SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10/A

(AMENDMENT NO. 2)
GENERAL FORM FOR REGISTRATION OF SECURITIES
PURSUANT TO SECTION 12(b) OR 12(g) OF
THE SECURITIES EXCHANGE ACT OF 1934

Cell Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Washington	91-1533912
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
201 Elliott Avenue West, Suite 400, Seattle, Washington	98119
(Address of principal executive offices)	(Zip Code)

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

Securities to be registered pursuant to Section 12(b) of the Act:

None

Securities to be registered pursuant to Section 12(g) of the Act:

Common Stock, no par value
(Title of Class)

This Registration Statement contains forward-looking statements which involve risks and uncertainties. When used in this Registration Statement, the words "believes," "anticipates," "expects" and similar expressions are intended to identify such forward-looking statements. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Item 1. -- Business -- Risk Factors." Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

ITEM 1. BUSINESS.
GENERAL

Cell Therapeutics, Inc. ("CTI" or the "Company") focuses on the discovery, development and commercialization of small molecule drugs that modulate the production of cell membrane lipids called phosphatidic acids ("PAs") for the treatment of cancer and inflammatory and immune diseases. Company scientists have demonstrated that certain PAs constitute part of cellular stress activated pathways involved in many such disease states and conditions. Unlike existing therapeutic approaches which generally affect normal cellular functions, the Company believes that drugs based on its proprietary technology may be able to selectively regulate abnormal cellular responses. Such selectivity could result in the development of more disease-specific therapies, with safety and efficacy profiles superior to those of existing therapeutics.

The Company's principal business strategy is to focus its development activities on therapeutic areas that represent large market opportunities not adequately served by existing therapeutics. The Company has advanced the following products into clinical trials:

Lisofylline for Oncology. Lisofylline is a synthetic small molecule drug which is being developed primarily as an adjunct to current cancer treatment modalities to reduce the toxicities associated with radiation and chemotherapy. The Company has completed one Phase II/III trial and has one Phase II/III trial ongoing. The completed phase II/III trial, which included 60 patients, investigated the effect of two doses of Lisofylline on the rate of blood cell recovery, transfusion requirements, and the incidence of infection, toxicity, and mortality in cancer patients undergoing high dose radiation and/or chemotherapy followed by bone marrow transplantation ("BMT"). The results of the completed Phase II/III trial indicated that Lisofylline statistically reduced the duration of absolute neutropenia (number of days with fewer than 100 infection-fighting white blood cells ("WBCs") per microliter of blood), the incidence of serious and fatal infection and mortality. The Company is planning to commence a pivotal Phase III trial for these indications by the end of 1996. The Company expects that the principal endpoints will include the incidence of serious and fatal infection and mortality.Based on its clinical trial results, the Company is also planning to commence a Phase II/III trial for mucositis (acute toxicity to the cells lining the mouth, stomach and intestinal tract) by the end of 1996.

CT-2584 for Oncology. CT-2584 is the Company's novel small molecule drug which in preclinical testing killed a wide variety of tumor cells, including chemotherapy-resistant tumor cells, with no bone marrow or gastrointestinal toxicity. The Company initiated a Phase I/Ib trial in the United Kingdom in November 1995 and in the United States in June 1996 for patients with advanced cancers, including chemotherapy-resistant colon, prostate and ovarian cancers.

Lisofylline for Inflammatory Disease. The Company believes that Lisofylline may also be effective in the prevention and treatment of acute lung injury ("ALI"), systemic inflammation and multi-organ failure ("MOF") among patients who have experienced traumatic injuries. The Company has completed one Phase II/III trial and one pilot Phase II trial. The Company is planning to commence a pivotal Phase III trial by the second quarter of 1997 to determine the effect of Lisofylline on ALI, MOF and mortality among patients who have experienced traumatic injuries.

In the United States, the Company has seven issued patents and 81 pending patent applications, of which nine have been allowed, covering a variety of new chemical entities, pharmaceutical compositions, synthetic processes, methods of use, research tools, and diagnostics. CTI intends to file additional patent applications with respect to improvements in its core technology and to specific products and processes that it develops.

Cell Therapeutics, Inc. was incorporated in Washington in September 1991. The Company has not received any revenue from the sale of products to date and does not expect to receive revenues from the sale of products for at least the next several years. The Company's executive offices are located at 201 Elliott Avenue West, Seattle, Washington 98119, and its telephone number is (206) 282-7100.

RISK FACTORS

Dependence on Core Technology; Technological Changes and Uncertainty. The Company currently relies exclusively upon its lipid-based small molecule technology for the discovery, development and commercialization of drugs for the treatment of cancer and inflammatory and immune diseases. The Company's drug candidates under development, including Lisofylline and CT-2584, modulate the production of certain cell membrane lipids called phosphatidic acids ("PAs") or the proteins they may regulate. The Company believes that such species of PA are not utilized for normal cellular function, and that the Company's drug candidates will not interfere with normal cellular processes. There can be no assurance that the Company's therapeutic approaches or drug candidates will be proven effective against diseases, nor can there be any assurance that the species of PA or stress activated pathways targeted by the Company's drug candidates do not serve a currently unidentified purpose which might be adversely affected by the mechanism of action of the Company's drug

candidates. No assurance can be given that unforeseen problems will not develop with the Company's technologies or applications, or that commercially feasible products will ultimately be developed by CTI. There can be no assurance that research and discoveries by others will not render some or all of CTI's programs or products noncompetitive or obsolete or that the Company will be able to keep pace with technological developments or other market factors. Technological changes or medical advancements could diminish or eliminate the commercial viability of the Company's focus on cell membrane lipids in regulating cellular processes. The failure to commercialize such products would have a material adverse effect on the Company. See "-- Competition."

No Assurance of Successful Product Development. CTI has no products commercially available for sale and does not expect to have any products commercially available for sale for at least the next several years, if ever. The time frame for achievement of market success for any potential product is long and uncertain. Lisofylline and CT-2584, CTI's lead drug candidates, are currently in clinical trials for certain applications. However, the results obtained to date in preclinical and clinical studies of Lisofylline and in preclinical studies of CT-2584 are not necessarily indicative of results that will be obtained during future clinical testing. In recent years, many biotechnology and drug discovery companies have found that early preclinical and clinical results are not reproduced in subsequent clinical trials. The Company's research and development programs for products other than Lisofylline and CT-2584 are at an early stage. Preclinical in vitro and animal studies are not necessarily indicative of results that may be obtained during human clinical testing. Many potential therapeutic products indicate positive in vitro results which are not subsequently reproduced in humans. Any additional product candidates will require significant research, development, preclinical and clinical testing, regulatory approval and commitments of resources prior to commercialization. There can be no assurance that the Company's research will lead to the discovery of additional product candidates or that Lisofylline, CT-2584 or any other products will be successfully developed, prove to be safe and efficacious in clinical trials, meet applicable regulatory standards, be capable of being produced in commercial quantities at acceptable costs or be successfully or profitably marketed. If clinical testing of Lisofylline is not successfully completed, or if Lisofylline does not meet applicable regulatory requirements or is not successfully marketed, the Company may not have the financial resources to continue research and development activities of other product candidates. There can be no assurance as to the extent to which any products developed by CTI will be able to penetrate the potential market for a particular therapy or indication or gain market acceptance among health care providers, third-party payors or patients.

History and Continuation of Losses; Early Stage of Development. CTI commenced operations on February 1, 1992, and has not received any revenue from the sale of products to date, nor does it expect to receive revenues from the sale of products for at least the next several years. CTI has incurred net losses since inception and had an accumulated deficit of approximately $62.3 million as of March 31, 1996. These losses are primarily attributable to research and development efforts, including preclinical studies and clinical trials.

The Company expects to continue to incur significant additional operating losses over the next several years as its research, development and clinical trial efforts expand. CTI is in the development stage and its operations are subject to all of the risks inherent in the establishment of a new business enterprise. The likelihood of the success of CTI must be considered in light of the problems, expenses and delays frequently encountered in connection with the development of pharmaceutical products, the utilization of unproven technology and the competitive environment in which CTI operates. CTI is working on a number of costly long-term development projects, which involve experimental and unproven technology, and may ultimately prove unsuccessful. There can be no assurance that CTI will have sufficient funds or be able to complete successfully its research and development, obtain regulatory approval for, or manufacture or market any products in the future. In addition, as a result of CTI's limited operating history and the fact that it does not currently have any marketable products, CTI expects to incur substantial operating losses for a number of years. The amount of net losses and the time required by the Company to reach profitability are highly uncertain. There can be no assurance that it will be able to develop additional revenue sources or

that its operations will become profitable. See "Item 2.--Financial Information--Management's Discussion and Analysis of Financial Condition and Results of Operations."

Need for Substantial Additional Funds. CTI will require substantial funds to conduct its existing and planned preclinical and clinical trials, to establish manufacturing and marketing capabilities for any products it may develop, and to continue research and development activities. CTI's current cash and cash equivalents will not be sufficient to fund CTI's operations through the commercialization of its first product. The Company expects that its existing capital resources, together with the interest earned thereon, will enable the Company to maintain its current and planned operations at least through the first quarter of 1997. No assurance can be given that changes will not occur that will consume available capital resources before such time. The Company will need to raise substantial additional capital to fund its operations beyond such time. Furthermore, as time progresses, unless additional capital is obtained, the Company will be forced to narrow the focus of its research and development programs. See "Item 2.--Financial Information--Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company's future capital requirements will depend on, and could increase as a result of, many factors, including continued scientific progress in its research and development programs, the magnitude of such programs, the progress of preclinical and clinical testing, the time and costs involved in obtaining regulatory approvals, the costs involved in preparing, filing, prosecuting, maintaining, enforcing and defending patent claims, competing technological and market developments, the terms of any collaborative arrangements that the Company may enter into, the ability of the Company to establish research, development and commercialization arrangements pertaining to the Company's products, the cost of establishing manufacturing facilities, the cost of commercialization activities, and the demand for the Company's products if and when approved.

The Company intends to raise additional funds through additional equity or debt financings, research and development financings, collaborative relationships, or otherwise. Because of these long-term capital requirements, CTI may seek to access the public or private equity markets whenever conditions are favorable, even if it does not have an immediate need for additional capital at that time. There can be no assurance that any such additional funding will be available to CTI, or, if available, that it will be on acceptable terms. If additional funds are raised by issuing equity securities, further dilution to stockholders may result. If adequate funds are not available, CTI may be required to delay, reduce the scope of, or eliminate one or more of its research, development and clinical activities or to seek to obtain funds through arrangements with collaborative partners or others that may require CTI to relinquish rights to certain of its technologies, product candidates or products that the Company would otherwise seek to develop or commercialize itself. See "Item 2.--Financial Information--Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

No Assurance of FDA Approval; Comprehensive Government Regulation. The FDA and comparable agencies in foreign countries impose substantial requirements through lengthy and detailed laboratory and clinical testing procedures, and other costly and time-consuming procedures, to determine that such therapeutics are safe and efficacious prior to the introduction of human therapeutics. Obtaining approvals to market drugs typically takes several years or more (with no assurance that such approval will ever be obtained) and varies substantially based upon the type, complexity and novelty of the drug. In addition, delays or rejections may be encountered based upon changes in the policies of regulatory authorities for drug approval during the period of drug development and regulatory review of each submitted new drug application. The results obtained in preclinical and early clinical studies are not necessarily indicative of results that will be obtained during future clinical testing. There can be no assurance that results obtained to date will continue as testing and trials progress or that such products will be approved by the FDA or other regulatory authorities for commercial sale.

In addition to the substantial time commitment required, the regulatory process, which includes preclinical testing and clinical trials of each compound to establish its safety and efficacy, requires the expenditure of substantial resources. Preclinical studies must be conducted in conformity

with the FDA's good laboratory practices. Clinical trials must meet requirements for institutional review board oversight and informed consent, as well as FDA prior review, oversight and good clinical practices. The Company's experience in conducting clinical trials is limited. Data obtained from preclinical studies and clinical trials are susceptible to varying interpretations which could delay, limit or prevent regulatory approval. Furthermore, studies conducted with alternative designs or alternative patient populations could produce results which vary from those obtained by the Company. There can be no assurance that the Company's data or its interpretation of its data will be accepted by governmental regulators or the medical community.

