SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10/A

(AMENDMENT NO. 1)
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.

The Company is presently engaged in discussions with potential collaborators regarding the development, manufacturing and commercialization of Lisofylline, CT-2584 and other products under development, and expects to engage in similar discussions with potential collaborators from time to time in the future. 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 4,829,820 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 17.63% 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.

The Company is presently engaged in discussions with potential collaborators regarding the development, manufacturing and commercialization of Lisofylline, CT-2584 and other products under development, and expects to engage in similar discussions with potential collaborators from time to time in the future. 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 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 3.PROPERTIES.

CTI leases approximately 57,500 square feet of space at 201 Elliott Avenue West in Seattle, Washington for its executive office, laboratory and administrative operations. The lease expires January 31, 2003, with two consecutive five-year renewal options at the then prevailing market rent. The average monthly expense for both the remainder of the first five years and through to the expiration of the initial lease term is approximately $75,000 plus a pro rata share of service and utility costs and real property tax increases.

ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information regarding beneficial ownership of Common Stock, as of June 1, 1996 (including Common Stock issuable upon conversion of all outstanding shares of Convertible Preferred Stock at June 1, 1996), by (i) each stockholder known by the Company to be the beneficial owner of more than 5% of its outstanding shares of Common Stock, (ii) each of the Company's Directors and the Named Executive Officers, and (iii) all Directors and executive officers as a group:

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED (1)	PERCENTAGE OF SHARES BENEFICIALLY OWNED (1)
Collinson Howe Venture Partners (2)..... 1055 Washington Boulevard Stamford, CT 06901	3,308,433	12.30%
Biotechnology Investment Group, L.L.C. (3)..... c/o Collinson Howe Venture Partners 1055 Washington Boulevard Stamford, CT 06901	2,849,254	10.61%
Kummell Investments Limited(4) c/o Morningside Group 1188 Centre Street Newton Center, MA 02159	2,845,748	10.60%
The International Biotechnology Trust plc (5) c/o Rothschild Asset Management Limited Five Arrows House St. Swithen's Lane London, England EC4N 8NR	2,238,806	8.34%
David H. Smith, M.D. (6)..... c/o David Hamilton Smith Investments, Inc. 599 Lexington Avenue New York, NY 10022	1,653,493	6.16%
James A. Bianco, M.D.** (7)..	1,165,642	4.31%
Jack L. Bowman** (8).....	16,667	*
Jeremy L. Curnock Cook** (9).	2,248,806	8.37%
Wilfred E. Jaeger, M.D.**(10)	10,677	*
Max E. Link, Ph.D.**.....	30,000	*
David W. Martin** (11).....	10,000	*
Terrence M. Morris** (12)....	10,000	*
Phillip M. Nudelman, Ph.D.** (13).....	14,667	*
Jack W. Singer, M.D.** (14)..	747,471	2.78%
Louis A. Bianco (15).....	488,293	1.81%
Susan O. Moore (16).....	33,167	*
Maurice J. Schwarz, Ph.D.(17)	40,000	*
All Directors and Executive Officers as a group (14 persons) (18).....	4,829,820	17.63%

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* Less than 1%

** Denotes Director of the Company

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of June 1, 1996, are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned.

(2) Collinson Howe Venture Partners ("CHVP") is a venture capital investment management firm which is the managing member of Biotechnology Investment Group, L.L.C., a Delaware limited liability company ("BIG"), and is the investment advisor to Schroder Ventures Limited Partnership ("SVLP"),

Schroder Ventures U.S. Trust ("SVUST") and Schroders Incorporated ("SI"). As such, CHVP has or shares voting and investment power with respect to the shares held by BIG, SVLP, SVUST and SI and may be deemed to be the beneficial owner of such shares. The shares listed above consist of (i) 2,849,254 shares of Common Stock (including 149,254 shares of Common Stock issuable upon conversion of 1,492.5374 shares of Convertible Preferred Stock) held by BIG, 231,642 shares of Common Stock (including 71,642 shares of Common Stock issuable upon conversion of 716.418 shares of Convertible Preferred Stock) held by SVLP, 57,910 shares of Common Stock (including 17,910 shares of Common Stock issuable upon conversion of 179.1045 shares of Convertible Preferred Stock) held by SVUST and 124,627 shares of Common Stock (including 74,627 shares of Common Stock issuable upon conversion of 746.2687 shares of Convertible Preferred Stock) held by SI, and (ii) an additional 28,800, 7,200 and 9,000 shares of Common Stock issuable upon exercise of options beneficially owned by SVLP, SVUST and SI, respectively, pursuant to an agreement with Dr. Jaeger. See footnotes (3) and (10) below.

(3) BIG is a limited liability company which was created to acquire, hold, protect, manage and dispose of equity, debt and derivative securities of biotechnology and other companies. 2,700,000 of the shares of Common Stock held by BIG were acquired in January 1995 from The Edward Blech Trust ("EBT"). The sole beneficiary of EBT is the minor child of David Blech, a founder, former director and stockholder of the Company. See "Item 7.--Certain Relationships and Related Transactions." The present members of BIG are (i) the managing member, CHVP, an investment management firm of which Jeffrey J. Collinson is President, sole director and majority stockholder, (ii) EBT, and (iii) Wilmington Trust Company ("WTC"), as voting trustee under a voting trust agreement (the "Voting Trust Agreement") among WTC, BIG and BIO Holdings L.L.C. ("Holdings"). The managing member of BIG is CHVP. The members of BIG share voting and investment power with respect to all shares held of record by BIG. All of the shares held of record by BIG have been pledged as collateral to Citibank, N.A. ("Citibank") to secure indebtedness owed to such bank. Each of Citibank and Holdings has the right pursuant to the Voting Trust Agreement to direct certain actions of WTC as a member of BIG. WTC, as the member holding a majority interest in Holdings, has the right to direct the actions of Holdings under the Voting Trust Agreement. Citibank, pursuant to a separate voting trust agreement among WTC, David Blech and Holdings, has the right to direct the actions of WTC as a member of Holdings with respect to the rights of Holdings under the Voting Trust Agreement. By virtue of their status as members of BIG, each of CHVP and EBT may be deemed to be the beneficial owner of all shares held of record by BIG. By virtue of his status as the majority owner and controlling person of CHVP, Jeffrey J. Collinson may also be deemed the beneficial owner of all shares held of record by BIG. Each of CHVP, EBT and Mr. Collinson disclaims beneficial ownership of shares held by BIG except to the extent of such person's proportionate interest therein.

(4) Includes 2,761,194 shares of Common Stock issuable upon conversion of 27,611.9412 shares of Convertible Preferred Stock.

(5) Consists of 2,238,806 shares of Common Stock issuable upon conversion of 22,388.061 shares of Convertible Preferred Stock beneficially owned by The International Biotechnology Trust plc, a company formed under the laws of England ("IBT") managed by Rothschild Asset Management Limited ("Rothschild"). Rothschild has or shares voting and investment power with respect to the shares held by IBT and may be deemed to be the beneficial owner of such shares. Mr. Curnock Cook is a director of IBT and Rothschild, and may be deemed to be the beneficial owner of any shares beneficially owned by each

of IBT and Rothschild. Mr. Curnock Cook disclaims beneficial ownership of shares beneficially owned by IBT and Rothschild except to the extent of his proportionate interest therein. See footnote (9) below.

(6) Includes 447,761 shares of Common Stock issuable upon conversion of 4,477.6122 shares of Convertible Preferred Stock. Dr. Smith is a founder of CTI and served as Chairman of the Board of Directors from April 1992 until his resignation on January 1, 1996.

(7) Includes 207,842 shares issuable upon exercise of options that are currently exercisable or exercisable within 60 days of June 1, 1996. Does not include 275,000 shares issuable upon exercise of options not yet vested. Such options vest in equal installments on December 5, 1996, 1997 and 1998.

(8) Consists of 16,667 shares issuable upon exercise of options that are currently exercisable or exercisable within 60 days of June 1, 1996. Does not include 13,333 shares issuable upon exercise of options not yet vested. Such options vest in equal installments on May 22, 1997 and 1998.

(9) Includes 2,238,806 shares of Common Stock beneficially owned by IBT. IBT is managed by Rothschild and Rothschild has or shares voting and investment power with respect to the shares held by IBT and may be deemed to be the beneficial owner of such shares. Mr. Curnock Cook is a director of IBT and Rothschild, and may be deemed to be the beneficial owner of any shares beneficially owned by each of IBT and Rothschild. Mr. Curnock Cook disclaims beneficial ownership of shares beneficially owned by IBT and Rothschild except to the extent of his proportionate interest therein. Also includes an immediately exercisable option to purchase 10,000 shares of Common Stock. See footnote (5) above and "Item 7.--Certain Relationships and Related Transactions."

(10) Consists of 10,667 shares issuable upon exercise of options that are currently exercisable or exercisable within 60 days of June 1, 1996. Does not include 5.333 shares issuable upon exercise of options not yet vested. Such options vest on February 9, 1997. Also does not include 45,000 shares issuable upon exercise of options beneficially owned by affiliates of CHVP pursuant to an agreement with Dr. Jaeger. Dr. Jaeger, a director of the Company, is a former partner at CHVP. Dr. Jaeger disclaims beneficial ownership of shares of Common Stock (including shares of Common Stock issuable upon conversion of shares of Convertible Preferred Stock) beneficially owned by affiliates of CHVP. See footnote (2) above.

(11) Consists of an immediately exercisable option to purchase 10,000 shares of Common Stock.

(12) Consists of an immediately exercisable option to purchase 10,000 shares of Common Stock.

(13) Consists of 14,667 shares issuable upon exercise of options that are currently exercisable or exercisable within 60 days of June 1, 1996. Does not include 13,333 shares issuable upon exercise of options not yet vested. Such options vest in equal installments on May 22, 1997 and 1998.

(14) Includes 48,351 shares issuable upon exercise of options that are currently exercisable or exercisable within 60 days of June 1, 1996. Does not include 25,000 shares issuable upon exercise of options not yet vested. Such options vest in equal installments on December 5, 1996, 1997 and 1998.

(15) Includes 129,509 shares issuable upon exercise of options that are currently exercisable or exercisable within 60 days of June 1, 1996. Does not include 63,333 shares issuable upon exercise of options not yet vested. 3,333 of such options vest on December 20, 1996; and 60,000 of such options vest in equal installments on December 5, 1996, 1997 and 1998.

(16) Consists of 33,167 shares issuable upon exercise of options that are currently exercisable or exercisable within 60 days of June 1, 1996. Does not include 71,333 shares issuable upon exercise of options not yet vested. 1,333 of such options vest on December 20, 1996, and 70,000 of such options vest in equal installments on December 5, 1996, 1997 and 1998.

(17) Consists of 40,000 shares issuable upon exercise of options that are currently exercisable or exercisable within 60 days of June 1, 1996. Does not include 60,000 shares issuable upon exercise of options not yet vested. 20,000 of such options vest on June 1, 1997; and 40,000 of such options vest in equal installments on December 5, 1996, 1997 and 1998.

(18) Includes an aggregate of 545,310 shares of Common Stock issuable upon exercise of options that are currently exercisable or exercisable within 60 days of June 1, 1996. See footnotes (7) through (17).

ITEM 5.DIRECTORS AND EXECUTIVE OFFICERS.

The directors and executive officers of CTI and their ages as of June 1, 1996 are as follows:

NAME	AGE	POSITION
Max E. Link, Ph.D.(1)	55	Chairman of the Board of Directors and Director
James A. Bianco, M.D.(1)	39	President, Chief Executive Officer and Director
Jack W. Singer, M.D.	53	Executive Vice President, Research Program Chairman and Director
Louis A. Bianco	43	Executive Vice President, Finance and Administration
Maurice J. Schwarz, Ph.D.	56	Executive Vice President, Product Development
Robert A. Lewis, M.D.	51	Executive Vice President, Chief Scientific Officer
Susan O. Moore	47	Executive Vice President, Human Resource Development
Dalton Weekley	54	Managing Director, Project Planning and Controls
Jack L. Bowman(2)	63	Director
Jeremy L. Curnock Cook(1)(2)	46	Director
Wilfred E. Jaeger, M.D.(2)(3)	40	Director
David W. Martin, Jr., M.D.	55	Director
Terrence M. Morris(2)(3)	49	Director
Phillip M. Nudelman, Ph.D.(1)(3)	60	Director

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(1) Member of the Executive Committee.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.

The Board of Directors of CTI is divided into three approximately equal classes of Directors serving staggered three-year terms and until their successors are elected and qualified. As a result, approximately one-third of the total number of Directors will be elected every year. The current terms of Drs. Bianco, Singer and Jaeger expire in 1997, the current terms of Dr. Nudelman and Mr. Bowman expire in 1998, the current term of Mr. Curnock Cook expires in 1998 or, if earlier, the first annual meeting following the conversion of the Convertible Preferred Stock in accordance with its terms, and the current terms of Drs. Link and Martin and Mr. Morris expire in 1999. Executive Officers of CTI serve at the discretion of the Board of Directors. Under CTI's Bylaws, the number of Directors constituting the entire Board of Directors may be decreased or increased by majority action of either the Board of Directors or the stockholders, but no decrease in the number of directors may have the effect of shortening the term of any incumbent Director. Currently, the Board of Directors has fixed the number of Directors at nine. James A. Bianco and Louis A. Bianco are brothers. Mr. Curnock Cook was elected as a Director by the holders of the Convertible Preferred Stock, who are entitled to vote as a separate class to elect one Director to the Board of Directors. See "Item 7.--Certain Relationships and Related Transactions."

MAX E. LINK, PH.D. Dr. Link joined the Board of Directors in July 1995 as its Vice Chairman and has served as Chairman of the Board of Directors since January 1, 1996. In addition, Dr. Link has held a number of executive positions with pharmaceutical and healthcare companies. Most recently, he served as Chief Executive Officer of Corange, Limited, from May 1993 until June 1994. Prior to joining Corange, Limited, Dr. Link served in a number of positions within Sandoz Pharma Ltd., including Chief Executive Officer, from 1990 until April 1992, and Chairman, from April 1992 until May 1993. Dr. Link currently serves on the boards of directors of ACCESS Pharmaceuticals, Inc., Alexion Pharmaceuticals, Inc., Human Genome Sciences, Inc., Procept, Inc. and Protein Design Labs, Inc. Dr. Link received his Ph.D. in Economics from the University of St. Gallen.

JAMES A. BIANCO, M.D. Dr. Bianco is the principal founder of CTI and has been CTI's President and Chief Executive Officer since February 1992 and a

Director of CTI since the Company's inception in September 1991. Prior to joining CTI, Dr. Bianco was an Assistant Professor of Medicine at the University of Washington, Seattle, and an Assistant Member in the clinical research division of the Fred Hutchinson Cancer Research Center ("FHCRC"), the world's largest bone marrow transplant center. From 1990 to 1992, Dr. Bianco was the director of the Bone Marrow Transplant Program at the Veterans Administration Medical Center in Seattle. Dr. Bianco received his B.S. degree in Biology and Physics from New York University and his M.D. from Mount Sinai School of Medicine.

JACK W. SINGER, M.D. Dr. Singer is a founder and Director of the Company and currently serves as Executive Vice President, Research Program Chairman. He has been a Director of CTI since the Company's inception in September 1991. From April 1992 to July 1995, Dr. Singer was CTI's Executive Vice President, Research and Development. Prior to joining the Company, Dr. Singer was Professor of Medicine at the University of Washington and full Member of the FHCRC. From 1975 to 1992, he was the Chief of Medical Oncology at the Veterans Administration Medical Center in Seattle. In addition, from 1978 to 1992, he served as director for the National Transplant Board for the Veterans Administration. Dr. Singer has authored approximately 220 scientific publications in the areas of cell biology, hematopoiesis and BMT. Prior to joining the Company, he headed the Growth Factor Research Program at the FHCRC. Dr. Singer received his B.A. degree in Mathematics from Columbia College and his M.D. from State University of New York, Downstate Medical College. His clinical training was performed at the University of Chicago and at the University of Washington.

LOUIS A. BIANCO. Mr. Bianco is a founder of the Company and has been the Company's Executive Vice President, Finance and Administration since February 1, 1992, and a Director of the Company from its inception in September 1991 to April 1992 and from April 1993 to April 1995. From January 1989 through January 1992, Mr. Bianco was a Vice President at Deutsche Bank Capital Corporation in charge of risk management. Mr. Bianco is a Certified Public Accountant and received an M.B.A. from New York University.

MAURICE J. SCHWARZ, PH.D. Dr. Schwarz has been the Company's Executive Vice President, Product Development since May 1994. Dr. Schwarz held a variety of product development positions at Ciba-Geigy for 26 years prior to joining CTI, most recently as Vice President of Pharmaceutical and Analytical Development and Chairman of the Development Operations Board at Ciba-Geigy Pharmaceuticals Division.

ROBERT A. LEWIS, M.D. Dr. Lewis has been the Company's Executive Vice President, Chief Scientific Officer since April 1, 1996. Prior to joining CTI, from September 1994 to May 1995 he was Senior Vice President and Director, Preclinical Research and Development at Syntex-Roche. From February 1992 to September 1994 he was President, Discovery Research at Syntex. From February 1986 to February 1992, he held various Senior and Executive Vice Presidential offices at Syntex. While at Syntex, he held associate professorships at Stanford University and at the University of California, San Francisco, where he also held an adjunct professorship from 1992 to 1994. Prior to joining Syntex, Dr. Lewis was Associate Professor of Medicine at Harvard Medical School. Dr. Lewis received his M.D. from the University of Rochester and B.S. degree in chemistry from Yale University.

SUSAN O. MOORE. Ms. Moore has been CTI's Executive Vice President, Human Resource Development since July 1995. From March 1993 to July 1995, Ms. Moore was CTI's Vice President of Human Resources. Prior to joining CTI, Ms. Moore was self-employed as a compensation consultant. From 1991 to December 1992, Ms. Moore was the Director of Human Resources of ICOS Corporation, a biotechnology company. Prior to 1991, she was employed by Digital Equipment Corporation as a human resources program manager for software engineering worldwide.

DALTON WEEKLEY. Mr. Weekley has been the Company's Managing Director, Project Planning and Controls since July 1995. From April 1994 to July 1995, Mr. Weekley was CTI's Director of Planning Support Services. Prior to joining CTI, he was an Executive Director/Senior Consultant of Milestone Computing, Inc., a management consulting firm.

JACK L. BOWMAN. Mr. Bowman has been a Director of CTI since April 1995. From 1987 until January 1994, Mr. Bowman was a company group chairman at Johnson &

Johnson, having primary responsibility for a group of companies in the diagnostic, blood glucose monitoring and pharmaceutical businesses. From 1980 to 1987, Mr. Bowman held various positions at American Cyanamid Company, most recently as Executive Vice President. Mr. Bowman was a member of the Board of Trustees of The Johns Hopkins University and serves on the Board of Directors of NeoRx Corporation, CytRx Corporation, PharmaGenics, Inc. and Coating Technologies International.

JEREMY L. CURNOCK COOK. Mr. Curnock Cook has been a Director of CTI since March 1995. He has been Head of the Rothschild Bioscience Unit and a director of Rothschild Asset Management Limited since 1987. He is a director of several British companies, including The International Biotechnology Trust, plc, Biocompatibles International, plc, Therexsys, Ltd. and Vanguard Medica Group, plc. He also serves on the Boards of Directors of Creative Biomolecules, Inc., Targeted Genetics, Corp. and Ribozyme, Inc. in the United States.

WILFRED E. JAEGER, M.D. Dr. Jaeger has been a Director of CTI since September 1992. He is a founding general partner of Three Arch Partners, a venture capital firm which focuses on health care investments. Prior to joining Three Arch Partners in 1993, he was a partner at Schroder Venture Advisers (presently named Collinson Howe Venture Partners) and The Phoenix Partners. Dr. Jaeger received his M.D. from the University of British Columbia in Vancouver, B.C., Canada, in 1981. He practiced medicine for six years before earning an M.B.A. from Stanford University. Dr. Jaeger is also a director of Transitional Care of America.

DAVID W. MARTIN, JR., M.D. Dr. Martin has been a Director of CTI since July 1995. From January 1994 to April 1995, he was President of Chiron Therapeutics and a Senior Vice President of Chiron Corporation. From 1991 through 1993, he was an Executive Vice President of the DuPont Merck Pharmaceutical Company. From 1982 to 1990, Dr. Martin held various positions at Genentech, Inc., most recently as Senior Vice President Research and Development. He is currently President, Chief Executive Officer and a director of Lynx Therapeutics, Inc. and is also a director of Varian Associates, Inc.

TERRENCE M. MORRIS. Mr. Morris has been a Director of CTI since July 1995. He is the Chief Executive Officer of Morningside Ventures, which coordinates and manages a private venture capital portfolio for Kummell Investments Limited, an international investment concern based in Hong Kong. Mr. Morris has served as Chief Executive Officer of Morningside Ventures since 1991. His previous positions include product line manager at Baxter Healthcare, and strategy consultant with the Boston Consulting Group. Mr. Morris is a director of several privately held companies.

PHILLIP M. NUDELMAN, PH.D. Dr. Nudelman has been a Director of CTI since March 1994. He is the President and Chief Executive Officer of Group Health Cooperative of Puget Sound, a health maintenance organization. Dr. Nudelman has served as Chief Executive Officer and President of Group Health Cooperative since 1990. Dr. Nudelman received his B.S. degree in Microbiology, Zoology and Pharmacy from the University of Washington, and holds an M.B.A. and a Ph.D. in Health Systems Management from Pacific Western University. Dr. Nudelman is a member of the American Hospital Association House of Delegates, Regional Policy Board, and chairs the Governing Counsel for Health Care Systems. Dr. Nudelman serves on the Boards of Directors of Advanced Technology Laboratories, Inc., SpaceLabs Medical, Inc. and Cytran Ltd.

SCIENTIFIC ADVISORY BOARD

CTI has a Scientific Advisory Board and plans to make arrangements from time to time with other scientists to work with CTI's management and the Scientific Advisory Board. The Scientific Advisory Board is chaired by Dr. Michael R. Hanley. Scientific Advisory Board members are expected to meet as a board with management and key scientific employees of CTI on a semi-annual basis and in smaller groups or individually from time to time on an informal basis. The Scientific Advisory Board members assist 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. Members of CTI's Scientific Advisory Board are leaders in the fields of immunology, cell and molecular biology, and synthetic and medicinal chemistry.

Current Members of CTI's Scientific Advisory Board include:

MICHAEL R. HANLEY, PH.D. Dr. Hanley is the Chairman of CTI's Scientific Advisory Board. He is a Professor, Department of Biological Chemistry, at the University of California, Davis School of Medicine. He is a noted authority in cell communication processes and proto-oncogenes, as well as an expert in phosopholipid signaling mechanisms in the central nervous system focusing on regulation of neurotransmitter receptors. Dr. Hanley has authored over 80 manuscripts and has served as an editorial member for several journals, including Molecular and Cellular Neurobiology and Nature.

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

WOUTER H. MOOLENAAR, PH.D. Dr. Moolenaar is the Head of the Division of Cellular Biochemistry at the Netherlands Cancer Institute. He is an expert in phospholipid signal transduction, focusing on their role in responses to growth factors and in cell differentiation. He has authored over 60 manuscripts and several chapters pertaining to the role of phosphatidic acid in cell signaling.

KLAUS RESCH, M.D. Dr. Resch is a noted authority in membrane phospholipid biochemistry, their role in immune system activation and inflammation. He is a Professor and the Head of the Institute for Molecular Pharmacology of the Hanover Medical School, Medizinische Hochschule Hannover, and a former Vice President of the German Society for Pharmacology and Toxicology. He has authored over 250 scientific publications.

BRUCE BEUTLER, M.D. Dr. Beutler is an Associate Professor of Medicine at the University of Texas Southwestern Medical Center and an Associate Investigator at the Howard Hughes Medical Institute. He is internationally recognized for his work on Tumor Necrosis Factor ("TNF") and has authored over 95 manuscripts, reviews and books on TNF, its characterization, signaling, mechanisms of action and activity in a variety of preclinical and clinical settings. Dr. Beutler serves as the President of the International Congress on TNF and Related Cytokines and Consulting editor for Journal of Clinical Investigation.

IRWIN M. ARIAS, M.D. Dr. Arias is a Professor and Chairman of the Department of Physiology at Tufts University School of Medicine. He is a noted authority in the physiology of multi-drug resistance (mdr) proteins. He is the recipient of numerous awards and honors.

