36,280,150)
Comprehensive loss	--	(36,311,756)
Balance at December 31, 1999	$(35,236)	$ 20,903,949

See accompanying notes

CELL THERAPEUTICS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period From September 4, 1991 (Date of

	Year Ended December 31,			Incorporation) To December 31,
	1999	1998	1997	1999
Operating Activities				
Net loss applicable to common shareholders....	$(41,480,663)	$(24,971,911)	$(23,026,294)	$(163,550,695)
Adjustments to reconcile net loss applicable to common shareholders to net cash used in operating activities:				
Preferred stock dividend.....	5,200,513	--	--	5,200,513
Depreciation and amortization.....	1,822,593	1,880,535	1,748,618	11,913,007
Noncash research and development expense...	--	--	--	1,155,750
Noncash interest expense.....	--	--	--	25,918
Noncash rent expense (benefit).....	(171,088)	(42,986)	74,109	354,323
Noncash compensation expense.....	568,767	422,923	100,186	1,091,876
Loss on disposition of property and equipment.....	525,784	--	15,831	693,084
Investment premium (discount) amortization (accretion).....	366,054	200,118	(177,947)	910,286
(Gain) loss on sale of investment securities.....	4,563	(31,603)	--	(27,040)
Changes in operating assets and liabilities:				
Interest receivable..	269,694	(36,726)	(401,162)	(97,942)
Collaboration agreement receivables.....	3,254,491	428,540	(3,683,031)	--
Prepaid expenses and other current assets.....	221,630	(819,009)	256,651	(698,506)
Other assets.....	(732,171)	215,985	239,551	(927,275)
Accounts payable.....	118,162	944,363	(488,661)	1,224,994
Accrued expenses.....	79,797	104,153	1,646,935	4,896,182
Total adjustments..	11,528,789	3,266,293	(668,920)	25,715,170
Net cash used in operating activities.....	(29,951,874)	(21,705,618)	(23,695,214)	(137,835,525)
Investing activities				
Purchases of securities available-for-sale.....	(29,561,916)	(63,891,102)	(85,364,597)	(254,913,894)
Proceeds from sales of securities available-for-sale.....	11,111,339	26,025,226	1,999,444	54,026,322
Proceeds from maturities of securities available-for-sale.....	41,915,000	56,622,884	47,845,281	181,482,952
Purchases of property and equipment.....	(558,163)	(2,801,332)	(2,540,798)	(17,235,229)
Net cash provided by (used in) investing activities.....	22,906,260	15,955,676	(38,060,670)	(36,639,849)
Financing activities				

Sale of common stock to founders	--	--	--	80,000
Proceeds from borrowings from shareholders	--	--	--	850,000
Sale of common stock via public offerings, net of offering costs	--	--	61,064,250	61,064,250
Sale of Series A preferred stock via private placement, net of offering costs	--	--	--	47,366,204
Sale of Series B preferred stock via private placement, net of offering costs	--	--	--	4,960,000
Sale of Series D preferred stock via private placement, net of offering costs	9,344,960	--	--	9,344,960
Sale of common stock via private placement, net of offering costs	--	--	3,000,000	52,307,084
Repurchase of common stock	--	--	--	(2,522)
Notes receivable from officers to acquire common stock	--	(380,000)	--	(380,000)
Proceeds from common stock options exercised	14,002	86,992	592,274	774,028
Proceeds from common stock warrants exercised	--	--	--	305,558
Proceeds from employee stock purchase plan	117,447	215,646	--	333,093
Repayment of long-term obligations	(1,118,895)	(1,880,361)	(1,226,971)	(12,697,496)
Proceeds from the issuance of long-term obligations	--	3,193,161	1,719,806	15,844,601
Net cash provided by financing activities	8,357,514	1,235,438	65,149,359	180,149,760
Net increase (decrease) in cash and cash equivalents	1,311,900	(4,514,504)	3,393,475	5,674,386
Cash and cash equivalents at beginning of period	4,362,486	8,876,990	5,483,515	--
Cash and cash equivalents at end of period	$ 5,674,386	$ 4,362,486	$ 8,876,990	$ 5,674,386
Supplemental schedule of noncash investing and financing activities				
Acquisition of equipment pursuant to capital lease obligations	$ --	$ --	$ --	$ 362,425
Conversion of convertible debt and related accrued interest into common stock	$ --	$ --	$ --	$ 875,918
Conversion of Series A and B preferred stock into common stock	$ --	$ --	$ 52,326,204	$ 52,326,204
Common stock warrants				

issued in conjunction with Series D.....	$ 3,117,000	$ --	$ --	$ 3,117,000
Reclass to current assets of note receivable from former officer.....	$ 50,000	$ --	$ --	$ 50,000
Supplemental disclosure of cash flow information				
Cash paid during the period for interest obligations.....	$ 501,596	$ 435,279	$ 377,544	$ 2,966,881

See accompanying notes.

CELL THERAPEUTICS, INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

1. Summary of Significant Accounting Policies

Description of Business

Cell Therapeutics, Inc. (the "Company") focuses on the discovery, development, and commercialization of drugs for the treatment of cancer. The Company currently anticipates being a development stage company until commercialization begins. The Company's principal business strategy is to focus its activities on cancer therapeutics, an area that represents a large market opportunity which is not adequately served by existing therapies. The Company commenced operations February 1992.

The Company operates in a highly regulated and competitive environment. The manufacturing and marketing of pharmaceutical products require approval from, and are subject to, ongoing oversight by the Food and Drug Administration in the United States and by comparable agencies in other countries. Obtaining approval for a new therapeutic product is never certain and may take several years and involve expenditure of substantial resources. Competition in researching, developing, and marketing pharmaceutical products is intense. Any of the technologies covering the Company's existing products under development could become obsolete or diminished in value by discoveries and developments of other organizations. As the Company operates as one segment, no additional disclosures are required in accordance with FASB Statement No. 131 "Disclosures about Segments of an Enterprise and Related Information."