Government regulation also affects the manufacture and marketing of pharmaceutical products. Any future FDA or other governmental approval of products developed by CTI may entail significant limitations on the indicated uses for which such products may be marketed. Approved products will be subject to additional testing and surveillance programs required by the regulatory agencies. In addition, product approvals may be withdrawn or limited for noncompliance with regulatory standards or the occurrence of unforeseen problems following initial marketing. Failure to comply with applicable regulatory requirements can result in, among other things, fines, suspensions of approvals, seizures or recalls of products, operating restrictions or criminal proceedings. In the event that CTI were to manufacture therapeutic products on a pilot or commercial scale, CTI would be required to adhere to applicable standards for manufacturing practices, engage in extensive record keeping and reporting, and submit its manufacturing facilities to periodic inspections by state and federal agencies, including the FDA and comparable agencies in other countries.

The effect of government regulation may be to considerably delay or prevent the marketing of any product that CTI may develop and/or to impose costly procedures upon CTI's activities, the result of which may be to furnish an advantage to its competitors. There can be no assurance that regulatory approval for any products developed by CTI will be granted on a timely basis or at all. Any such delay in obtaining or failure to obtain such approvals would adversely affect CTI's ability to market the proposed products and earn product revenue. CTI is unable to predict the extent and impact of regulation resulting from future federal, state or local legislation or administrative actions, or whether such government regulation may have a material adverse effect on CTI. See "--Government Regulation."

Outside the United States, the Company's ability to market a product is contingent upon receiving marketing authorizations from the appropriate regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. At present, foreign marketing authorizations are applied for at a national level, although within the European Community ("EC") certain registration procedures are available to companies wishing to market a product in more than one EC member state. If the regulatory authority is satisfied that adequate evidence of safety, quality and efficacy has been presented, a marketing authorization will be granted. This foreign regulatory approval process includes all of the risks associated with FDA approval set forth above. See "--Government Regulation."

Dependence on Others; Collaborators. The successful commercialization of the Company's products in certain markets will be dependent, among other things, on the establishment of commercial arrangements with others in such markets. Such arrangements could include the granting of marketing, manufacturing or other rights to third parties in exchange for royalties, milestone development payments or other payments. There can be no assurance that any such arrangements will be established. If the Company is not able to establish such arrangements, it could encounter delays in introducing its products into certain markets or find that the development, manufacture or sale of its products in such markets is adversely affected. While the Company believes that parties to any such arrangements will have an economic motivation to succeed in performing their contractual responsibilities, the amount and timing of resources they devote to these activities will not be within the Company's control. There can be no assurance that the Company will enter into any such arrangements on acceptable terms or that any such parties will perform their obligations as expected or that any revenue will be derived from such arrangements. See "--Collaborations."

In February 1996 the Company entered into an agreement with Schering AG ("Schering") pursuant to which, among other things, the Company and Schering would collaborate in the funding, research, development and commercialization of Lisofylline and CT-2584 on the terms and conditions specified therein. Upon execution of the agreement, Schering paid the Company a $3,000,000 non-refundable signing fee. The remainder of the agreement was contingent upon Schering finding the clinical trial results and related data from the Company's Phase II/III BMT trial (the "Trial Data") acceptable within thirty days after its receipt. The Company furnished Schering with the Trial Data in late February 1996. On April 2, 1996, after a mutual extension of the thirty-day review period, Schering informed the Company that it did not wish to activate the agreement. Although the agreement did not require Schering to specify in detail its reasons for not activating the agreement, Schering informed the Company that its decision was based on, among other factors, (i) its view that one of the endpoints of the Phase II/III BMT trial, white blood cell recovery, was not met and (ii) its view that the Trial Data regarding mortality rate and incidence of serious and fatal infection were difficult to interpret and that, as a result, Schering could not determine that the data was meaningful. See "--Development Program--Oncology" and "--Collaborations."

As a result of Schering's decision not to activate the agreement and following the Company's review of the Trial Data, the Company revised its planned expenditures for 1996 and 1997, resulting in a reduction of approximately $11.4 million. These reductions consisted primarily of the elimination of expenses which would have been incurred at Schering's request in connection with seeking regulatory approval for Lisofylline and CT-2584 in Europe and Japan, and certain planned research activities that would have been sponsored by Schering under the Agreement. These reduced expenditures also reflect the Company's decision to delete a 2 mg/kg (low dose) component from the Company's planned pivotal Phase III trial for Lisofylline following the Company's review of the Trial Data.

As part of its ongoing business, the Company engages in discussions with potential collaborators from time to time regarding the development, manufacturing and commercialization of Lisofylline, CT-2584 and other products under development. Although there can be no assurance that the Company will enter into any such collaborative arrangement on acceptable terms, the Company believes that Schering's decision not to activate the agreement will not have a material adverse impact on the Company's ability to enter into any such collaborative arrangement on favorable terms.

Substantial Competition. CTI faces substantial competition from a variety of sources, both direct and indirect. CTI faces direct competition from many companies focusing on areas such as cell signal transduction, surface receptor technology, transcription factors and gene therapies. There are many companies, both public and private, including well-known pharmaceutical companies, chemical companies and specialized genetic engineering companies, engaged more generally in developing synthetic pharmaceutical and biotechnological products for the same therapeutic applications as those which are the subject of the Company's research and development efforts. In some instances, such products have already entered clinical trials or received approval from the FDA. In addition, many of these competitors have significantly greater experience than CTI in undertaking preclinical testing and clinical trials of new pharmaceutical products and obtaining FDA and other

regulatory approvals. The Company will also be competing with companies that have substantially greater capital, research and development, manufacturing, marketing and sales capabilities. Moreover, certain academic institutions, governmental agencies and other research organizations are conducting research in areas in which the Company is working. These institutions are becoming increasingly aware of the commercial value of their findings and are becoming more active in seeking patent protection and licensing arrangements to collect royalties for the use of technology that they have developed. These institutions may also market competitive commercial products on their own or through joint ventures and will compete with the Company in recruiting highly qualified scientific personnel. Other companies may succeed in developing products that are more effective or less costly than any that may be developed by CTI and may also prove to be more successful than CTI at marketing such products. Competition may increase further as a result of the potential advances in the commercial applicability of genetic engineering technologies and organic chemistry. See "--Competition."

Ability to Protect Intellectual Property. CTI's success will depend in part on its ability to obtain patent protection for its products and technologies in the United States and other countries, effectively preserve its trade secrets, enforce its rights against third parties which may infringe on its technology and operate without infringing on the proprietary rights of third parties. The patent positions of biotechnology and pharmaceutical companies can be highly uncertain and involve complex legal and factual questions. CTI intends to file applications as appropriate for patents covering both its products and processes. 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 the Company's technology. In addition, there can be no assurance that the patents issued to CTI will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide proprietary protection or commercial advantage to the Company. 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.

The commercial success of the Company will also depend in part on the Company's neither infringing the patents or proprietary rights of third parties nor breaching any technological licenses which relate to the Company's technologies and potential products. In general, the development of therapeutic products is intensely competitive and many pharmaceutical companies, biotechnology companies, universities and research institutions have filed and will continue to file patent applications and receive patents in this field. If patents are issued to other entities that contain competitive or conflicting claims with respect to technology pursued by CTI and such claims are ultimately determined to be valid, no assurance can be given that CTI will be able to obtain licenses to these patents at a reasonable cost or develop or obtain alternative technology or compounds. In such case, the Company could be precluded from using technology that is the subject matter of such patents, which could have a material adverse effect on the Company. In order to enforce any patents issued to the Company or determine the scope and validity of other parties' proprietary rights, the Company may have to engage in litigation, which would result in substantial cost to, and diversion of efforts by, the Company. If the outcome of any such litigation is adverse to the Company, the Company's business could be adversely affected. In addition, if the Company elects or is required to participate in interference proceedings declared by the U.S. Patent and Trademark Office, substantial cost to the Company could result. See "--Patents and Proprietary Rights."

The Company is aware of certain patents belonging to third parties that could be interpreted broadly to compromise the Company's freedom to make and sell Lisofylline in the United States for use in preventing lung injury following traumatic injury or sepsis. The Company believes, upon the advice of patent counsel, that the manufacture, use and sale of Lisofylline does not infringe any valid claim of such third party patents. See "Legal Matters." If such patents were to restrict the use of Lisofylline for such indications, the Company may be required to obtain a license from such parties. There can be no assurance that any such license would be available to the Company upon reasonably acceptable terms, if at all. If the Company were so required to obtain a license from such parties, and if the Company were unable to obtain such a license on reasonably acceptable terms, the Company would be materially and adversely affected. The Company could also face significant costs associated with any litigation relating to such patents.

In order to protect its proprietary technology and processes, CTI also relies on confidentiality and material transfer agreements with its 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 the Company will have adequate remedies for breach or that the Company's trade secrets will not otherwise become known or independently discovered by competitors.

Reliance on Third Party Manufacturers; Manufacture of Products in Commercial Quantities. The manufacturing of sufficient quantities of new drugs is a time consuming, complex and unpredictable process. The Company currently has no facilities for the manufacture of clinical trial or commercial quantities of any of its products. The Company currently relies on third parties to

manufacture compounds for preclinical testing and clinical trials. No assurance can be given that the Company will be able to make the transition to commercial production. CTI may need to develop additional manufacturing resources, or may seek to enter into collaborative arrangements with other parties which have established manufacturing capabilities or may elect to have third parties manufacture its products on a contract basis. All manufacturing facilities must comply with applicable regulations of the FDA. The Company has established a quality control and quality assurance program, including a set of standard operating procedures and specifications, designed to ensure that the Company's products are manufactured in accordance with current Good Manufacturing Practices ("cGMP") and other applicable domestic and foreign regulations. However, the Company is dependent upon contract manufacturers to comply with such procedures and regulations. There can be no assurance that these manufacturers will meet the Company's requirements for quality, quantity or timeliness. See "--Manufacturing."

Absence of Sales and Marketing Organization. The Company has no experience in sales, marketing or distribution. To directly market any of its potential products, the Company must obtain access to marketing and sales forces with technical expertise and with supporting distribution capability. If the Company develops any products with commercial potential, CTI may need to develop marketing and additional sales resources, or may seek to enter into collaborative arrangements with other parties which have established marketing and sales capabilities or may choose to pursue the commercialization of such products on its own. There can be no assurance that the Company or, to the extent the Company enters into any commercialization arrangements with third parties, such third parties, will establish adequate sales and distribution capabilities or be successful in gaining market acceptance for products. See "--Marketing."

Attraction and Retention of Key Employees and Consultants. The Company is highly dependent on the principal members of its scientific and management staff, the loss of whose services might impede the achievement of research and development objectives. Recruiting and retaining qualified scientific personnel to perform research and development work are critical to CTI's success. Although CTI believes it will be successful in attracting and retaining skilled and experienced scientific and technical personnel, there can be no assurance that CTI will be able to attract and retain such personnel on acceptable terms. In addition, if CTI reaches the point where its activities require additional expertise in clinical testing, in obtaining regulatory approvals, and in production and marketing, there will be increased demands on CTI's resources and infrastructure. The inability to obtain additional qualified personnel could materially and adversely affect prospects for CTI's success. There is intense competition for qualified scientists and managerial personnel from numerous pharmaceutical and biotechnology companies, as well as academia, government organizations, research institutions and other entities. There can be no assurance that CTI will be able to attract and retain the qualified personnel necessary for the development of its business. Loss of the services of or failure to recruit key managerial scientific and technical personnel could have a material adverse effect on CTI's research and product development programs. CTI maintains a $3 million key man life insurance policy for Dr. James A. Bianco, the principal founder of the Company and its President and Chief Executive Officer. In addition, CTI relies on consultants and advisors, including its scientific and clinical advisors, to assist the Company in formulating its research and development strategy. All of CTI's consultants and advisors are employed by employers other than the Company, or are self-employed, and have commitments to or consulting or advisory contracts with other entities that may limit their availability to the Company. See "--Human Resources" and "Item 5.--Directors and Executive Officers."