CTI has entered into consulting agreements with each of Drs. Hanley, Krebs, Moolenaar, Resch, Beutler and Arias. These agreements generally have a three-year term and may be terminated by either party upon 30 days' written notice. These agreements also generally restrict the consultant from competing with CTI during the term of the agreement. These agreements contain provisions prohibiting the disclosure of confidential information to anyone outside of CTI and require disclosure to CTI of ideas, developments, discoveries or inventions conceived during consulting and assignment to CTI of proprietary rights to such matters related to the business and technology of CTI. Each consultant is required to serve on CTI's Scientific Advisory Board and provide such other consulting services as CTI may reasonably request. Each Scientific Advisory Board member is paid an annual fee and is granted an option to purchase Common Stock.

CLINICAL ADVISORY BOARD

CTI has a Clinical Advisory Board which meets with CTI's management and the Scientific Advisory Board not less than three times per year and in smaller groups or individually from time to time on an informal basis. The Clinical Advisory Board members assist CTI in determining its clinical regulatory strategy and trial results and identifying optimal indications for its products. Members of CTI's Clinical Advisory Board are leaders in the fields of hematology, oncology, immunology, cell and molecular biology, critical care and medicinal chemistry.

Current members of CTI's Clinical Advisory Board include:

E. DONNALL THOMAS, M.D. Dr. Thomas is the Chairman of CTI's Clinical Advisory Board. He is the former Associate Director of Clinical Research and presently a Professor Emeritus at the FHCRC. Dr. Thomas was a founding Member of the FHCRC. His research has spanned a wide array of fields from radiation biology to developmental immunology, and from cancer causing genes to gene transfer therapies. Dr. Thomas is often referred to as the "father" of BMT. For his pioneering work in BMT, Dr. Thomas was awarded the Nobel Prize for Medicine in 1990. His work demonstrated the feasibility and clinical effectiveness of marrow transplant therapy, and he has contributed to the training of a significant majority of the physicians now performing transplants worldwide. Among the other honors awarded to Dr. Thomas in recognition of his outstanding medical research are the American Cancer Society Award for Distinguished Service in Basic Research and the Kettering Prize of the General Motors Cancer Research Foundation. Dr. Thomas received his medical degree from Harvard Medical School and is currently Professor of Medicine at the University of Washington School of Medicine. He is a member of the U.S. National Academy of Sciences.

FREDERICK APPELBAUM, M.D. Dr. Appelbaum is the Director of Clinical Research and Senior Vice President of the FHCRC. He is a recognized authority in the treatment of patients with leukemia and lymphoma. He serves on several editorial boards and national committees, including the FDA Advisory Committee on Biologics; is Chairman of the Southwest Oncology Group Leukemia Committee; and serves on the Board of Directors of the American Society for Blood and Marrow Transplantation. He has authored more than 450 manuscripts.

THOMAS E. STARZL, M.D., PH.D. Dr. Starzl is the Director of the Transplantation Institute of the University of Pittsburgh. He is a noted expert in the field of immunology and solid organ transplantation. He is the recipient of numerous awards and was founding President of several prestigious societies, including the American Society of Transplant Surgeons. He has authored approximately 1,400 manuscripts and more than 160 book chapters.

THOMAS A. RAFFIN, M.D. Dr. Raffin is the Chief of the Division of Pulmonary and Critical Care Medicine of the Stanford University Medical Center. He is a recognized authority on mechanisms of ALI, MOF and SIRS among critically ill patients. He serves on numerous editorial boards and societies, including the Editorial Board of Chest and Critical Care Medicine, the American Thoracic Society and the Society of Critical Care Medicine. He has authored more than 175 manuscripts and 60 chapters.

O. MICHAEL COLVIN, M.D. Dr. Colvin is the Director of the Duke Comprehensive Cancer Center at Duke University Medical Center. Dr. Colvin is an expert in therapeutic drug modeling and rational drug design. His work led to the discovery of several chemotherapeutic agents. He was previously Chief of the Division of Pharmacology and Experimental Therapeutics at The Johns Hopkins Oncology Center. He has authored over 100 manuscripts.

WILLIAM P. PETERS, M.D., PH.D. Dr. Peters is a Director of the Meyer L. Prentis Comprehensive Cancer Center of Metropolitan Detroit and the President and Chief Executive Officer of the Karmanos Cancer Institute. He is a recognized leader in the use of dose-intensive chemotherapy regimens with peripheral blood stem cell support as a cost-effective approach to the treatment of cancer. He has published extensively and is the recipient of many honors and awards, among them the American Cancer Society Clinical Fellowship Award and the R. Wayne Rundles Award for Excellence in Cancer Research.

KAREN H. ANTMAN, M.D. Dr. Antman is the Chief of the Division of Medical Oncology, College of Physicians & Surgeons of Columbia University. Dr. Antman is an expert in emerging treatment strategies for solid tumors, notably breast cancer. From 1994 to 1995 she served as President of the American Society of Clinical Oncology (ASCO). From 1993 to 1994 she was program committee chair of the American Association for Cancer Research (AACR). She is on the editorial board of several prestigious journals, including Associate Editor of The New England Journal of Medicine. She has authored over 100 manuscripts and textbooks.

MERLE A. SANDE, M.D. Dr. Sande is the Chief of Medical Services at San Francisco General Hospital and Vice Chairman of Medicine at the University of California, San Francisco. He is a noted authority in infectious disease and

serves on the editorial boards of several journals, including Journal of Infectious Disease and Infection and Immunity. He is a member of the AIDS Task Force and is the Chairman of the AIDS Subcommittee of the Infectious Disease Society of America.

JOHN E. REPINE, M.D. Dr. Repine is the Director of the Webb-Waring Institute for Biomedical Research and a Professor of Medicine at the School of Medicine, University of Colorado Health Sciences Center. He is a recognized expert on oxygen free radical tissue damage, inflammation, and lung injury. He is the recipient of numerous awards and honors and is a scientific reviewer for several journals, including Science and The New England Journal of Medicine. He has authored over 140 manuscripts and 30 scientific chapters.

H. FRANKLIN BUNN, M.D. Dr. Bunn is the Director of the Hematology Division of the Brigham and Women's Hospital and Professor of Medicine at Harvard Medical School. His research interest focuses on blood cell production and regulation. He is the recipient of numerous awards and honors and is Chairman of the Advisory Committee of the American Society of Hematology.

MARK GROUDINE, M.D., PH.D. Dr. Groudine is a member in the Division of Basic Sciences and Program Head for Molecular Medicine, FHCRC, and Professor of Radiation Oncology, University of Washington School of Medicine. He is a noted authority on molecular regulation of cancer cell growth. Dr. Groudine has authored over 80 manuscripts and is the recipient of several awards for major contributions in the fields of Hematology and Oncology.

MILO GIBALDI, PH.D. Dr. Gibaldi is the Gibaldi Endowed Professor of Pharmaceutics of the School of Pharmacy at the University of Washington, with past faculty appointments at Columbia University and the State University of New York at Buffalo. His expertise in drug metabolism has led to consultantships with such pharmaceutical firms as Hoffman-LaRoche, Ciba-Geigy and Glaxo. Dr. Gibaldi has also served on the U.S. Food and Drug Administration's Panel on Generic Drugs. His research has focused on gastrointestinal absorption of drugs and the development of stable formulations for therapeutic compounds. Dr. Gibaldi received both his B.S. in pharmacy and his Ph.D. in pharmacokinetics from Columbia University.

CTI has entered into consulting agreements with each member of the Clinical Advisory Board. These agreements generally have a three-year term and may be terminated by either party upon 30 days' written notice. These agreements also generally restrict the consultant from competing with CTI during the term of the agreement. These agreements contain provisions prohibiting the disclosure of confidential information to anyone outside of CTI and require disclosure to CTI of ideas, developments, discoveries or inventions conceived during consulting and assignment to CTI of proprietary rights to such matters related to the business and technology of CTI. Each consultant is required to serve on CTI's Clinical Advisory Board and provide such other consulting services as CTI may reasonably request. Each Clinical Advisory Board Member is paid an annual fee and is granted an option to purchase Common Stock.

ITEM 6.EXECUTIVE COMPENSATION.

COMPENSATION

Summary Compensation Table. The following table sets forth all compensation paid for the year ended December 31, 1995 to the Company's Chief Executive Officer and the four other most highly compensated executive officers during fiscal year 1995 (collectively, the "Named Executive Officers"):

	ANNUAL COMPENSATION			LONG-TERM COMPENSATION(1) AWARDS		
NAME AND PRINCIPAL POSITION	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPEN-SATION ($)(2)	RESTRICTED STOCK AWARD(S) ($)	SECURITIES UNDERLYING OPTIONS/ SARS (#)	ALL OTHER COMPEN-SATION ($)
James A. Bianco, M.D....	315,984	--	--	(3)	482,842(4)	7,402(5)

President and Chief Executive Officer						
Jack W. Singer, M.D. ... Executive Vice President, Research Program Chairman	248,976	--	--	(3)	73,351(4)	9,762(5)
Louis A. Bianco..... Executive Vice President, Finance and Administration	232,195	--	--	--	192,842(4)	6,772(5)
Maurice J. Schwarz, Ph.D..... Executive Vice President, Product Development	187,500	--	8,200(6)	--	100,000(4)	45,802(6)
Susan O. Moore..... Executive Vice President, Human Resource Development	113,551	20,000	--	--	104,500(4)	1,432(5)

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(1) The Company did not make any long-term incentive plan payments to any of the Named Executive Officers in 1995.

(2) Other annual compensation in the form of perquisites and other personal benefits has been omitted where the aggregate amount of such perquisites and other personal benefits constituted the lesser of $50,000 or 10% of the total annual salary and bonus for the Named Executive Officer for 1995.

(3) Shares of restricted Common Stock are subject to repurchase at original issuance cost in the event that CTI terminates such individual's employment for cause or such individual voluntarily terminates his employment without cause. Such restricted Common Stock is eligible to receive dividends, although the Company has not declared or paid dividends on the Common Stock. As of December 31, 1995, Dr. Bianco held 129,813 shares of restricted Common Stock with an aggregate value of $434,874, and Dr. Singer held 86,843 shares of restricted Common Stock with an aggregate value of $290,924. Dr. Bianco's shares were no longer subject to forfeiture on February 1, 1996 and Dr. Singer's shares were no longer subject to forfeiture on April 1, 1996. All of these shares were purchased at the same price as was paid at the time for unrestricted shares.

(4) In April 1995, the Board of Directors approved the repricing of outstanding options to $3.35 per share by exchanging such outstanding options for a fewer number of options pursuant to a Black-Scholes formula. All other terms and conditions of the options remained unchanged. Grants for the year ended December 31, 1995 include options which were initially granted in prior years and have been repriced and exchanged for a fewer number of options in 1995 as follows: Dr. Bianco, 225,000 options were repriced and exchanged for 202,500 options; Dr. Singer, 50,000 options were repriced and exchanged for 45,000 options; Mr. Bianco, 150,000 options were repriced and exchanged for 127,500 options; Dr. Schwarz, 75,000 options were repriced and exchanged for 60,000 options; and Ms. Moore, 40,000 options were repriced and exchanged for 34,500 options.

(5) Represents reimbursement for long-term disability insurance premiums.

(6) All other compensation represents the amount of loan principal forgiven in 1995 in connection with Dr. Schwarz's relocation to the Seattle area. Other annual compensation represents amounts reimbursed for the payment of income taxes on the reimbursement of Dr. Schwarz's relocation expenses in 1994. See "-- Employment Agreements."

Options Granted in Last Fiscal Year. The following table sets forth for each of the Named Executive Officers the number of options granted during the year ended December 31, 1995 and the potential realizable value of such grants:

	INDIVIDUAL GRANTS				
					POTENTIAL REALIZABLE VALUE AT ASSUMED

NAME	NUMBER OF SECURITIES UNDER-LYING OPTIONS GRANTED (1)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (%)	EXERCISE PRICE ($/SH) (2)	EXPIRATION DATE	ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3) 5% ($)	10% ($)
James A. Bianco.....	202,500**	9.6	3.35	09/23/02	276,291	643,626
	5,342	*	3.35	04/21/05	11,259	28,522
	275,000	13.0	3.35	12/05/05	579,590	1,468,280
Jack W. Singer.....	45,000**	2.1	3.35	09/23/02	61,398	143,028
	3,351	*	3.35	04/21/05	7,063	17,892
	25,000	1.2	3.35	12/05/05	52,690	133,480
Louis A. Bianco.....	67,500**	3.2	3.35	09/23/02	92,097	214,542
	60,000**	2.8	3.35	12/20/03	96,000	229,872
	5,342	*	3.35	04/21/05	11,259	28,522
	60,000	2.8	3.35	12/05/05	126,456	320,352
Maurice J. Schwarz.....	60,000**	2.8	3.35	02/24/04	110,856	272,952
	40,000	1.9	3.35	12/05/05	84,304	213,568
Susan O. Moore.....	22,500**	1.1	3.35	04/26/03	30,699	71,514
	12,000**	*	3.35	12/20/03	16,373	38,141
	70,000	3.3	3.35	12/05/05	147,532	373,744

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* Less than one percent.
** Granted pursuant to the option repricing described in Note (1) below.

(1) Options were granted under the 1994 Equity Incentive Plan (the "1994 Plan"). In April 1995, the Board of Directors approved the repricing of outstanding options to $3.35 per share by exchanging such outstanding options for a fewer number of options pursuant to a Black-Scholes formula. All other terms and conditions of the options remained unchanged.
(2) Stock options were granted at an exercise price equal to 100% of the estimated fair value of the Company's Common Stock, as determined by the Board of Directors on the date of grant.
(3) Potential realizable value is based on the assumption that the Common Stock appreciates at the annual rates shown (compounded annually) from the date of grant until the expiration of the option term. These assumed rates of appreciation are mandated by the rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of the future Common Stock price. There can be no assurance that any of the values reflected in this table will be achieved.

Aggregated Option Exercises in Latest Fiscal Year and Fiscal Year-End Option Values. The following table sets forth for each of the Named Executive Officers, the fiscal year-end number and value of unexercised options. No options were exercised by any of the Named Executive Officers during 1995.

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#) EXERCISABLE	UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END 1995 (1)($) EXERCISABLE	UNEXERCISABLE
James A. Bianco.....	207,842	275,000	0	0
Jack W. Singer.....	48,351	25,000	0	0
Louis A. Bianco.....	129,509	63,333	0	0
Maurice J. Schwarz.....	20,000	80,000	0	0
Susan O. Moore.....	25,667	78,833	0	0

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(1) Based on the estimated fair value of the underlying securities at December 31, 1995, the fiscal year end, no options were "in-the-money."

COMPENSATION OF DIRECTORS

Directors who are also employees of the Company are not paid an annual retainer nor compensated for serving on the Board. Non-employee Directors are paid $2,000 per meeting of the Board or committees, up to a maximum of $10,000 per Director each calendar year. All Directors are reimbursed for their expenses incurred in attending Board meetings. In addition, each non-employee Director is entitled to certain automatic option grants under the 1994 Plan. See "--Stock Option Plans."

EMPLOYMENT AGREEMENTS

Dr. Bianco, President and Chief Executive Officer, has a five-year employment agreement with CTI, effective February 1, 1992. The agreement provides that Dr. Bianco initially would receive an annual base salary of $170,900, subject to annual increases in proportion to increases in the Consumer Price Index ("CPI"), plus 10% of the CPI-adjusted annual base salary, or such greater amount as the Board of Directors shall determine. Effective January 1, 1996, CTI's Board of Directors established a new annual base salary for Dr. Bianco for 1996 of $358,032. The agreement provides that, in the event that CTI terminates Dr. Bianco's employment without cause or Dr. Bianco terminates his employment for cause, CTI shall, at such time, pay Dr. Bianco an amount equal to the total base salary otherwise payable through the expiration of the term of the agreement or six months' base salary, whichever is greater, and shall continue to provide certain benefits through the term of the agreement. The employment agreement restricts Dr. Bianco from competing with CTI for the term of the agreement and for two years after termination of his employment with CTI, unless CTI shall have terminated Dr. Bianco's employment without cause or Dr. Bianco shall have terminated his employment for cause.

Dr. Singer, Executive Vice President, Research Program Chairman, has a four-year employment agreement with CTI, effective April 1, 1992. The agreement provides that Dr. Singer initially would receive an annual base salary of $157,775, subject to annual increases in proportion to increases in the CPI, plus 10% of the CPI-adjusted annual base salary, or such greater amount as the Board of Directors shall determine. Effective January 1, 1995, CTI's Board of Directors established a new annual base salary for Dr. Singer for 1995 of $248,973. The agreement provides that, in the event that Dr. Singer is terminated by CTI without cause, CTI shall continue to pay Dr. Singer his monthly base salary and benefits through the earlier of the expiration of the term of the agreement or such time as Dr. Singer violates the terms of the covenant not to compete contained in the agreement. In the event that Dr. Singer terminates his employment for cause, CTI shall continue to pay Dr. Singer his monthly base salary and benefits through the expiration of the term of the agreement. The employment agreement restricts Dr. Singer from competing with CTI for the term of the agreement and for two years after his termination of employment with CTI.

Mr. Bianco, Executive Vice President, Finance and Administration, entered into a three-year employment agreement with CTI, effective February 1, 1992, which agreement was extended for an additional period of three years to expire January 31, 1998 by a letter agreement dated May 27, 1994. The agreement provides that Mr. Bianco initially would receive an annual base salary of $154,500, subject to annual increases in proportion to increases in the CPI, plus 10% of the CPI-adjusted annual base salary, or such greater amount as the Board of Directors shall determine. Effective January 1, 1996, CTI's Board of Directors established a new annual base salary for Mr. Bianco for 1996 of $263,088. The agreement provides that, in the event that CTI terminates Mr. Bianco's employment without cause or Mr. Bianco terminates his employment for cause, CTI shall, at such time, pay Mr. Bianco an amount equal to the total base salary otherwise payable through the expiration of the term of the agreement or six months' base salary, whichever is greater, and shall continue to provide certain benefits through the term of the agreement.

Dr. Schwarz, Executive Vice President, Product Development, entered into a two-year employment agreement with CTI effective May 2, 1994, which is renewable automatically for successive one-year terms subject to certain termination provisions contained in the agreement. The agreement provides that Dr. Schwarz initially would receive an annual base salary of $187,500, subject to periodic increases based on performance. In the event CTI terminates Dr. Schwarz's employment without cause, CTI shall pay Dr. Schwarz such amounts owing for the remaining term of the agreement. The agreement further 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.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the last completed fiscal year, the Compensation Committee consisted of Dr. Jaeger and Messrs. Curnock Cook and Bowman. None of these individuals was at any time during the last completed fiscal year, or at any other time, an officer or employee of the Company. 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. See "Item 7.--Certain Relationships and Related Transactions."

STOCK OPTION PLANS

In January 1994 the Board of Directors adopted, and in February 1994 the stockholders of the Company approved, the Company's 1994 Equity Incentive Plan (the "1994 Plan"). A total of 2,039,400 shares of Common Stock were initially reserved for issuance under the 1994 Plan and a predecessor plan, the Company's 1992 Stock Option Plan (the "1992 Plan"). In May 1995 and April 1996 the stockholders of the Company approved the adoption of amendments to the 1994 Plan to increase the aggregate number of shares authorized for issuance thereunder by 864,105 shares and 1,775,000 shares, respectively, bringing the total number of shares reserved under the 1994 Plan to 4,678,505 shares of Common Stock. As of June 1, 1996, 23,055 options have been exercised, 10-year options to purchase 2,961,624 shares were granted and outstanding, and options to purchase 1,693,826 shares of Common Stock remained available for future grants under the 1994 Plan.

The 1994 Plan provides for (a) the grant of incentive stock options ("ISOs"), nonstatutory stock options ("NSOs") and stock appreciation rights ("SARs"), (b) the award of stock bonuses, (c) the sale of stock, and (d) any other equity-based or equity-related awards which the plan administrator determines to be consistent with the purpose of the 1994 Plan and the interests of the Company to employees (including officers) and independent consultants. The 1994 Plan also provides for the automatic grant of NSOs to non-employee Directors pursuant to

the formula described below. The 1994 Plan supersedes the 1992 Plan, pursuant to which the Board of Directors was authorized to issue ISOs and NSOs upon terms and conditions similar to the 1994 Plan. Options granted under the 1992 Plan remain valid under the terms of the 1992 Plan. The number of shares available for future grants under the 1994 Plan will be increased by the number of shares for which options granted under the 1992 Plan expire, terminate or are canceled.

The 1994 Plan is administered by the Compensation Committee of the Board of Directors (the "Committee"). The Committee determines the persons to whom awards will be made, the exercise or purchase price of each award, the number of shares to be covered by each option, the term of each option, the times at which each award may be exercised, and whether each option granted under the 1994 Plan is an ISO or a NSO. The exercise price of ISOs and NSOs granted by the Committee must be at least 100% of the fair market value of the underlying shares on the date of the grant, except that the exercise price of ISOs granted to an optionee holding more than 10% of the combined voting power of all classes of the Company's stock ("10% Stockholders") must be at least 110% of the fair market value of the underlying shares on the date of the grant. The Committee sets the vesting schedule for and the term of options granted under the 1994 Plan, subject to the limitations that (i) options granted to directors and officers of the Company may not be exercised within six months after the grant thereof, (ii) the term of ISOs may not exceed 10 years, and (iii) the term of ISOs granted to 10% Stockholders may not exceed five years.

The Committee may also advance the lapse of any waiting period, accelerate any exercise date, waive or modify any restriction with respect to an award or give an employee an election to surrender an existing award in exchange for the grant of a new award.

Options granted under the 1994 Plan are nontransferable. In the event of the death or other termination of an optionee's employment with the Company, the 1994 Plan provides that the optionee's options may be exercised for a period of three months to one year thereafter. The 1994 Plan also provides that upon any termination of employment, the Committee may extend the exercise period for any period up to the expiration date of the option and may increase the portion of the option that is exercisable.

The purchase price for shares of Common Stock purchased on exercise of options granted under the 1994 Plan must be paid in cash, including cash that may be the proceeds of a loan from the Company or, with the consent of the Committee, in whole or in part in shares of Common Stock of the Company. With the consent of the Committee, an optionee may request the Company to apply the shares to be received on exercise of a portion of an option to satisfy the exercise price for additional portions of the option.

Under the 1994 Plan, each non-employee Director is automatically granted a 10-year, fully vested nonstatutory stock option to purchase 10,000 shares of Common Stock upon his or her election to the Board of Directors for the first time. In addition, each non-employee Director is automatically granted a 10-year, fully vested nonstatutory stock option to purchase 6,667 shares of Common Stock on each anniversary of his or her immediately preceding election to the Board of Directors. The exercise price of such options is 100% of the fair market value of the shares of Common Stock on the date of grant and such options have a term of 10 years from the date of grant.

The Committee may grant SARs either alone or in connection with a stock option. An SAR entitles the holder to payment from the Company of an amount equal to the excess, on the date of exercise, of the fair market value of one share over its fair market value on the date of grant (or, if granted in connection with an option, the exercise price per share under the option to which the SAR relates), multiplied by the number of shares covered by the portion of the SAR or option that is surrendered. The Committee may also award stock bonuses or issue shares for consideration subject to such terms, conditions and restrictions as the Committee may determine, including restrictions concerning transferability and forfeiture of the shares awarded. No cash consideration will be paid in connection with SARs and stock bonuses other than tax withholding amounts. Where shares are issued for consideration, such consideration may not be less than 75% of the fair market value of the shares on the date of issuance.

The 1994 Plan provides for automatic acceleration of the vesting of options and SARs granted under the 1994 Plan if a merger, consolidation, reorganization, plan of exchange or liquidation results in the Company's

shareholders receiving cash, stock or other property in exchange for their shares, except as specified below. Option holders will have the right during the 30-day period immediately prior to any such event to exercise their options or SARs without any limitation on exercisability. The 1994 Plan requires the purchase of options and SARs granted to officers or Directors following the expiration of the required six-month holding period. The 1994 Plan provides that, if the Company's shareholders receive stock of another corporation in exchange for shares of the Company in any merger, consolidation, reorganization or plan of exchange, all options granted under the 1994 Plan will be converted into options to purchase shares of the stock of the other corporation and all SARs will be converted into SARs measured by the stock of the other corporation. The 1994 Plan also allows the Committee to accelerate the vesting of the options and SARs granted under the 1994 Plan and to grant the option holders a 30 day period prior to such event to exercise their options or SARs, as provided above.

The 1994 Plan also allows the Committee to accelerate the vesting of all options and SARs granted thereunder (including options and SARs granted to officers and Directors in the six months prior to such event) upon the occurrence of a "Change in Control." A "Change in Control" is defined as (a) the acquisition, directly or indirectly, by any individual, entity or group of beneficial ownership of securities representing 50.1% or more of either the

then outstanding shares of Common Stock or the combined voting power in the election of Directors of then outstanding voting securities of the Company, (b) individuals who, as of the effective date of the 1994 Plan, constitute the Board of Directors (the "Incumbent Board") (including any individual whose subsequent election or nomination was approved by a vote of at least a majority of the Directors then comprising the Incumbent Board) cease for any reason to constitute at least a majority of the Board of Directors or (c) approval by the stockholders of the Company of certain reorganizations, mergers or consolidations, or of certain liquidations, dissolutions or dispositions of all or substantially all of the assets of the Company.