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiary, and its 70% interest in a joint venture. All intercompany transactions and balances are eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with maturities of three months or less at the time acquired to be cash equivalents. Cash equivalents represent short-term investments consisting of investment-grade corporate and government obligations, carried at market value, which approximates cost.

Securities Available-for-Sale

Management determines the appropriate classification of debt securities at the time of purchase. Management currently classifies its investment portfolio as available-for-sale and carries the securities at fair value based on quoted market prices with unrealized gains and losses included in accumulated other comprehensive income and loss. The amortized cost of debt securities in this

category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in investment income. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in investment income. The cost of securities sold is based on the specific identification method. Interest on securities classified as available-for-sale is included in investment income.

Management of Credit Risk

The Company is subject to concentration of credit risk primarily from its cash investments. Under the Company's investment guidelines, credit risk is managed by diversification of the investment portfolio and by the purchase of investment-grade securities.

Collaboration Agreement Receivables and Revenues

Collaboration agreement receivables represent amounts earned, but not yet collected, under collaboration and license agreements. Revenue under collaboration agreements represents reimbursement of development costs, license fees, and milestone payments. Revenue from milestone payments is recognized upon satisfaction of related obligations. Other revenue under collaboration agreements is recognized as the earnings process is completed, based on the provisions of each agreement.

Property and Equipment

Property and equipment, including assets pledged as security in financing agreements, are carried at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized over the lesser of the useful life or the term of the applicable lease using the straight-line method. Depreciation commences at the time assets are placed in service and is computed using the straight-line method over the estimated useful lives of the assets (three to five years).

Stock-Based Compensation

In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company has elected to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the market price of the Company's common stock at the date of grant over the stock option exercise price. Under the Company's plans, stock options are generally granted at fair market value.

Stock compensation expense for options granted to non-employees has been determined in accordance with SFAS 123 and the Emerging Issues Task Force consensus in Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18"), as 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 granted to non-employees is periodically remeasured as the underlying options vest.

Net Loss per Share

Basic loss per share is calculated based on the net loss applicable to common shareholders divided by the weighted average number of common shares outstanding for the period excluding any dilutive effects of options, warrants and convertible securities. Diluted earnings per share, if separately presented, would assume the conversion of all dilutive securities, such as options, warrants and convertible preferred stock. Due to the Company's history of losses, all such securities are anti-dilutive.

Other Financial Instruments

At December 31, 1999 and 1998, the carrying value of financial instruments such as receivables and payables approximated their fair values, based on the short-term maturities of these instruments. Additionally, the carrying value of long-term liabilities approximated fair values because the underlying interest rates reflect market rates at the balance sheet dates.

Income Taxes

The Company accounts for income taxes using the liability method under Statement of Accounting Standards No. 109, "Accounting for Income Taxes."

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Pronouncements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"), which provides the Staff's views on applying generally accepted accounting principles to revenue recognition issues. The Company is currently evaluating its revenue recognition policies and has not yet determined the impact of SAB 101 on the results of operations or financial position.

Reclassifications

Certain prior year items have been reclassified to conform to the current year presentation.

2. Securities Available-for-Sale

Securities available-for-sale consist of the following as of December 31:

	1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal government obligations	$ 398,339	$--	$ (663)	$ 397,676
Corporate obligations	17,842,527	419	(34,992)	17,807,954
	$18,240,866	$419	$(35,655)	$18,205,630

	1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

U.S. government obligations.....	$ 498,510	$ 397	$ --	$ 498,907
Municipal government obligations.....	1,107,616	1,815	--	1,109,431
Corporate obligations.....	40,469,780	39,862	(45,704)	40,463,938
	$42,075,906	$42,074	$(45,704)	$42,072,276

As of December 31, 1999 and 1998, the securities available-for-sale had contractual maturities of less than one year. Expected maturities will differ from contractual maturities because issuers of the securities may have the right to prepay obligations without prepayment penalties. Gross realized gains and losses have not been material.

3. Property and Equipment

Property and equipment are composed of the following as of December 31:

	1999	1998
Leasehold improvements.....	$ 4,551,176	$ 4,877,241
Lab equipment.....	5,843,911	5,630,646
Furniture and office equipment.....	6,154,966	6,009,787
	16,550,053	16,517,674
Less: accumulated depreciation and amortization.....	11,514,370	9,691,777
	$ 5,035,683	$ 6,825,897

As of both December 31, 1999 and 1998, furniture and office equipment included $232,585 of equipment acquired under capitalized leases. Accumulated depreciation related to this equipment totaled $212,628 and $195,521 at December 31, 1999 and 1998, respectively. These leases are secured by the underlying assets.

4. Capital Stock

In 1992, the Company completed a private placement of 2,225,139 shares of common stock generating net proceeds of $35.1 million. In 1993, the Company concluded a second equity financing through a private offering of common stock and warrants generating net proceeds of $12.3 million.

In 1994, the Company sold additional units of common stock and warrants under terms equivalent to those of the second round of equity financing. The Company received net proceeds of $702,000.

In 1995, the Company concluded a third round of equity financing through a private offering of Series A convertible preferred stock generating net proceeds of $30.5 million. In 1996, the Company concluded two rounds of equity financing through private offerings of Series A convertible preferred stock generating net proceeds of $16.9 million.

In 1996, the Company also completed a placement of Series B convertible preferred stock to Johnson & Johnson Development Corporation generating net proceeds of $5.0 million.

In November 1996, the Board of Directors approved a shareholder rights plan whereby a Right attaches to each share of common stock. Upon the occurrence of certain acquisition related events, each Right entitles the holder of each outstanding share of common stock to purchase one one-thousandth of a share of

Series C preferred stock at $175 per unit, subject to adjustment. Upon exercise, each holder of a Right will have the right to receive value equal to two times the exercise price of the Right. A total of 100,000 shares of Series C preferred stock are reserved for issuance upon exercise of the Rights.