Product Liability; Insurance. CTI's business exposes it to potential product liability risks which are inherent in the testing, manufacturing and marketing of human pharmaceutical products. Although the Company

is insured against such risks up to a $20 million annual aggregate limit in connection with human clinical trials, there can be no assurance that the Company's present product liability insurance coverage is adequate or that the Company will be able to maintain such insurance on acceptable terms. The Company has no products commercially available for sale and has not procured product liability insurance covering claims in connection with commercially marketed products. There can be no assurance that the Company will be able to

obtain comparable insurance on commercially reasonable terms if and when it commences the commercial marketing of any products or that such insurance will provide adequate coverage against potential liabilities. A successful product liability claim in excess of the Company's insurance coverage could have a material adverse effect on the Company and may prevent the Company from obtaining adequate product liability insurance in the future on commercially reasonably terms.

Uncertainty of Pharmaceutical Pricing and Reimbursement. Sales of CTI's proposed products will be dependent in part on the availability and extent of reimbursement for the cost of such products and related treatments from third-party health care payors, such as government and private insurance plans. Significant uncertainty exists as to the reimbursement status of newly approved health care products. Government and other third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for new medical products and services and by refusing, in some cases, to provide any coverage of uses of approved products for disease indications other than those for which the FDA has granted marketing approval. If CTI succeeds in bringing any of its proposed products to the market, there can be no assurance that any such products will be considered cost-effective or that third-party reimbursement will be available or will be sufficient to enable CTI to sell its proposed products on a competitive basis and to maintain price levels sufficient to realize an appropriate return on its investment in product development. If adequate coverage and reimbursement levels are not provided by government and other third-party payors, the market acceptance of CTI's products will be adversely affected. In addition, legislation and regulations affecting the pricing of pharmaceuticals may change in ways adverse to CTI before any of the Company's proposed products are approved for marketing. While CTI cannot predict whether any such legislative or regulatory proposals will be adopted, the adoption of such proposals could have a material adverse effect on CTI's business, financial condition and prospects.

Use of Hazardous Materials. The Company's research and development involves the controlled use of hazardous materials, chemicals and various radioactive compounds. Although the Company believes that its 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 completely eliminated. In the event of such accident, the Company could be held liable for any damages that result and any such liability could exceed the resources of the Company. Although the Company has insurance covering certain risks associated with the use of hazardous materials, there can be no assurance that it will be able to maintain such insurance on acceptable terms or that insurance will provide adequate coverage against potential environmental liabilities. The Company may incur substantial costs to comply with environmental regulations if the Company develops manufacturing capacity.

Concentration of Ownership. Directors and officers of CTI, and their affiliates, beneficially own 7,675,568 shares of the Company's Common Stock (including shares of Common Stock issuable upon conversion of CTI's Series A Convertible Preferred Stock (the "Convertible Preferred Stock") and shares of Common Stock subject to options or warrants exercisable or convertible within 60 days of June 1, 1996) representing approximately 28.02% of the voting power of the Company's outstanding securities. Such concentration of ownership may have the effect of delaying, deferring or preventing a change in control of the Company. See "Item 4.--Security Ownership of Certain Beneficial Owners and Management."

Absence of Public Market; Likely Volatility of Stock Price. There is no existing public market for the Common Stock, and there can be no assurance as to the liquidity of any markets that may develop for the Common Stock or, if a liquid trading market develops, that it will be sustained. In addition, there can be no assurance as to the ability of holders of Common Stock to sell their securities, or the price at which holders

would be able to sell their securities. Future trading prices of the Common Stock will depend on may factors, including, among other things, the Company's operating results and the market for similar securities. The Company does not intend to apply for listing of the Common Stock on any securities exchange or over-the- counter market prior to a public offering. No assurance can be given that the Company will ever effect a public offering of its securities, or that

a public market will otherwise develop or be sustained in the future. If a public market does develop for the Common Stock, investors should be aware that the market prices for securities of pharmaceutical and biotechnology companies have 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. It is likely that the market price of the Common Stock will be highly volatile. Factors such as announcements of technological innovations or new commercial products by the Company, its collaborative partners or the Company's present or potential competitors, announcements by the Company of results of preclinical testing and clinical trials, developments or disputes concerning patent or other proprietary rights, developments in the Company's relationships with collaborative partners, adverse litigation, changes in reimbursement policies, adverse legislation, regulatory decisions, or public concern regarding the safety, efficacy or other implications of the drugs sought to be developed or biotechnology in general and economic and other external factors, as well as period-to-period fluctuations in the Company's operating results and general market conditions, may have a significant impact on the future price of the Common Stock.

Shares Eligible for Future Sale; Registration Rights; Possible Adverse Effect on Future Market Price. Sales of a substantial number of shares of Common Stock in the public market could adversely affect the market price of the shares of Common Stock. Of the 17,300,574 shares of Common Stock outstanding as of June 1, 1996 (excluding 9,544,700 shares of Common Stock issuable upon conversion of 95,447.004 shares of the Company's Series A Convertible Preferred Stock (the "Convertible Preferred Stock")) 9,951,387 shares which have been held by non-affiliates for more than three years are eligible for immediate sale in the public market without restriction, and an additional 6,778,977 shares will become eligible for sale beginning approximately 90 days after the effective date of this Registration Statement, subject to the provisions of Rules 144 and 701 under the Securities Act of 1933, as amended (the "Securities Act"). The remaining 570,210 shares of Common Stock (and 9,544,700 shares of Common Stock issuable upon conversion of the Convertible Preferred Stock) have been held for less than two years and will become eligible for sale under Rule 144 at various dates thereafter as the holding period and other requirements of Rule 144 are satisfied. The Company may in the future elect to file one or more registration statements on Form S-8 enabling certain option holders to sell shares for which options are exercisable. The Company is obligated to register approximately 11,505,898 shares of Common Stock (including 9,544,700 shares of Common Stock issuable upon conversion of 95,447.004 shares of Convertible Preferred Stock) and warrants to purchase 272,675 shares of Common Stock for sale to the public beginning 180 days after the closing of an initial public offering of the Company's Common Stock. See "Item 6.--Executive Compensation--Stock Option Plans," "Item 9.--Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters" and " Item 11.--Description of Registrant's Securities to be Registered--Registration Rights."

Class of Senior Securities. The Company has 95,447.004 shares of Convertible Preferred Stock outstanding, which are convertible into an aggregate 9,544,700 shares of Common Stock. Holders of Convertible Preferred Stock are entitled to significant preferences over holders of Common Stock, including liquidation and dividend preferences. In any proposed acquisition or liquidation of the Company, the holders of the Convertible Preferred Stock have certain significant preferential rights on distribution of the resulting proceeds. In addition to having the right to vote with the Common Stock on an as-converted basis, the holders of the Convertible Preferred Stock have the right to vote as a separate class to elect one additional Director to the Board of Directors. The affirmative vote of the holders of at least 66.67% of the outstanding shares of Convertible Preferred Stock is required for the Company to amend the Company's Articles of Incorporation so as to adversely affect the rights or preferences of the Convertible Preferred Stock or to authorize or issue equivalent or senior classes or series of stock. The exercise of these voting rights could be detrimental to the holders of the Common Stock. See "Item 11.--Description of Registrant's Securities to be Registered--Preferred Stock."

SCIENTIFIC OVERVIEW

Cell communication occurs through a complex process that commences when "first messengers" outside the cell, such as hormones, cytokines and growth

factors, recognize and bind to receptors embedded in the cell membrane. The first messenger initiates a series of chemical reactions within the cell, known as signal transduction, which result in cellular responses. In the 1970s, scientists discovered that, in response to extracellular binding of first messengers, certain cell membrane lipids are chemically altered to form "second messengers" which transduce chemical information from the cell membrane to the cell nucleus. Certain second messenger systems are essential for normal day-to-day cellular processes, and are often referred to as "housekeeping pathways" or "physiologic pathways."

Company scientists have demonstrated that certain cell membrane lipids, called PAs, are a type of second messenger which the Company believes may be involved in regulating cell growth and inflammation. Certain PAs appear only to be produced in response to the presence of cell-damaging stimuli, and unlike housekeeping pathways, such second messenger systems do not appear to be utilized for normal cellular processes. The Company believes that cell-damaging stimuli, such as radiation, chemotherapy or oxidative injury, cause their toxic side effects by altering certain cell membrane phospholipids, which lead to the activation of other downstream second messengers, such as stress activated protein kinase ("SAPK"). Such second messengers carry the cell damaging signal to the cell nucleus, resulting in the activation of transcription factors responsible for the production of multiple inflammatory substances (cytokines). Such second messenger systems are often referred to as "stress activated pathways."

The Company has demonstrated that there are several species of PA which may modulate different downstream kinases and transcription factors. The Company believes that certain species of PA produced in cancer cells appear to facilitate their unregulated growth and ability to spread (metastasis). The Company also believes that certain species of PA may be necessary for the activation of inflammatory cytokines, and that other species of PA may be necessary for the activation of T-cells, leading to certain immune responses. Modulation of such species of PA may provide a novel approach to the development of more effective and less toxic anti-cancer, anti-inflammatory and immunosuppressive agents. Because such species of PA do not appear to be utilized by cells for normal cellular function, therapeutics which target such PAs and the related stress activated pathways are not expected to interfere with normal cellular function. The Company believes such therapeutics have the potential to offer greater specificity and safety than pharmaceuticals which inhibit physiologic second messenger pathways or other activities in a cell which may be necessary for normal cellular function.

BUSINESS STRATEGY

The Company's business strategy is to:

Target large markets which are not adequately served by existing therapeutics. The Company focuses its drug development activities on cancer and inflammatory and immune diseases--three therapeutic areas that represent large market opportunities not adequately served by existing therapeutics. The Company's two cancer products in clinical trials, Lisofylline and CT-2584, target the toxic side effects of current cancer treatment modalities and chemotherapy-resistant cancer cells, respectively. Lisofylline is also in clinical trials as an agent to treat ALI, systemic inflammation and MOF, conditions for which no effective therapies currently exist.

Apply proprietary technology to create a unique drug discovery platform for new product opportunities. The Company's strategy is to leverage its proprietary technology to identify distinct species of PA and correlate such PAs with certain disease states and conditions. The Company believes that its technology provides a unique platform for future drug discoveries.

Maximize product opportunities by entering into collaborative relationships. The Company believes that by evaluating the potential efficacy of products through early to mid-stage clinical development, the Company can best assess the potential value of its products before seeking potential development and/or commercialization partners. CTI is collaborating with an affiliate of BioChem Pharma Inc. ("BioChem Pharma") for the

development and commercialization of Lisofylline and CT-2584 in Canada, and may enter into additional collaborative relationships with respect to the late-stage development, manufacturing and commercialization of other drug

candidates. The Company intends to develop its own sales and marketing infrastructure in the United States to commercialize its portfolio of oncology products, either on its own or with collaborators. With respect to the commercialization of its oncology products outside the United States, and with respect to the worldwide commercialization of its portfolio of products for inflammatory and immune disease, the Company's strategy is to pursue commercialization arrangements with collaborators.

Expand and protect proprietary technology and products. In the United States, the Company has seven issued patents and 80 pending patent applications, of which nine have been allowed (including five pending patent applications covering the pharmaceutical composition and oncology, anti-inflammatory and other methods of use for Lisofylline and one pending patent application covering the chemical compounds and pharmaceutical compositions of CT-2584, CT-3578 and CT-3501). CTI intends to file additional patent applications with respect to improvements in its core technology and to specific products and processes that it develops.