The Committee may make awards under the 1994 Plan that have terms and conditions that vary from those specified in the 1994 Plan when such awards are granted in substitution for, or in connection with the assumption of, existing awards made by another corporation and assumed or otherwise agreed to be provided for by the Company in connection with a corporate merger or other similar transaction to which the Company or an affiliated company is a party. The Committee may also specify the terms and provisions of other equity-based or equity-related awards not described in the 1994 Plan which the Committee determines to be consistent with the purpose of the 1994 and the interests of the Company.

The 1994 Plan may be amended by the Board of Directors at any time and will terminate on January 1, 2004 unless terminated earlier by the Board of Directors. No options may be granted after the termination of the 1994 Plan. However, options granted under the 1994 Plan will remain valid under the 1994 Plan until their respective expiration dates.

As of June 1, 1996, the 10-year options to purchase 2,961,624 shares of Common Stock which are outstanding pursuant to the 1992 Plan and the 1994 Plan were granted to 130 employees, consultants and directors (excluding executive officers), and generally vest in equal annual installments on the first three or four anniversaries of the date of grant. In April 1995, the Board of Directors approved the repricing of outstanding options to $3.35 per share by offering to exchange such outstanding options for a fewer number of options pursuant to a Black-Scholes formula. Subsequently, options for 1,521,324 shares, with initial exercise prices of $5.00 and $9.00 per share, were exchanged for 1,319,925 options with a price of $3.35 per share. All other terms and conditions of the options remained unchanged.

EMPLOYEE STOCK PURCHASE PLAN

In March 1996 the Board of Directors adopted, and in April 1996 the stockholders of the Company approved, the Company's 1996 Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan is intended to encourage ownership of the Company's Common Stock by employees of the Company and to provide additional incentive for the employees to promote the success of the business of the Company. A maximum of 1,000,000 shares of Common Stock have been reserved for purchase under the Purchase Plan. As of June 1, 1996, no options to purchase shares of Company Stock have been granted and no shares of Common Stock have been purchased under the Purchase Plan.

Employees of the Company or any of its subsidiaries who customarily work more than twenty hours per week and more than five months per calendar year, and who have been employed by the Company or any of its subsidiaries for at least one year may participate in the Purchase Plan. The Purchase Plan is administered by the Compensation Committee of the Board of Directors (the "Committee"). The Purchase Plan provides for the automatic grant of options to purchase shares of Common Stock ("Options"). The Options are granted on the first day of an offering period, which lasts approximately six months. Payroll deductions are accumulated in an account for each participant, based on the amounts specified by the participant in an enrollment form. At the end of the offering period, the participant's account balance is used to purchase shares of Common Stock pursuant to the Option. The purchase price of shares of Common Stock under an Option will equal 85% of the average of the fair market value of the shares at the beginning and at the end of the offering period. Options may not be assigned or transferred. No participant may purchase shares having a fair market value exceeding $25,000 in any calendar year. A participant may withdraw from an offering period at any time without affecting his or her eligibility to participate in future offering periods.

There are no tax consequences to either the participant or the Company when

the Option is issued. When shares are issued upon the exercise of the Option, there are no tax consequences to the participant (except to the extent any excess in the fair market value of the Common Stock over the exercise price constitutes a tax preference item which requires payment of the alternative minimum tax) or the Company. A participant's Option will terminate and his or her accumulated account balance will be returned if such participant ceases to be employed by the Company.

If a participant disposes of shares purchased under the Purchase Plan at least two years after the first day of the applicable offering period and at least one year after the date of purchase, the participants will recognize ordinary income in the year of disposition equal to the amount of the discount. The amount of ordinary income recognized by a participant will be added to the participant's basis in the shares. Any additional gain recognized upon the disposition will be long-term capital gain. The Company will not generally be entitled to a deduction if the participant complies with these holding periods.

If a participant disposes of shares purchased under the Purchase Plan within two years from the first day of the applicable offering period or within one year from the date of purchase (a "disqualifying disposition"), the participant will recognize ordinary income in the year of such disposition equal to the amount by which the fair market value of the shares on the date the shares were purchased exceeded the purchase price. The amount of ordinary income will be added to the participant's basis in the shares, and any additional gain or resulting loss recognized on the disposition of the shares will be a capital gain or loss. The Company will be entitled to a deduction in the year of the disqualifying disposition equal to the amount of ordinary income recognized by the participant as a result of the disposition.

The Purchase Plan provides that in the event of a "Change in Control," the Committee will either provide for the immediate exercise of the Options to the extent of accumulated payroll balances or provide for a successor to adopt the Purchase Plan. For purposes of the Purchase Plan, events constituting a "Change in Control" are (i) the direct or indirect sale or exchange by the shareholders of the Company of all or substantially all of the shares of Common Stock of the Company where the shareholders of the Company before the sale or exchange do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company, (ii) a merger in which the shareholders of the Company before such merger do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company or (iii) the sale, exchange or transfer of all or substantially all of the Company's assets. The Board of Directors may terminate or amend the Purchase Plan at any time. No termination of or amendment to the Purchase Plan may materially adversely affect the rights of a participant in the Purchase Plan without such participant's consent.

In the event any change is made to the stock issuable under the Purchase Plan by reason of any stock split, stock dividend, combination of shares or recapitalization, appropriate adjustment will be made to the share reserve of the Purchase Plan and the number of shares that a participant may purchase with respect to an Option.

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.

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.

ITEM 8.LEGAL PROCEEDINGS.

Not applicable.

ITEM 9. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET INFORMATION

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. The Company does not intend to apply for listing of the Common Stock or any securities exchange or over-the-counter market prior to a public offering. No assurance can be given that the Company will ever affect a public offering of its securities or that a public market will otherwise develop or be sustained in the future. See "Item 1--Business--Risk Factors--Absence of Public Market; Likely Volatility of Stock Price."

SHARES ELIGIBLE FOR FUTURE SALE

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 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 under Rule 144(k) (as described below), and an additional 6,778,977 shares will become eligible for sale under Rules 144 and 701 under the Securities Act beginning approximately 90 days after the effective date of this Registration Statement. 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 provisions of Rule 144 are satisfied.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated), including an affiliate, who has beneficially owned shares for at least two years is entitled to sell, within any three-month period commencing 90 days after the effective date of this Registration Statement, a number of shares (including both restricted and unrestricted shares held by affiliates) that does not exceed the greater of (i) one percent (1%) of the then outstanding Common Stock (approximately 173,006 shares as of June 1, 1996) or (ii) the average weekly trading volume in the Common Stock during the four calendar weeks preceding such sale, subject to the filing of a Form 144 with respect to such sale and certain other limitations and restrictions. In addition, a person who is not deemed to have been an affiliate of the Company at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least three years, would be entitled to sell such shares under Rule 144(k) without regard to the volume limitations described above or certain other restrictions of Rule 144. The Securities and Exchange Commission has proposed certain

amendments to Rule 144 and Rule 144(k) that would reduce the applicable requisite holding periods to one year and two years, respectively.

Under Rule 701, any employee, officer or director of or consultant to the Company who purchased shares pursuant to a written compensatory plan or contract, including the 1992 Plan and the 1994 Plan, who is not an affiliate of the Company, is entitled to sell such shares without having to comply with the public information, holding period, volume limitation or notice provisions of Rule 144 and permits affiliates to sell such shares without having to comply with the Rule 144 holding period restrictions, in each case commencing 90 days after the effective date of this Registration Statement.

The Company may in the future elect to file one or more registration statements under the Securities Act to register Common Stock to be issued pursuant to the exercise of options, including options granted or to be granted under the 1992 Plan and the 1994 Plan, thus permitting the resale of such shares by non-affiliates in the public market without restriction under the Securities Act. Such registration statement would become effective immediately upon filing. At June 1, 1996, options to purchase an aggregate of 2,961,624 shares of Common Stock were outstanding under the 1992 Plan and the 1994 Plan. See "Item 6.--Executive Compensation--Stock Option Plans."

The holders of 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 272,675 shares of Common Stock issuable upon the exercise of outstanding warrants and their permitted transferees are entitled to certain registration rights for their shares. See "Item 11.--Description of Registrant's Securities to be Registered--Registration Rights."

HOLDERS

As of June 1, 1996, there were 520 holders of record of the Common Stock and 57 holders of record of the Convertible Preferred Stock.

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on its capital stock. The Company currently intends to retain all of its cash and any future earnings to finance the growth and development of its business and therefore does not anticipate paying any cash dividends in the foreseeable future. Payment of dividends on the Common Stock is also restricted by the terms of the Convertible Preferred Stock. See "Item 11.--Description of Registrant's Securities to be Registered--Preferred Stock." Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

ITEM 10.RECENT SALES OF UNREGISTERED SECURITIES.

Set forth below is certain information as to all securities issued by the Company since June 1, 1993 which were not registered under the Securities Act. As to all such securities except those issued in connection with stock splits, conversions and exchanges (as to which there was no "sale" within the meaning of the Securities Act), exemption was claimed under Section 4(2) of the Securities Act, or Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering. The recipients of securities in each such transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and warrants issued in such transactions. The information below gives effect to a 1-for-2 reverse stock split effected in February 1994.

(1) Between October 1993 and February 1994, the Company sold 1,622,309 shares of Common Stock and warrants to purchase 811,154 shares of Common Stock to a group of accredited investors for cash in the aggregate of $14,600,768. Alex. Brown & Sons Incorporated and D. Blech & Company,

Incorporated acted as sales agents for the offering and received aggregate commissions of $1,146,341 and warrants to purchase an aggregate of 127,097 and 30,154 shares of Common Stock, respectively, for $9.00 per share.

(2) In December 1994, the Company issued warrants to purchase 43,513 shares of Common Stock at an initial exercise price of $4.40 per share to Aberlyn Capital Management Limited Partnership in connection with an equipment lease transaction. The exercise price of such warrants was subsequently reduced to $3.685 per share. Such warrants were subsequently exchanged for 25,298 shares of Common Stock in the transaction described in paragraph (5) below.

(3) Between March 1995 and April 1995, the Company sold an aggregate of 76,789.5116 shares of Convertible Preferred Stock to a group of accredited investors for cash in the aggregate of $25,724,485. Each share of Convertible Preferred Stock is convertible into 100 shares of Common Stock.

(4) In June 1995, the Company sold 12,686.5672 shares, 2,985.4626 shares and 2,985.4626 shares of Convertible Preferred Stock to Kummell Investments Limited, The Phoenix Partners II Limited Partnership and The Phoenix Partners III Limited Partnership, respectively, for cash in the aggregate of $6,250,260. Each share of Convertible Preferred Stock is convertible into 100 shares of Common Stock.

(5) In September 1995, the Company issued (i) 19,575 shares of Common Stock in exchange for warrants to purchase 668,474 shares of Common Stock at an exercise price of $11.00 per share which were issued to purchasers in the private placement transaction described in paragraph (1) above; (ii) 240,495 shares of Common Stock in exchange for warrants to purchase 638,429 shares of Common Stock at exercise prices ranging from $5.00 to $9.00 per share which were issued to sales agents in connection with certain private placement transactions, including the private placement transaction described in paragraph (1) above; (iii) 80,000 shares of Common Stock in exchange for warrants to purchase 200,000 shares of Common Stock at an exercise price of $5.00 per share which were issued to David H. Smith, M.D., a former Chairman of the Board of Directors of the Company; and (iv) 25,298 shares of Common Stock in exchange for the warrants described in paragraph (2) above. In February 1996 the Company issued an additional 521 shares of Common Stock in exchange for warrants to purchase 1,320 shares of Common Stock at an exercise price of $5.00 per share which were issued to sales agents in connection with certain private placement transactions, including the private placement transaction described in paragraph (1) above.

(6) In October 1995 the Company issued an aggregate of 345,000 shares of Common Stock to six shareholders of Lipomed Corporation ("Lipomed") as consideration for all of the intellectual property of Lipomed.

(7) In December 1995, the Company sold 20,000 shares of Common Stock to Max E. Link, Ph.D., a Director of the Company, for $67,000 in cash.

(8) In May 1996, the Company sold 27,778 shares of Common Stock to a warrant holder for $305,558 in cash upon exercise of warrants to purchase shares of Common Stock at an exercise price of $11.00 per share.

(9) As of June 1, 1996, the Company had granted incentive stock options and non-statutory stock options to employees, directors and consultants under its 1992 Stock Option Plan (the "1992 Plan") and 1994 Equity Incentive Plan (the "1994 Plan"), covering an aggregate of 4,882,458 shares of Common Stock, at an average exercise price of approximately $4.326 per share. The Company has sold an aggregate of 23,055 shares of its Common Stock to employees, directors and consultants of the Company for aggregate consideration of $79,421 pursuant to the exercise of stock options under the 1992 Plan and the 1994 Plan.

ITEM 11.DESCRIPTION OF REGISTRANT'S SECURITIES TO BE REGISTERED.

The authorized capital stock of the Company consists of 100,000,000 shares of Common Stock, no par value, and 10,000,000 shares of Preferred Stock, 150,000 of which have been designated as Convertible Preferred Stock and 9,850,000 of which are undesignated.

COMMON STOCK

Each holder of Common Stock is entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. In all matters other than the election of Directors, when a quorum is present at any stockholders' meeting, the affirmative vote of the majority of shares present in person or represented by proxy shall decide any question before such meeting. Directors are elected by a plurality of the votes of the shares present in person or represented by proxy at a stockholders' meeting. The Board of Directors of CTI is divided into three approximately equal classes of Directors serving staggered three-year terms and until their successors are elected and qualified. As a result, approximately one-third of the total number of Directors will be elected every year. See "Item 5. Directors and Executive Officers." The holders of Common Stock are not entitled to cumulative voting rights with respect to the election of Directors, and, as a consequence, minority stockholders will not be able to elect Directors on the basis of their votes alone. Subject to preferences that may be applicable to any then outstanding shares of Preferred Stock, including the Convertible Preferred Stock, holders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. See "Item 9.--Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters--Dividend Policy." In the event of a liquidation, dissolution or winding up of the Company, holders of the Common Stock would be entitled to share ratably in all assets remaining after payment of liabilities and the satisfaction of any liquidation preference of any then outstanding series of Preferred Stock, including the Convertible Preferred Stock. Holders of Common Stock have no preemptive rights and no right to convert their Common Stock into any other securities. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and nonassessable.

As of June 1, 1996, there were 17,300,574 shares of Common Stock outstanding (excluding 9,544,700 shares of Common Stock issuable upon conversion of 95,447.004 shares of Convertible Preferred Stock), held of record by 520 stockholders, options to purchase an aggregate of 2,961,624 shares of Common Stock were outstanding and warrants to purchase an aggregate of 272,675 shares of Common Stock were outstanding. See "Item 6.--Executive Compensation--Stock Option Plans."

PREFERRED STOCK

The Company has 95,447.004 shares of Convertible Preferred Stock outstanding. See "Item 1.--Business--Risk Factors--Class of Senior Securities." The Convertible Preferred Stock is convertible into an aggregate of 9,544,700 shares of Common Stock. The following description of the preferences, limitations and relative rights of the Convertible Preferred Stock is qualified in its entirety by reference to the Articles of Amendment to Restated Articles of Incorporation of Cell Therapeutics, Inc. Establishing a Series of Convertible Preferred Stock (the "Certificate of Designations"), a copy of which is filed as an exhibit to this Registration Statement.

DIVIDENDS. The holders of the Convertible Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available therefor, dividends at the rate of $33.50 per share per annum on each outstanding share of Convertible Preferred Stock. Such dividends have priority over any dividends paid on the Common Stock. Dividends on the Convertible Preferred Stock are not cumulative and no right to such dividends shall accrue to holders of Convertible Preferred Stock unless and until declared by the Board of Directors. The Company does not anticipate declaring any cash dividends in the foreseeable future. See "Item 9.--Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters--Dividend Policy."

LIQUIDATION PREFERENCE. In the event of any liquidation, dissolution, or winding up of the Company, the holders of Convertible Preferred Stock shall be entitled to receive $335.00 per share of Convertible Preferred Stock, plus all declared but unpaid dividends thereon, prior and in preference to any distribution to the holders of Common Stock. All remaining assets available for distribution, if any, shall be distributed ratably among the holders of the Common Stock and the Convertible Preferred Stock on an as-converted basis. A merger or consolidation of the Company in which shareholders of the Company

receive distributions in cash or securities of another corporation as a result of such consolidation or merger, or a sale of all or substantially all of the assets of the Company, shall not be treated as a liquidation, dissolution or winding up of the Company, unless both (i) the shareholders of the Company receive in such consolidation, merger or sale of assets less than fifty percent (50%) of the voting equity securities of the successor or surviving corporation and (ii) the amount of cash and/or securities received by the shareholders of the Company is less than the total liquidation preference of the Convertible Preferred Stock, in which case such consolidation, merger or sale of assets shall be treated as a liquidation, dissolution or winding up.

CONVERSION. Each share of Convertible Preferred Stock is convertible at any time, at the option of the holder thereof, into such number of fully paid and nonassessable shares of Common Stock as shall be determined by dividing $335.00 by $3.35 (the "Conversion Price"). In addition, each share of Convertible Preferred Stock shall automatically be converted into shares of Common Stock at the then effective Conversion Price (i) upon the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act covering the offer and sale of Common Stock for the account of the Company to the public at a price per share of not less than $5.00 (the "IPO Conversion Price") and aggregate proceeds of not less than $20,000,000; (ii) upon the written consent of holders of not less than 66.67% of the then outstanding shares of Convertible Preferred Stock; or (iii) immediately prior to the closing of any merger or consolidation of the Company that is not treated as a liquidation, dissolution or winding up of the Company (see "--Liquidation") if the shareholders of the Company receive distributions of equity securities of another corporation as a result of such consolidation or merger and such class of equity securities is, among other things, listed on a national securities exchange and the average closing price per share of such class of equity securities over a period of 30 trading days prior to the closing of such merger or consolidation equals or exceeds $5.00 per share. In May 1996, the holders of the Convertible Preferred Stock consented to a temporary reduction in the IPO Conversion Price from $5.00 per share to $3.40 per share, which consent shall expire if the automatic conversion of the Convertible Preferred Stock shall not have occurred by September 30, 1996.

The Conversion Price shall be adjusted upon the occurrence of any recapitalization, stock split, stock dividend or other similar dilutive event. In addition, if the Company shall issue or sell any equity securities at a price per share that is less than the Conversion Price then in effect, the Conversion Price of each share of Convertible Preferred Stock shall be ratably adjusted. The Company has agreed with the holders of the Convertible Preferred Stock to use its best efforts to exchange shares of its Common Stock for certain outstanding warrants to purchase shares of Common Stock at an exercise price of $5.00 per share (the "$5.00 Warrants"). As of June 1, 1996, 285,607 shares of Common Stock were issued in exchange for 714,041 $5.00 Warrants, and 241,152 $5.00 Warrants remained outstanding. See "--Warrants." In the event that the Company shall issue any shares of Common Stock in respect of the $5.00 Warrants in excess of 318,398 shares, whether by exercise, exchange or otherwise, the Conversion Price shall be adjusted to reflect such issuance. For purposes of calculating such adjustment, the Company shall be deemed to have issued such additional shares of Common Stock for no consideration. No adjustment to the Conversion Price shall be made in respect of any shares of Common Stock issued in respect of the $5.00 Warrants if the average closing price per share of the Common Stock as calculated for any consecutive 30 trading days equals or exceeds $7.00 per share. In the event of either of the foregoing events, the Conversion Price then in effect shall be readjusted to such Conversion Price as would have been obtained had no adjustments been made in respect of any shares of Common Stock issued in respect of the $5.00 Warrants.

VOTING RIGHTS. Each share of Convertible Preferred Stock is entitled to vote with the Common Stock on an as-converted basis. In addition, for so long as there shall be outstanding 22,300 shares of Convertible Preferred

Stock, the holders of the Convertible Preferred Stock voting as a separate class shall be entitled to elect one additional Director to the Board of Directors. The affirmative vote of the holders of 66.67% of the outstanding shares of Convertible Preferred Stock voting together as a single class shall be required for the Company to amend the Restated Articles of Incorporation so as to adversely affect the voting powers or other rights or preferences of the

Convertible Preferred Stock or to authorize or issue shares of any class or series of stock having any preference or priority as to dividends or assets superior to or on a parity with the Convertible Preferred Stock. The exercise of these voting rights could be detrimental to the holders of the Common Stock.

The Board of Directors has the authority, without further vote or action by the stockholders, to issue up to 10,000,000 shares of Preferred Stock in one or more series and to fix the designations and powers, preferences and rights, if any, and qualifications, limitations or other restrictions thereof, including, without limitation, the dividend rate (and whether dividends are cumulative), conversion rights, if any, voting rights, rights and terms of redemption (including sinking fund provisions, if any), redemption price and liquidation preferences of any wholly unissued series of Preferred Stock and the number of shares constituting any such series and the designation thereof. Although the Company has no current plans to issue any shares of Preferred Stock, the issuance of Preferred Stock or of rights to purchase Preferred Stock could be used to delay or discourage an unsolicited acquisition proposal. In addition, the possible issuance of Preferred Stock could discourage a proxy contest, make more difficult the acquisition of a substantial block of the Company's Common Stock or limit the price that investors might be willing to pay in the future for shares of the Company's Common Stock.

The Company believes that the Preferred Stock will provide the Company with increased flexibility in structuring possible future financings and acquisitions, and in meeting other corporate needs that might arise. Having such authorized shares available for issuance will allow the Company to issue shares of Preferred Stock without the expense and delay of a special stockholders' meeting. The authorized shares of Preferred Stock, as well as shares of Common Stock, will be available for issuance without further action by stockholders, unless such action is required by applicable law, the terms of any series of Preferred Stock then outstanding or the rules of any stock exchange on which the Company's securities may be listed.

WARRANTS

In September 1995 CTI completed an exchange offer (the "Warrant Exchange") to exchange shares of its Common Stock for its outstanding warrants to purchase shares of Common Stock. In connection with the Warrant Exchange, the Company issued (i) 19,575 shares of Common Stock in exchange for warrants to purchase 668,474 shares at an exercise price of $11.00 per share which were issued to purchasers in the 1993 Private Placement (the "Unit Warrants"); (ii) 241,016 shares of Common Stock in exchange for warrants to purchase 639,749 shares at exercise prices ranging from $5.00 to $9.00 per share which were issued to sales agents in connection with the 1992 Private Placement and the 1993 Private Placement (the "Sales Agent Warrants"); (iii) 80,000 shares of Common Stock in exchange for warrants to purchase 200,000 shares at an exercise price of $5.00 per share which were issued to David H. Smith, M.D., a former Chairman of the Board of Directors of the Company (the "Smith Warrants"); and (iv) 25,298 shares of Common Stock in exchange for warrants to purchase 43,513 shares at an exercise price of $3.685 per share which were issued to Aberlyn Capital Management Limited Partnership at an initial exercise price of $4.40 per share in connection with an equipment leasing transaction (the "Lease Warrants").

As of June 1, 1996, there were outstanding Sales Agent Warrants to purchase 272,675 shares at exercise prices ranging from $5.00 to $9.00 per share. The Sales Agent Warrants will expire between August 11, 1997 and February 7, 1999. The exercise prices of the Sales Agent Warrants are subject to proportional adjustment in the event of stock splits and stock dividends.

REGISTRATION RIGHTS

Pursuant to a registration agreement entered into in connection with the 1993 Private Placement (the "1993 Registration Agreement"), holders of 1,641,884 shares of Common Stock, including 19,575 shares of Common Stock issued in exchange for Unit Warrants to purchase 668,474 shares of Common Stock in connection with the Warrant Exchange (collectively, the "1993 Registrable Securities"), are entitled to certain registration rights with respect to the 1993 Registrable Securities. Pursuant to the 1993 Registration Agreement, the Company will be required to use its best efforts to effect the

registration of the Registrable Securities under the Securities Act not later than six months after the final closing date of the initial public offering of the Company's Common Stock (the "IPO Closing Date") and to keep such registration effective pursuant to Rule 415 under the Securities Act until May 31, 1999.