On March 26, 1997 the Company completed an initial public offering (the "IPO") of 3 million shares of its common stock at an offering price of $10.00 per share, resulting in net proceeds of $26.8 million. Concurrent with the closing of the IPO, the Company sold 300,000 shares of common stock to Johnson & Johnson at a price of $10.00 per share, resulting in net proceeds of $3.0 million. All outstanding shares of Series A and B were converted into common stock at the closing of the IPO. On October 27, 1997 the Company completed a follow- on public offering of 2.3 million shares of its common stock at an offering price of $16 per share, resulting in net proceeds of $34.3 million.

In November 1999, the Company completed a $10,000,000 private placement of 10,000 shares of Series D convertible preferred stock (Series D) and warrants to acquire 1,523,810 shares of common stock, resulting in net proceeds of $9,344,960. Each share of Series D is convertible into shares of common stock, subject to adjustment as provided in the Articles of Amendment to Restated Articles of Incorporation. Each share of Series D is currently convertible into 462.427 shares of common stock. The warrants were valued at $3,017,000, have exercise prices of $2.625 per share of common stock and expire in November, 2004. The Company also issued warrants to purchase 50,000 shares of common stock to the placement agent of the Series D. These warrants expire in 2004, and have exercise prices of $2.38. The value of the warrants of approximately $100,000 was accounted for as a cost of the offering. All warrants were valued using the Black-Scholes pricing model with input assumptions for volatility, risk-free interest rate, dividends, and life of 1.01, 5.5%, none, and five, respectively.

Holders of the Series D are entitled to receive cumulative dividends at a rate per share of 5% per annum payable on each September 30, commencing September 30, 2000. At the Company's option, subject to certain restrictions and penalties, dividends may be paid in cash or in shares of the Company's common stock. The Company is to pay each Series D investor four annual dividend payments notwithstanding any conversion, redemption or sale of the preferred stock held by such investor. The Company has accrued a Series D stock dividend of $44,000 at December 31, 1999.

The Company's obligation to issue dividends after the fourth annual dividend payment will terminate for any shares of the Series D that have not been converted into shares of common stock if on the earlier of the fourth anniversary or any subsequent annual anniversary of the original issue date, as defined, the average share closing price of the common stock is greater than 20% of the fixed conversion price of $2.1625, compounded annually. Notwithstanding the above, the Company's obligation to pay dividends terminates on the seven-year anniversary of the original issue date, as defined.

The Series D is convertible at the option of the holder or may automatically convert if the per share market value of the Company's shares of common stock exceeds specified returns when compared to the conversion price.

The holders of the Series D have a liquidation preference of $1,000 per share. The Series D holders have the right to vote with the common stock on an as-converted basis. The Company is also precluded from carrying out certain actions without the approval of at least 51% of the Series D holders.

The shares of common stock issuable upon the conversion and exercise of the Series D preferred stock and warrants, respectively, have certain registration rights.

On the date of the preferred stock issuance, the effective conversion price of the preferred stock (after allocating the portion of the proceeds to the

common stock warrants based on the relative fair values) was at a discount to the price of the common stock into which the preferred stock is convertible. In accordance with EITF 98-5 "Convertible Securities with Beneficial Conversion Features," the discount was recorded as a preferred stock dividend valued at $5,156,069.

Common Stock Reserved

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

	1999
Series D preferred stock	4,624,277
Equity incentive plan	3,766,465
Common stock warrants	2,073,810
Employee stock purchase plan	133,934
Restricted share rights	103,665
	10,702,151

5. Consulting and Employment Agreements

Corporate Officers

In 1998, the Company extended loans totaling $380,000 to executive officers on a full-recourse basis. Each of the notes has a term of four years and bears interest at approximately 5%. The full balance of principal and accumulated interest is due at maturity. The executives used the funds to purchase shares of the Company's common stock on the open market.

In 1999, an executive officer's employment with the Company was terminated. Contemporaneously upon termination of employment, the Company entered into a consulting agreement with the former executive to act as an independent expert in manufacturing and to assist the Company in its development of therapeutic products for clinical testing and commercial sale. In exchange for such services, the Company extended the exercisability of the executive's vested options for three years and will apply the value of services against an outstanding loan balance. The $50,000 remaining loan balance due from this former officer was reclassified to a current asset. The Company recognized stock based compensation expense of $29,000 during 1999 in connection with the consulting agreement.

The Company has severance agreements with certain of its officers having a term of one year.

Advisory Boards

The Company has entered into consulting agreements with the members of its Scientific and Clinical Advisory Boards ("Advisory Boards") providing for the periodic issuance of common stock and options to purchase common stock, and consulting fees. One agreement has an annual retainer of $10,000. The remaining advisory board members are paid consulting fees on a per diem basis. The consulting agreements with members of the Advisory Boards are cancelable upon 30 days notice. The Company has issued stock options to members of its Advisory Boards. In July 1998 the Board of Directors approved the repricing of outstanding options. All options held by advisory board members are accounted for at fair market value in accordance with EITF 96-18. Compensation related expense recognized in 1999 and 1998 was $156,000 and $157,000, respectively.

Consultants

The Company has issued stock options to other consultants for various services. In July 1998 the Board of Directors approved the repricing of outstanding options. All options held by consultants are accounted for at fair market value in accordance with EITF 96-18. Compensation related expense recognized in 1999 and 1998 was $256,000 and $266,000.

Related Party Disclosure

In 1999, the Company entered into an agreement with a clinical medical consultant who is the spouse of an executive officer of the Company. During 1999 the Company paid the clinical medical consultant approximately $107,000 in fees for services rendered.

6. Contractual Arrangements and Commitments

Licensed Technology

In March 1992, the Company entered into agreements with the Fred Hutchinson Cancer Research Center ("FHCRC") under the terms of which the Company has received worldwide licenses and options to technology, or technology claimed, for five U.S. patent applications. The Company paid initial license fees totaling $100,000 and issued 76,572 shares of common stock valued at $3,200 to the FHCRC for such technology. The Company is obligated to pay royalties on revenues resulting from future sales of products employing the technology and on revenues received from sublicenses for the technology, with minimum annual royalties of $50,000 prior to, and $100,000 after, the first commercial sale of such products. The agreements are for a term equal to the later of 15 years or the expiration of the last issued patent included within the licensed technology, unless terminated earlier for certain specified events, including the failure of the Company to take reasonable efforts to engage in research and development with respect to the licensed technology. The Company recognized expense of $50,000 in 1999, 1998 and 1997 related to this agreement.