PRODUCTS UNDER DEVELOPMENT

The following table summarizes the potential market applications and current development status for the Company's products under development:

DEVELOPMENT PROGRAM	PRODUCT DESCRIPTION	DEVELOPMENT STATUS
ONCOLOGY		
Lisofylline	Cancer therapy adjunct for the acceleration of blood cell recovery and the reduction of infection, mucositis and mortality following high dose radiation and/or chemotherapy	Phase II/III trial for BMT completed; Phase II/III trial for AML ongoing; Pivotal Phase III trial for BMT expected to begin by the end of 1996; Phase II/III trial for mucositis expected to begin by the end of 1996
CT-2408R	Oral Lisofylline analog	Preclinical
CT-2584	Chemotherapeutic agent targeting chemotherapy-resistant tumor cells	Phase I/Ib trials in progress
CT-2412	Chemotherapy and radiation sensitizer for p53- and Rb-deleted or mutated tumor cells	Lead compound
CT-3501	Angiogenesis inhibitor	Screening
INFLAMMATION		
Lisofylline	Agent for the prevention and treatment of ALI, systemic inflammation and MOF following traumatic injury	Phase II/III trial completed; Pilot Phase II trial completed; Pivotal Phase III trial expected to begin by the second quarter of 1997
IMMUNOLOGY		
CT-3578	Agent for the treatment of acute organ transplant rejection	Lead compound

SCREENING refers to the identification of therapeutic candidates as lead compounds.

LEAD COMPOUND refers to a compound that exhibits pharmacological properties which are evaluated in vitro and/or in animal models prior to commencement of preclinical testing.

PRECLINICAL testing includes pharmacology and toxicology studies in vitro and in animal models, formulation work and manufacturing scale-up in preparation for submission of an IND.

DEVELOPMENT PROGRAM--ONCOLOGY

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 projects

that cancer will surpass heart disease as the leading cause of death in the United States by the end of the decade. Four types of cancer--prostate, colon, breast and lung--account for almost 60% of the new cancer cases reported each year in the United States.

The most common methods of treating patients with cancer include surgery, radiation, drug therapy such as chemotherapy, and supportive care therapy. A cancer patient often receives a combination of several of these treatment modalities depending upon the type and extent of the disease. Radiation therapy involves the exposure of tumor cells to x-rays, gamma rays or other high energy particles which get absorbed by the tumor and by surrounding normal tissues. These high energy particles generate "free oxygen radicals" (a highly reactive form of oxygen) in the exposed tissues, resulting in cell damage and death of both normal and cancerous cells. Chemotherapy involves the use of chemical agents which are toxic to rapidly dividing or growing cells, such as cancer cells and certain other normal cells, including bone marrow cells, hair follicle cells, and the cells lining the mouth, stomach and intestinal tract. Supportive care therapy involves the use of a therapeutic agent as an adjunct to the primary therapy in order to lessen the toxicities associated with such primary therapy.

The Company seeks to assemble a portfolio of drugs that address three of the major unmet needs in the treatment of patients with cancer. These products include (i) Lisofylline--a supportive care agent intended to reduce the incidence of infection, mucositis and mortality among patients receiving high doses of radiation and/or chemotherapy, (ii) CT-2584--a novel anti-cancer drug for the treatment of patients with chemotherapy-resistant cancers, and (iii) CT-2412--a therapeutic compound with the potential ability to restore radiation and chemotherapy sensitivity among cancers that have deleted or mutated p53 or retinoblastoma protein ("Rb") tumor suppressor genes.

Lisofylline

The predominant acute toxicities of cancer treatments such as radiation and chemotherapy are bone marrow suppression with neutropenia (a reduction in infection fighting white blood cells ("WBCs")), thrombocytopenia (a reduction in platelets, cells that cause clotting and are necessary to prevent bleeding), anemia (reduction in oxygen carrying red blood cells ("RBCs")) and mucositis (acute toxicity to the cells lining the mouth, stomach and intestinal tract). Neutropenia, mucositis and thrombocytopenia make up 80% of the toxicities resulting from current anti-cancer treatment regimens. Since the ability to deliver a full dose of chemotherapy on time during each scheduled cycle of therapy is a major determinant in the success of the treatment, dose-limiting side effects are directly responsible for placing the patient at risk, not only for infection and bleeding, but also for treatment failure.

Unlike anemia and thrombocytopenia for which physicians can transfuse RBCs and platelets, there are no supportive care measures that adequately treat or prevent mucositis. Since the mouth and intestines harbor potentially lethal bacteria, fungi and viruses, mucositis is a major contributing factor to life-threatening infections that follow cancer therapies. Existing WBC growth factors, such as Neupogen (G-CSF), only treat the neutropenia induced by cancer therapy but fail to treat other acute toxicities of cancer treatments such as thrombocytopenia and mucositis. Similarly, existing RBC growth factors, such as Epogen (EPO), only treat anemia. Despite these limitations, worldwide sales of G-CSF and EPO exceeded $936 million and $882 million, respectively in 1995.

In preclinical animal models, Lisofylline prevented the production of inhibitors of blood cell regeneration and accelerated the recovery of all three types of blood cells (WBCs, RBCs and platelets) following high dose radiation and/or chemotherapy. The Company believes that the potential ability of Lisofylline to accelerate stem cell recovery in bone marrow and in the gastrointestinal tract, leading to rapid recovery of WBCs, RBCs and platelets, along with decreased duration and severity of mucositis, resulting in decreased risk of infection and mortality, presents a superior therapeutic profile when compared to existing supportive care agents.

More than 320 patients have participated in clinical trials for Lisofylline for oncology and inflammatory disease indications. The Company has completed one Phase II/III trial and has one ongoing Phase II/III trial for oncology

indications. The Company is planning to commence a pivotal Phase III trial among patients undergoing high dose radiation and/or chemotherapy followed by BMT by the end of 1996 and is also planning to commence a Phase II/III trial for mucositis by the end of 1996.

The Phase II/III trial completed in the first quarter of 1996 consisted of a 60 patient multi-center double blinded placebo controlled trial which investigated the effect of two different doses (2 mg/kg and 3 mg/kg) of Lisofylline on the rate of blood cell recovery, transfusion requirements, and the incidences of infection, toxicity and mortality in cancer patients undergoing high dose radiation and/or chemotherapy followed by BMT. On an intent to treat analysis at 100 days following BMT, this study demonstrated that administration of 3 mg/kg (high dose) of Lisofylline resulted in a statistically significant reduction in mortality ($p = 0.022$), incidence of serious and fatal infections ($p = 0.002$), and the duration of absolute neutropenia ($p = 0.047$) (defined as the number of days following BMT with fewer than 100 neutrophils per microliter of blood) when compared to placebo recipients or patients randomized to receive 2 mg/kg (low dose) of Lisofylline. In addition, there was a strong trend toward a reduction in the incidence of severe mucositis ($p = 0.1$) among high dose Lisofylline recipients compared to placebo recipients or patients randomized to receive the low dose of Lisofylline. Although certain endpoints of the trial regarding neutrophil and platelet recovery and transfusion requirements were not met, patients attaining higher blood levels of Lisofylline did experience a more rapid recovery of neutrophils and platelets, and required fewer transfusions, than patients with lower blood levels of Lisofylline. No adverse side effects attributable to Lisofylline were detected in this trial.

The table below summarizes the results of the Phase II/III BMT trial of Lisofylline in patients 100 days after receiving high dose radiation and/or chemotherapy followed by BMT:

	LISOFYLLINE 3mg/kg	PLACEBO	p VALUE(1)
Mortality rate	11%	44%	0.022
Incidence of serious and fatal infections	0%	44%	0.002
Duration of absolute neutropenia (2)	3 days	6 days	0.047
Incidence of severe mucositis	22%	44%	0.1
Median days of fever	1	1	n/s
Median days to neutrophil recovery (3)	15	15	n/s
Median days to platelet recovery (4)	18	14	n/s
Median number of RBC transfusions	2	2.5	n/s
Median number of platelet transfusions	5	4	n/s

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n/s Not statistically significant

(1) A p value of less than or equal to 0.05 is considered statistically significant. A p value of less than or equal to 0.15 demonstrates a trend toward statistical significance.

(2) Duration of absolute neutropenia is defined as the number of days following BMT with fewer than 100 neutrophils per microliter of blood.

(3) Days to neutrophil recovery is defined as the number of days following BMT to achieve a neutrophil count of greater than 500 neutrophils per microliter of blood.

(4) Days to platelet recovery is defined as the number of days following BMT to achieve a platelet count of greater than 20,000 platelets per microliter of blood.

As stated above under "--Risk Factors--Dependence on Others; Collaborators," Schering informed the Company that its decision not to activate a collaboration agreement with the Company was based on, among other factors, (i) its view that one of the endpoints of the Phase II/III BMT trial, white blood cell recovery, was not met and (ii) its view that the clinical trial results and related data regarding mortality rate and incidence of serious and fatal infection were difficult to interpret and that, as a result, Schering could not determine that the data was meaningful.

Based on the results of its Phase II/III BMT trial, the Company anticipates starting a 100 patient pivotal Phase III trial in 1996 for Lisofylline among patients undergoing high dose radiation and/or chemotherapy followed by BMT. This study will look to confirm the Company's Phase II/III BMT trial results. The Company expects that the principal endpoints will include the incidence of serious and fatal infection and mortality. The Company also anticipates that this trial will yield information about the drug's impact on the incidence of severe mucositis. The Company is planning to commence a Phase II/III trial in late 1996 to examine the effect of Lisofylline on the incidence and severity of mucositis among cancer patients receiving high dose radiation and/or chemotherapy.

The Company has an ongoing Phase II/III trial which was initiated in April 1995 among patients with newly diagnosed adult myelogenous leukemia ("AML") undergoing treatment with high dose chemotherapy. This study will examine the effects of Lisofylline on blood cell recovery, infection and mortality. When completed, this study will have included approximately 50 patients. The Company anticipates that enrollment for this trial will be completed by the end of 1996.

CT-2408R

Lisofylline is currently being developed for intravenous administration. The Company has demonstrated in animals that Lisofylline can also be administered as a subcutaneous ("SQ") injection. The Company has also developed CT-2408R, which is an analog of Lisofylline that has the potential to be administered orally. Because SQ dosing is physiologically similar to intravenous administration, the regulatory approval process may be faster for an SQ formulation than for an oral analog of Lisofylline.

CT-2584

Chemotherapy resistance is a major impediment to the effective treatment of certain cancers. Approximately 50% of all cancer patients undergo chemotherapy. Of these patients, 90% (45% of all cancer patients) have tumors that will develop resistance to chemotherapy. Resistance emerges as tumor cells are exposed to currently available chemotherapeutic agents. Because the majority of existing chemotherapeutic agents operate by the same mechanism of action, the Company believes that drugs with unique mechanisms of action may reduce the incidence of chemotherapy resistant tumors and, as a result, may be effective in killing tumors.

CT-2584 is the Company's novel small molecule drug for treatment of patients with chemotherapy-resistant cancers, including prostate, colon, lung and breast cancer. The Company believes that CT-2584 is a highly specific chemotherapeutic agent that works through a unique mechanism of action which targets the process by which cancer cells grow and spread throughout the body. Unlike normal growing cells, such as bone marrow cells, tumor cells contain higher levels of a specific species of PA. This species of PA appears to be involved in the unregulated cell growth characteristic of cancer cells. Company scientists have isolated an enzyme called phosphotidylcholine phospholipase-D ("PC-PLD"), which appears to be responsible for the production of this species of PA. CT-2584 directly overactivates tumor cell PC-PLD, resulting in the destruction of tumor cell mitochondria. Because normal cells do not produce appreciable quantities of this species of PA, CT-2584 does not appear to affect normal cell mitochondria function and, as such, has not demonstrated toxicity to normal cells at concentrations which are effective in killing cancer cells.

In preclinical testing, CT-2584 demonstrated toxicity to all tumor cell lines tested and to human tumor biopsy samples. These cell lines and samples involved prostate, brain, colon, breast, lung and ovarian cancers, as well as certain leukemias and lymphomas. In addition, tumors that were resistant to high levels of standard chemotherapies were rendered up to 9,000-fold more sensitive to those agents in the presence of low concentrations of CT-2584. CT-2584 also significantly inhibited cancer cell induced new blood vessel formation (angiogenesis) at drug levels below which cancer cell-killing is observed. CT-2584 was non-toxic to normal bone marrow and gastrointestinal cells in animal models at concentrations 5-10 times higher than concentrations which were effective in killing cancer cells.