Pursuant to the Sales Agent Warrants and the Smith Warrants, the holders of such warrants have certain demand and piggyback registration rights with respect to such warrants and the shares of Common Stock issuable upon exercise of such warrants, including the shares of Common Stock issued in exchange for such warrants in connection with the Warrant Exchange (collectively, the "Warrant Securities"). The holders of the Warrant Securities hold 321,016 shares of Common Stock and warrants to purchase 272,675 shares of Common Stock. The holders of the Warrant Securities may, beginning six months to one year following the completion of an initial public offering of the Company's Common Stock, require the Company to file up to an aggregate of three registration statements permitting the sale of the Warrant Securities and to maintain the effectiveness of such registration statements for at least nine months. In addition, the Company is required to file a registration statement on Form S-3 with respect to the Warrant Securities, at such time as it is eligible to do so, and to use its best efforts to effect such registration and maintain the effectiveness of such registration statement for a specified period of time, subject to certain conditions and limitations. Further, if the Company registers any of its securities under the Securities Act, the holders of the Warrant Securities are entitled to notice of and inclusion in such registration, subject to the right of the managing underwriters to limit the number of shares to be included in such registration.

Pursuant to the Lease Warrants, the holder of the 25,298 shares of Common Stock issued in exchange for the Lease Warrants in connection with the Warrant Exchange has certain demand registration rights with respect to such shares of Common Stock (the "Lease Warrant Securities"). The holder of the Lease Warrant Securities may, beginning one year following the completion of an initial public offering of the Company's Common Stock, require the Company to file one registration statement permitting the sale of the Lease Warrant Securities and to maintain the effectiveness of such registration statement for at least nine months.

Pursuant to registration agreements entered into with the holders of the Convertible Preferred Stock (the "1995 Registration Rights Agreements"), the holders of 95,447.004 shares of Convertible Preferred Stock, which are convertible into an aggregate of 9,544,700 shares of Common Stock (the "1995 Registrable Securities"), are entitled to certain registration rights with respect to the 1995 Registrable Securities. Pursuant to the 1995 Registration Agreements, the Company will be required to use its best efforts to effect the registration of the 1995 Registrable Securities under the Securities Act not later than six months after the IPO Closing Date and to keep such registration effective pursuant to Rule 415 under the Securities Act until March 22, 1998. In addition, pursuant to the 1995 Registration Agreements, if the Company shall not have effected the registration of all 1995 Registrable Securities covered thereunder by March 31, 1997, the holders of a majority in interest of 1995 Registrable Securities shall have the right (but only once), to make a written request to the Company for registration of all 1995 Registrable Securities.

Subject to certain limitations, the Company is required to bear all expenses, other than underwriting discounts and commissions, incurred in connection with the registration of the 1993 Registrable Securities, the Warrant Securities, the Lease Warrant Securities and the 1995 Registrable Securities (collectively, the "Registrable Securities") pursuant to the agreements described above. The Company and the holders of the Registrable Securities have agreed to indemnify each other for certain liabilities arising out of material misstatements and omissions made by the other party in any registration statement covering Registrable Securities.

If stockholders, by exercising their registration rights, cause a large number of shares to be sold in the public market, such sales may have an adverse effect on any future market price for the Common Stock. In addition, the existence of such registration rights and the existence of an effective registration statement over an extended period of time may have an adverse effect on the Company's efforts to raise needed capital.

ANTITAKEOVER RESTRICTIONS

Statutory Provisions

Washington law contains certain provisions that may have the effect of delaying, deterring or preventing a change in control of the Company. Chapter 23B.17 of the Washington Business Corporation Act (the "WBCA") prohibits, subject to certain exceptions, a merger, sale of assets or liquidation of the Company involving an "interested shareholder" (defined as a person or group of affiliated persons who own beneficially 20% or more of the Company's voting securities) unless the transaction is determined to be at a "fair price" or otherwise approved by a majority of the Company's disinterested directors or is approved by holders of two-thirds of the Company's outstanding voting securities, other than those held by the interested shareholder. A Washington corporation may, in its articles of incorporation, exempt itself from coverage of this provision, but the Company has not done so. In addition, Chapter 23B.19 of the WBCA prohibits the Company, with certain exceptions, from engaging in certain significant business transactions with an "acquiring person" (defined as a person or group of persons who acquire 10% or more of the Company's voting securities without the prior approval of the Company's Board of Directors) for a period of five years following the acquiring person's share acquisition date. The prohibited transactions include, among others, a merger or consolidation with, disposition of assets to, or issuance or redemption of stock to or from, the acquiring person, or otherwise allowing the acquiring person to receive any disproportionate benefit as a stockholder. The Company may not exempt itself from coverage of this statute. These statutory provisions may have the effect of delaying, deterring or preventing a change in control of the Company.

The Company's Board of Directors is divided into three approximately equal classes of directors serving staggered three-year terms. In addition, the Company's Articles of Incorporation provide that directors may be removed from office only at a meeting of stockholders called expressly for that purpose and only for cause. The Company's Articles of Incorporation limit "cause" to willful misfeasance having a material adverse effect on the Company or conviction of a felony, provided that any action by a director shall not constitute "cause" if, in good faith, the director believed the action to be in or not opposed to the best interests of the Company or if the director is entitled under applicable law, the Company's Articles of Incorporation or Bylaws, or a contract with the Company to be indemnified with respect to such action. Further, the Company's Bylaws require a stockholder to provide notice to the Company of such stockholder's intent to nominate a person or persons for election as directors not later than 90 days prior to the date one year from the date of the immediately preceding annual meeting of stockholders or, in the case of an election to be held at a special meeting of stockholders for the election of directors, the close of business on the tenth following the date on which notice of such meeting is first given to stockholders. A stockholder must also provide the Company with notice of such stockholder's intent to make any proposal at an annual meeting of stockholders not later than 90 days prior to the date one year from the date of the immediately preceding annual meeting of stockholders. These provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of CTI.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for CTI's Common Stock is Harris Trust Company of California.

ITEM 12.INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Sections 23B.08.500 through 23B.08.600 of the Washington Business Corporation Act (the "WBCA") authorize a court to award, or a corporation's board of directors to grant, indemnification to directors and officers on terms sufficiently broad to permit indemnification under certain circumstances for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"). Article IX of the Company's Restated Bylaws (Exhibit 3.3 hereto) provides for indemnification of the Company's directors, officers, employees and agents to the maximum extent permitted by Washington law. The directors and officers of the Company also may be indemnified against liability they may incur for serving in such capacity pursuant to a liability insurance policy maintained by the Company for such purpose.

Section 23B.08.320 of the WBCA authorizes a corporation to limit a director's liability to the corporation or its shareholders for monetary damages for acts or omissions as a director, except in certain circumstances involving intentional misconduct, knowing violations of law or illegal corporate losses or distributions, or any transaction from which the director personally receives a benefit in money, property or services to which the director is not legally entitled. Article VI of the Company's Restated Articles of Incorporation (Exhibit 3.1 hereto) contains provisions implementing, to the fullest extent permitted by Washington law, such limitations on a director's liability to the Company and its shareholders.

The Company has entered into an indemnification agreement with each of its executive officers and directors in which the Company agrees to hold harmless and indemnify the officer or director to the fullest extent permitted by Washington law. The Company agrees to indemnify the officer or director against any and all losses, claims, damages, liabilities or expenses incurred in connection with any actual, pending or threatened action, suit, claimor proceeding, whether civil, criminal, administrative or investigative and whether formal or informal, in which the officer or director is, was or becomes involved by reason of the fact that the officer or director is or was a director, officer, employee, trustee or agent of the Company or any related company, partnership or enterprise, including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action (or inaction) by the officer or director in an official capacity and any action, suit, claim or proceeding instructed by or at the direction of the officer or director unless such action, suit, claim or proceeding is or was authorized by the Company's Board of Directors. No indemnity pursuant to the indemnification agreements shall be provided by the Company on account of any suit in which a final, unappealable judgment is rendered against the officer or director for an accounting of profits made from the purchase or sale by the officer or director of securities of the Company in violation of the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, and amendments thereto, or for damages that have been paid directly to the officer or director by an insurance carrier under a policy of directors' and officers' liability insurance maintained by the Company.

ITEM 13.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Information with respect to Item 13 is contained in the Company's consolidated financial statements and is set forth herein beginning on Page F-1.

ITEM 14. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 15.FINANCIAL STATEMENTS AND EXHIBITS.

a. Each of the following items are contained in the Company's Consolidated Financial Statements and are set forth herein beginning on page F-1.

(i) Report of Ernst & Young LLP, Independent Auditors

(ii) Balance Sheets as of December 31, 1994 and 1995, and unaudited Balance Sheet as of March 31, 1996

(iii) Statements of Operations for the Years Ended December 31, 1993, 1994 and 1995 and for the period from September 4, 1991 (date of incorporation) to December 31, 1995, and unaudited 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

(iv) Statements of Stockholders' Equity for the Years Ended December 31, 1993, 1994 and 1995, and for the period from September 4, 1991 (date of incorporation) to December 31, 1995, and unaudited Statement of Stockholders' Equity for the three months ended March 31, 1996

(v) Statements of Cash Flows for the Years Ended December 31, 1993, 1994 and 1995 and for the period from September 4, 1991 (date of incorporation) to December 31, 1995, and unaudited Statements of Cash Flows 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

(vi) Notes to Financial Statements

b. Exhibits.

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
3.1*	Registrant's Restated Articles of Incorporation
3.2*	Registrant's Articles of Amendment to Restated Articles of Incorporation Establishing a Series of Preferred Stock
3.3*	Registrant's Restated Bylaws
4.1	Specimen Common Stock Certificate
10.1**	Lease Agreement between David A. Sabey and Sandra L. Sabey and the Registrant, dated March 27, 1992, as amended March 31, 1992, as amended October 13, 1992
10.2*	Assignment of Lease between Manlove Travel and the Registrant, dated April 23, 1993
10.3*	Memorandum of Understanding between the Port of Seattle and the Registrant, dated March 16, 1994, as amended July 19, 1994, September 29, 1994, October 31, 1994 and August 29, 1995
10.4	Employment Agreement between the Registrant and James A. Bianco, dated as of February 1, 1992
10.5*	Employment Agreement between the Registrant and Jack W. Singer, dated as of February 26, 1992
10.6	Employment Agreement between the Registrant and Louis A. Bianco, dated as of February 1, 1992, as amended May 27, 1994
10.7*	Employment Agreement between the Registrant and Maurice J. Schwarz, dated May 2, 1994
10.8*	Severance Agreement between the Registrant and Robert A. Lewis, dated April 1, 1996
10.9*	Promissory Note between James A. Bianco, M.D. and the Registrant, dated December 23, 1993
10.10*	Stock Pledge Agreement between James A. Bianco, M.D. and the Registrant, dated December 23, 1993
10.11*	1994 Equity Incentive Plan, as amended
10.12*	1992 Stock Option Plan, as amended
10.13*	1996 Employee Stock Purchase Plan

EXHIBIT NUMBER	DESCRIPTION
10.14*	Form of Sales Agent Warrant for the 1992 Private Placement
10.15*	Warrant, dated November 25, 1992, between the Registrant and David H. Smith, M.D.
10.16*	Registration Agreement between the Registrant and the other parties included therein, dated as of November 23, 1993
10.17*	Form of Sales Agent Warrant for the 1993 Private Placement
10.18*	Subscription Agreement between the Registrant and the other parties included therein, dated as of March 21, 1995
10.19*	Registration Rights Agreement between the Registrant and the other parties included therein, dated as of March 21, 1995
10.20+	Collaboration Agreement by and between BioChem Therapeutic Inc. and the Registrant, dated March 7, 1995, as amended on November 30, 1995, as amended December 6, 1995
10.21+	Supply Agreement by and between BioChem Therapeutic Inc. and the

	Registrant, dated March 7, 1995
10.22*	Master Lease Agreement, dated as of December 28, 1994 between the Registrant and Aberlyn Capital Management Limited Partnership
10.23*	Common Stock Purchase Warrant, dated December 28, 1994 between the Registrant and Aberlyn Capital Management Limited Partnership
10.24*	Loan and Security Agreement, dated as of May 30, 1995, between the Registrant and Financing for Science International, Inc.
10.25*	Asset Purchase Agreement, dated of October 17, 1995, between Lipomed Corporation, its Stockholders and the Registrant, as amended
10.26	Form of Scientific Advisory Board Consulting Agreement
10.27	Form of Clinical Advisory Board Consulting Agreement
11.1	Computation of net loss per share

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*Incorporated by reference to exhibits to the Registrant's Registration Statement on Form S-1 (No. 333-4154).

**Previously filed.

+Confidential treatment requested.

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 26, 1996

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

CELL THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

INDEX TO FINANCIAL STATEMENTS

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Cell Therapeutics, Inc.

We have audited the accompanying balance sheets of Cell Therapeutics, Inc. (a development stage company) as of December 31, 1994 and 1995, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995 and for the

period from September 4, 1991 (date of incorporation) to December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cell Therapeutics, Inc. (a development stage company) at December 31, 1994 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995 and for the period from September 4, 1991 (date of incorporation) to December 31, 1995, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Seattle, Washington
January 19, 1996,

CELL THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEETS

	DECEMBER 31,		MARCH 31,
	1994	1995	1996
			(UNAUDITED)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,408,256	$ 6,931,592	$ 5,624,211
Securities available-for-sale	6,275,587	14,974,430	13,778,901
Prepaid expenses	17,291	20,080	61,663
Total current assets	8,701,134	21,926,102	19,464,775
Securities available-for-sale	446,885	--	--
Property and equipment, net	7,226,200	5,713,227	5,707,927
Note receivable from officer	211,022	221,722	224,398
Other assets	234,296	187,244	203,069
Deferred offering costs	458,726	--	--
Total assets	$ 17,278,263	$ 28,048,295	$ 25,600,169
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 727,903	$ 1,057,428	$ 539,070
Accrued expenses	1,657,800	1,412,424	1,859,322
Current portion of long-term obligations	2,221,735	1,114,520	1,137,841
Total current liabilities	4,607,438	3,584,372	3,536,233
Long-term obligations, less current portion	2,619,521	2,605,698	2,396,161
Commitments			
Stockholders' equity:			
Preferred stock:			
Authorized shares--10,000,000:			
Series A Convertible Preferred			

Stock, no par value: Designated shares--150,000 Issued and outstanding shares-- 95,447.004 at December 31, 1995 and March 31, 1996 (liquidation preference $335 per share aggregating $31,974,746).....	--	30,496,204	30,496,204
Common stock, no par value: Authorized shares--100,000,000 Issued and outstanding shares-- 16,519,752, 17,265,773 and 17,272,536 at December 31, 1994 and 1995, and March 31, 1996, respectively.....	50,202,467	51,481,481	51,502,391
Deficit accumulated during development stage.....	(40,151,163)	(60,119,460)	(62,330,820)
Total stockholders' equity.....	10,051,304	21,858,225	19,667,775
Total liabilities and stockholders' equity.....	$ 17,278,263	$ 28,048,295	$ 25,600,169

See accompanying notes.

CELL THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,			PERIOD FROM SEPTEMBER 4, 1991 (DATE OF INCORPORATION) TO DECEMBER 31,	THREE MONTHS ENDED MARCH 31,		PERIOD FROM SEPTEMBER 4, 1991 (DATE OF INCORPORATION) TO MARCH 31,
	1993	1994	1995	1995	1995	1996	1996
					(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Revenues:							
Signing fee.....	$ --	$ --	$ --	$ --	$ --	$ 3,000,000	$ 3,000,000
Collaboration agreement.....	--	--	100,000	100,000	--	--	100,000
Operating expenses:							
Research and development.....	11,861,991	14,368,089	14,210,960	44,366,843	3,331,613	3,495,898	47,862,741
General and administrative.....	4,052,196	5,283,263	6,539,637	17,536,470	1,291,736	1,862,598	19,399,068
	15,914,187	19,651,352	20,750,597	61,903,313	4,623,349	5,358,496	67,261,809
Loss from operations...	(15,914,187)	(19,651,352)	(20,650,597)	(61,803,313)	(4,623,349)	(2,358,496)	(64,161,809)
Other income (expense):							
Investment income....	723,362	616,223	1,167,369	2,799,540	111,269	300,003	3,099,543
Interest expense.....	(137,318)	(464,154)	(509,247)	(1,139,865)	(129,180)	(135,919)	(1,275,784)
Net loss.....	$(15,328,143)	$(19,499,283)	$(19,992,475)	$(60,143,638)	$(4,641,260)	$(2,194,412)	$(62,338,050)
Net loss per share...	$ (1.00)	$ (1.18)	$ (1.20)		$ (0.28)	$ (0.13)	
Shares used in computation of net loss per share.....	15,331,876	16,507,395	16,699,364		16,520,277	17,268,103	

See accompanying notes.

CELL THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK		PREFERRED STOCK		DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE	DEFERRED COMPENSATION AND TECHNOLOGY LICENSING COSTS	TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT			
December 1991 issuance of common stock to founders at $0.01194 per share (including 637,500 shares contributed by founders for compensation and technology)	6,700,002	$ 87,612	--	$ --	$ --	$(7,612)	$ 80,000
April 1992 proceeds received from issuance of shares at $3.20 per share and 200,000 warrants at $0.02 each to Chairman of the Board of Directors	625,000	2,004,000	--	--	--	--	2,004,000
Net proceeds from the issuance of common stock in August through December 1992 via private placement equity offering at $5 per share, net of offering costs of $3,467,352	7,787,114	35,083,440	--	--	--	--	35,083,440
Net loss for the year ended December 31, 1992	--	--	--	--	(5,323,737)	--	(5,323,737)
Fair value of stock contributed by founders for compensation and technology	--	--	--	--	--	7,612	7,612
Balance at December 31, 1992	15,112,116	37,175,052	--	--	(5,323,737)	--	31,851,315
August 1993 Repurchase of common stock at $0.01194 per share and July 1993 cancellation of 3,750 shares	(214,948)	(2,522)	--	--	--	--	(2,522)
Net proceeds from the issuance of common stock and warrants in October and November 1993 via private placement equity offering at $9 per unit, net of offering costs of $1,486,383	1,534,809	12,326,885	--	--	--	--	12,326,885
Net loss for the year ended December 31, 1993	--	--	--	--	(15,328,143)	--	(15,328,143)
Balance at December 31, 1993	16,431,977	49,499,415	--	--	(20,651,880)	--	28,847,535
Net proceeds from the issuance of common stock and warrants in February 1994 via private placement equity offering at $9 per unit, net of offering costs of $85,823	87,500	701,677	--	--	--	--	701,677
Proceeds from stock options exercised in July 1994 at $5 per share	275	1,375	--	--	--	--	1,375
Net loss for the year ended December 31, 1994	--	--	--	--	(19,499,283)	--	(19,499,283)
Balance at December 31, 1994	16,519,752	50,202,467	--	--	(40,151,163)	--	10,051,304
Net proceeds from the issuance of Series A convertible preferred stock in March through June 1995 via private placement equity offering at $335.00 per share, net of offering costs of $1,478,541	--	--	95,447.004	30,496,204	--	--	30,496,204
Exchange of warrants for common stock in September 1995 valued at $3.35 per share	365,368	--	--	--	--	--	--
Issuance of common stock for purchased							

research and development in October 1995 at $3.35 per share	345,000	1,155,750	--	--	--	--	1,155,750
Proceeds from issuance of stock and stock options exercised in February through December 1995 at $3.35 and $5 per share	35,653	123,264	--	--	--	--	123,264
Net loss for the year ended December 31, 1995	--	--	--	--	(19,992,475)	--	(19,992,475)
Unrealized gains on securities available-for-sale	--	--	--	--	24,178	--	24,178
Balance at December 31, 1995	17,265,773	51,481,481	95,447.004	30,496,204	(60,119,460)	--	21,858,225
Exchange of warrants for common stock in February 1996 valued at $3.35 per share (unaudited)	521	--	--	--	--	--	--
Proceeds from issuance of stock and stock options exercised in January through March 1996 at $3.35 per share (unaudited)	6,242	20,910	--	--	--	--	20,910
Net loss for the three months ended March 31, 1996 (unaudited)	--	--	--	--	(2,194,412)	--	(2,194,412)
Unrealized losses on securities available-for-sale (unaudited)	--	--	--	--	(16,948)	--	(16,948)
Balance at March 31, 1996 (unaudited)	17,272,536	$51,502,391	95,447.004	$30,496,204	$(62,330,820)	$ --	$ 19,667,775

See accompanying notes.

CELL THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,			PERIOD FROM SEPTEMBER 4, 1991 (DATE OF INCORPORATION) TO DECEMBER 31,	THREE MONTHS ENDED MARCH 31,		PERIOD FROM SEPTEMBER 4, 1991 (DATE OF INCORPORATION) TO MARCH 31,
	1993	1994	1995	1995	1995	1996	1996
					(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
OPERATING ACTIVITIES							
Net loss	$(15,328,143)	$(19,499,283)	$(19,992,475)	$(60,143,638)	$(4,641,260)	$(2,194,412)	$(62,338,050)
Adjustments to reconcile net loss to net cash used in operating activities:							
Depreciation and amortization	1,308,798	1,617,438	1,718,765	4,802,786	437,518	408,188	5,210,974
Noncash research and development expense	--	--	1,155,750	1,155,750	--	--	1,155,750
Noncash interest expense	--	--	--	25,918	--	--	25,918
Noncash rent expense	158,833	33,396	33,396	440,072	8,349	8,349	448,421
Investment premium amortization	172,972	119,110	22,500	410,746	60,602	27,877	438,623
Changes in assets and liabilities:							
Prepaid expenses	(22,331)	166,123	(2,789)	(20,080)	(40,653)	(41,583)	(61,663)
Note receivable from officer	(200,000)	(11,022)	(10,700)	(221,722)	(2,676)	(2,676)	(224,398)
Other assets	86,992	(143,476)	9,208	(281,925)	485,137	(19,961)	(301,886)
Accounts payable	(192,787)	330,197	329,525	1,057,428	171,613	(518,358)	539,070
Accrued expenses	109,878	906,428	(245,376)	1,412,424	(321,763)	446,898	1,859,322
Total adjustments	1,422,355	3,018,194	3,010,279	8,781,397	798,127	308,734	9,090,131
Net cash used in operating activities	(13,905,788)	(16,481,089)	(16,982,196)	(51,362,241)	(3,843,133)	(1,885,678)	(53,247,919)
INVESTING ACTIVITIES							
Purchases of securities available-for-							

sale	(12,358,422)	(7,555,482)	(13,165,743)	(48,912,098)	--	(2,823,296)	(51,735,394)
Proceeds from sales of securities available-for-sale	--	11,034,146	3,856,167	14,890,313	2,587,322	--	14,890,313
Proceeds from maturities of securities available-for-sale	13,267,270	2,048,016	1,059,296	18,660,787	1,010,631	3,974,000	22,634,787
Purchase of property and equipment	(4,030,711)	(1,654,517)	(204,424)	(10,288,296)	(54,223)	(398,752)	(10,687,048)
Dispositions of property and equipment	--	114,993	36,476	151,469	--	--	151,469
Net cash provided by (used in) investing activities	(3,121,863)	3,987,156	(8,418,228)	(25,497,825)	3,543,730	751,952	(24,745,873)
FINANCING ACTIVITIES							
Sales of common stock to founders	--	--	--	80,000	--	--	80,000
Proceeds of borrowings from stockholder	--	--	--	850,000	--	--	850,000
Sale of preferred stock via private placement, net of offering costs	--	--	30,496,204	30,496,204	23,855,209	--	30,496,204
Sale of common stock via private placements, net of offering costs	12,326,885	701,677	67,000	49,307,084	--	--	49,307,084
Repurchase of common stock	(2,522)	--	--	(2,522)	--	--	(2,522)
Proceeds from common stock options exercised	--	1,375	56,264	57,639	5,250	20,910	78,549
Repayment of long-term obligations	(410,816)	(3,940,830)	(2,954,434)	(7,312,081)	(531,011)	(194,565)	(7,506,646)
Change in deferred offering costs	--	(458,726)	458,726	--	--	--	--
Proceeds from the issuance of long-term obligations	5,000,000	3,515,334	1,800,000	10,315,334	--	--	10,315,334
Net cash provided by (used in) financing activities	16,913,547	(181,170)	29,923,760	83,791,658	23,329,448	(173,655)	83,618,003
Net increase (decrease) in cash and cash equivalents	(114,104)	(12,675,103)	4,523,336	6,931,592	23,030,045	(1,307,381)	5,624,211
Cash and cash equivalents at beginning of period	15,197,463	15,083,359	2,408,256	--	2,408,256	6,931,592	--
Cash and cash equivalents at end of period	$ 15,083,359	$ 2,408,256	$ 6,931,592	$ 6,931,592	$25,438,301	$ 5,624,211	$ 5,624,211
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:							
Acquisition of equipment pursuant to capital lease obligations	$ 147,053	$ --	$ --	$ 276,893	$ --	$ --	$ 276,893
Conversion of convertible debt and related accrued interest into common stock	$ --	$ --	$ --	$ 875,918	$ --	$ --	$ 875,918
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:							
Cash paid during the period for interest	$ 101,658	$ 476,845	$ 529,847	$ 1,111,491	$ 151,717	$ 158,038	$ 1,269,529

See accompanying notes.