Facilities Lease

The Company has executed noncancelable operating leases for office and laboratory space that expire in 2003, with two five-year renewal options at the then-current market rates. The lessor provided approximately $575,000 for leasehold improvements and rent concessions, which is being amortized over the initial lease term. In 1998 the Company executed an operating lease for additional office space that expires in August, 2001, with one three-year renewal option at the then-current market rate. In November 1999, the Company cancelled and terminated this lease. Rent expense amounted to $1,396,289, $1,152,340, and $1,144,290 for the years ended December 31, 1999, 1998, and 1997, respectively. Future minimum annual rental payments under the leases approximate the following for the years ended December 31:

2000	$1,164,942
2001	1,164,942
2002	1,164,942
2003	97,079
	$3,591,905

7. Long-term Obligations

Long-term obligations consist of the following as of December 31:

	1999	1998
Master financing agreements:		
Due December 2001, monthly payments of $44,196, including interest at 12.5%	$1,040,699	$1,415,150
Due September 2002, monthly payments of $59,811 including interest at 12.4%	1,796,650	2,259,775
Due December 2002, monthly payments of $18,290 including interest at 12.4%	586,649	713,251
Repaid in August 1999	--	154,718
Deferred rent	354,324	525,411
	3,778,322	5,068,305
Less current portion	1,125,211	1,180,702
	$2,653,111	$3,887,603

For each borrowing, the Company granted the lessor a security interest in specified fixed assets.

Annual maturities of the master financing agreements for 2000 through 2002, respectively, are $1,117,274, $1,387,110 and $919,614.

8. Stock Options and Warrants

Stock Options

In 1994, shareholders approved the 1994 Equity Incentive Plan (the "1994 Plan") in replacement of the 1992 Stock Option Plan. The 1994 Plan provides for (a) the grant of incentive stock options (with terms not to exceed ten years), nonstatutory stock options and stock appreciation rights, (b) the award of stock bonuses, (c) the sale of stock, and (d) any other equity-based or equity-related awards which the Plan Administrator determines to be consistent with the purpose of the 1994 Plan and the interests of the Company. Option-vesting schedules are specified by the Plan Administrator. The 1994 Plan also provides for the automatic grant of nonstatutory options to non-employee directors.

In 1998, the Board of Directors approved the exchange of all outstanding options with exercise prices ranging from $3.03 to $16.06 per share for options with an exercise price of $2.906 per share, the fair value of the underlying common stock at that time. Accordingly, 1,612,934 shares were exchanged for new options with 10-year terms commencing July 31, 1998. These amounts have been included as granted and canceled options during 1998 in the summary activity table shown below.

	Shares Under Option	Weighted Average Exercise Price Per Share

Balance January 1, 1997	1,294,945	$11.77
Granted	575,874	13.90
Canceled	(52,331)	11.78
Exercised	(50,045)	11.15
Balance December 31, 1997 (791,265 exercisable)	1,768,443	12.48
Granted	2,510,999	2.93
Canceled	(1,762,045)	12.29
Exercised	(8,570)	9.82
Balance December 31, 1998 (57,477 exercisable)	2,508,827	3.07
Granted	1,198,459	2.96
Canceled	(517,718)	3.03
Exercised	(4,932)	2.84
Balance December 31, 1999 (1,666,822 exercisable)	3,184,636	$ 3.04

	Options Outstanding			Exercisable Options Outstanding (Without Restriction)	
Range of Exercise Prices	Number Outstanding 12/31/99	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.000-$2.703	823,015	9.28 Years	$2.665	133,969	$2.657
$2.906-$2.906	1,479,748	8.33 Years	$2.906	1,318,632	$2.906
$2.969-$3.688	782,555	9.41 Years	$3.124	142,907	$3.001
$3.813-$16.063	99,318	7.70 Years	$7.372	71,314	$8.534
$2.000-$16.063	3,184,636	8.82 Years	$3.037	1,666,822	$3.135

The weighted average fair value of options granted during 1999, 1998, and 1997 was $1.94, $1.85, and $5.53, respectively. As of December 31, 1999, 581,829 shares of common stock were available for future grants.

SFAS 123 encourages, but does not require, entities to adopt the fair value method of accounting for their stock-based compensation plans. Under this method, compensation cost for stock-based compensation plans is measured at the grant date based on the fair value of the award and is recognized over the vesting period. Fair value is determined using a Black-Scholes option pricing model that takes into account (1) the stock price at the grant date, (2) the exercise price, (3) a two-year expected life in 1999 and a four-year expected life in 1998 and 1997, (4) no expected dividends, (5) risk-free interest rate of 5.5% in both 1999 and 1998 and rates ranging from 5.4% to 6.7% during 1997, respectively, and (6) volatility factor of 1.006, .91 and .48 in 1999, 1998 and 1997, respectively. In accordance with the provisions of SFAS 123, the Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plans and, accordingly, does not recognize compensation cost for options granted with exercise prices equal to or greater than fair value. Although

not reflective of the effects of reported net loss in future years until the rules of SFAS 123 are applied to all outstanding non-vested options, if the Company elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS 123, basic and diluted net loss and basic and diluted net loss per share would have been adjusted

(increased) as follows for the years ended December 31:

	Year Ended December 31,		
	1999	1998	1997
Net loss applicable to common shareholders:			
As reported	$(41,480,663)	$(24,971,911)	$(23,026,294)
As adjusted	(43,530,183)	(27,553,633)	(23,800,008)
Basic and diluted net loss per share:			
As reported	$ (2.67)	$ (1.62)	$ (1.98)
As adjusted	(2.80)	(1.79)	(2.05)

In accordance with EITF 96-18, the Company considers all equity instruments issued to non-employees to be accounted for as fair value equity instruments. The value of the instrument is amortized to expense over the vesting period with final valuation measured on the latter of the vesting date or date on which they become exercisable. At December 31, 1999, options to acquire 247,708 shares of common stock are considered fair value options. During 1999 and 1998, the Company recognized total EITF 96-18 non-employee equity based compensation related expense of $569,000 and $423,000, respectively.