In November 1995, the Company initiated a Phase I/Ib trial in the United Kingdom among patients with advanced colon and other types of cancer. In February 1996, the Company filed an Investigational New Drug application ("IND"), and in June 1996 the Company initiated a parallel Phase I/Ib trial in the United States for patients with advanced cancers, including patients with chemotherapy-resistant colon, prostate and ovarian cancers.

CT-2412

The Company has developed a series of second generation compounds which have the potential ability to restore radiation and chemotherapy sensitivity among cancers that have deleted or mutated p53 or retinoblastoma protein ("Rb") tumor suppressor genes. One central function of the p53 and Rb tumor suppressor genes is to bind to DNA and regulate genes that control cell growth. Deletion or mutation of these genes occurs in over 60% of all cancers and contributes to the failure of conventional cancer treatment. Current known experimental approaches to restoring functional p53 and Rb tumor suppressor genes utilize gene therapy techniques to insert normal p53 or Rb genes into cancer cells. Such approaches are presently limited by the ineffective transfer rates of normal genes to cancer cells.

Company scientists and their collaborators have discovered that the deletion or mutation of p53 and Rb tumor suppressor genes may modulate stress activated pathways such as the SAPK pathway. The Company believes that the development of compounds which suppress the activation of the SAPK pathway may represent a novel pharmacologic approach to restoring and enhancing radiation and chemotherapy sensitivity among tumors with deleted or mutated p53 or Rb tumor suppressor genes. CT-2412 is among a family of small molecules which, in lead compound testing, has been demonstrated to increase over 10,000-fold the sensitivity of p53- and Rb- deleted or mutated cancer cells to the effects of radiation and/or chemotherapy.

CT-3501

CTI is screening CT-3501 as a potential lead compound to inhibit angiogenesis among cancer patients. CTI is also investigating CT-3501 as an agent to prevent metastasis or tumor recurrence among ovarian, colon and lung cancer patients undergoing surgical resection or radiation treatment.

DEVELOPMENT PROGRAM--INFLAMMATORY DISEASE

Traumatic injury and related complications, such as acute lung injury ("ALI") and multi-organ failure ("MOF"), are one of the leading causes of death for people under the age of 45, as well as being a significant cost to society with an estimated $14 billion per year spent on care of motor vehicle injury patients alone. ALI following trauma is thought to result from oxidative injury at the time of blood and fluid resuscitation in patients who have experienced traumatic injuries. This oxidative injury results in a widespread systemic inflammatory response ("SIRS") followed by MOF. No specific therapies currently exist to treat or prevent ALI, SIRS or MOF. Current therapeutic approaches to ALI focus on supportive mechanical ventilation.

Lisofylline

In addition to its application in cancer patients, the Company believes that Lisofylline may also be an effective agent to treat ALI, systemic inflammation and MOF among patients who have experienced traumatic injuries. Preclinical animal testing has indicated that Lisofylline inhibited SIRS and the MOF that frequently accompanies SIRS. In the first quarter of 1995, the Company completed a 53-patient multi-center double blinded placebo controlled Phase II/III trial of Lisofylline among patients with advanced kidney or skin cancer receiving the anti-cancer agent Interleukin-2 ("IL-2"). IL-2 is highly toxic, and the treatment often results in systemic inflammatory side effects which may lead to MOF and death. The purpose of this study was to examine if Lisofylline could be effective in reducing MOF in patients receiving IL-2. The results of this study demonstrated that during their first cycle of therapy following eight doses of IL-2, 70% of patients treated with Lisofylline tolerated full doses of IL-2 as compared with 38% of placebo recipients ($p = 0.002$). Despite receiving more intensive IL-2 treatment, Lisofylline recipients experienced significantly less IL-2 induced toxicity than placebo recipients ($p = 0.036$) at the end of the first week of IL-2 treatment.

The Company has completed a pilot Phase II study of Lisofylline among 13 patients with life-threatening infections, systemic inflammation and MOF. Twelve patients were evaluable for endpoint analysis. In the first 14 days, Lisofylline recipients experienced a 40% improvement from baseline in median MOF scores compared to placebo recipients. In addition, all patients receiving Lisofylline survived through day 28 compared to 64% of placebo recipients.

The Company is preparing a pivotal Phase III trial for Lisofylline among patients experiencing traumatic injuries who are at risk of developing systemic inflammation, lung injury and death. This study will examine the effect of Lisofylline on the incidence and severity of ALI, MOF and mortality. The Company anticipates initiating this trial by the second quarter of 1997.

DEVELOPMENT PROGRAM--IMMUNE DISEASE

CT-3578

CT-3578 is a member of a class of developmental candidates for the prevention of organ transplant rejection and the treatment of immune diseases. Early in vitro and preclinical animal testing suggested that CT-3578 may induce tolerance to foreign antigens. Tolerance occurs when an antigen, previously recognized by the body's immune system as "foreign," accepted as non-foreign or "self." A therapeutic agent which induces tolerance may allow patients to accept organ transplants from genetically different donors without the need for lifelong immunosuppressive therapy and its accompanying side effects. Preclinical in vitro studies demonstrate that CT-3578 has the potential to be more effective than cyclosporine-A in inhibiting T-cell activation. Cyclosporine-A is the leading commercially available immunosuppressive drug, with estimated worldwide sales in excess of $1 billion in 1994. The Company believes that CT-3578 may be a safe, selective agent in the treatment or prevention of organ transplant rejection and graft vs. host disease.

PROPRIETARY DRUG DISCOVERY TECHNOLOGY

CTI's proprietary drug discovery technology consists of three components: (i) high resolution technology for quantitative measuring of specific species of lipids; (ii) cloning of critical lipid regulatory enzymes; and (iii) using the cloned enzymes to validate targets and to develop high throughput screens capable of analyzing large chemical libraries.

CTI has developed proprietary technology that has enabled it to determine the effects of a variety of physical and chemical stimuli, growth factors, cytokines and oncogene induced events on the production of species of PA and the enzymes which control their production and degradation. Standard industry techniques for measuring lipid second messengers are time consuming and often inadequate for measuring lipids like PA which are produced in relatively small quantities following stimulation and are degraded within seconds of their production. Moreover, separation of specific species of PA is difficult. CTI possesses several proprietary lipid analytical technologies, including its proprietary ChiRx technology, which can identify each species of PA produced in response to a variety of stimuli in various cell types. In addition, the Company has acquired unique and powerful high performance thin layer chromatography capabilities which allow for the separation of species of PA into a homogenous and purified fraction. This technology enables the separation of many distinct PA species, thus providing a qualitative and quantitative methodology to examine the effects of CTI's compounds.

Company scientists have identified, isolated and cloned several enzymes which control the production or degradation of different species of PA. Through application of genetic, molecular and biochemical techniques, the Company can determine the relationship between the PA species controlled by these enzymes and disease processes or conditions. Once established, high throughput assays can be developed against which the Company can screen its small molecule compounds to detect their effects on specific species of PA.

Company chemists integrate this information into a directed chemical synthetic effort which involves rational molecular modeling. Once a new chemical entity is synthesized, it is tested in a series of biological systems to examine its effects on modulating specific species of PA and other downstream stress activated second messengers and the resulting abnormal cellular responses. Once optimized, compounds are screened for

maximum specificity and safety and then undergo further optimization as developmental candidates for selection as lead compounds for preclinical studies.

The Company's scientists have identified seven distinct species of PA and believe other species of PA may exist. In addition, the Company has identified several chemical entities which the Company believes may regulate the activation of controlling enzymes responsible for the production of such PAs.

COLLABORATIONS

BioChem Pharma Collaboration

In March 1995, CTI entered into a collaboration agreement with BioChem Pharma for the development and commercialization of Lisofylline and CT-2584 in Canada. Under the collaboration agreement (the "BioChem Collaboration Agreement"), BioChem Pharma will be responsible for obtaining regulatory approval for Lisofylline and CT-2584 in Canada. Although BioChem Pharma will have no obligation to conduct any research and development activities, it will have the right to have CTI perform clinical trials in Canada at BioChem Pharma's expense. BioChem Pharma will have the exclusive right to commercialize Lisofylline and CT-2584 in Canada, subject to the payment of royalties to CTI. CTI will also receive payments under the BioChem Collaboration Agreement if certain milestones are achieved. BioChem Pharma may terminate the BioChem Collaboration Agreement with respect to any product at any time for any reason upon 30 days' notice. In connection with the BioChem Collaboration Agreement, BioChem Pharma agreed to purchase 7,462.687 shares of Convertible Preferred Stock in the Company's 1995 Private Placement for an aggregate purchase price of $2.5 million.

Schering AG

In February 1996 the Company entered into an agreement with Schering AG ("Schering") pursuant to which, among other things, the Company and Schering would collaborate in the funding, research, development and commercialization of Lisofylline and CT-2584 on the terms and conditions specified therein. Upon execution of the agreement, Schering paid the Company a $3,000,000 non-refundable signing fee. The remainder of the agreement was contingent upon Schering finding the clinical trial results and related data from the Company's Phase II/III BMT trial (the "Trial Data") acceptable within thirty days after its receipt. The Company furnished Schering with the Trial Data in late February 1996. On April 2, 1996, after a mutual extension of the thirty-day review period, Schering informed the Company that it did not wish to activate the agreement. Although the agreement did not require Schering to specify in detail its reasons for not activating the agreement, Schering informed the Company that its decision was based on, among other factors, (i) its view that one of the endpoints of the Phase II/III BMT trial, white blood cell recovery, was not met and (ii) its view that the Trial Data regarding mortality rate and incidence of serious and fatal infection were difficult to interpret and that, as a result, Schering could not determine that the data was meaningful. See "--Risk Factors--Dependence on Others; Collaborators" and "--Development Program--Oncology."

As a result of Schering's decision not to activate the agreement and following the Company's review of the Trial Data, the Company revised its planned expenditures for 1996 and 1997, resulting in a reduction of approximately $11.4 million. These reductions consisted primarily of the elimination of expenses which would have been incurred at Schering's request in connection with seeking regulatory approval for Lisofylline and CT-2584 in Europe and Japan, and certain planned research activities that would have been sponsored by Schering under the Agreement. These reduced expenditures also reflect the Company's decision to delete a 2mg/kg (low dose) component from the Company's planned pivotal Phase III trial for Lisofylline following the Company's review of the Trial Data.

As part of its ongoing business, the Company engages in discussions with potential collaborators from time to time regarding the development, manufacturing and commercialization of Lisofylline, CT-2584 and other products under development. Although there can be no assurance that the Company will enter into any such

collaborative arrangement on acceptable terms, the Company believes that Schering's decision not to activate the agreement will not have a material adverse impact on the Company's ability to enter into any such collaborative arrangement on favorable terms. See "--Risk Factors--Dependence on Others; Collaborators."

PATENTS AND PROPRIETARY RIGHTS

CTI has dedicated significant resources to protect its intellectual property. In the United States, the Company has seven issued patents and 81 pending patent applications, including divisional patent applications and continuations-in-part, covering a variety of new chemical entities, pharmaceutical compositions, synthetic processes, methods of use, research tools and diagnostics. Nine of the Company's pending patent applications have received notices of allowance, including five pending patent applications covering the pharmaceutical composition and oncology, anti-inflammatory and other methods of use for Lisofylline and one pending patent application covering the chemical compounds and pharmaceutical compositions of CT-2584, CT-3578 and CT-3501. CTI intends to file additional patent applications, when appropriate, with respect to improvements in its core technology and to specific products and processes that it develops. Generally it is CTI's policy to file foreign counterparts in countries with significant pharmaceutical markets and a patent enforcement infrastructure. CTI has filed foreign counterparts of certain of its issued and pending patent applications in many countries. 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 the Company's technology. In addition, there can be no assurance that the patents issued to CTI will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide proprietary protection or commercial advantage to the Company. 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.