CELL THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1995

(INFORMATION AS OF MARCH 31, 1996 AND FOR THE THREE MONTHS ENDED MARCH 31, 1995 AND 1996 IS UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Cell Therapeutics, Inc. (the "Company") is a development stage biopharmaceutical company that focuses on the discovery, development, and commercialization of small molecule drugs that modulate the production of cell membrane lipids called phosphatidic acids for the treatment of cancer and inflammatory and immune diseases. 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 therapies. The Company incorporated on September 4, 1991, but did not commence operations until February 1992.

The Company operates in a highly regulated and competitive environment. The manufacturing and marketing of pharmaceutical products require approval from and are subject to ongoing oversight by the Food and Drug Administration in the United States and by comparable agencies in other countries. Obtaining approval for a new therapeutic product is never certain and may take several years and involve expenditure of substantial resources. Competition in researching, developing, and marketing pharmaceutical products is intense. Any of the technologies covering the Company's existing products under development could become obsolete or diminished in value by discoveries and developments of other organizations.

Interim Financial Information

The financial information at March 31, 1996 and for the three months ended March 31, 1995 and 1996 is unaudited, but 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 operating results and cash flows for those periods. Operating results for the three months ended March 31, 1996 are not necessarily indicative of the results that may be expected for the entire year.

Cash and Cash Equivalents

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

Securities Available-for-Sale

Management determines the appropriate classification of debt securities at the time of purchase. Management currently classifies its investment portfolio as available-for-sale and carries the securities at fair value, with unrealized gains and losses included within the deficit accumulated during development stage. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in investment income. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in investment income. The cost of securities sold is based on the specific identification method. Securities available-for-sale collateralizing the noncurrent portion of December 31, 1994 long-term obligations are shown as noncurrent assets on the balance sheet (see Note 7). Interest on securities classified as available-for-sale is included in investment income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management of Credit Risk

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

Property and Equipment

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

Deferred Offering Costs

The Company records legal and other issuance costs related to its offerings of stock as deferred offering costs until the offerings are completed and the costs are netted against gross proceeds.

Stock-Based Compensation

In October 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation." Statement No. 123 is effective for fiscal years beginning after December 15, 1995. Under Statement No. 123, stock-based compensation expense is measured using either the intrinsic value method, as prescribed by Accounting Principles Board Opinion No. 25, or the fair value method described in Statement No. 123. Companies choosing the intrinsic value method will be required to disclose the pro forma impact of the fair value method on net income and earnings per share. The Company plans to implement Statement No. 123 in 1996 using the intrinsic value method.

Accordingly, there will be no effect of adopting Statement No. 123 on the Company's financial position and results of operations.

Net Loss Per Share

Net loss per share is computed using the weighted average number of shares of common stock outstanding. Common stock equivalents from preferred stock, stock options, and warrants are excluded from the computation as their effect is antidilutive.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

2. SECURITIES AVAILABLE-FOR-SALE

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

	1994	1995	
		GROSS	GROSS

	AMORTIZED COST	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. Government obligations	$3,524,656	$ 2,026,138	$ 272	$ --	$ 2,026,410
Corporate obligations	3,197,816	12,924,114	29,639	(5,733)	12,948,020
	6,722,472	$14,950,252	$29,911	$(5,733)	$14,974,430
Less portion classified as noncurrent (Note 7)	446,885				
	$6,275,587				

Securities available-for-sale consist of the following as of March 31, 1996:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
U.S. Government obligations	$ 511,312	$ --	$ (156)	$ 511,156
Corporate obligations	13,260,359	12,990	(5,604)	13,267,745
	$13,771,671	$12,990	$(5,760)	$13,778,901

Amortized cost of securities available-for-sale at December 31, 1994 approximated fair value. As of December 31, 1995, the securities available-for-sale had contractual maturities of less than one year. As of March 31, 1996, $11,561,402 of the securities available-for-sale had contractual maturities of less than one year, and the remaining $2,217,499 had contractual maturities of less than fifteen months. Expected maturities will differ from contractual maturities because issuers of the securities may have the right to prepay obligations without prepayment penalties.

3. PROPERTY AND EQUIPMENT

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

	1994	1995
Leasehold improvements	$ 4,276,027	$ 4,288,000
Lab equipment	3,402,617	3,468,103
Furniture and office equipment	2,544,980	2,577,024
	10,223,624	10,333,127
Less accumulated depreciation and amortization	2,997,424	4,619,900
	$ 7,226,200	$ 5,713,227

As of December 31, 1994 and 1995, furniture and office equipment included $276,893 of equipment acquired under capitalized leases. Accumulated depreciation related to this equipment totaled $92,167 and $147,545 at December 31, 1994 and 1995, respectively.

4. EQUITY OFFERINGS

In 1992, the Company completed its first private placement offering. Total gross proceeds amounted to $38,550,792, representing 7,787,114 shares of the Company's common stock, including the required conversion of amounts advanced (principal and interest of $850,000 and $25,918, respectively) from a principal stockholder aggregating 175,184 shares.

In 1993, the Company concluded a second round of equity financing through a private offering of common stock and warrants at $9 per unit. Each unit consisted of one share of common stock and a warrant to purchase one-half share of common stock. The warrants have an exercise price of $11 per share and expire in 1996. Total gross proceeds of the second round of equity financing amounted to $13,813,268, representing 1,534,809 shares of common stock and warrants to purchase 767,404 shares of common stock, including 74,388 shares of common stock and warrants to purchase 37,194 shares of common stock sold to the sales agents and their affiliates (including an affiliated sales agent, whose chief executive officer was a principal stockholder of the Company).

Offering costs related to the first and second offerings included $2,052,268 and $228,982, respectively, paid to the affiliated sales agent. In connection with the offerings, the sales agents received warrants to purchase 755,194 shares of common stock at $5 per share, expiring in 1997 (including warrants to purchase 587,303 shares of common stock issued to the affiliated sales agent) and warrants to purchase 148,481 shares of common stock at $9 per share, expiring in 1998 (including warrants to purchase 26,384 shares of common stock issued to the affiliated sales agent).

In 1994, the Company sold additional units of common stock and warrants under terms equivalent to those of the second round of equity financing. The Company received gross proceeds of $787,500, representing 87,500 shares of common stock and warrants to purchase 43,750 shares of common stock at $11 per share, expiring in 1996. Offering costs included $28,613 paid to the affiliated sales agent. In addition, the sales agents received warrants to purchase 8,750 shares of common stock at $9 per share, expiring in 1999 (including warrants to purchase 3,750 shares of common stock issued to the affiliated sales agent).

4. EQUITY OFFERINGS (CONTINUED)

In 1995, the Company concluded a third round of equity financing through a private offering of Series A Convertible Preferred Stock ("Convertible Preferred Stock") at $335 per share. Total gross proceeds of the offering amounted to $31,974,745, representing 95,447.004 shares of Convertible Preferred Stock. As of December 31, 1994, approximately $459,000 of offering costs were recorded as deferred offering costs. Holders of Convertible Preferred Stock have preferential rights to noncumulative dividends ($33.50 per share per annum) when and if declared by the Board of Directors, and a liquidation preference of $335 per share. Each share of Convertible Preferred Stock is convertible into 100 shares of common stock at a conversion price of $3.35 per share (the "Conversion Price"), subject to adjustment upon the occurrence of certain dilutive events, and is automatically converted into common stock upon the occurrence of certain events, including the closing of an initial public offering of the Company's common stock at a price per share of not less than $5 and an aggregate offering price of not less than $20 million. In May 1996 the holders of the Convertible Preferred Stock consented to the automatic conversion of all of the outstanding shares of Convertible

Preferred Stock upon the closing of an initial public offering of the Company's common stock at a price per share of not less than $3.40 and an aggregate offering price to the public of not less than $20,000,000 on or prior to September 30, 1996. The Conversion Price will be adjusted to the price of any subsequent equity sales which are less than the Conversion Price, until the Company has sold specified minimum amounts of equity securities at a price in excess of the Conversion Price. The shares of common stock issuable upon conversion of the Convertible Preferred Stock have certain registration rights. The Convertible Preferred Stock has the right to vote with the common stock on an as-converted basis, and voting as a separate class, is entitled to elect one director. As of December 31, 1995, the Company had reserved 9,544,700 shares of common stock for issuance upon the conversion of the Convertible Preferred Stock.

5. CONSULTING AND EMPLOYMENT AGREEMENTS

Directors, Officers, and Employees

The Company has entered into employment agreements with its chief executive officer and two other founding officers. The agreements expire in 1996, 1997, and 1998 and provide for annual base salaries (approximately $797,000 in the aggregate as of December 31, 1995), minimum annual and cost-of-living increases, and discretionary incentive bonus awards.

In December 1993, the Board of Directors authorized a loan of $200,000 to the Company's chief executive officer. The loan accrues interest at 5.35%, with interest and principal due no later than July 1, 1997. The loan is secured by 20,000 shares of common stock.

In 1992, the Company granted its chairman warrants to purchase 200,000 shares of common stock at $5 per share.

In 1994, the Company authorized a non-interest bearing loan of up to $150,000 to its Executive Vice President, Product Development in connection with relocation. In 1995, $120,000 was advanced under the terms of the loan, of which $45,000 was forgiven and treated as compensation expense.

In addition to the employment agreements with the corporate officers discussed above, the Company has entered into employment agreements with certain employees, whose employment agreement terms generally range from three to four years. The employment agreements can be terminated with cause, as defined in the agreements, upon 30 days' notice.

5. CONSULTING AND EMPLOYMENT AGREEMENTS (CONTINUED)

Advisory Boards

The Company has entered into consulting agreements with the members of its Scientific and Clinical Advisory Boards ("Advisory Boards") providing for aggregate annual fees of $84,000 and the issuance of 80,000 shares of common stock (a component of the 995,500 pool shares discussed in Note 8) and options to purchase 260,000 shares of common stock at $3.35 to $5 per share, all of which vest ratably over two to three years from the date of appointment. The consulting agreements with members of the Advisory Boards are cancelable upon 30 days' notice.

Other Consultants

The Company retained one of its private equity offering sales agents as a consultant. Beginning August 1992, the consultant received an annual fee of $100,000 for a term not less than the period during which the consultant and its affiliates own, in aggregate, at least 75% of their original allocation of founders' stock. The chief executive officer of such sales agent was a principal stockholder of the Company. General and administrative expense

associated with this fee totaled $93,972 for the year ended December 31, 1993. Payments under this consulting agreement terminated in 1993.

In addition, the Company retained an affiliate of such sales agent as a consultant. General and administrative expense associated with this fee totaled $90,000 in 1993. The consulting agreement was terminated in 1994.

6. CONTRACTUAL ARRANGEMENTS AND COMMITMENTS

Licensed Technology

In March 1992, the Company entered into agreements with the Fred Hutchinson Cancer Research Center ("FHCRC") under the terms of which the Company has received worldwide licenses and options to technology, or technology claimed, for five U.S. patent applications. The Company paid initial license fees totalling $100,000 and issued 268,000 shares of common stock valued at $3,200 to the FHCRC for such technology. The initial license fee and value of the stock granted to the FHCRC were expensed as in-process research and development. The Company is obligated to pay royalties on revenues resulting from future sales of products employing the technology and on revenues received from sublicenses for the technology, with minimum annual royalties of $50,000 prior to, and $100,000 after, the first commercial sale of such products. The agreements are for a term equal to the later of 15 years or the expiration of the last issued patent included within the licensed technology, unless terminated earlier for certain specified events, including the failure of the Company to take reasonable efforts to engage in research and development with respect to the licensed technology.

Facilities Lease

The Company has executed noncancelable operating leases for office and laboratory space that generally expire the first quarter of 2003, with two five-year renewal options at the then-current market rates. The lessor provided $450,000 for leasehold improvements and rent concessions, which is being amortized over the initial lease term. Rent expense amounted to $719,514, $977,778, and $993,471 for the years ended December 31, 1993, 1994, and 1995, respectively.

6. CONTRACTUAL ARRANGEMENTS AND COMMITMENTS (CONTINUED)

Future minimum annual rental payments under the leases approximate the following for the years ended December 31:

1996	$ 882,000
1997	925,000
1998	994,000
1999	1,001,000
2000	1,001,000
Thereafter	2,084,000
	$6,887,000

7. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following at December 31:

	1994	1995

Master financing agreements:		
Due December 1998, monthly payments of $55,827, including interest at 14.7%	$2,015,334	$1,616,295
Due December 1998, monthly payments of $45,820, including interest at 17.6%	--	1,274,342
Due December 1996, monthly payments of $21,944, including interest at 17.6%	--	239,847
Note payable to bank, repaid in 1995	2,216,668	--
Capital lease obligations	202,581	149,667
Deferred rent	406,673	440,067
	4,841,256	3,720,218
Less current portion	2,221,735	1,114,520
	$2,619,521	$2,605,698

In December 1994, the Company entered into a master financing agreement with a financing company, whereby the Company borrowed $2,015,334 in exchange for granting the lessor a security interest in approximately the same net book value of specific fixed assets and warrants to purchase 43,513 shares of common stock at $3.685 per share.

In July 1995, the Company entered into master financing agreements with another finance company, whereby the Company borrowed $1,450,000 over 42 months and $350,000 over 18 months in exchange for granting the lessor a security interest in approximately the same net book value of specific fixed assets.

As of December 31, 1994, the note payable to bank was collateralized by $2,216,668 of the Company's securities available-for-sale (of which $446,885 was considered noncurrent). The Company paid off the note payable to bank during 1995 with the proceeds of the master lease agreements.

Annual maturities of the master financing agreements for 1996 through 1998, respectively, approximate $1,055,000, $955,000, and $1,120,000.

8. CAPITAL STOCK

In connection with the formation of the Company, certain stockholders contributed 995,500 shares of common stock to a pool to be issued to the FHCRC, the Scientific Advisory Board ("SAB"), and key employees. (Refer to Notes 5 and 6 with regards to the stock issued to the SAB and the FHCRC.) From this pool, 268,000, 80,000, and 172,500 shares were distributed to the FHCRC, SAB, and key employees, respectively. As of December 31, 1992, 117,000 undistributed shares reverted back to the contributing stockholders. The shares issued to key employees are subject to forfeiture and cancellation in the event such individuals' employment agreements are terminated. As of December 31, 1995, 36,250 shares of common stock issued to key employees were deemed restricted stock and, in certain resignation/termination-related circumstances, are subject to cancellation. The restrictions on the stock expire in 1996.

As of December 31, 1995, 216,656 shares of common stock owned by certain of the founding officers were deemed restricted stock and, in certain termination-related circumstances, are subject to repurchase by the Company at $.01194 per share. The restrictions on the stock expire in February and April 1996.

In August 1993, the Company repurchased 211,198 shares of common stock at $.01194 per share from one of its founders pursuant to a stock repurchase

agreement.

9. STOCK OPTIONS AND WARRANTS

Stock Options

In 1994, stockholders approved the 1994 Equity Incentive Plan (the "1994 Plan") in replacement of the 1992 Stock Option Plan (the "1992 Plan"). The 1994 Plan provides for (a) the grant of incentive stock options (with terms not to exceed 10 years), nonstatutory stock options and stock appreciation rights, (b) the award of stock bonuses, (c) the sale of stock, and (d) any other equity-based or equity-related awards which the Plan Administrator determines to be consistent with the purpose of the 1994 Plan and the interests of the Company. Option-vesting schedules are specified by the Plan Administrator. The number of shares available for future grant under the 1994 Plan is the number of shares of common stock available for issuance under the 1992 Plan at the time of approval of the 1994 Plan (622,977), plus such shares for which options previously granted under the 1992 Plan may expire, terminate, or be canceled. The 1994 Plan also provides for the automatic grant of nonstatutory options to nonemployee directors.

In April 1995, the Board of Directors approved the repricing of outstanding options to $3.35 per share by exchanging such outstanding options for a fewer number of options pursuant to a Black-Scholes formula. Subsequently, options for 1,521,324 shares, with prices of $5 and $9 per share, were exchanged for 1,319,925 options with a price of $3.35 per share. All other terms and conditions of the options remained unchanged. These amounts have been included as granted and canceled options in the summary activity table as shown below.

In May 1995, the stockholders approved a 864,105 share increase in the number of shares reserved for issuance under the 1994 Plan. As of December 31, 1995, the Company had reserved 2,886,952 shares of common stock for issuance under the 1992 and 1994 Plans, of which 1,121,260 were exercisable and 221,374 were available for future grant. In April 1996 the stockholders approved a 1,775,000 share increase in the number of shares reserved for issuance under the 1994 Plan.

9. STOCK OPTIONS AND WARRANTS (CONTINUED)

A summary of the activity related to the 1992 and 1994 Plans follows:

	SHARES UNDER OPTION	OPTION PRICES
Balance December 31, 1993, unexercised	1,416,423	$5.00-$9.00
Granted	216,895	9.00
Canceled	(38,233)	5.00- 9.00
Exercised	(275)	5.00
Balance December 31, 1994, unexercised	1,594,810	5.00- 9.00
Granted	2,852,802	3.35
Canceled	(1,765,756)	3.35- 9.00
Exercised	(16,278)	3.35- 5.00
Balance December 31, 1995, unexercised	2,665,578	3.35- 9.00
Granted	83,013	3.35
Canceled	(45,926)	3.35- 9.00
Exercised	(6,242)	3.35

Balance March 31, 1996, unexercised.....	2,696,423	3.35- 9.00

Warrants

During 1995, the Company offered to exchange shares of common stock for outstanding warrants to purchase common stock, issuing 365,368 shares of common stock in exchange for warrants to purchase 1,550,415 shares of common stock. A summary of the warrants to purchase common stock which remain outstanding (and for which common stock is reserved for issuance) is as follows as of December 31, 1995:

SHARES OF COMMON STOCK	PRICE PER SHARE OF COMMON STOCK	EXPIRATION
142,682	$11.00	1996
242,472	5.00	1997
27,773	9.00	1998
3,750	9.00	1999
416,677		

Employee Stock Purchase Plan

In April 1996 the stockholders approved the adoption of the 1996 Employee Stock Purchase Plan (the "Purchase Plan"). A maximum of 1,000,000 shares of the Company's common stock will be reserved for purchase under the Purchase Plan, under which eligible employees may purchase a limited number of shares of the Company's common stock at 85% of fair market value.

10. INCOME TAXES

The Company follows Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires an asset and liability approach for financial accounting and reporting for income taxes. The standard requires that deferred tax liabilities and assets be adjusted currently for effects of changes in tax laws or rates.

As of December 31, 1995, the Company had net operating tax loss carryforwards of approximately $57,457,000 and research and development credit carryforwards of approximately $1,667,000. The carryforwards begin to expire in the year 2007. The utilization of net operating loss and credit carryforwards is subject to an annual limitation under Section 382 of the Internal Revenue Code of 1986, as amended, of approximately $7.6 million.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has recognized a valuation allowance equal to the deferred tax assets due to the uncertainty of realizing the benefits of the assets. The Company's valuation allowance increased $7,332,000 and $6,928,000 during 1994 and 1995, respectively. Significant components of the Company's deferred tax liabilities and assets as of December 31 are as follows:

	1994	1995
Deferred tax assets:		
Net operating loss carryforwards	$13,328,000	$19,535,000
Research and development tax credit carryforward	1,116,000	1,667,000
Accruals on financial statements in excess of tax returns	260,000	301,000
Depreciation in financial statements in excess of tax returns	20,000	149,000
Net deferred tax assets	$14,724,000	$21,652,000
Valuation allowance for deferred tax assets	$14,724,000	$21,652,000

11. SIGNIFICANT AGREEMENTS

On March 7, 1995, the Company and BioChem Therapeutic Inc. ("BioChem"), a wholly owned subsidiary of BioChem Pharma, Inc., signed collaboration and supply agreements (the "BioChem Collaboration Agreement" and the "BioChem Supply Agreement" respectively). The BioChem Collaboration Agreement grants an exclusive license to enable BioChem to seek Canadian regulatory approval for, and to use and sell, the Company's Lisofylline and/or CT-2584 compounds (and compositions thereof) (collectively, the "CTI Compounds") in Canada.

Under the BioChem Collaboration Agreement, BioChem purchased 7,462.687 shares of preferred stock for $2,500,000 in the Company's third private equity offering. In addition, the Company is entitled to receive payments for each of the CTI Compounds upon the satisfaction of specified product development milestones and royalties on all sales, if any. The BioChem Collaboration Agreement terminates upon the expiration of the last to expire patents covering the CTI Compounds or, absent a patent, upon the tenth anniversary of the first commercial sale of such CTI Compound. The Company recorded a milestone payment of $100,000 under the BioChem Collaboration Agreement in 1995.

11. SIGNIFICANT AGREEMENTS (CONTINUED)

Under the BioChem Supply Agreement, the Company is to supply to BioChem the CTI Compounds at a percentage mark-up above cost. The BioChem Supply Agreement terminates 20 years from the date of termination of the BioChem Collaboration Agreement with respect to each of the CTI Compounds.

In October 1995, the Company purchased all of the intellectual property of Lipomed Corporation ("Lipomed") from its shareholders and expensed the purchase price as in-process research and development expense. The purchase price was $1,155,750 consisting of 345,000 shares of common stock. The agreement also provides for a possible future payment to Lipomed of $100,000 upon the occurrence of certain events.

During the quarter ended March 31, 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 acceptable within thirty days after its receipt. The Company furnished Schering with this 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. There were no such revenues in the comparable quarter ended March 31, 1995.

EXHIBIT 4.1

CTI
CELL THERAPEUTICS, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF WASHINGTON

SEE RESTRICTIONS
ON REVERSE

This Certifies that

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK OF
CELL THERAPEUTICS, INC.

transferable only on the books of the corporation by the holder hereof in person or by a duly authorized Attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

In Witness Whereof, the said Corporation has caused this Certificate to be signed by its duly authorized officers and to be sealed with this Seal of the Corporation.

Dated:

/s/	[Corporate Seal]	/s/ James Bianco
Secretary		President

COUNTERSIGNED AND REGISTERED:
HARRIS TRUST COMPANY OF CALIFORNIA
TRANSFER AGENT AND REGISTRAR
BY

AUTHORIZED SIGNATURE

The securities represented hereby have not been registered under United States federal or state securities laws and may not be offered for sale, sold or otherwise transferred or assigned for value, directly or indirectly, nor may the securities be transferred on the books of the Corporation, without registration of such securities under all applicable United States federal or state securities laws or compliance with an applicable exemption therefrom, such compliance at the option of the Corporation, to be evidenced by an opinion of shareholder's counsel, in form acceptable to the Corporation, that no violation of such registration provisions would result from any proposed transfer or assignment.

The Corporation will furnish to any shareholder upon request and without charge a full statement of the designations, preferences, limitations and relative rights of the Common Stock and Preferred Stock that the Corporation is authorized to issue.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations. Additional abbreviations may also be used though not in the list.

TEN COM - as tenants in common	UNIF GIFT MIN ACT	---- Custodian	--- (Minor)
TEN ENT - as tenants by the entireties	under Uniform Gifts to Minors Act		-- (State)
JT TEN - as joint tenants with right of survivorship and not as tenants in common			

For value received, the undersigned hereby sells, assigns and transfers unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

- ---

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF ASSIGNEE

- ---

- ---Shares

represented by the within Certificate, and hereby irrevocably constitutes and appoints---
Attorney to transfer the said shares on the books of the within-named Corporation with full power of substitution on the premises.

Dated

In presence of

- ---

- ---
Signature(s) Guaranteed:

By

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION. (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

NOTICE: THE SIGNATURE IN THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATEVER.

Exhibit 10.4

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of the 1st day of February, 1992, by and between JAMES A. BIANCO, M.D. ("Employee"), and COMBINED THERAPEUTICS, INC., a Washington corporation (the "Company"). In consideration of the mutual covenants and conditions set forth herein, the parties hereby agree as follows:

1. Employment. The Company hereby employs Employee to serve as its President and Chief Executive Officer and Employee hereby accepts such employment. In his capacity as President and Chief Executive Officer, Employee shall be responsible for developing and presenting Company strategies and potential products or technologies, negotiating licensing and sublicensing agreements, and directing product research and overall corporate direction. Employee's duties will also include coordinating planning leading to the development of research facilities and business offices, in addition to overseeing daily operations of the physical/corporate plant. As President and Chief Executive Officer, Employee agrees to perform such other duties during the term hereof as the Board of Directors of the Company shall, from time to time, reasonably direct. Employee agrees to utilize his skills and to render services to the best of his ability on a full-time basis during the term of this Agreement.

2. Term. Unless earlier terminated pursuant to the provisions of paragraph 6 below, Employee's employment hereunder shall be for a period of five years commencing on the date hereof.