In December 1999, the Compensation Committee of the Board of Directors authorized the issuance of 243,903 restricted shares to executive officers and certain employees. The shares which will be issued in early 2000, fully vest in December 2002. The shares were valued at $746,953, are recorded as deferred compensation expense at December 31, 1999, and will be amortized over the three year vesting period.

As discussed in Note 11, the Company has issued 103,665 restricted share rights to non-employees in 1998 for which ownership vests upon the achievement of a future event. Compensation related to these rights will be measured as the event becomes probable with final valuation on the vesting date.

Warrants

In 1998, the Company issued warrants to purchase 350,000 shares of common stock of the Company in connection with a license agreement. The warrants expire November 12, 2008 and become exercisable only upon the occurrence of certain exercise events, including a license or sale by the Company of any licensed patent rights subject to the agreement to a third party or a change of control of the Company, as defined. The exercise price per share is the lesser of $20.00 or the average closing stock price for the 30 consecutive trading days ending on the date of the exercise event. Compensation related to these warrants will be measured as any of the exercise events become probable with the final valuation on the exercisable date.

In 1999, the Company entered into an agreement with two consulting companies to develop and execute a communication plan for the Company. In connection with this agreement, the Company granted warrants to purchase 150,000 shares of common stock to the consultants, whereby each warrant entitles the holder to purchase one share of the Company's common stock at strike prices ranging from $3.00 to $18.00 per share. Except for those warrants with a strike price of $3.00 per share which vested immediately (valued at $37,500, in accordance with EITF 96-18), the warrants vest individually if and when the closing price for the Company's common stock equals or exceeds its strike price for a specified period of time. All unvested warrants expire 30 days after the expiration of the one-year consulting agreement which may be terminated by either party upon

30 days written notice for any reason whatsoever. Compensation related to

these warrants will be measured as any of the exercise events become probable with the final valuation on the exercisable date.

Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (the "Purchase Plan"), under which eligible employees may purchase a limited number of shares of the Company's 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, the Company issued 56,245 shares to employees in 1999. There is a balance of 133,934 shares reserved for future purchases at December 31, 1999.

9. Net Loss Per Share

Basic and diluted loss per share is calculated using the average number of common shares outstanding.

	Year ended December 31,		
	1999	1998	1997
Net loss applicable to common shareholders(A)	$(41,480,663)	$(24,971,911)	$(23,026,294)
Weighted average common stock outstanding(B)	15,551,526	15,409,848	11,634,032
Loss per share: Basic and diluted(A/B)	$ (2.67)	$ (1.62)	$ (1.98)

As of December 31, 1999, 1998 and 1997, options, warrants and convertible preferred stock were not included in the calculation of net loss per share as they are anti-dilutive.

10. Income Taxes

As of December 31, 1999, the Company had net operating tax loss carryforwards of approximately $152 million and research and development credit carryforwards of approximately $5.6 million. The carryforwards begin to expire in the year 2007. Due to rounds of equity financings (and other ownership changes as defined in Section 382 of the Internal Revenue Code of 1986, as amended ("the Code") see Notes 4 and 12), the Company has incurred "ownership changes" pursuant to the Code, as amended. Accordingly, the Company's use of its net operating loss carryforwards is limited to $5.6 million annually for losses incurred prior to March 26, 1997 and may be subject to additional limitations thereafter. To the extent that any single-year loss is not utilized to the full amount of the limitation, such unused loss is carried over to subsequent years until the earlier of its utilization or the expiration of the relevant carryforward period.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has recognized a valuation allowance equal to the deferred tax assets due to the uncertainty of realizing the benefits of the assets. The Company's valuation allowance increased $13,609,000, $9,905,000, and $8,772,000 during 1999, 1998 and 1997, respectively.

Significant components of the Company's deferred tax liabilities and assets as of December 31 are as follows:

	1999	1998
Deferred tax assets:		
Net operating loss carryforwards	$ 51,688,000	$ 39,646,000
Research and development tax credit carryforwards	5,555,000	4,248,000
Accruals on financial statements in excess of tax returns	649,000	573,000
Charitable contributions carryforward	73,000	42,000
Depreciation in financial statements in excess of tax	831,000	684,000
Gross deferred tax assets	58,796,000	45,193,000
Less valuation allowance	(58,746,000)	(45,137,000)
Gross deferred tax liability:	50,000	56,000
Accruals on tax returns in excess of financial statements	(50,000)	(56,000)
Net deferred tax	$ --	$ --

11. Significant Agreements

BioChem Therapeutic Inc.: On March 7, 1995, the Company and BioChem Therapeutic Inc. ("BioChem"), a wholly owned subsidiary of BioChem Pharma, Inc., signed collaboration and supply agreements (the "BioChem Collaboration Agreement" and the "BioChem Supply Agreement," respectively). The BioChem Collaboration Agreement grants an exclusive license to enable BioChem to seek Canadian regulatory approval for, and to use and sell, the Company's lisofylline and/or Apra compounds (and compositions thereof) (collectively, the "cti Compounds") in Canada. Under the BioChem Collaboration Agreement, the Company is entitled to receive payments upon the satisfaction of specified product development milestones and royalties on all sales, if any. The BioChem Collaboration Agreement terminates upon the expiration of the last to expire patents covering the cti Compounds or, absent a patent, upon the tenth anniversary of the first commercial sale of such cti Compound. The Company recorded milestone payments of $100,000, $250,000 and $100,000 under the BioChem Collaboration Agreement in 1998, 1996 and 1995, respectively. Under the BioChem Supply Agreement, the Company is to supply BioChem the cti Compounds at a percentage mark-up above cost. The BioChem Supply Agreement terminates 20 years from the date of termination of the BioChem Collaboration Agreement with respect to each of the cti Compounds.