The commercial success of the Company will also depend in part on the Company's neither infringing patents or proprietary rights of third parties nor breaching any technological licenses which relate to the Company's technologies and potential products. In general, the development of therapeutic products is intensely competitive and many pharmaceutical companies, biotechnology companies, universities and research institutions have filed and will continue to file patent applications and receive patents in this field. If patents are issued to other entities that contain competitive or conflicting claims with respect to the technology and compounds pursued by CTI and such claims are ultimately determined to be valid, no assurance can be given that CTI would be able to obtain licenses to these patents at a reasonable cost or develop or obtain alternative technology or compounds.

The Company is aware of certain patents belonging to third parties that could be interpreted broadly to compromise the Company's freedom to make and sell Lisofylline in the United States for use in preventing lung injury following traumatic injury or sepsis. The Company believes, upon advice of patent counsel, that the manufacture, use and sale of Lisofylline does not infringe any valid claim of such third party patents. See "Legal Matters." If such patents were to restrict the use of Lisofylline for such indications, the Company may be required to obtain a license from such parties. There can be no assurance that any such license would be available to the Company upon reasonably acceptable terms, if at all. The Company could also face significant costs associated with any litigation relating to such patents. See "--Risk Factors--Ability to Protect Intellectual Property."

CTI has sought and intends to aggressively seek patent protection in the United States, Europe and Japan to protect any products that it may develop. CTI also intends to seek patent protection or rely upon trade secrets to protect certain of its 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, CTI relies on confidentiality and material transfer agreements with its 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 the Company will have adequate remedies for breach or that the

Company's trade secrets will not otherwise become known or independently discovered by competitors. CTI also has its employees, members of its Scientific Advisory Board and Clinical Advisory Board, and its consultants enter into agreements requiring disclosure to CTI of ideas, developments, discoveries or inventions conceived during employment or during consulting and assignment to CTI of proprietary rights to such matters related to the business and technology of CTI. The extent to which efforts by others will result in patents and the effect on CTI of the issuance of such patents is unknown. Further, to enforce any patents issued to the Company or determine the scope and validity of other parties' proprietary rights, the Company may have to engage in litigation, which would result in substantial cost to, and diversion of efforts by, the Company. There can be no assurance that the Company's issued or licensed patents would be held valid. An adverse outcome could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from third parties or require the Company to cease or modify its use of such technology, any of which could have a material adverse effect on the Company. If the Company elects or is required to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention, substantial cost to the Company could result even if the eventual outcome is favorable to the Company.

There can be no assurance that others will not independently develop substantially equivalent proprietary information or otherwise obtain access to CTI's know-how or that others will not be issued patents which may prevent the sale of Company products or require licensing and the payment of significant fees or royalties by CTI for the pursuit of its business. Trade secrets and other unpatented proprietary information of CTI may be difficult to protect, notwithstanding confidentiality agreements with CTI's employees and consultants. See "--Risk Factors--Ability to Protect Intellectual Property."

MANUFACTURING

Lisofylline is currently being manufactured by third party vendors on a fee for service basis. The Company is presently engaged in negotiations with qualified third party manufacturers for bulk intermediate and bulk pharmaceutical chemical production to support the Company's future clinical trials and future market demands. CTI believes it has developed a process for manufacturing Lisofylline in its own laboratories and those of external manufacturers that would enable its manufacture in commercial quantities. Although CTI currently does not have the capability to manufacture products under current Good Manufacturing Practices ("cGMP") prescribed by the FDA, it is seeking to develop such capacity with manufacturing relationships. The Company has selected manufacturers which it believes comply with cGMP and other regulatory standards. The Company currently uses two external suppliers for solid-phase chemical manufacture of Lisofylline bulk drug and two suppliers for fill-finish. The Company has established a quality control and quality assurance program, including a set of standard operating procedures and specifications, designed to ensure that the Company's products are manufactured in accordance with cGMP and other applicable domestic and foreign regulations. However, the Company is dependent upon contract manufacturers to comply with such procedures and regulations. There can be no assurance that these manufacturers will meet the Company's requirements for quality, quantity or timeliness.

CTI intends to develop facilities for manufacturing certain key intermediate products in the synthesis of Lisofylline and certain of its other pharmaceutical compounds, such as CT-2584. The Company does not intend for this facility to be a cGMP facility but rather a facility for conducting process scale-up, research and development and production of bulk intermediate compounds utilized in the final manufacture of Lisofylline, CT-2584 or any future drug candidates. CTI has signed a Memorandum of Understanding with the Port of Seattle (the "Port") which contemplates site development and construction of a building by the Port to be leased by CTI for a bulk manufacturing facility near Seattle, Washington. Pursuant to the terms of the Memorandum of Understanding, CTI would lease such facility from the Port for an initial period of 15 years with two five-year options to extend such lease for an additional 10 years and an option to lease an adjacent 10- to 15-acre parcel. CTI would make lease payments to the Port based on an agreed upon rate of return on the fair market value of the land and on the development and construction costs incurred by the Port, which costs are to be amortized over the term of the lease or such earlier period selected by CTI. The Port

proposes to finance such development through Industrial Development District funding, which may require a vote of the general electorate of King

County, Washington. The obligations of CTI and the Port under the Memorandum of Understanding are subject to several conditions and contingencies, including CTI's receipt of FDA approval for the marketing and commercial sale of Lisofylline.

If CTI is unable to finance a bulk manufacturing facility or determines not to do so, CTI may need to enter into collaborative relationships with other parties which have established manufacturing capabilities or contract with third parties for the manufacture of any products it may develop. If CTI does so it will be dependent upon such collaborators or third parties to timely supply it with products manufactured in compliance with cGMP or similar standards imposed by foreign regulators. Collaborators and contract manufacturers may violate cGMP upon occasion and the FDA has intensified its oversight of manufacturers. There can be no assurance that the FDA would not take action against a collaborator or a contract manufacturer who violates cGMP. In addition, if CTI is unable to enter into collaborative relationships or obtain or retain third party manufacturing on commercially acceptable terms, it may be delayed in its ability to commercialize products or may not be able to commercialize its products as planned. No assurance can be given that the Company, either alone or together with collaborators or third party contract manufacturers, will be able to make the transition to commercial production. See "--Risk Factors--Reliance on Third Party Manufacturers; Manufacture of Products in Commercial Quantities."

MARKETING

CTI has no experience in marketing, sales or distribution. The Company believes, however, that the United States oncology market is accessible by a limited marketing staff due to the concentrated market of prescribing physicians. Approximately 5,000 oncologists control the vast majority of prescriptions for cancer therapeutics. The Company intends to develop its own sales and marketing infrastructure in the United States to commercialize its portfolio of oncology products, either on its own or, to the extent the Company enters into any commercialization arrangements, with collaborators. With respect to the commercialization of its oncology products outside the United States, and with respect to the worldwide commercialization of its portfolio of products for inflammatory and immune disease, the Company's strategy is to pursue commercialization arrangements with collaborators.

If the Company develops any products with commercial potential, CTI will need to develop marketing and sales resources, and may seek to enter into collaborative arrangements with third parties which have established marketing and sales capabilities or may choose to pursue the commercialization of such products on its own. There can be no assurance that the Company or any such collaborator will establish adequate sales and distribution capabilities or be successful in gaining market acceptance for products. In accordance with its business plan, CTI has initiated discussions with several major pharmaceutical companies for potential strategic alliances. There can be no assurance that CTI will enter into any such alliances or that the terms of any such alliances will be favorable to CTI. See "--Risk Factors--Dependence on Others; Collaborators" and "--Risk Factors--Absence of Sales and Marketing Organization."

COMPETITION

Competition in the pharmaceutical and biotechnology industries is intense. CTI faces competition from a variety of sources, both direct and indirect. CTI believes there may be several pharmaceutical or biotechnology companies that focus on cell membrane lipids in regulating cellular processes. Many other companies compete indirectly with CTI for the same therapeutic indications but with different approaches by focusing, for example, on signal transduction, cell receptor technology, transcription factors and gene therapies. CTI also competes with other large pharmaceutical companies that produce and market synthetic compounds and with other specialized biotechnology firms in the United States, Japan, Europe and elsewhere. Many of the Company's existing or potential competitors have substantially greater financial, technical and human resources than the Company and may be better equipped to develop, manufacture and market products.

CTI expects to encounter significant competition for the principal pharmaceutical products it plans 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 the Company or 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 CTI. In some instances, such products have already entered clinical trials or received FDA approval.

Significant levels of research in biotechnology, medicinal chemistry and pharmacology occur in universities and other nonprofit research institutions. These entities have become increasingly active in seeking patent protection and licensing revenues for their research results. They also compete with CTI in recruiting skilled scientific talent.

CTI believes that its ability to compete successfully will be based on its 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 its products either alone or through outside parties. Many of CTI's competitors have substantially greater financial, marketing and human resources than CTI. CTI will continue to seek licenses with respect to technology related to its field of interest and may face competition with respect to such efforts. See "--Risk Factors--No Assurance of Successful Product Development," "--Risk Factors--Substantial Competition" and "--Risk Factors--Ability to Protect Intellectual Property."

GOVERNMENT REGULATION

FDA Regulation and Product Approval. Regulation by governmental authorities in the United States and other countries is a significant factor in the development, production and marketing of CTI's proposed products. It is anticipated that all of CTI's products will require regulatory approval by governmental agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous preclinical and clinical testing and other approval procedures in the United States by the FDA and similar health authorities in foreign countries. Various federal statutes and regulations also govern or influence the testing, manufacturing, quality control, safety, labeling, storage, record-keeping and marketing of such products. The process of obtaining these approvals and the subsequent compliance with appropriate federal and foreign statutes and regulations require the expenditure of substantial resources. Any failure by CTI or its collaborators or licensees to obtain, or any delay in obtaining, regulatory approval could adversely affect the marketing of any product that CTI may hope to develop and its ability to receive revenues therefrom. The Company has neither applied for nor received regulatory approval to market any products.

The steps required before a pharmaceutical agent may be marketed in the United States include (i) preclinical laboratory, in vivo and formulation studies, (ii) the submission to the FDA of an Investigational New Drug Application ("IND"), which must become effective before human clinical trials may commence, (iii) adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug in its intended indication, (iv) the submission of a New Drug Application ("NDA") to the FDA, and (v) the FDA approval of the NDA.

In order to clinically test, produce and market products for diagnostic or therapeutic use, a company must comply with mandatory procedures and safety standards established by the FDA and comparable agencies in foreign countries. Before beginning human clinical testing of a potential new drug, a company must file an IND and receive clearance from the FDA. The IND is a summary of the preclinical studies which were carried out to characterize the drug, including toxicity and safety studies, as well as an in-depth discussion of the human clinical studies which are being proposed.

Human clinical trials are typically conducted in three sequential phases which may overlap. Phase I involves the initial introduction of the drug into

healthy human subjects or patients where the product is tested for safety, dosage tolerance, absorption, metabolism, distribution and excretion. Phase II involves studies in a limited patient

population to (i) identify possible adverse effects and safety risks, (ii) determine the efficacy of the product for specific, targeted indications, and (iii) determine dosage tolerance and optimal dosage. When Phase II evaluation demonstrates that the product is effective and has an acceptable safety profile, Phase III trials are undertaken to further evaluate dosage and clinical efficacy and to further test for safety in an expanded patient population at geographically dispersed clinical study sites. The regulatory authority or the sponsor may suspend clinical trials at any point in this process if either entity concludes that clinical subjects are being exposed to an unacceptable health risk, or for other reasons.

The results of product development, preclinical studies and clinical studies are submitted to the FDA as part of an NDA for approval of the marketing and commercial shipment of the product. The FDA may deny an NDA if applicable regulatory criteria are not satisfied, or may require additional clinical data. Even if such data is submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Once issued, a product approval may be withdrawn if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. In addition, the FDA may require testing and surveillance programs to monitor the effect of approved products which have been commercialized, and it has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs.