3. Compensation.

a. Base Salary. For all services rendered by Employee under this Agreement, Employee shall receive a salary at an annual rate of $170,900, as increased under Paragraph 3b, 3c, and 4c ("Base Salary"), or such higher annual rate as the Board of Directors of the Company may from time to time establish in its sole discretion.

b. Annual Increases. The Base Salary shall be increased at the end of each year of service by an amount equal to (i) a percentage equal to the increase, if any, in the United States Department of Labor Consumer Price Index for Seattle, Everett urban areas, all items, over the previous twelve months, plus (ii) 10%, or such greater amount as the Board of Directors shall determine. If the index specified in this paragraph is discontinued or not available, a substitute index shall be selected by arbitration in the manner contemplated by Paragraph 6e unless the parties mutually agree on a substitute index.

c. Annual Bonuses. Employee shall receive such annual bonuses as may be declared from time to time by the Board of Directors in its sole discretion.

d. Stock Option Plans. The Company intends to adopt stock option and/or stock purchase plans for the benefit of certain employees of the Company. Employee shall be entitled to participate in such plans, consistent with the terms of such plans and applicable law.

4. Benefits.

a. Medical/Health Insurance. The Company shall provide

Employee with Company paid medical and dental insurance for Employee, his spouse and dependents in accordance with such policies as shall be maintained by the Company, which shall be comparable to that enjoyed by Employee immediately prior to accepting employment hereunder.

b. Vacation/Sick Leave. Employee shall be entitled to vacation and sick leave in accordance with Company policy, provided, Employee shall be entitled to (i) a minimum of three (3) weeks vacation time during the first two (2) years of service and a minimum or four (4) weeks thereafter, and (ii) a minimum of three (3) days of paid sick leave for each ten (10) weeks of consecutive employment. Vacation and sick leave not used shall accumulate and shall be paid to Employee upon termination of employment for any reason.

c. Life/Disability Insurance. The Company shall provide, at Company expense, term life insurance for the benefit of Employee in accordance with a plan for executive officers of the Company. The Company's benefit plan for executive officers shall provide, at Employee's expense, disability insurance for the benefit of Employee and his beneficiaries through a company reasonably acceptable to Employee. Employee's Base Salary shall be increased by the amount of the annual premium for such coverage. The Company shall cause its records to reflect that the premiums for the disability policy have been paid by the Employee, including Form W-2 prepared by the Company. The above benefits are subject to the same being available to the Company at reasonable cost and any limitations resulting from Employee's physical condition.

d. Expense Reimbursement. The company shall pay or reimburse Employee for all reasonable travel and other expenses

incurred or paid by Employee in connection with the performance of services under this Agreement upon presentation of expense vouchers and such other supporting information as the Company may from time to time reasonably request.

5. Warranties and Indemnification. Employee represents to the Company that Employee is free to enter into this Agreement and that Employee has no commitment, arrangement or understanding to or with any third party which restrains or is in conflict with this Agreement; or which would operate to prevent Employee from performing the services to the Company which Employee hereby has agreed to provide. Employee agrees to indemnify and hold the Company harmless from and against any and all liabilities or claims, including costs, expenses and reasonable attorney's fees arising out of any acts by Employee which, the foregoing representation or warranty to the contrary notwithstanding, shall be in violation of or shall constitute a breach of any such commitment, arrangement or understanding.

6. Termination.

a. The Company may terminate Employee's employment hereunder upon thirty (30) days' prior written notice to Employee for cause, and, except as provided below, the salary and benefits referred to in paragraphs 3 and 4 above shall cease upon the effective date of any such termination for cause. As used herein, with respect to termination by the Company, the term "cause" shall mean (i) any material breach hereof by Employee which is not cured within thirty (30) days following notice of such breach given by the Company, provided that no such prior notice and opportunity to cure need be given where such breach, or similar breach, has been the subject of such a notice and cure period on more than two prior occasions; or (ii) conviction of Employee for commitment of a felony; or (iii) any act of Employee, which in the reasonable judgment of a majority of the Board of Directors of the Company, constitutes dishonest, larceny, fraud, deceit or gross negligence by Employee in the performance of his duties to the Company, willful misrepresentation to shareholders, directors or officers of the Company.

b. The Company may, by action of a majority of the Board of Directors, terminate Employee's employment at any time upon thirty (30) days

prior written notice and without cause; provided, that prior to the effective date of termination, the Company shall pay to Employee an amount equal to the greater of (i) the total Base Salary otherwise payable through the expiration of the term of this Agreement as set forth at paragraph 2 above, or (ii) six (6) months' Base Salary then payable to Employee. In addition, the Company shall continue to provide Employee the benefits described in Paragraphs 4a and 4c, at the same or greater

levels, through the expiration of the term of this Agreement as set forth at Paragraph 2 above.

c. Employee may terminate his employment hereunder at any time upon thirty (30) days' prior written notice to the Company for cause. The amounts identified in Paragraph 6b. shall be paid to Employee as of the effective date of termination, together with the continuing benefits described therein, as Employee's sole remedy. As used herein with respect to termination by Employee, "cause" shall mean (i) any material breach hereof by the Company which is not cured within thirty (30) days following notice of such breach given by Employee; (ii) repeated and consistent bad faith attempts to bring about Employee's resignation through obstruction by the Company of the operations and programs of Employee in his capacity hereunder; (iii) the removal of Employee from the position of President or Chief Executive Officer, or the appointment of another person to perform the duties ordinarily associated with such position(s) without the formal removal of Employee's title(s); or (iv) the transfer of Employee or the relocation of the principal offices from which the activities of the Company are conducted to an area more than fifty (50) miles outside the City of Seattle, Washington.

d. If Employee terminates his employment without cause, such termination shall be treated as a termination with cause by Company, as provided in subparagraph 6(a) above (but without the necessity of any prior notice by the Company).

e. Any dispute between the parties as to the meaning or presence of "cause" for termination shall be resolved by binding arbitration conducted before a single arbitrator in the Seattle, Washington area under the Commmercial Arbitration Rules of the American Arbitration Association, provided that the arbitrator shall be a person of extensive experience in the arbitration of disputes under private employment agreements applicable to management personnel in industries similar to the Company's industry.

f. This Agreement and Employee's employment and salary shall in any event terminate upon the death of Employee or the inability of Employee to perform the duties and functions of his position for a period of 120 days during any twelve (12) consecutive month period due to sickness or disability unless, by action of a majority of the Board or Directors, the Company grants Employee a leave of absence with or without all or a portion of his salary or bonuses, as may be specified.

g. In the event this Agreement is terminated by Employer without cause, or by Employee with cause, all stock of Employee in the Company shall immediately become vested under a

certain Stock Repurchase Agreement being entered into more or less contemporaneously herewith.

h. In the event this Agreement is terminated by Employer without cause, or by Employee with cause, Employee shall have the right to purchase all "key-man" and other life insurance policies maintained by the Company on the life of Employee at a cost of One Dollar ($1.00), plus any administrative charges required by the insurance company to assign the policy(s) to Employee. If any of such policies have a cash surrender value, such cash surrender value existing ninety (90) days prior to the termination shall be transferred with the policy to Employee.

7. Confidentiality.

a. Employee acknowledges that the Company's business and future success depends on the preservation of the trade secrets and other

confidential information of the Company and its affiliates, suppliers and customers (the "Secrets"). The Secrets include existing, to-be-developed or acquired products, processes, techniques, methods, computer programs, know-how, trade secrets, customers, suppliers, developments, patents, equipment, or business information made, sold, used, developed or practiced by the Company in it's business or proprietary to the Company or its affiliates, suppliers or customers. "Secrets" do not include any of the above information or medium generally known to the industry or which comes to the attention of Employee through sources other than the Company. It is anticipated that all employees of the Company, including Employee, will mark all items containing Secrets with prominent confidentially notices in accordance with policies to be adopted by the Company. Employee agrees to protect and to preserve as confidential during and after the term of his employment all of the Secrets at any time known to Employee or in his possession or control (whether wholly or partially developed by Employee or provided to Employee, and whether embodied in a tangible medium or merely remembered).

b. Employee shall neither use nor intentionally allow any other person to use any of the Secrets in any way, except for the benefit of the Company. All tangible items embodying or disclosing any portion of the Secrets shall be and remain the property of the Company and shall be returned to the Company upon the termination of Employee's employment. At such time, Employee shall also assemble all tangible items of work in progress, notes, plans, and other materials related in any way to Employee's employment, and will promptly deliver such items to the Company. The failure to mark any item with confidentiality notice(s) shall not, ipso facto, cause such item to be excluded
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from classification as a Secret for purposes of this Section 7.

c. Employee's covenants in this paragraph shall supplement, and shall not supplant, any other rights or remedies the Company may have under applicable law for the protection of its properties and trade secrets.

8. Inventions.
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a. "Invention(s)" shall mean discoveries, designs, programs, improvements, developments, new concepts, methods, agents, materials, and ideas, whether patentable or not, and products, processes and know-how related to the use or production thereof.

b. Employee agrees that any Invention which Employee has made or may make during the term of this Agreement shall be treated as part of the Company Secrets and shall be the sole and exclusive property of the Company, whether or not (i) patent applications or copyright registrations are filed thereon, (ii) the Invention is utilized by the Company, or (iii) the Invention is conceived or developed by Employee individually or jointly with others. However, Employee has no obligation to assign to the Company any Invention for which no Company Secrets and no equipment, supplies, or facilities of the Company were used and which was developed entirely on Employee's own time, unless:

i) the Invention relates directly to the business of the Company;

ii) the Invention relates to actual or demonstrably anticipated research or development work of the Company, or

iii) the Invention directly results from any work performed by Employee for the Company.

c. Whenever requested by the Company, Employee agrees to assist and cooperate with the Company, at the Company's expense, in the obtaining, maintaining and enforcing of United States and foreign patents and copyright registrations for any Invention which is to be the property of the Company as provided above. This assistance and cooperation shall include, but is not limited to:

i) making application for United States and foreign patents or copyright registrations on any Invention if so requested by the Company;

ii) assigning all of Employee's right, title and interest in and to such Invention and any patent

applications or copyright registrations thereon to the Company or its designee; and

iii) executing all documents and rendering all assistance as may be reasonably necessary to protect the rights of the Company or its designee and to vest in the Company or its designee all rights to any such Invention, patent application, patent, copyright, or copyright registration.

d. Attached hereto as Exhibit A is a list of all issued patents, pending patent applications, registered copyrights, and other inventions which Employee has owned or has developed prior to being retained by the Company. Any copyright, patent, pending application, or prospective patent application thus listed and not otherwise expressly assigned in writing by Employee to the Company will be excluded from the terms of this Agreement.

9. Covenant Not to Compete.

a. Applicability. This Paragraph 9 shall apply following the termination of Employee's employment only in the event such termination is (i) by Employer for cause as defined in Paragraph 6a above, or (ii) by Employee without cause as defined in Paragraph 6c above.

b. Covenant. For a period beginning on the date of this Agreement and ending two years following the date of termination of Employee's employment, Employee hereby agrees that he will not, directly or indirectly, enter into the employment of, render services to or acquire any interest whatsoever in (whether for his own account as an individual proprietor, or as a partner, associate, shareholder, officer, director, consultant, trustee or otherwise), any person or entity engaged in any operations in competition in any area of the world with any aspect of the business of the Company as presently conducted and as said business may evolve in the ordinary course of business between the date of this Agreement and the termination of Employee's employment hereunder (including products under active development at such time); provided, however, that nothing herein shall prevent the purchase or ownership by Employee of shares of stock in a nominal amount by way of investment in any publicly-held corporation or prevent the employment of or the rendering of services by Employee where he does not contribute to the development or sale of products which compete with products of the Company with whose development or sale the Employee was directly involved. Without limiting the foregoing, Employee agrees that he will not call on or otherwise solicit business from any of the customers or potential customers of the Company which, at the time of termination of his employment, were listed (or ought to have been listed) in the Company's

records, as to any product that competes with any product provided or marketed by or actually under development by the Company at the time of Employee's termination. Employee agrees that he will, during the term of his employment with the Company, promptly and fully disclose to the Company any business opportunity coming to Employee's attention, or conceived or developed in whole or in part by Employee, which relates to the Company's business or demonstrably anticipated business. Employee will not at any time exploit such business opportunities for his own gain or that of any person or entity other than the Company.

10. Remedies. Employee acknowledges that damages for breach of his covenants under paragraphs 7, 8 and 9 above will be difficult to determine and inadequate to remedy the harm which may be caused thereby, and therefore agrees that the Company may petition or seek to enjoin a putative violation by temporary or permanent injunction. Any available injunction relief shall be in addition to and not in place of any other remedies available at law or equity. Employee believes that the provisions of this Agreement are reasonable and that Employee is capable of gainful employment without breaching this Agreement. However, should any court or tribunal decline to enforce any provision of

paragraphs 9 or 10 of this Agreement as written, the parties hereby agree that this Agreement shall, to the extent applicable to that circumstance before such court, be deemed to be modified to restrict Employee's competition with the Company to the maximum extent of time, scope and geography which the court shall find enforceable, and such provisions shall be so enforced.

11. Entire Agreement; Modification. The provisions contained herein constitute the entire Agreement between the parties with respect to the subject matter hereof and any waiver, alteration or modification of any provisions of this Agreement, or the replacement of this Agreement, shall not be valid unless in writing and signed by all the parties signing hereunder.

12. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of Washington.

13. Agreement Not Assignable. Employee may not assign any of his rights or delegate any of his duties hereunder. Subject to Paragraph 6c., the Company may assign this Agreement to any of its Affiliates at any time owned by, owning or under common ownership with the Company. In the event of such an assignment by the Company, such affiliates shall be deemed substituted for the Company at each place where "the Company" appears herein; provided, however, the Company shall not be released from its obligations hereunder. Furthermore, the assignment of this Agreement by the Company shall not enlarge the business activities considered to be conducted by the Company for purposes of Paragraphs 7, 8 and 9

hereof. Subject to the foregoing, this Agreement shall bind the parties and their respective heirs, successors, assigns and personal representatives.

14. Change in Ownership. Upon (a) the sale or transfer of all or substantially all of the assets of the Company or of more than fifty percent (50%) of the outstanding stock of any voting class of the Company's stock to any single person or entity (in any one or more of a series of related transactions), or (b) the merger of the Company with or into any other entity (except a wholly-owned subsidiary or a parent owning all of the outstanding stock of the Company), then all stock of Employee in the Company shall immediately become vested under a certain Stock Repurchase Agreement being entered into more or less contemporaneously herewith.

15. Attorney's Fees. In any action to enforce its rights hereunder the prevailing party shall be reimbursed by the other for its costs of enforcement, including without limitation reasonable attorneys' fees.

16. Jurisdiction and Venue. The parties each irrevocably consents and submits to the personal jurisdiction of the State and Federal courts sitting in King county, Washington, and agrees that any action, suit or proceeding in connection with this Agreement shall be brought in such courts to the exclusion of all other courts, other than actions to enforce judgments or orders entered in such courts sitting in King County.

17. Notices. All notices required or permitted hereunder shall be given in writing and delivered in person, transmitted by facsimile, or sent by registered or certified mail, postage prepaid, or reliable courier service to the parties at the respective addresses set forth on the signature page hereof, or such other address as a party may specify by notice for all subsequent notices to it hereunder. Notices will be effective upon the earlier of receipt or the second business day after mailing.

18. No Waiver. NO waiver or modification of any of the terms or provisions hereof shall be valid unless in writing signed by the party against which the enforcement of such waiver or modification is sought, nor shall any waiver or failure to enforce any right hereunder be deemed to be a waiver of the same or any other right in any other instance.

Signed by the parties as of the date first written above.

COMBINED THERAPEUTICS, INC.

By: /s/ [Signature Appears Here]
Its: Executive Vice President

EMPLOYEE

JAMES A. BIANCO, M.D.

Address: _____

_____

_____

Signature: /s/ James Bianco

EXHIBIT A

Issued Patents, Pending Patent Applications, Registered Copyrights, Etc.

Exhibit 10.6

CELL THERAPEUTICS, INC.

201 Elliott Avenue West
Suite 400
Seattle, Washington 98119
Telephone 206 282 7100
Facsimile 205 284 6206

May 27, 1994

Mr. Louis A. Bianco
Executive Vice President,
Finance and Administration
Cell Therapeutics, Inc.
201 Elliott Avenue West
Suite 400
Seattle, WA 98119

Dear Lou:

This letter sets forth the agreement between you and Cell Therapeutics, Inc. (the "Company") to extend your February 1, 1992 Employment Agreement on the same terms and conditions for an additional period of three years, expiring January 31, 1998. The Company also agrees to provide you with term life insurance coverage in the amount of $1 million in lieu of the coverage otherwise normally provided to officers. The foregoing actions were authorized by the Company's Compensation Committee at its May 11, 1994 meeting.

Please indicate your agreement to these terms by dating and signing the enclosed duplicate of this letter in the space provided below and returning it to me. You should retain the original of this letter for your own records.

Sincerely,

/s/ J Bianco

James A. Bianco
President and CEO

I agree to the terms of this letter.
Date: May 27, 1994

/s/ Louis A. Blanco

Louis A. Blanco

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of the 1st day of February, 1992, by and between LOUIS BIANCO ("Employee"), the COMBINED THERAPEUTICS, INC., a Washington corporation (the "Company"). In consideration of the mutual covenants and conditions set forth herein, the parties hereby agree as follows:

1. Employment. The Company hereby employs Employee to serve as its
---
Executive Vice-President of Finance and Administration and Employee hereby accepts such employment. In such capacity, Employee shall be responsible for managing short and long term funding necessary to meet the Company's strategic objectives, assisting the Chief Executive Officer to develop and execute the

Company's business plans, supervising and managing comptroller functions (i.e., preparation of financial reports to investors and regulators, and preparation of internal management reports and analyses), supervising and managing those appointed to head the Company's marketing, regulatory, and operational/administrative functions, and to perform such other duties during the term hereof as the President or Board of Directors of the Company shall, from time to time, reasonably direct. Employee agrees to utilize his skills and to render services to the best of his ability on a full-time basis during the term of this Agreement.

2. Term. Unless earlier terminated pursuant to the provisions of paragraph 6 below, Employee's employment hereunder shall be for a period of three (3) years commencing on the date hereof.

3. Compensation.

a. Base Salary. For all services rendered by Employee under this Agreement, Employee shall receive a salary at an annual rate of $154,500, as increased under Paragraphs 3b, 3c, and 4c ("Base Salary"), or such higher annual rate as the Board of Directors of the Company may from time to time establish in its sole discretion.

b. Annual Increases. The Base Salary shall be increased at the end of each year of service by an amount equal to (i) a percentage equal to the increase, if any, in the United States Department of Labor Consumer Price Index for Seattle, Everett urban areas, all items, over the previous twelve months,

plus (ii) 10%, or such greater amount as the Board of Directors shall determine. If the index specified in this paragraph is discontinued or not available, a substitute index shall be selected by arbitration in the manner contemplated by Paragraph 6e unless the parties mutually agree on a substitute index.

c. Annual Bonuses. Employee shall receive such annual bonuses as may be declared from time to time by the Board of Directors in its sole discretion.

d. Signing Bonus. Employee shall be paid a signing bonus in an amount not to exceed $75,000, which shall be deemed earned upon execution of this Agreement by the Company and Employee. The amount of the bonus shall equal $75,000, less any bonus earned and received by Employee from his employer prior to the Company for calendar year 1991. Upon the final disposition of Employee's entitlement, if any, to such bonus from his prior employer, the Company shall pay Employee the amount due under this Paragraph 3d within five (5) days.

e. Relocation Allowance. The Company shall reimburse Employee for all expenses incurred in relocating to the Seattle, Washington area, including moving, transportation, and temporary living accommodation expenses, upon submission of reasonable documentation evidencing such expenses. The amount to be reimbursed Employee under this Paragraph 3e shall not exceed $12,000.

f. Stock Option Plans. The Company intends to adopt stock option and/or stock purchase plans for the benefit of certain employees of the Company. Employee shall be entitled to participate in such plans, consistent with the terms of such plans and applicable law.

4. Benefits.

a. Medical/Health Insurance. The Company shall provide Employee with Company paid medical and dental insurance for Employee, his spouse and dependents in accordance with such policies as shall be maintained by the Company, which shall be comparable to that enjoyed by Employee immediately prior to accepting employment hereunder.

b. Vacation/Sick Leave. Employee shall be entitled to vacation and

sick leave in accordance with Company policy, provided, Employee shall be entitled to (i) a minimum of three (3) weeks vacation time during the first two (2) years of service and a minimum of four (4) weeks thereafter, and (ii) a minimum of three (3) days of paid sick leave for each ten (10) weeks of consecutive employment. Vacation and sick leave not used

shall accumulate and shall be paid to Employee upon termination of employment for any reason.

c. Life/Disability Insurance. The Company shall provide, at Company expense, term life insurance for the benefit of Employee in accordance with a plan for executive officers of the Company. The Company's benefit plan for executive officers shall provide, at Employee's expense, disability insurance for the benefit of Employee and his beneficiaries through a company reasonably acceptable to Employee. Employee's Base Salary shall be increased by the amount of the annual premium for such coverage. The Company shall cause its records to reflect that the premiums for the disability policy have been paid by the Employee, including Form W-2 prepared by the Company. The above benefits are subject to the same being available to the Company at reasonable cost and any limitations resulting from Employee's physical condition.

d. Expense Reimbursement. The Company shall pay or reimburse Employee for all reasonable travel and other expenses incurred or paid by Employee in connection with the performance of services under this Agreement upon presentation of expense vouchers and such other supporting information as the Company may from time to time reasonably request.

5. Warranties and Indemnification. Employee represents to the Company that Employee is free to enter into this Agreement and that Employee has no commitment, arrangement or understanding to or with any third party which restrains or is in conflict with this Agreement; or which would operate to prevent Employee from performing the services to the Company which Employee hereby has agreed to provide. Employee agrees to indemnify and hold the Company harmless from and against any and all liabilities or claims, including costs, expenses and reasonable attorney's fees arising out of any acts by Employee which, the foregoing representation or warranty to the contrary notwithstanding, shall be in violation of or shall constitute a breach of any such commitment, arrangement or understanding.

6. Termination.

a. The Company may terminate Employee's employment hereunder upon thirty (30) days' prior written notice to Employee for cause, and, except as provided below, the salary and benefits referred to in paragraphs 3 and 4 above shall cease upon the effective date of any such termination for cause. As used herein, with respect to termination by the Company, the term "cause" shall mean (i) any material breach hereof by Employee which is not cured within thirty (30) days following notice of such breach given by the Company, provided that no such prior notice and opportunity to cure need be given where such breach, or similar breach, has been

the subject of such a notice and cure period on more than two prior occasions; or (ii) conviction of Employee for commitment of a felony; or (iii) any act of Employee, which in the reasonable judgment of a majority of the Board of Directors of the Company, constitutes dishonesty, larceny, fraud, deceit or gross negligence by Employee in the performance of his duties to the Company, willful misrepresentation to shareholders, directors or officers of the Company.

b. The Company may, by action of a majority of the Board of Directors, terminate Employee's employment at any time upon thirty (30) days' prior written notice and without cause; provided, that prior to the effective date of termination, the Company shall pay to Employee an amount equal to the greater of (i) the total Base Salary otherwise payable through the expiration of

the term of this Agreement as set forth at paragraph 2 above, or (ii) six (6) months' Base Salary then payable to Employee. In addition, the Company shall continue to provide Employee the benefits described in Paragraphs 4a and 4c, at the same or greater levels, through the expiration of the term of this Agreement as set forth at Paragraph 2 above.

c. Employee may terminate his employment hereunder at any time upon thirty (30) days' prior written notice to the Company for cause. The amounts identified in Paragraph 6b. shall be paid with the continuing benefits described therein, as Employee's sole remedy. As used herein with respect to termination by Employee, "cause" shall mean (i) any material breach hereof by the Company which is not cured within thirty (30) days following notice of such breach given by Employee; (ii) repeated and consistent bad faith attempts to bring about Employee's resignation through obstruction by the Company of the operations and programs of Employee in his capacity hereunder; (iii) the removal of Employee from the position of Executive Vice-President of Finance and Administration, or the appointment of another person to perform the duties ordinarily associated with such position(s) without the formal removal of Employee's title(s); or (iv) the transfer of Employee or the relocation of the principal offices from which the activities of the Company are conducted to an area more than fifty (50) miles outside the City of Seattle, Washington.

d. If Employee terminates his employment without cause, such termination shall be treated as a termination with cause by Company, as provided in subparagraph 6(a) above (but without the necessity of any prior notice by the Company).

e. Any dispute between the parties as to the meaning or presence of "cause" for termination shall be resolved by binding arbitration conducted before a single arbitrator in the

Seattle, Washington area under the Commercial Arbitration Rules of the American Arbitration Association, provided that the arbitrator shall be a person of extensive experience in the arbitration of disputes under private employment agreements applicable to management personnel in industries similar to the Company's industry.

f. This Agreement and Employee's employment and salary shall in any event terminate upon the death of Employee or the inability of Employee to perform the duties and functions of his position for a period of 120 days during any twelve (12) consecutive month period due to sickness or disability unless, by action of a majority of the Board of Directors, the Company grants Employee a leave of absence with or without all or a portion of his salary or bonuses, as may be specified.

g. In the event this Agreement is terminated by Employer without cause, or by Employee with cause, all stock of Employee in the Company shall immediately become vested under a certain Stock Repurchase and Contribution Agreement being entered into more or less contemporaneously herewith.