Johnson & Johnson: In November 1996, the Company entered into a collaboration and license agreement with Ortho Biotech Inc. and the R.W. Johnson Pharmaceutical Research Institute (a division of Ortho Pharmaceutical Corporation) each of which are wholly owned subsidiaries of Johnson & Johnson (collectively, "Johnson & Johnson") for the joint development and commercialization of LSF, to prevent or reduce the toxic side effects among cancer patients receiving high-dose radiation and/or chemotherapy followed by BMT. Upon execution of the collaboration agreement, Johnson & Johnson paid the Company a $5.0 million license fee. In addition, Johnson & Johnson Development Corporation ("JJDC"), a wholly owned subsidiary of Johnson & Johnson, purchased 14,925.373 shares of the Company's newly issued Series B convertible preferred stock at $335 per share for an aggregate purchase price of $5.0 million. In September 1997, Johnson & Johnson made a $1.0 million payment to the Company to expand its participation in development of LSF to include the treatment of patients with acute myeloid leukemia ("AML") undergoing high-dose chemotherapy. Under the terms of the Collaboration Agreement, Johnson & Johnson funded $10.8 million of the Company's development costs for 1997. In July 1998, after reviewing the results of the Company's Phase III clinical trial for LSF among patients receiving BMT from related donors, in which the primary endpoints were not met, Johnson & Johnson reached

an agreement in principle with the Company to revise the Collaboration Agreement. On November 16, 1998, the Company and Johnson & Johnson formally amended the Collaboration Agreement. Under the terms of the amended Collaboration Agreement, Johnson & Johnson agreed to pay the Company $13.1 million for development cost reimbursements for BMT and AML for the year ended December 31, 1998. After reviewing both the interim data from the Company's pivotal Phase II/III trial for LSF in patients with acute lung injury and acute respiratory distress syndrome and the results of the Company's Phase III trial for LSF following induction chemotherapy for AML, Johnson & Johnson may elect to resume responsibility for the development and commercialization of LSF subject to certain additional payments upon resumption of its obligations. If Johnson & Johnson does not elect to resume development activities, then the Company will be free to license LSF to other third parties. In accordance with the amended Collaboration Agreement, the Company is preparing the data from each of these trials for Johnson and Johnson's review. The Company does not anticipate that Johnson and Johnson will elect to resume responsibility for development and commercialization of LSF. As of December 31, 1998, the Company had recorded approximately $40.8 million in equity payments, license and milestone fees, and development cost reimbursements with Johnson & Johnson.

On May 28, 1999, the Company announced it had received a recommendation from a National Heart, Lung and Blood Institute ("NHLBI") appointed Data Safety and Monitoring Board to discontinue enrollment in the Phase II/III trial of LSF for ALI and ARDS. The decision was based on predetermined criteria, which required a positive trend toward improvement in day 28 survival among the LSF recipients for the trial to continue as a Phase III trial. On May 28, 1999, the NHLBI discontinued enrollment in this trial in accordance with this recommendation.

On October 11, 1999, the Company announced the results of its Phase III trial for LSF in treating patients with AML. The Phase III trial studied LSF in preventing serious infections among patients undergoing high dose induction chemotherapy for AML. The preliminary endpoint of reduction in the incidence of serious neutropenia-associated infections was not met. The Company announced that it has completed enrollment in its LSF bone marrow transplant trial among unrelated donors and will wind down all other LSF related expenditures and maintain a cash neutral position with respect to further expenditures on this compound.

Supply Agreement

ChiRex, Ltd.: In January 1997, the Company entered into a supply agreement with ChiRex, Ltd. ("ChiRex"), a British manufacturer of pharmaceutical intermediates and active ingredients, for the manufacture and supply of LSF and corresponding intermediate compounds. Under the terms of the agreement, ChiRex will manufacture and supply LSF bulk drug product and a key intermediate compound in sufficient quantities to meet the Company's requirements for ongoing and future clinical trials and commercial requirements during launch and commercialization. The agreement will expire on December 31, 2001, but may be terminated by the Company upon 12 months' written notice prior to such date. In October 1998, the Company entered into an additional agreement with ChiRex for additional manufacturing services for pre-validation lots of LSF.

Other Agreements

Lipomed: In October 1995, the Company purchased all of the intellectual property of Lipomed Corporation ("Lipomed") for $1,155,750 consisting of 98,574 shares of common stock. In accordance with this agreement, in 1999, upon issuance of a patent, $100,000 was paid to Lipomed.

PG-TXL Company, L.P.: In 1998, the Company entered into an agreement with PG-TXL Company, L.P. granting the Company an exclusive worldwide license for the rights to polyglutamic acid paclitaxel ("PG-TXL"),

a water soluble form of the cancer drug, Taxol(R) and to all potential uses of PG-TXL Company, L.P.'s polymer technology. Under the terms of the agreement, the Company acquired the rights to fund the research, development, manufacture, marketing and sale of anti-cancer drugs developed using this polymer technology. The Company will be obligated to make milestone payments upon the attainment of significant achievements, as defined in the agreement. The Company also granted warrants to purchase 350,000 shares of the Company's common stock (see Note 8) to PG-TXL Company, L.P. The Company is obligated to meet certain development requirements by June 30, 2002 to maintain exclusive license rights.

The Company also entered into Signing Bonus and Restricted Stock and Share Grant Agreements and Consulting Agreements with certain individuals affiliated with PG-TXL Company, L.P. (the "PG-TXL Affiliates"). Under the terms of these agreements, the Company has issued 51,835 restricted shares of common stock. These shares vested in November 1999 upon the issuance of a patent, whereupon the Company recorded an expense of $90,711 in accordance with EITF 96-18. The Company also granted 103,665 restricted share rights to the PG-TXL Affiliates, which also vest upon certain performance conditions. The Company will begin to record compensation expense at the time the vesting of the share rights become probable. The Company will pay approximately $300,000 in consulting fees to the PG-TXL Affiliates over three years.