Satisfaction of these FDA requirements, or similar requirements by foreign regulatory agencies, typically takes several years and the time needed to satisfy them may vary substantially, based upon the type, complexity and novelty of the drug product. The effect of government regulation may be to delay or to prevent marketing of potential products for a considerable period of time and to impose costly procedures upon the Company's activities. There can be no assurance that the FDA or any other regulatory agency will grant approval for any products being developed by the Company on a timely basis, or at all. Success in preclinical or early stage clinical trials does not assure success in later stage clinical trials. Data obtained from preclinical and clinical activities are susceptible to varying interpretations which could delay, limit or prevent regulatory approval. If regulatory approval of a product is granted, such approval may impose limitations on the indicated uses for which a product may be marketed. Further, even if regulatory approval is obtained, later discovery of previously unknown problems with a product may result in restrictions on the product, including withdrawal of the product from the market. Delay in obtaining or failure to obtain regulatory approvals would have a material adverse affect on the Company's business. Marketing the Company's products abroad will require similar regulatory approvals and is subject to similar risks. In addition, the Company is unable to predict the extent of adverse government regulations that might arise from future United States or foreign governmental action. See "--Risk Factors--No Assurance of FDA Approval; Comprehensive Government Regulation."

Facilities and manufacturing techniques used for the manufacture of products for clinical use or for sale must be operated in conformity with cGMP regulations, the FDA regulations governing the production of pharmaceutical products. CTI intends to operate its facilities or to arrange for the manufacture of products at facilities which are operated, as required, in accordance with cGMP where necessary.

Before the Company's 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 European 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.

The FDA's policies may change and additional government regulations may be promulgated which could prevent or delay regulatory approval of the Company's potential products. Moreover, increased attention to the containment of health care costs in the United States and in foreign markets could result in new government

regulations which could have a material adverse effect on the Company's business. The Company is unable to predict the likelihood of adverse governmental regulation which might arise from future legislative or administrative action, either in the United States or abroad.

Third Party Reimbursement and Health Care Reform. The commercial success of the Company's products under development will be substantially dependent upon the availability of government or private third-party reimbursement for the use of such products. There can be no assurance that Medicare, Medicaid, health maintenance organizations and other third-party payors will authorize or otherwise budget such reimbursement. Such governmental and third party payors are increasingly challenging the prices charged for medical products and services. If the Company succeeds in bringing one or more products to market, there can be no assurance that such products will be viewed as cost-effective or that reimbursement will be available to consumers or will be sufficient to allow the Company's products to be marketed on a competitive basis. Furthermore, federal and state regulations govern or influence the reimbursement to health care providers of fees and capital equipment costs in connection with medical treatment of certain patients. In response to concerns about the rising costs of advanced medical technologies, the current administration of the federal government has publicly stated its desire to reform health care, including the possibility of price controls and revised reimbursement policies. There can be no assurance that actions taken by the administration, if any, with regard to health care reform will not have a material adverse effect on the Company. If any actions are taken by the administration, such actions could adversely affect the prospects for future sales of the Company's products. Further, to the extent that these or other proposals or reforms have a material adverse effect on the Company's ability to secure funding for its development or on the business, financial condition and profitability of other companies that are prospective collaborators for certain of the Company's product candidates, the Company's ability to develop or commercialize its product candidates may be adversely affected. See "--Risk Factors--Uncertainty of Pharmaceutical Pricing and Reimbursement."

Given recent government initiatives directed at lowering the total cost of health care throughout the United States, it is likely that the United States Congress and state legislatures will continue to focus on health care reform and the cost of prescription pharmaceuticals and on the reform of the Medicare and Medicaid systems. The Company cannot predict the likelihood of passage of federal and state legislation related to health care reform or lowering pharmaceutical costs. In certain foreign markets pricing of prescription pharmaceuticals is already subject to government control. Continued significant changes in the nation's health care system could have a material adverse effect on the Company's business.

Environmental Regulation. In connection with its research and development activities and its manufacturing materials and products, the Company is 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 the Company believes that it has 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 the Company will not be required to incur significant costs to comply with environmental and health and safety regulations in the future. The Company's research and development involves the controlled use of hazardous materials, including but not limited to certain hazardous chemicals and radioactive materials. Although the Company believes that its 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, the Company could be held liable for any damages that result and any such liability could exceed the resources of the Company.

HUMAN RESOURCES

As of June 1, 1996, CTI employed 100 individuals full-time (including 36 holding doctoral or other advanced degrees). In recruiting additional staff members, CTI expects to receive continued input from its consultants and members of its Scientific Advisory Board and Clinical Advisory Board.

CTI's policy is to have each employee and consultant enter into an agreement which contains provisions prohibiting the disclosure of confidential information to anyone outside CTI and requires disclosure to CTI of ideas, developments, discoveries or inventions conceived during employment and assignment to CTI of proprietary rights to such matters related to the business and technology of CTI. The extent to which this policy will effectively protect CTI's proprietary technology and trade secrets is unknown. See "--Patents and Proprietary Rights."

CTI has assembled a Scientific Advisory Board ("SAB") composed of leaders in the fields of immunology, cell and molecular biology, and synthetic and medicinal chemistry, and a Clinical Advisory Board ("CAB") composed of leaders in the fields of hematology, oncology, immunology, cell and molecular biology, critical care and medicinal chemistry. The SAB assists CTI in identifying scientific and product development opportunities, in reviewing with management the progress of CTI's specific projects, and in recruiting and evaluating CTI's scientific staff. The CAB assists CTI in determining clinical regulatory strategy and trial results and identifying optimal indications for CTI's products. Although CTI expects to receive guidance from the members of its SAB and CAB, all of such members are employed on a full-time basis by others and, accordingly, are not likely to devote more than a small portion of their time to CTI. See "Item 5.--Directors and Executive Officers--Scientific Advisory Board," and "Item 5.--Directors and Executive Officers--Clinical Advisory Board."

ITEM 2.FINANCIAL INFORMATION.

SELECTED FINANCIAL DATA

The selected financial data set forth below with respect to the Company's statements of operations for each of the three years in the period ended December 31, 1995, and with respect to the balance sheets at December 31, 1994 and 1995, are derived from the financial statements of the Company included elsewhere in this Registration Statement that have been audited by Ernst & Young LLP, independent auditors, and is qualified by reference to such financial statements and the notes related thereto. The balance sheet data at December 31, 1992 and 1993 and the statement of operations data for the year ended December 31, 1992 are derived from audited financial statements of the Company not included in this Registration Statement. The selected financial data set forth below with respect to the Company's statements of operations for the three months ended March 31, 1995 and 1996 and for the period from September 4, 1991 (date of incorporation) to March 31, 1996, and with respect to the balance sheet data at March 31, 1996, are derived from unaudited financial statements of the Company included elsewhere in this Registration Statement. The unaudited financial data includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial position at such date and the results of operations for these periods. The results of operations for the three months ended March 31, 1996 are not necessarily indicative of the results for any future period or for the full year ending December 31, 1996. The data set forth below should be read in conjunction with "--Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and the notes related thereto included elsewhere in this Registration Statement.

	YEAR ENDED DECEMBER 31, (1)				THREE MONTHS ENDED MARCH 31,		PERIOD FROM SEPTEMBER 4, 1991 (DATE OF INCORPORATION) TO MARCH 31,
	1992	1993	1994	1995	1995	1996	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						

STATEMENTS OF OPERATIONS DATA:							
Revenues:							
Collaboration agreements	$ --	$ --	$ --	$ 100	$ --	$ 3,000	$ 3,100
Operating expenses:							
Research and development	3,926	11,862	14,368	14,211	3,331	3,496	47,863
General and administrative	1,661	4,052	5,283	6,539	1,292	1,862	19,399
Total operating expenses	5,587	15,914	19,651	20,750	4,623	5,358	67,262
Loss from operations	(5,587)	(15,914)	(19,651)	(20,650)	(4,623)	(2,358)	(64,162)
Other income (expense):							
Investment income	292	723	616	1,167	111	300	3,100
Interest expense	(29)	(137)	(464)	(509)	(129)	(136)	(1,276)
Net loss	$ (5,324)	$(15,328)	$(19,499)	$(19,992)	$ (4,641)	$(2,194)	$(62,338)
Net loss per share (2)	$ (0.56)	$ (1.00)	$ (1.18)	$ (1.20)	$ (0.28)	$ (0.13)	
Number of shares used in computation of net loss per share	9,430	15,332	16,507	16,699	16,520	17,268	

	AS OF DECEMBER 31,				AS OF MARCH
	1992	1993	1994	1995	31, 1996
	(IN THOUSANDS)				
BALANCE SHEETS DATA:					
Cash, cash equivalents and securities available-for-sale	$ 28,648	$ 27,452	$ 9,131	$ 21,906	$ 19,403
Working capital	27,563	23,387	4,094	18,342	15,929
Total assets	33,422	35,230	17,278	28,048	25,600
Long-term obligations, less current portion	319	3,635	2,620	2,606	2,396
Deficit accumulated during development stage	(5,324)	(20,652)	(40,151)	(60,119)	(62,330)
Total stockholders' equity	31,851	28,848	10,051	21,858	19,668

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(1) Although the Company was incorporated in 1991, it did not commence operations until February 1992. As a result, there were no financial statements for the Company for 1991.

(2) See Note 1 of Notes to Financial Statements for information concerning the computation of net loss per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Since commencement of operations in 1992, the Company has been engaged in research and development activities, including conducting preclinical studies and clinical trials, and recruiting its scientific and management personnel, establishing laboratory facilities and raising capital. The Company has not received any revenue from the sale of products to date and does not expect to receive revenues from the sale of products for at least the next several years.

As of March 31, 1996, the Company had incurred aggregate net losses of approximately $62.3 million since its inception. The Company expects to continue to incur significant additional operating losses over the next several years as its research, development and clinical trial efforts expand.

Operating losses may fluctuate from quarter to quarter as a result of differences in the timing of expenses incurred and revenues recognized. To date, the Company's operations have been funded primarily from the sale of equity securities, which have raised aggregate net proceeds of approximately $80.8 million.

RESULTS OF OPERATIONS

Quarter ended March 31, 1996 compared with quarter ended March 31, 1995

During the quarter ended March 31, 1996, the Company received a $3.0 million non-refundable signing fee from Schering. The Company's agreement with Schering terminated in April 1996. See "Item 1.--Business--Collaborations." The Company did not have any operating revenue during the quarter ended March 31, 1995.

Research and development expenses increased to approximately $3.5 million for the quarter ended March 31, 1996 from approximately $3.3 million for the quarter ended March 31, 1995. This increase was primarily due to expanded research, development and clinical activities with respect to Lisofylline. The Company expects that research and development expenses will increase significantly in 1996 and future years as the Company expands its research and development programs and undertakes additional clinical trials.

General and administrative expenses increased to approximately $1.9 million for the quarter ended March 31, 1996 from approximately $1.3 million for the quarter ended March 31, 1995. This increase is primarily due to legal costs associated with the Schering arrangement discussed above and to operating expenses associated with supporting the Company's increased research, development and clinical activities. General and administrative expenses are expected to increase to support the Company's expected increase in research, development and clinical trial efforts.

Investment income principally comprises interest income from investment of the Company's cash reserves. Interest expense results primarily from the financing of laboratory and other equipment. Investment income net of interest expense increased to approximately $164,000 for the quarter ended March 31, 1996 from a net interest expense of approximately $(18,000) for the quarter ended March 31, 1995. This increase was primarily associated with interest earnings on a higher average balance of cash reserves between the quarters.

Year ended December 31, 1995 compared with year ended December 31, 1994

Revenue from the BioChem Pharma collaboration totalled $100,000 in 1995, all of which was received in the fourth quarter of 1995. The Company did not have any operating revenue during 1994.