7. Confidentiality.
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a. Employee acknowledges that the Company's business and future success depends on the preservation of the trade secrets and other confidential information of the Company and its affiliates, suppliers and customers (the "Secrets"). The Secrets include existing, to-be-developed or acquired products, processes, techniques, methods, computer programs, know-how, trade secrets, customers, suppliers, developments, patents, equipment, or business information made, sold, used, developed or practiced by the Company in it's business or proprietary to the Company or its affiliates, suppliers or customers. "Secrets" do not include any of the above information or medium generally known to the industry or which comes to the attention of Employee through sources other than the Company. It is anticipated that all employees of the Company, including Employee, will mark all items containing Secrets with prominent confidentially notices in accordance with policies to be adopted by the Company. Employee agrees to protect and to preserve as confidential during and after the term of his employment all of the Secrets at any time known to Employee or in his possession or control (whether wholly or partially developed by Employee or provided to Employee, and whether embodied in a tangible medium or merely remembered).

b. Employee shall neither use nor intentionally allow any other person to use any of the Secrets in any way, except for the benefit of the Company. All tangible items embodying or disclosing any portion of the Secrets shall be and remain the

property of the Company and shall be returned to the Company upon the termination of Employee's employment. At such time, Employee shall also assemble all tangible items of work in progress, notes, plans, and other materials related in any way to Employee's employment, and will promptly deliver such items to the Company. The failure to mark any item with confidentiality notice(s) shall not, ipso facto, cause such item to be excluded from
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classification as a Secret for purposes of this Section 7.

c. Employee's covenants in this paragraph shall supplement, and shall not supplant, any other rights or remedies the Company may have under applicable law for the protection of its properties and trade secrets.

8. Remedies. Employee acknowledges that damages for breach of
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his covenants under paragraph 7 will be difficult to determine and inadequate to remedy the harm which may be caused thereby, and therefore agrees that the Company may petition or seek to enjoin a putative violation by temporary or permanent injunction. Any available injunctive relief shall be in addition to and not in place of any other remedies available at law or equity.

9. Entire Agreement; Modification. The provisions contained herein
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constitute the entire Agreement between the parties with respect to the subject matter hereof and any waiver, alteration or modification of any provisions of this Agreement, or the replacement of this Agreement, shall not be valid unless in writing and signed by all the parties signing hereunder.

10. Governing Law. This Agreement shall be governed and construed
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in accordance with the laws of the State of Washington.

11. Agreement Not Assignable. Employee may not assign any of his
----
rights or delegate any of his duties hereunder. Subject to Paragraph 6c., the Company may assign this Agreement to any of its Affiliates at any time owned by, owning or under common ownership with the Company. In the event of such an assignment by the Company, such affiliates shall be deemed substituted for the Company at each place where "the Company" appears herein; provided, however, the
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Company shall not be released from its obligations hereunder. Subject to the foregoing, this Agreement shall bind the parties and their respective heirs, successors, assigns and personal representatives.

12. Change in Ownership. Upon (a) the sale or transfer of all or
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substantially all of the assets of the Company or of more than fifty percent (50%) of the outstanding stock of any voting class of the Company's stock to any single person or entity (in any one or more of a series of related transactions), or (b) the merger

of the Company with or into any other entity (except a wholly-owned subsidiary or a parent owning all of the outstanding stock of the Company), then all stock of Employee in the Company shall immediately become vested under a certain Stock Repurchase and Contribution Agreement being entered into more or less contemporaneously herewith.

13. Attorney's Fees. In any action to enforce its rights hereunder the
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prevailing party shall be reimbursed by the other for its costs of enforcement, including without limitation reasonable attorneys' fees.

14. Jurisdiction and Venue. The parties each irrevocably consents and submits to the personal jurisdiction of the State and Federal courts sitting in King county, Washington, and agrees that any action, suit or proceeding in connection with this Agreement shall be brought in such courts to the exclusion of all other courts, other than actions to enforce judgments or orders entered in such courts sitting in King County.

15. Notices. All notices required or permitted hereunder shall be given in writing and delivered in person, transmitted by facsimile, or sent by registered or certified mail, postage prepaid, or reliable courier service to the parties at the respective addresses set forth on the signature page hereof, or such other address as a party may specify by notice for all subsequent notices to it hereunder. Notices will be effective upon the earlier of receipt or the second business day after mailing.

16. No Waiver. No waiver or modification of any of the terms or provisions hereof shall be valid unless in writing signed by the party against which the enforcement of such waiver or modification is sought, nor shall any waiver or failure to enforce any right hereunder be deemed to be a waiver of the same or any other right in any other instance.

Signed by the parties as of the date first written above.

COMBINED THERAPEUTICS, INC.

By: /s/ J. Bianco
Its: Pres. & CEO

EMPLOYEE

LOUIS BIANCO

Address:

Signature: /s/ Louis Bianco

Exhibit 10.20

[LOGO]
BIOCHEM PHARMA
BIOCHEM THERAPEUTIC

Portions of this Exhibit have been omitted pursuant to a request for confidential treatment. The omitted portions are marked ***** and have been filed separately with the Commission

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COLLABORATION AGREEMENT

By and between

BIOCHEM THERAPEUTIC INC.

and

CELL THERAPEUTICS, INC.

Made as OF MARCH 7, 1995

BIOCHEM THERAPEUTIC INC.

A SUBSIDIARY OR BIOCHEM PHARMA INC
275 ARMAND-FRAPPIER BLVD
LAVAL. QUEBEC
CANADA H7V 4A7
TEL: (514) 687-4910
FAX: (514) 978-7767

(The information below marked by ***** has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

COLLABORATION AGREEMENT

THIS COLLABORATION AGREEMENT is dated and is effective as of this Seventh (7th) day of March 1995;

BY AND BETWEEN: BIOCHEM THERAPEUTIC INC., a corporation incorporated under the laws of Quebec, with its principal place of business located at 275 ARMAND-Frappier Boulevard, Laval, Quebec, Canada H71 4A7;

(hereinafter referred to as "BIOCHEM"),

AND: CELL THERAPEUTICS, INC., a corporation organized and existing under the laws of the State of Washington, having its principal place of business at 201 Elliott Avenue West, Seattle, Washington, United States of America, 98119;

(hereinafter referred to as "CTI")

RECITALS:

A. CTI and BIOCHEM desire to collaborate in obtaining regulatory approvals for and in commercializing Licensed Products and Combination Products (as hereinafter defined) in Canada;

B. CTI and BIOCHEM desire that CTI grant BIOCHEM an exclusive license under the Licensed Patents and the Technology (as hereinafter defined) to enable BIOCHEM to collaborate with CTI in obtaining regulatory approvals for, and in commercializing, Licensed Products and Combination Products in the Territory;

NOW, THEREFORE, in consideration of the various premises and undertakings set forth herein, the Parties agree as follows:

ARTICLE I
DEFINITIONS

Unless otherwise specifically provided herein, the following terms shall have the following meanings:

1.1 "Affiliate" of a Party shall mean an entity: (i) in which at least fifty percent (50%) of the voting shares or other means of control of such entity are owned or controlled, directly or indirectly, by such Party, or (ii) which owns or controls, directly or indirectly, at least fifty percent (50%) of the voting shares of such Party, or in which at least fifty percent (50%) of such ownership or control is owned or controlled, directly or indirectly, by an entity owning or controlling at least fifty percent (50%) of the voting shares of such Party.

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1.2 "Bulk Materials" shall mean Licensed Products or Combination Products ready for market except for final fill and finish.

1.3 "Calendar Quarter" shall mean any period of three (3) months ending on the last day of March, June, September or December, as the case may be.

1.4 "Combination Product" shall mean a product consisting of a Licensed Product and at least one other ingredient which is biologically active.

1.5 "CT-15O1R" shall mean the toxicity modifier Lisofylline: 1-(5-R-hydroxyhexyl) methylxanthine and its homologs and analogs as further described in Exhibit "E" hereto.

1.6 "CT-2584" shall mean the anticancer agent 1-(11-Dodecylamino-10-hydroxyundecyl)-3, 7-dimethylxanthine and its homologs and analogs as further described in Exhibit "E" hereto.

1.7 "Due Diligence" shall mean all reasonable efforts consistent with prudent business judgment.

1.8 "Exhibit" shall mean the exhibits annexed to and incorporated in this Agreement by reference and deemed to be a part hereof:

- Exhibit "A" - List of Patents and Patent Applications;
- Exhibit "B" - Nominees of the Management Committee;
- Exhibit "C" - Subscription Agreement and Confidential Private Placement Memorandum
- Exhibit "D" - Supply Agreement
- Exhibit "E" - Product Description

1.9 "FDA" means the United States Food and Drug Administration and its successor.

1.10 "Field" shall mean the treatment, diagnosis and prevention of disease in

humans.

1.11 "Governmental Body" shall mean (i) any domestic or foreign national, federal, provincial, state, municipal or other government or body, any international or multilateral body, any subdivision, ministry, department, secretariat, bureau, agency, commission, board, instrumentality or authority of any of the foregoing governments or bodies, (iv) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing governments or bodies, or (v) any domestic, foreign, international, multilateral, or multinational judicial, quasi-judicial, arbitration or administrative court, grand jury, tribunal, commission, board or panel.

1.12 "HPB" shall mean the Health Protection Branch of Health Canada or its successor.

1.13 "Laws" shall mean:

(a) all constitutions, treaties, laws, statutes, codes, ordinances, orders, decrees, rules, regulations, and municipal by-laws, whether domestic, foreign or international;

(b) all judgments, orders, writs, injunctions, decisions, rulings, decrees, and awards of any Governmental Body;

(c) all policies, practices and guidelines of any Governmental Body; and

(d) all provisions of the foregoing;

in each case binding on or affecting the Party or Person referred to in the context in which such word is used; and "Law" shall mean any one of them; for greater certainty the words "Laws" and "Law" shall include environmental Laws.

1.14 "Licensed Patents" shall mean any and all patents and patent applications, whether registered or pending, covering, based on, relating to or derived from CT-1501R and/or CT-2584, now or during the Term owned by or licensed to CTI or assigned by CTI to any of its licensees, including all divisionals, extensions, reissues, substitutions, renewals, continuations and continuations-in-part. "Licensed Patents" shall include, without limitation, those patents and patent applications listed on Exhibit "A" which is attached hereto and incorporated herein by this reference.

1.15 "Licensed Products" shall mean all drugs or compounds and any and all formulations, mixtures or compositions thereof consisting of or containing CT-1501R and/or CT-2584 and developed by CTI or its licensees.

1.16 "Management Committee" shall mean that entity organized and acting pursuant to Article III of this Agreement.

1.17 "NDA" shall mean New Drug Application.

1.18 "NDS" shall mean New Drug Submission.

1.19 "Net Sales" shall mean the gross invoiced sales price charged for all Licensed Products and Combination Products sold by BIOCHEM or its sublicensees after deduction of the following items, provided and to the extent that such items were actually incurred and do not exceed customary amounts in the market in which such sale occurred:

(i) trade, quantity and cash discounts or rebates;

(ii) credits or allowances for rejection or return of previously sold goods;

(iii) any tax or charge (other than an income tax) levied on the sale, transportation or delivery of a product and borne by the seller thereof; and

(iv) any charge for freight or insurance.

1.20 "Party" shall mean CTI or BIOCHEM and, when used in the plural, shall mean CTI and BIOCHEM.

1.21 "Person" shall mean an individual, corporation, company, cooperative, partnership, organization or any similar entity.

1.22 "Technology" shall mean all information, discoveries, developments, designs, inventions, methods, assay methodologies, processes, techniques, materials (whether biological, chemical or otherwise), formulae, biological, toxicological, preclinical and clinical data, technology, know-how and trade secrets, whether patentable or non-patentable, now or during the Term, which are necessary or useful for obtaining HPB approval for and/or commercializing Licensed Product(s) or Combination Product(s) in the Territory and any and all documents reflecting any of the foregoing.

1.23 "Term" shall have the meaning attributed to it in Article IX.

1.24 "Territory" shall mean Canada and its territories and possessions.

ARTICLE II
THE LICENSE

2.1 License to BIOCHEM.

(a) CTI hereby grants to BIOCHEM, and BIOCHEM hereby accepts, an exclusive license under the Licensed Patents and the Technology to seek regulatory approval from the HPB for and to use, sell and have sold Licensed Products and Combination Products within the Field, in the Territory.

(b) BIOCHEM's license rights shall include the right to grant sublicenses (i) to BIOCHEM Affiliates on prior notice to CTI and (ii) to other third parties with CTI's prior consent, which consent shall not be unreasonably withheld. In the event of any such sublicense, BIOCHEM guarantees to CTI the performance by its sublicensees of its obligations hereunder.

(c) Without limiting Section 2.2(a), CTI warrants that CTI shall provide BIOCHEM with copies of and the right to reference all preclinical and clinical data generated by CTI and/or its licensees with respect to Licensed Products or Combination Products as of the Effective Date or at any time during the Term. BIOCHEM shall have the right to use such data for the purposes contemplated by this Agreement.

(d) CTI shall, concurrently with any submissions made by CTI or its licensees with drug regulatory authorities in the United States and Europe, provide BIOCHEM with a copy of the files submitted by CTI or its licensees as well as of additional information supplied to such regulatory authorities until the relevant Licensed Product or Combination Product is approved for sale in the relevant jurisdictions.

(e) BIOCHEM shall promptly provide to CTI copies of and the right to reference all preclinical and clinical data generated by BIOCHEM or its sublicensees with respect to Licensed Products and Combination Products at any time during the Term. In addition, BIOCHEM shall, concurrently with filing an NDS for a Licensed Product or Combination Product, provide CTI with a copy of the files submitted by BIOCHEM to the HPB until the relevant Licensed Product or Combination Product is approved for sale in the Territory. CTI shall have the right to provide all such information (including the right to reference and use such information) to its licensee outside of the Territory, provided that such licensee shall have agreed to keep the contents thereof confidential on terms substantially similar to those provided in Article VII, below.

(f) (i) BIOCHEM is under no obligation to conduct research and except as hereinafter provided, development activities in respect of Licensed Products or Combination Products. BIOCHEM shall however have the right, at its option, to have specific clinical trials within CTI's overall clinical development program effected at BIOCHEM's expense at sites in the Territory and CTI shall provide BIOCHEM with its reasonable assistance in this regard. BIOCHEM shall be entitled to piggy-back on the data provided by CTI or its licensees to drug regulatory authorities in the U.S. and Europe, including without limitation, the data contained in an NDA for any Licensed Product or Combination Product filed with the FDA. BIOCHEM shall use its Due Diligence to submit the data provided by CTI or its licensees to the HPB. In the event that the data submitted to the FDA by CTI or its licensees is sufficient to obtain FDA approval for the sale of a Licensed Product or Combination Product in the U.S., but the HPB nonetheless requires additional information, BIOCHEM shall use its Due Diligence to provide the HPB with such information and CTI shall provide BIOCHEM with its reasonable assistance in this regard.

(ii) In the event that CTI and its licensees elect not to pursue FDA approval for the sale of a Licensed Product or Combination Product, they shall so advise BIOCHEM in writing, and BIOCHEM shall within ninety (90) days of receipt of CTI's notice, advise CTI whether BIOCHEM will use its Due Diligence to pursue HPB approval for the sale of such Licensed Product or Combination Product in the Territory or terminate its license with respect to such Licensed Product or Combination Product, without further liability in respect thereof.

2.2 Adverse Drug Events Reporting.

(a) Adverse Drug Reactions. Each Party shall promptly advise the other Party and provide the other Party with a copy by telecopier or overnight delivery service addressed to the attention of its Vice President, Clinical and Medical Affairs, of any reports of unexpected side effect, adverse reaction or injury ("ADE reports") which has been brought to that Party's attention at any place and which is alleged to have been caused by a Licensed Product or Combination Product. The term "ADE reports" shall also include publications in journals or other media. Each of BIOCHEM and CTI shall monitor all such literature for information on factors adversely or positively affecting the Product and shall promptly advise the other Party. Serious ADE reports and unexpected ADE reports (according to CIOMS criteria) shall be forwarded without delay to the other Party as soon as such reports come to either Party's attention. Any other ADE reports shall be reported by each Party to the other on a quarterly basis. The informing Party may, and is invited to, give in writing its professional evaluation of such reports, in particular with regard to suspected causality either together with such reports or as soon as possible at a later date. CTI shall report such side effects and adverse reaction or injury to the appropriate regulatory authorities and others outside the Territory as appropriate or necessary within the time limits required by applicable Laws and BIOCHEM shall report

same to the HPB.

(b) Regulatory and other Inquiries. Upon being contacted by the HPB or any other drug regulatory agency in connection with this Agreement or a Licensed Product or Combination Product, the Parties shall immediately notify each other. BIOCHEM shall respond to all Canadian inquiries and CTI shall provide BIOCHEM with reasonable assistance in this regard. CTI shall respond to all other inquiries regarding the benefits, side effects and other characteristics of Licensed Products or Combination Products, which responses will be provided by CTI on a timely basis, a copy of which responses shall be provided to BIOCHEM by CTI concurrently with their sending.

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(c) Product Recall. In the event that CTI or BIOCHEM determines that an event, incident or circumstance has occurred which may result in the need for a recall or other removal of any Licensed Product or Combination Product; or any lot or lots thereof, from the market, it shall advise and consult with the other Party with respect thereto as to the appropriate measures to be taken.

2.3 Should CTI or its licensees file a Drug Master File with the HPB, CTI shall or shall cause" its licensees, to provide the HPB with a letter authorizing cross-reference thereto by BIOCHEM in respect of Licensed Products or Combination Products.

2.4 Periodic Report. CTI shall provide BIOCHEM with periodic reports on its and its licensees' progress in seeking regulatory approvals for Licensed Products and Combination Products and of plans for launching Licensed Products and/or Combination Products in the U.S. and Europe.

2.5 Commercialization by BIOCHEM. Following HPB approval for the sale of a Licensed Product or Combination Product in the Territory, BIOCHEM shall use Due Diligence in the commercialization of Licensed Products within the Field, in the Territory.

ARTICLE III
MANAGEMENT COMMITTEE

3.1 Creation of the Management Committee. The Parties hereby agree to the creation of a Management Committee made up of two (2) representatives of each Party to facilitate the collaboration contemplated herein. The initial nominees are shown on Exhibit "B" attached hereto. Each Party may change its representatives on written notice to the other Party.

3.2 Regular Meetings. During the Term, the Management Committee shall meet at least once each six months. Meetings may be called by either Party on thirty (30) days' notice to the other and, unless otherwise agreed, shall alternate between the offices of the Parties. A designated representative of the Party hosting the meeting shall chair that meeting and a designated representative of the other Party shall act as secretary of the meeting.

3.3 Responsibilities of the Management Committee. The Management Committee shall be the primary vehicle for interaction between the Parties with respect to the collaboration contemplated herein. Without limiting the foregoing, the Management Committee shall be responsible for:

(a) reviewing and coordinating the NDS to the HPB for approval for the sale of Licensed Products and Combination Products in the Territory;

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(b) reviewing and approving publications proposed by either Party with respect to the Licensed Products and Combination Products in the

Territory;

(c) monitoring the progress of development (including preclinical and clinical trials) outside the Territory CTI and CTI's licensees of Licensed Products and Combination Products within the Field; and

Each Party shall disclose to the other proposed agenda items at least fifteen (15) days in advance of each meeting of the Management Committee.

ARTICLE IV
PAYMENTS TO CTI

4.1 Stock Purchase. Concurrently with the execution of this Agreement, BIOCHEM shall subscribe for 7,462.687 preferred shares of CTI stock (the "CTI Stock") at a purchase price of $335 per share for a total purchase of $2,500,000 in accordance with the terms of the Subscription Agreement and Confidential Private Placement Memorandum attached hereto as Exhibit "C", as supplemented or modified by CTI from time to time, as applicable to all investors pursuant thereto. The CTI Stock is convertible into Common Shares on the basis of one preferred share for one hundred common shares in the capital of CTI, subject to those adjustments set forth in the Articles of Amendment of CTI annexed hereto in Exhibit C.

4.2 License Fee and Benchmark Payments. In addition to other payments to CTI provided herein, BIOCHEM shall make non-refundable payments to CTI in the amounts and at the times set forth below:

(The information below marked by ***** has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

(a) ****** within thirty (30) days following the commencement of Phase II clinical trials by CTI or its licensees for each Licensed Product or Combination Product in the U.S.;

(b) ****** within thirty (30) days following the commencement of Phase III clinical trials by CTI or its licensees for each Licensed Product or Combination Product in the U.S.;

(c) ****** within thirty (30) days of the filing of an NDS in the Territory by BIOCHEM for each Licensed Product or Combination Product; and

(d) ****** within thirty (30) days of the first commercial sale at each Licensed Product or Combination Product in the Territory.

As soon as CTI intends to, or as soon as CTI receives a notice from a CTI licensee that such licensee intends to, commence Phase II clinical trials or Phase III clinical trials for any Licensed Product or Combination Product in the U.S., CTI shall provide BIOCHEM with notice thereof.

4.3 Royalties. BIOCHEM shall pay to CTI royalties on Net Sales of Licensed Products and Combination Products in the territory as follows:

(a) For the duration of the Term, within ninety (90) days following the end of each Calendar Quarter, BIOCHEM shall pay CTI the following royalties:

(The information below marked by ***** has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

(i) a royalty equal to ****** of Net Sales of Licensed Products or Combination Products covered by claims of validly issued Canadian patents during such Calendar Quarter; and

(ii) a royalty equal to ****** of Net Sales of Licensed Products or

Combination Products which are not covered by claims of validly issued Canadian patents.

Each such payment shall be accompanied by a statement stating the types of products sold, the quantity of each type sold, and the Net Sales of each type sold expressed in local currency and showing the conversion rate used, with respect to the Calendar Quarter to which the royalty payment relates.

(b) As to sales of Licensed Products and Combination Products by BIOCHEM to its non-Affiliate distributors and sublicensees, the royalty due hereunder shall be payable only once, calculated on the basis of the sale by BIOCHEM. As to such sales to Affiliates, the royalty due hereunder shall be calculated on the basis of the price paid in the first arm's length sale to an entity which is not a BIOCHEM Affiliate.

(c) The royalties shall only be payable by BIOCHEM on Net Sales of each Licensed Product and Combination Product for the duration of the Term for such Licensed Product or Combination Product or until the license for such Licensed Product or Combination Product is terminated in accordance with this Agreement.

(The information below marked by ***** has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

(d) BIOCHEM shall have the right to offset against ****** of the payments otherwise due to CTI pursuant to this Section 4****** of any royalties due to third parties under third party licenses required by BIOCHEM to enable BIOCHEM to use and sell Licensed Products and Combination Products, with third party royalties related to a particular Licensed Product or Combination Product being offset only against royalties due with respect to that Licensed Product or Combination Product.

(e) In determining Net Sales of Combination Products, Net Sales shall first be calculated in accordance with the definition of Net Sales and then multiplied by the percentage value of C1501R or CT-2584 contained in the Combination Product, such percentage value being the quotient obtained by dividing the current market value of CT-1501R or CT-2584 by the sum of the separate current market values of CT-1501R or CT-2584 and other biologically active ingredients in the Combination Product. The current market value of each biologically active ingredient shall be for a quantity comparable to that contained in the Combination Product and of the same class, purity and potency.

In the event that a current market value for the non-Licensed Product biologically active ingredient in the Combination Product is not available and the Parties fail to agree on an appropriate current market value, a current market value binding on the parties shall be determined by the public accounting firm selected by BIOCHEM with CTI's approval which shall be deemed given in the event BIOCHEM selects a "big six" public accounting firm. Such public accounting firm shall, when determining the current market value for such biologically active ingredient, allocate the same proportions of costs, overhead and profits as are then allocated to Licensed Products.

4.4 Mode of Payment. All payments to CTI hereunder shall be made by deposit of United States Dollars in the requisite amount to such bank account as CTI may from time to time designate by written notice to BIOCHEM. Payments shall be free and clear of any fees and charges (other than applicable taxes which BIOCHEM is required to pay or withhold with respect to payments to be made to CTI). As to royalty payments, the amount due shall first be calculated in Canadian Dollars and then converted into U.S. Dollars at the daily average rate at which Bank of America NTS&A sells U.S. dollars for such Calendar Quarter as published by Bank of America NTS&A.