12. Subsequent Events

Acquisition of PolaRx Biopharmaceuticals, Inc.: In January 2000, the Company completed the acquisition of PolaRx Biopharmaceuticals, Inc. (PolaRx), a biopharmaceutical company that owns the rights to Arsenic Trioxide (ATO), an anti-cancer compound for which the Company intends to file a New Drug Application with the FDA. Under the terms of the Agreement and Plan of Merger and Reorganization, dated January 7, 2000, (the Agreement), the Company assumed PolaRx's liabilities and commitments which are estimated to be $5,000,000, of which approximately $3,500,000 represents notes payable due between March and November, 2000. In addition, PolaRx's shareholders received 2,000,000 shares of the Company's common stock at signing and will earn 3,000,000 additional shares upon the earlier of the approval of a New Drug Application by the FDA of PolaRx's anti-cancer compound, Arsenic TriOxide (ATO), or five years from the acquisition date. Two additional payments tied to annualized sales thresholds of $10 million and $20 million are to be payable in tranches of $4 million and $5 million, respectively, at the then fair market value of the Company's stock. For annual sales in excess of $40 million, the Company will pay a 2% royalty on net sales payable at the then fair market value of the Company's common stock or in certain circumstances, cash.

The Agreement requires shareholder approval for the issuance of the Company's common stock for all but the initial 2,000,000 shares of common stock distributed at signing and 1,000,000 of the additional shares of common stock to be earned upon the earlier of the approval of an NDA or five years from the acquisition date. Shareholder approval is to occur on or before the earlier of the Company's next Annual Meeting of shareholders and September 30, 2000. To the extent that the Company's shareholders do not approve the issuance of such common stock on or before the time such shares of common stock would otherwise be required to be issued, then within 120 days of the relevant delivery date as defined, the Company will pay to the PolaRx shareholders an amount of cash equal to the fair market value of the Company's common stock at the time of such delivery date.

Upon the closing of the Agreement, the Company incurred and subsequently paid $750,000 to an advisor, pursuant to an advisory agreement with PolaRx, dated June 30, 1998. The Chief Executive Officer and other certain employees of the advisor owned shares of common stock of PolaRx which were exchanged for shares of common stock of the Company. In addition, the advisor also acted as placement agent for two private placements of the Company and in connection therewith received placement agent fees and warrants to purchase shares of common stock of the Company.

Sale of Common Stock: In February, 2000, the Company completed a $40,000,000 private placement of 3,333,334 shares of common stock at an offering price of $12.00 per share, resulting in net proceeds of approximately $37,080,000. In connection with the offering the Company issued 170,000 warrants to purchase shares of common stock to a placement agent and finder. The warrants are exercisable for a period of five years at a price equal to 110% of the price per share of common stock sold in the offering. The shares of common stock issued and issuable upon the exercise of the warrants have certain registration rights.

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

None.

PART III

The information required under Part III, Items 10,11,12, and 13, is included in our Proxy Statement relating to our annual meeting of shareholders, and will be incorporated herein by reference. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year end, December 31, 1999.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Financial Statements and Financial Statement Schedules

(i) Financial Statements

Report of Ernst & Young LLP, Independent Auditors
Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statements of Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(ii) Financial Statement Schedules

None.

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.

(b) Reports on Form 8-K.

None.

(c) Exhibits

Exhibit Number	Description
3.1(1)	Registrant's Restated Articles of Incorporation.
3.2(1)	Registrant's Articles of Amendment to Restated Articles of Incorporation Establishing a Series of Preferred Stock (Series A Convertible Preferred Stock).
3.3(2)	Registrant's Articles of Amendment to Restated Articles of Incorporation Reducing the Number of Authorized Shares of Series A Convertible Preferred Stock.
3.4(2)	Registrant's Articles of Amendment to Restated Articles of

Incorporation Establishing a Series of Preferred Stock (Series B Convertible Preferred Stock).

3.5(2) Registrant's Articles of Amendment to Restated Articles of Incorporation Establishing a Series of Preferred Stock (Series C Preferred Stock).

3.6(2) Registrant's Articles of Amendment to Restated Articles of Incorporation of Cell Therapeutics, Inc. Effecting a Reverse Stock Split.

3.7(3) Registrant's Articles of Amendment to Restated Articles of Incorporation of Undesignating Series A and Series B Preferred Stock.

Exhibit Number	Description
3.7(4)	Registrant's Restated Bylaws.
4.1(5)	Form of Rights Agreement dated as of November 11, 1996, between the Registrant and Harris Trust Company of California, which includes the Form of Rights Certificate as Exhibit A, the Summary of Rights to Purchase Preferred Stock as Exhibit B and the Form of Certificate of Designation of the Series C Preferred Stock as Exhibit C.
10.1(6)	Lease Agreement between David A. Sabey and Sandra L. Sabey and the Registrant, dated March 27, 1992, as amended March 31, 1993 and October 13, 1993.
10.2(2)	Third Amendment to Lease Agreement between David A. Sabey and Sandra L. Sabey and the Registrant, dated as of September 10, 1996.
10.3(1)	Assignment of Lease between Manlove Travel and the Registrant, dated April 23, 1993.
10.4(2)	Letter Agreement between David A. Sabey, Sandra L. Sabey and the Registrant, dated as of September 6, 1996, amending the Assignment of Lease.
10.5(2)	Employment Agreement between the Registrant and James A. Bianco, dated as of December 17, 1996.
10.6(6)	Employment Agreement between the Registrant and Louis A. Bianco, dated as of February 1, 1992, as amended May 27, 1994.
10.7(1)	Employment Agreement between the Registrant and Maurice J. Schwarz, dated May 2, 1994.
10.8(7)	Employment Agreement between the Registrant and Jack W. Singer, dated September 23, 1997.
10.9(1)	Severance Agreement between the Registrant and Robert A. Lewis, dated April 1, 1996.
10.10(2)	Form of Strategic Management Team Severance Agreement.
10.11(1)	Promissory Note between James A. Bianco, M.D. and the Registrant, dated December 23, 1993.
10.12(1)	Stock Pledge Agreement between James A. Bianco, M.D. and the Registrant, dated December 23, 1993.
10.13(1)	1994 Equity Incentive Plan, as amended.
10.14(1)	1992 Stock Option Plan, as amended.