Research and development expenses decreased to approximately $14.2 million in 1995 from approximately $14.4 million in 1994. This decrease was primarily due to a reduction in manufacturing costs associated with Lisofylline. This decrease was partially offset by costs of approximately $1.2 million incurred in connection with the purchase of all the intellectual property of Lipomed Corporation in October 1995, which was accounted for as in-process research and development expense.

General and administrative expenses increased to approximately $6.5 million in 1995 from approximately $5.3 million in 1994. This increase was primarily due to operating expenses associated with supporting the Company's increased research, development and clinical activities, including business development, marketing studies and recruitment of additional personnel.

Investment income net of interest expense increased to approximately $658,000 in 1995 from approximately $152,000 in 1994. This increase was associated with interest earnings on a higher average balance of cash reserves resulting from a private placement of equity securities in 1995.

Year ended December 31, 1994 compared with year ended December 31, 1993

The Company did not have any revenue during 1994 or 1993.

Research and development expenses increased to approximately $14.4 million

in 1994 from approximately $11.9 million in 1993. This increase was primarily due to employment of additional research staff, increased costs related to expanded research activities, and preclinical and manufacturing costs associated with the Company's anti-cancer compound CT-2584. These increased costs were partially offset by a reduction in preclinical and manufacturing costs associated with the production of Lisofylline inventory used for clinical trials.

General and administrative expenses increased to approximately $5.3 million in 1994 from approximately $4.1 million in 1993. This increase was primarily due to hiring additional personnel and to operating expenses associated with supporting the Company's increased research, development and clinical activities.

Investment income net of interest expense decreased to approximately $152,000 in 1994 from approximately $586,000 in 1993. This decrease resulted from a lower average balance of cash reserves during 1994 and increased interest expense incurred during 1994 in connection with a secured note issued in September 1993.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations since inception through the sale of equity securities, long-term obligations and convertible debt. As of March 31, 1996, the Company had raised aggregate net proceeds of approximately $83.8 million from such financing activities, including $30.5 million from the sale of Convertible Preferred Stock in 1995, $49.3 million from the sale of Common Stock in 1992 and 1993, and $850,000 from a bridge loan which was subsequently converted to equity. In addition, the Company financed the purchase of approximately $10.3 million of property and equipment through financing agreements, of which approximately $3.1 million remained outstanding as of March 31, 1996.

The Company's principal sources of liquidity are its cash balances, cash equivalents and securities available-for-sale, which totaled approximately $19.4 million as of March 31, 1996. The Company invests in U.S. government obligations and other highly rated liquid debt instruments.

The Company expects that its capital requirements will increase as the Company expands its research and development programs and undertakes additional clinical trials. In connection with such expansion, the Company expects to incur substantial expenditures for hiring additional management, scientific and administrative personnel, for planned expansion of its facilities, and for the purchase or lease of additional equipment.

The Company does not expect to generate a positive cash flow from operations for several years due to substantial additional research and development costs, including costs related to drug discovery, preclinical testing, clinical trials, manufacturing costs and operating expenses associated with supporting such activities. CTI will require substantial funds to conduct its existing and planned preclinical and clinical trials, to establish manufacturing and marketing capabilities for any products it may develop, and to continue research and

development activities. CTI's current cash and cash equivalents will not be sufficient to fund CTI's operations through the commercialization of its first product. The Company expects that its existing capital resources, together with the interest earned thereon, will enable the Company to maintain its current and planned operations at least through the first quarter of 1997. No assurance can be given that changes will not occur that will consume available capital resources before such time. The Company will need to raise substantial additional capital to fund its operations beyond such time. The Company's future capital requirements will depend on, and could increase as a result of, many factors, including continued scientific progress in its research and development programs, the magnitude of such programs, the progress of preclinical testing and clinical trials, the time and costs involved in obtaining regulatory approvals, the costs involved in preparing, filing, prosecuting, maintaining, enforcing and defending patent claims, competing technological and market developments, the terms of any collaborative arrangements that the Company may enter into, the ability of the Company to establish research, development and commercialization arrangements pertaining to the Company's products, the cost of establishing manufacturing facilities,

the cost of commercialization activities and the demand for the Company's products if and when approved.

The Company intends to raise additional funds through additional equity or debt financings, research and development financings, collaborative relationships, or otherwise. Because of these long-term capital requirements, CTI may seek to access the public or private equity markets whenever conditions are favorable, even if it does not have an immediate need for additional capital at that time. There can be no assurance that additional financing will be available to CTI, or, if available, that it will be on acceptable terms. If additional funds are raised by issuing equity securities, further dilution to stockholders may result. If adequate funds are not available, the Company may be required to delay, reduce the scope of, or eliminate one or more of its research, development and clinical activities or to seek to obtain funds through arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of its technologies, product candidates or products that the Company would otherwise seek to develop or commercialize itself. See "Item 1.--Business--Risk Factors--History and Continuation of Losses; Early Stage of Development," "Item 1.--Business--Risk Factors--Need for Substantial Additional Funds" and "Item 1.--Business--Risk Factors--Dependence on Others; Collaborators."

On April 26, 1996, CTI filed a registration statement on Form S-1 with the Securities and Exchange Commission (the "Commission") in connection with a planned initial public offering (the "Offering") of the Company's Common Stock. Such registration statement has not been declared effective by the Commission, and on June 27, 1996 the Company announced that it was postponing the Offering until further notice.

At March 31, 1996, the Company had net operating loss carryforwards of approximately $59.5 million and research and development credit carryforwards of approximately $1.7 million. These carryforwards begin to expire in 2007. See Note 10 of Notes to Financial Statements.

ITEM 7.CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The Company was organized in September 1991 by Dr. Bianco, Dr. Singer, Mr. Bianco and George J. Todaro, M.D. Dr. Bianco, Dr. Singer, Mr. Bianco and Dr. Todaro purchased 1,038,500 shares, 904,500 shares, 502,500 shares and 904,500 shares of Common Stock, respectively, at $0.01194 per share. In August 1993, the Company repurchased 211,198 shares of Common Stock from Dr. Todaro for $2,522.

In December 1993, CTI loaned Dr. Bianco $200,000 at 5.35% annual interest. The promissory note provides for a single payment of principal and interest on the earlier of July 1, 1997 or the third anniversary of the effective date of the initial underwritten public offering of CTI's Common Stock. The loan is secured by a pledge of shares of Common Stock owned by Dr. Bianco.

CTI has entered into several transactions with D. Blech & Company, Incorporated, and its affiliates (collectively, "Blech & Co."). David Blech, a founder and former director of CTI, was the sole stockholder and Chief Executive Officer of Blech & Co. These transactions include sales agency agreements in connection with two private placements in which Blech & Co. served as a sales agent. Pursuant to such agreements, Blech & Co. received selling commissions of $2,309,863, warrants exercisable for five years to purchase 617,437 shares of Common Stock and reimbursement for certain expenses and legal fees. On December 29, 1994, Blech & Co. sold 350,712 of such warrants to a third party, which warrants were subsequently exchanged for 140,285 shares of Common Stock in connection with CTI's warrant exchange offer. See "Description of Capital Stock--Warrants." CTI also entered into a loan agreement pursuant to which Mr. Blech agreed to provide CTI with a line of credit. The outstanding balance under such line of credit was converted into 175,184 shares of Common Stock at a price of $5.00 per share in August 1992.

In February 1992, The Edward Blech Trust, of which Mr. Blech's minor son is the sole beneficiary, purchased 2,700,000 shares of CTI's Common Stock at a price of $.01194 per share. Mr. Blech disclaims beneficial ownership of the shares held by this trust. In October 1993, two charitable remainder trusts of which Mr. Blech is a beneficiary purchased two units as part of a private placement at a price of $225,000 per unit. Each unit consisted of 25,000

shares of CTI's Common Stock and warrants to purchase 12,500 shares at a price of $11.00 per share. In January 1995, The Edward Blech Trust transferred 2,700,000 shares of Common Stock to Biotechnology Investment Group, L.L.C. ("BIG"), a Delaware limited liability company managed by Collinson Howe Venture Partners ("CHVP"). See "Item 4.--Security Ownership of Certain Beneficial Owners and Management."

On September 22, 1994, Blech & Co. suspended operations because of noncompliance with the Securities and Exchange Commission's net capital requirements for broker-dealers. Mr. Blech is not currently a director or officer of CTI, and neither Mr. Blech nor Blech & Co. has any contractual relationship with CTI other than as a stockholder.

CTI entered into a consulting agreement with David H. Smith, M.D. on February 18, 1992. Pursuant to the agreement, Dr. Smith agreed to serve as Chairman of the Board of Directors for two consecutive one-year terms, if elected. In June 1994, CTI and Dr. Smith agreed to extend the consulting agreement until such time as either party may choose to terminate it on 30 days' written notice. This agreement was terminated upon Dr. Smith's resignation from the Board of Directors on January 1, 1996. The agreement also provided for Dr. Smith to provide CTI with advisory services beyond his duties as chairman. Dr. Smith did not receive any compensation for his agreement to serve as a consultant. CTI entered into a stock subscription agreement with Dr. Smith in February 1992 pursuant to which Dr. Smith purchased 400,000 shares of Common Stock at a price of $.01194 per share. Pursuant to the subscription agreement, CTI issued to Dr. Smith, on August 11, 1992, five-year warrants to purchase 200,000 additional shares of Common Stock at $5.00 per share with the same registration rights as were granted to the sales agents in connection with the 1992 Private Placement. Dr. Smith exchanged such warrants for 80,000 shares of Common Stock in connection with CTI's warrant exchange offer. See "Item 11.--Description of Registrant's Securities to be Registered--Warrants." In April 1992, Dr. Smith purchased 625,000 shares of CTI's Common Stock at a price of $3.20 per share. In October 1993, Dr. Smith purchased

50,000 shares of Common Stock at $9.00 per share and warrants to purchase 25,000 shares of Common Stock at $11.00 per share. In March 1995, Dr. Smith purchased 4,477.6122 shares of Convertible Preferred Stock, for an aggregate purchase price of $1,500,000, in the Company's 1995 Private Placement.

In March 1995, an affiliate of Mr. Curnock Cook and Rothschild Asset Management Limited purchased 22,388,061 shares of Convertible Preferred Stock, for an aggregate purchase price of $7,500,000, in the Company's 1995 Private Placement. The holders of the outstanding shares of Convertible Preferred Stock voting as a separate class are entitled to elect one Director to the Board of Directors. At the 1996 Annual Meeting of Stockholders Mr. Curnock Cook was elected as a Director by the holders of the outstanding shares of Convertible Preferred Stock voting as a separate class.

In March 1995, Kummell Investments Limited ("Kummell") purchased 14,925.374 shares of Convertible Preferred Stock, for an aggregate purchase price of $5,000,000, in the 1995 Private Placement. In June 1995, Kummell purchased an additional 12,686.5672 shares of Convertible Preferred Stock for an aggregate purchase price of $4,250,000. In connection with the June 1995 transaction, the Company agreed that it would take all necessary action to nominate a designee of Kummell to serve as a Director until the 1996 Annual Meeting of Stockholders. In July 1995, the Company nominated Mr. Morris, as a designee of Kummell, to the Board of Directors to serve until the 1996 Annual Meeting of Stockholders. Mr. Morris is the Chief Executive Officer of Morningside Ventures, which coordinates and manages a private venture capital portfolio for Kummell.

In May 1994, CTI entered into an employment agreement with Dr. Schwarz. The agreement provides that in connection with his relocation, Dr. Schwarz be reimbursed for capital loss on the sale of his former residence in the form of a forgivable loan in an amount not to exceed $150,000. The loan shall be forgiven in three annual installments, subject to Dr. Schwarz's continued employment with CTI, with any unforgiven portion becoming immediately due and payable within six months of any termination of Dr. Schwarz's employment. See "Item 6.--Executive Compensation--Employment Agreements."

In December 1995, Dr. Link purchased 20,000 shares of Common Stock for an

aggregate purchase price of $67,000.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereto duly authorized.

Cell Therapeutics, Inc.

Dated: June 27, 1996

/s/ James A. Bianco, M.D.

By: _____

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