10.15(1) 1996 Employee Stock Purchase Plan.

10.16(1) Form of Sales Agent Warrant for the 1992 Private Placement.

10.17(1) Warrant, dated November 25, 1992, between the Registrant and David H. Smith, M.D.

10.18(1) Registration Agreement between the Registrant and the other parties included therein, dated as of November 23, 1993.

10.19(1) Form of Sales Agent Warrant for the 1993 Private Placement.

10.20(1) Subscription Agreement between the Registrant and the other parties included therein, dated as of March 21, 1995.

10.21(1) Registration Rights Agreement between the Registrant and the other parties included therein, dated as of March 21, 1995.

10.22(4) Registration Rights Agreement between the Company and the other parties included therein, dated as of September 17, 1996, as amended by Amendment No. 1 thereto dated as of October 11, 1996.

10.23(4) Letter Agreement between the Company and Kummell Investments Limited, dated September 17, 1996.

10.24+(6) Collaboration Agreement by and between BioChem Therapeutic Inc. and the Registrant, dated March 7, 1995, as amended November 30, 1995 and December 6, 1995.

Exhibit Number	Description

10.25+(6) Supply Agreement by and between BioChem Therapeutic Inc. and the Registrant, dated March 7, 1995.

10.26+(2) Supply Agreement by and between ChiRex, Ltd. and the Registrant, dated January 21, 1997.

10.27+(8) Pre-Validation Agreement dated as of October 16, 1998, between the Registrant and ChiRex, Ltd.

10.28+(2) Collaboration and License Agreement, dated as of November 8, 1996, by and between the Registrant and Ortho Biotech Inc. and The R.W. Johnson Pharmaceutical Research Institute, a division of Ortho Pharmaceutical Corporation.

10.29+(1) Amendment No. 1, dated November 16, 1998, to the Collaboration and License Agreement dated as of November 8, 1996, by and between the Registrant and Ortho Biotech Inc. and The R.W. Johnson Pharmaceutical Corporation.

10.30(2) Stock Purchase Agreement, dated as of November 8, 1996, by and between the Registrant and Johnson & Johnson Development Corporation.

10.31(1) Master Lease Agreement, dated as of December 28, 1994 between the Registrant and Aberlyn Capital Management Limited Partnership.

10.32(1) Common Stock Purchase Warrant, dated December 28, 1994 between the Registrant and Aberlyn Capital Management Limited Partnership.

10.33(1) Loan and Security Agreement, dated as of May 30, 1995, between the Registrant and Financing for Science International, Inc.

10.34(9) Loan and Security Agreement, dated as of June 28, 1996, between the Registrant and Financing for Science International, Inc.

10.35(1)	Asset Purchase Agreement, dated of October 17, 1995, between Lipomed Corporation, its Stockholders and the Registrant, as amended.
10.36(6)	Form of Scientific Advisory Board Consulting Agreement.
10.37(6)	Form of Clinical Advisory Board Consulting Agreement.
10.38(7)	Master Loan and Security Agreement between the Company and the Transamerica Business Credit Corporation, dated as of December 9, 1997.
10.39+(1)	License Agreement dated as of November 13, 1998, by and between PG-TXL Company, L.P. and the Registrant.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, independent auditors.
27.1	Financial Data Schedule.

\+ Portions of these exhibits have been omitted pursuant to a request for confidential treatment.
(1) Incorporated by reference to exhibits to the Registrant's Registration Statement on Form S-1 (No. 33-4154).
(2) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (No. 333-20855).
(3) Incorporated by reference to the Registrant's Registration Statement on Form S-3 (No. 333-36603).
(4) Incorporated by reference to exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
(5) Incorporated by reference to exhibits to the Registrant's Registration Statement on Form 8-A.
(6) Incorporated by reference to exhibits to the Registrant's Registration Statement on Form 10.
(7) Incorporated by reference to exhibits to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.
(8) Incorporated by reference to exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
(9) Incorporated by reference to exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.

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 March 24, 2000.

Cell Therapeutics, Inc.

/s/ James A. Bianco

By_____

James A. Bianco, M.D.
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW 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 or 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 Securities and Exchange Commission, 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 by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
_____ Max E. Link, Ph.D.	Chairman of the Board and Director	March , 2000
/s/ James A. Bianco _____ James A. Bianco, M.D.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 24, 2000
/s/ Louis A. Bianco _____ Louis A. Bianco	Executive Vice President, Finance and Administration (Principal Financial Officer and Principal Accounting Officer)	March 24, 2000
/s/ Jack W. Singer _____ Jack W. Singer, M.D.	Director	March 24, 2000
/s/ Jack L. Bowman _____ Jack L. Bowman	Director	March 24, 2000
_____ Jeremy L. Curnock Cook	Director	March , 2000

Signature	Title	Date
/s/ Wilfred E. Jaeger _____ Wilfred E. Jaeger, M.D.	Director	March 24, 2000
/s/ Mary O'Neil Mundinger _____ Mary O'Neil Mundinger, DrPH	Director	March 24, 2000
/s/ Phillip M. Nudelman _____ Phillip M. Nudelman, Ph.D.	Director	March 24, 2000

EXHIBIT 21.1

SUBSIDIARIES OF CELL THERAPEUTICS, INC.

CTI Technologies, Inc., a Nevada Corporation

EXHIBIT 23.1

Consent of Ernst & Young LLP, Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-35919) pertaining to the Cell Therapeutics, Inc. 1994 Equity Incentive Plan and the Cell Therapeutics, Inc. 1996 Employee Stock Purchase Plan and to the incorporation by reference in the Registration Statement (Form S-3 No. 333-93835) and related Prospectus of our report dated February 25, 2000, with respect to the consolidated financial statements of Cell Therapeutics, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1999 filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP
Ernst & Young LLP

Seattle, Washington
March 24, 2000

<ARTICLE> 5
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THE CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1999 AND THE CONSOLIDATED
STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1999.
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