4.5 Records Retention. For three years after each sale of each Licensed Product or Combination Product, BIOCHEM shall keep (and shall assure that its sublicensees shall keep) records of such sales in sufficient detail to confirm

the accuracy of the royalty calculations hereunder. At the request of CTI, BIOCHEM shall (and shall assure that its sublicensees shall) permit an independent certified or chartered accountant appointed by CTI, at reasonable times and upon reasonable notice, to examine these records solely to the extent necessary to verify such calculations. Such investigation shall be at the expense of CTI unless it reveals an error on the part of BIOCHEM resulting in CTI having received less than ninety-five percent (95%) of the royalties due to CTI pursuant to this Agreement, in which event such investigation shall be at BIOCHEM's expense.

4.6 No Non-Monetary Consideration for Sales. Without the prior written consent of CTI, BIOCHEM and its Affiliates and agents shall not accept or solicit any non-monetary consideration in the sale of a Licensed Product or Combination Product other than as

would be reflected in Net Sales. The foregoing shall not, however, preclude BIOCHEM or its Affiliates or agents from legitimate distribution of promotional samples of Licensed Products and Combination Products in customary quantities.

4.7 Withholding. Any tax which BIOCHEM is required to pay or withhold with respect to payments to be made to CTI hereunder shall be deducted from the amount otherwise due provided that, in regard to any such deduction, BIOCHEM and/or its Affiliates shall give CTI such assistance as may reasonably be necessary to enable or assist CTI to claim exemption therefrom or a reduction thereof and shall upon request provide documentation from time to time as to confirm the payment by BIOCHEM of such withholding tax to the appropriate Governmental Body.

ARTICLE V
MANUFACTURE AND SUPPLY

5.1 CTI shall supply or ensure supply to BIOCHEM and BIOCHEM's sublicensees all of their requirements of Bulk Materials for the final finish and fill of Licensed Products and Combination Products pursuant to the terms and conditions of the Supply Agreement attached hereto as Exhibit "D" which is incorporated herein by this reference. In the event that a Licensed Product or Combination Product is not manufactured by CTI, CTI shall ensure the supply of Bulk Materials to BIOCHEM by CTI licensees or third party manufacturers on the same terms and conditions, the whole as set forth in the Supply Agreement.

ARTICLE VI
PATENTS

6.1 Abandonment of Patent Rights. CTI shall have the right, in its sole discretion, to abandon any of the Licensed Patents, in whole or in part. In the event that CTI elects to do so, it shall first offer to BIOCHEM free of charge, the right to assume and maintain, at no cost to CTI, such Licensed Patents in BIOCHEM's name or in CTI's name. CTI shall ensure that CTI's abandonment of any Licensed Patents shall not materially affect BIOCHEM's rights under the present license to continue to sell in the Territory the same Licensed Products and Combination Products as those which are developed by CTI or CTI's licensees and sold outside the Territory.

6.2 Patent Filings: Maintenance: Prosecution

(a) CTI shall have the responsibility at its expense to obtain, sustain and enforce patent rights. Such responsibility shall include, without limitation, the following:

(i) filing applications for Canadian patents for any inventions pertaining to Licensed Products or Combination Products;

(ii) subject to the provisions of Sections 6.2 and 6.3, prosecuting all pending and new patent applications included within the Licensed Patents and responding to oppositions or any other form of action for invalidity or revocation of patent rights that may be filed by third parties against the grant of patents for such applications; and

(iii) maintaining in force such patents and patent applications included within the Licensed Patents by duly filing all necessary papers and paying any fees required by the patent Laws of the Territory.

(b) CTI shall provide to BIOCHEM copies of all documents relating to the prosecution of all patent applications pertaining to Licensed Products or Combination Products.

(c) CTI shall execute, and CTI agrees to procure from any inventor(s) or the beneficiaries or executors of such inventor(s), his or her agreement to execute all documents and perform all acts, at CTI's expense, reasonably necessary to file, prosecute, maintain and enforce the Licensed Patents.

(d) BIOCHEM shall cooperate fully with CTI on all matters relating to the filing, prosecution and maintenance of Licensed Patents.

(e) BIOCHEM shall contribute ten thousand Canadian dollars ($10,000.00) per year towards the total patent costs of CTI's Canadian patents covering Licensed Products and Combination Products.

6.3 Infringement by Third Parties. In the event that BIOCHEM or CTI determines that a third party is making, using, or selling a product that may infringe a Licensed Patent, it will promptly notify the other Party in writing. CTI may bring suit against such alleged infringer. In the event that CTI decides to bring suit, it shall give prompt written notice to BIOCHEM of that fact, and BIOCHEM shall take all reasonable steps to assist CTI in such suit. CTI shall be entitled to all amounts recovered in such suit, except that BIOCHEM shall have the right to elect to pay up to fifty percent (50%) of the litigation costs and receive a percentage of any recovery equal to the percentage of litigation costs paid. BIOCHEM must make such election within sixty (60) days of its receipt of CTI's notice that CTI has decided to bring suit. BIOCHEM shall also have the right to be represented by separate counsel at is own expense in any such suit. CTI shall have control over any such suit, and decisions as to settlement, methods and/or terms and conditions for resolving the suit shall be made by CTI after consultation with BIOCHEM. If CTI elects not to bring a suit against the alleged infringer, it shall promptly notify BIOCHEM of that fact, and BIOCHEM shall have the right, at its option, to commence such action at its own cost and expense,

in which case BIOCHEM shall be entitled to all amounts recovered in such action. CTI shall take all reasonable steps to assist BIOCHEM in such suit.

6.4 Third Party Patent Rights. If any warning letter or other notice of infringement is received by a Party, or an action, suit or proceeding is brought against a Party alleging infringement of a patent right of any third party by reason of the manufacture, use or sale of a Licensed Product or Combination Product, the recipient Party shall promptly notify the other Party. The Parties shall consult with each other to consider appropriate steps to respond to such claims including, without limitation, litigation, the undertaking of a license with the third party patent holder or termination of the license.

ARTICLE VII
CONFIDENTIALITY

7.1 As to each Licensed Product and Combination Product, during the Term and for five (5) years thereafter, in respect of each Licensed Product and Combination Product, each Party shall keep confidential and not use, for any purpose other than as authorized under this Agreement, any information of the

other Party that is furnished to it by the other Party for the purposes of this Agreement. The foregoing obligation shall not apply to any information:

(a) that was already known to the receiving Party, other than under an obligation of confidentiality, at the time of disclosure;

(b) that was generally available to the public or otherwise part of the public domain at the time of its disclosure to the receiving Party;

(c) that became generally available to the public or otherwise part of the public domain after its disclosure and other than through any act or omission of the receiving Party in breach of this Agreement; or

(d) that was subsequently lawfully disclosed to the receiving Party by a third party;

(e) that is independently developed by the receiving Party as can be demonstrated by documentary evidence;

Each Party may disclose the other Party's confidential information to the extent such disclosure is reasonably necessary in filing or prosecuting patent applications, prosecuting or defending litigation, complying with applicable governmental regulations, making a permitted sublicense of or otherwise entering into business relationship with respect to its rights hereunder, or conducting clinical trials; provided, however, that prior to making any such disclosure the Party intending to do so will give reasonable advance notice to the other Party of such disclosure requirement and, to the extent appropriate, use its best efforts to secure confidential treatment of such information prior to its disclosure.

ARTICLE VIII
INDEMNIFICATION

8.1 CTI shall indemnify, protect and hold BIOCHEM and BIOCHEM's directors, officers, employees and agents harmless from and against any and all losses, damages, fines, costs, expenses (including reasonable attorneys' fees) and liabilities (including but not limited to claims, actions, legal proceedings or lawsuits, based on any civil, criminal, statutory or regulatory claims of liability (referred to collectively as "Liabilities"), asserted at any time arising out of or involving:

(a) a breach by CTI of its obligations under this Agreement including the Supply Agreement, or

(b) the manufacture and/or supply of Licensed Products or Combination Products.

8.2 BIOCHEM shall indemnify, protect and hold CTI and CTI's directors, officers, employees and agents harmless from and against any and all losses, damages, fines, costs, expenses (including reasonable attorneys' fees) and liabilities (including but not limited to claims, actions, legal proceedings or lawsuits, based on any civil, criminal, statutory or regulatory claims of liability (referred to collectively as "Liabilities"), asserted at any time arising out of or involving:

(a) a breach by BIOCHEM of its obligations under this Agreement including the Supply Agreement, or

(b) all activities of BIOCHEM in connection with BIOCHEM's seeking HPB approval and the final fill and finish of Licensed Products and Combination Products and the sale, promotion and commercialization thereof in the Territory.

8.3 No indemnification shall be made by a Party to the extent any Liabilities arise out of, result from or involve the fault, negligence, omission or willful misconduct of the Party or of the other Persons seeking indemnification.

8.4 Nothing in this Section will be construed as limiting the rights and resources otherwise available to the Parties at law or in equity, if any.

ARTICLE IX
TERM: TERMINATION

9.1 Term. As to each Licensed Product or Combination Product, the "Term" shall mean that period of time commencing with effect from the Effective Date and, unless sooner terminated as provided herein, expiring (i) upon the date of the last to expire Licensed Patent covering such Licensed Product or Combination Product or (ii) in the absence of any such Licensed Patent, upon the tenth (10th) anniversary of the date of first commercial sale of such Licensed Product or Combination Product by BIOCHEM in the Territory. Upon the expiration of the Term in respect of each Licensed Product or Combination Product, BIOCHEM shall have the exclusive license and right under the Technology to continue to use, sell and have sold such Licensed Products and Combination Products within the Field in the Territory without any further consideration whatsoever being payable to CTI.

9.2 Breach.

(a) Failure by a Party to comply with any of the material obligations contained herein shall entitle the Party not in default to give to the Party in default notice specifying the nature of the default and requiring it to make good such default. If such default is not cured within sixty (60) days after the receipt of such notice, or diligent steps taken to cure if by its nature such default could not be cured in sixty (60) days, the Party not in default shall be entitled, without prejudice to any of its other rights conferred on it by this Agreement, and in addition to any other remedies available to it by law or in equity, to terminate this Agreement; provided, however, that such right to terminate shall be stayed if, during such sixty (60) day period, the Party alleged to have been in default shall:

(i) have initiated arbitration in accordance with Section 10.12, below, with respect to the alleged default; and

(ii) be diligently and in good faith cooperating in the prompt resolution of such arbitration proceedings.

(b) The right of a Party to terminate this Agreement shall not be affected in any way by its waiver or failure to take action with respect to any prior default.

(c) Termination By BIOCHEM. BIOCHEM may terminate this Agreement at any time with respect to a specific Licensed Product or Combination Product on prior thirty (30) days written notice to CTI.

9.3 Accrued Rights, Surviving Obligations.

(a) Termination, relinquishment or expiration of this Agreement for any reason shall be without prejudice to any rights which shall have accrued to the benefit of a Party prior to such termination, relinquishment or expiration. Further, any such termination, relinquishment or expiration, shall not relieve a Party from obligations which are expressly indicated to survive termination, relinquishment or expiration of this Agreement.

(b) Without limiting the foregoing, Section 4.5, Article VII, Article VIII and Section 10.4 of this Agreement shall survive the expiration or termination of this Agreement.

ARTICLE X
MISCELLANEOUS PROVISIONS

10.1 Relationship of the Parties. Nothing in this Agreement is intended or

shall be deemed to constitute a partnership, agency or employer-employee relationship between the Parties. Neither Party shall incur any debts or make any commitments for the other.

10.2 Assignments. Except as expressly provided herein, neither this Agreement nor any interest hereunder shall be assignable, nor any other obligation delegable, by a Party without the prior written consent of the other; provided, however, that a Party"may assign this Agreement to any wholly-owned affiliate of it or of its parent company or to any successor by merger or sale of substantially all of its assets to which this Agreement relates provided that the assignor shall guarantee and remain liable and responsible for the performance and observance of all its duties and obligations hereunder. This Agreement shall be binding upon the successors and assigns of the Parties including assignees of any rights with respect to any Licensed Patents, Licensed Products, Combination Products or Technology. Any assignment not in accordance with this Section 10.2 shall be void.

10.3 Disclaimer of Warranties. THE PARTIES EXPRESSLY DISCLAIM ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION WARRANTIES OR MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR NON-INFRINGEMENT OF THIRD PARTY PATENTS, UNLESS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT.

10.4 Representations and Warranties. CTI and BIOCHEM each represents and warrants to the other that:

(a) is free to enter into this Agreement;

(b) in so doing it will not violate any other agreement to which it is Party;

(c) (in respect of CTI only) to the best of CTI's knowledge, there is no outstanding claim or allegation that the Licensed Patents and/or Technology infringe upon any rights of a third party nor any potential claim or allegation that the Licensed Patents and/or Technology infringe upon the rights of a third party;

(d) is a corporation duly organized and validly existing under the laws of the jurisdiction indicated above and, by virtue of such jurisdiction's laws, is in good standing as a domestic corporation of such jurisdiction;

(e) it is qualified to do business in all jurisdictions in which such qualification is necessary in order to perform its obligations hereunder;

(f) (in respect of CTI only) it is the owner or licensee of the patents and patent applications listed on Exhibit "A", free and clear of any liens, third party claims or restrictions inconsistent with the grant of rights set forth herein.

(g) the execution, delivery and performance by it of this Agreement have been duly authorized by all requisite corporate action and each such document, when signed, will constitute its legal, valid and binding obligation, enforceable according to its terms and condition; and

(h) (in respect of CTI only) all Licensed Products and Combination Products shall conform to the specifications for Licensed Products and Combination Products, agreed to between the Parties as well as the specifications which will be approved by the FDA.

10.5 Further Actions. Each Party agrees to execute, acknowledge and deliver such further instruments and to do all such other acts as may be reasonably necessary or reasonably appropriate in order to carry out the purposes and intent of this Agreement.

10.6 Force Majeure. For the purposes of this Agreement, an "Event of Force

Majeure" shall include the following:

(a) acts of gods;

(b) expropriation, confiscation or requisitioning of facilities or compliance with any Law which affects to a degree not presently existing the supply, availability or use of materials or labour;

(c) acts or inaction on the part of any governmental authority or Person purporting to act thereof;

(d) embargoes, or acts of war or the public enemy, whether war be declared or not;

(e) strikes, public disorder, insurrection, rebellion, riots or violent demonstrations;

(f) floods, earthquakes, lightning, hail, inclement weather conditions or other natural calamities.

If any Party wishes to invoke an Event of Force Majeure, then it shall (a) immediately following the commencement of such Event of Force Majeure notify the other Parties of the occurrence of such Event of Force Majeure, the reasonably estimated date and time on which it commenced and the nature of the Event of Force Majeure, and (b) as soon as reasonably practicable thereafter, submit to the other Parties proof of the Event of Force Majeure.

If one of the Parties is unable to perform its obligations under this Agreement because of an Event of Force Majeure, then such Party shall be excused from performance of its obligations under this Agreement until the Event of Force Majeure terminates and the obligations of such Party, which cannot be met due to the Event of Force Majeure, shall be suspended during the pendency of the Event of Force Majeure, provided that such Party uses all reasonable efforts to attempt to prevent, avoid or remove the Event of Force Majeure within the shortest possible delay.

If an Event of Force Majeure subsists for a period longer than ninety (90) days, then either Party may seek termination of this Agreement in respect of the Licensed Product or Combination Product affected by such Event of Force Majeure.

10.7 Trademark Rights. CTI hereby grants the right to BIOCHEM to file a trademark application to obtain Canadian trademark registration for the trademark PROTEC. Except as aforementioned, no right, express or implied, is granted by this Agreement to a Party to use in any manner the name or any other trade name or trademark of the other Party in connection with the performance of this Agreement.

10.8 Public Announcements. The Parties shall consult with each other and reach mutual agreement before making any public announcement concerning this Agreement or the terms hereof. This Section shall not enable either Party to prevent a public announcement by the other Party which announcement is required by Law, following consultation between the Parties.

10.9 Entire Agreement of the Parties; Amendments. This Agreement (including the Exhibits hereto) constitutes and contains the entire understanding and agreement of the Parties and cancels and supersedes any and all prior negotiations, correspondence, understandings and agreements between the Parties, whether oral or written, respecting the subject matter hereof. No waiver, modification or amendment of any provision of this Agreement shall be valid or effective unless made in writing and signed by a duly authorized officer of each Party.

10.10 Applicable Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Washington, U.S.A., applicable to contracts entered into and to be performed wholly within the State of

Washington.

10.11 Severability. If and to the extent that any court or tribunal of competent jurisdiction holds any of the terms or conditions of this Agreement, or the application thereof to any circumstances, to be invalid or unenforceable in a final nonappealable order, the Parties shall use their best efforts to reform the portions of this Agreement declared invalid to realize the intent of the Parties as fully as practicable, and the remainder of this Agreement and the application of such invalid term or provision to circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each of the remaining terms and provisions of this Agreement shall remain valid and enforceable to the fullest extent permitted by Law.

10.12 Notices and Deliveries. Any notice, request, delivery, approval or consent required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been sufficiently given if delivered in person, transmitted by telecopier (confirmation of receipt by confirmed facsimile transmission being deemed receipt of communication sent by telecopy) or five days after it was sent, by registered letter (or its equivalent) to the Party to which it is directed at its address shown below or such other address as such Party shall have last given by notice to the other Parties.

(a) If to BIOCHEM, addressed to:

BIOCHEM THERAPEUTIC INC.
275 Armand-Frappier Boulevard
Laval, Quebec, Canada
H7V 4A7

Attention: President

Telecopier: (514) 978-7767

(b) If to CTI, addressed to:

CELL THERAPEUTICS, INC.
201 Elliott Avenue West
Seattle, WA USA 98119

Attention: President & CEO

Telecopier: (206) 284-6114

10.13 Disputes. All disputes arising out of or in connection with this Agreement shall be finally settled by binding arbitration, in English, by one arbitrator appointed by the American Arbitration Association. The arbitration shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitrator shall have the technical expertise required to understand and arbitrate the dispute. Such arbitration shall be held in Seattle, Washington U.S.A. if initiated by BIOCHEM and in Montreal, Quebec, if initiated by CTI. The costs of any arbitration, including administrative and arbitrators' fees, shall be shared equally by the Parties and each Party shall bear its own costs and attorneys' and witness' fees, provided however, that the prevailing Party, if determined by the arbitrator, shall be entitled to an award against the other Party in the amount of the prevailing Party's costs (including arbitration costs) and reasonable attorney's fees.

10.14 No Third Party Beneficiaries. Except as specifically provided in this Agreement, no Person not a Party to this Agreement, including any employee of any Party to this Agreement, shall have or acquire any rights by reason of this Agreement, nor shall any Party hereto have any obligations or liabilities to such other Person solely by reason of this Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized officers as of the day and year first above

written, each copy of which shall for all purposes be deemed to be an original.

- ------------------------------ CELL THERAPEUTICS, INC.
witness

- ------------------------------ per: /s/ James Bianco
witness ----------
Dr. James Bianco, President & CEO

BIOCHEM THERAPEUTIC INC.

- ------------------------------ per: /s/ Michael Grey
witness ----------
Michael Grey, President

- ------------------------------ per: /s/ Mario Thomas
witness ----------
Dr. Mario Thomas
Vice-President, Business Development

EXHIBITS

Exhibit A - List of Patents and Patent Applications
Exhibit B - Nominees of the Management Committee
Exhibit C - Subscription Agreement and Confidential Private Placement Memorandum
Exhibit D - Supply Agreement
Exhibit E - Product Description

EXHIBIT A

Canadian patent applications or PCT patent applications designating Canada which contain subject matter relating to a Licensed Product.

(The information below marked by ***** has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

Serial No.	CTI Docket	Licensed Subject Matter
******	******	******
******	******	******
******	******	******
******	******	******

1. *****

U.S. Patent Applications relating to Lisofylline that have not yet been filed in Canada or by PCT designating Canada and are still within priority year.

Serial No.	CTI Docket	Licensed Subject Matter
******	******	******
******	******	******
******	******	******
******	******	******

EXHIBIT B

Nominees of the Management Committee

BioChem Pharma
- --------------

Guy Ely, M.D.

Mario Thomas, Ph.D.

Cell Therapeutic, Inc.
- ----------------------

James Bianco, M.D.

Jack Singer, M.D.

EXHIBIT C

Subscription Agreement and Confidential Private Placement Memorandum

[See Exhibit 10.18]

EXHIBIT D

Supply Agreement

[See Exhibit 10.21]

EXHIBIT E

LISOFYLLINE PRODUCT DEFINITION

Lisofylline and structural analogs having a structure in the following pharmacophor:

(The information below marked by ***** has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

******

******

EXHIBIT E

CT-2584 PRODUCT DEFINITION

CT-2584, homologs and analogs are structurally and functionally within the following defined compound genus:

(The information below marked by ***** has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

******

******

[LOGO]
BIOCHEM PHARMA
BIOCHEM THERAPEUTIC

AMENDING AGREEMENT

BY AND BETWEEN

BIOCHEM THERAPEUTIC INC.

AND

CELL THERAPEUTICS, INC.

Dated as of November 30, 1995

AMENDING AGREEMENT

THIS AMENDING AGREEMENT is dated the Thirtieth (30th) day of November 1995.

BY AND BETWEEN: BIOCHEM THERAPEUTIC INC., a corporation, incorporated under the laws of Quebec, with its principal place of business located at 275 Armand-Frappier Boulevard, Laval, Quebec, Canada H7T 4A7;

(hereinafter referred to as "BIOCHEM"),

AND; CELL THERAPEUTICS, INC., a corporation organized and existing under the laws of the State of Washington, having its principal place of business at 201 Elliott Avenue West, Seattle, Washington, United States of America, 98119;

(hereinafter referred to as "CTI")

RECITALS:

A. CTI and BIOCHEM are Parties to a Collaboration Agreement dated as of March 7th, 1995 (the "Collaboration Agreement");

B. The Parties wish to modify the wording of Section 4.2 of the Collaboration Agreement so as to clarify, and to express their mutual understanding at the meaning and intent thereof;

C. Section 10.9 of the Collaboration Agreement provides that no waiver, modification or amendment of any provision of the Collaboration Agreement shall be valid or effective unless made in writing and signed by a duly authorized officer of each Party;

NOW, THEREFORE, in consideration of the payment of the sum of ten U.S. Dollars (US $10) by each Party to the other, the receipt and sufficiency of which is hereby acknowledged by each Party, the Parties agree as follows:

1. Existing Section 4.2 of the Collaboration Agreement shall be deleted and replaced with the following:

"4.2 License Fee and Benchmark Payments. In addition to the other payments to CTI provided herein, BIOCHEM shall make non-refundable payments to CTI in the amounts and at the times set forth below:

(The information below marked by ***** has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

(a) ****** within thirty (30) days following the beginning of a Phase II

clinical trial by CTI or its licensee in the U.S. for the Licensed Product containing CT-1501R for clinical trials in bone marrow transplantation and AML; as well as ****** within thirty (30) days following the commencement of Phase II clinical trials in the U.S. by CTI or its licensee for any one Licensed Product or Combination Product containing CT-2584;

(b) ****** within thirty (30) days following the commencement of Phase III clinical trials in the U.S. by CTI or its licensee for any one licensed product or combination product containing CT-1501R; as well as ****** within thirty (30) days following the commencement of Phase III clinical trials in the U.S. by CTI or its licensee for any one Licensed Product or Combination Product containing CT-2584;

(c) ****** within thirty (30) days of the filing of an NDS in the Territory by BIOCHEM for any one Licensed Product or Combination Product containing CT-1501R; as well as ****** within thirty (30) days of the filing of an NDS in the Territory by BIOCHEM for any one Licensed Product or Combination Product containing CT-2584; and

(d) ****** within thirty (30) days of the first commercial sale in the Territory of any one Licensed Product or Combination Product containing CT-1501R; as well as ****** within thirty (30) days of the first commercial sale in the Territory of any one Licensed Product or Combination Product containing CT-2584;

IT BEING UNDERSTOOD BETWEEN THE PARTIES THAT THE MAXIMUM AMOUNT POTENTIALLY PAYABLE BY BIOCHEM TO CTI UNDER EACH OF SUBSECTIONS 4.2(a) to (d) IS AS FOLLOWS:

Subsection 4.2(a)	******
Subsection 4.2(b)	******
Subsection 4.2(c)	******
Subsection 4.2(d)	******

As soon as CTI intends to, or as soon as CTI receives a notice from a CTI licensee that such licensee intends to, commence Phase II clinical trials or Phase III clinical trials for any Licensed Product or Combination Product in the U.S., CTI shall provide BIOCHEM with noticale thereof."

2. Capitalized terms used herein shall have the meaning afforded thereto in the Collaboration Agreement, unless the context otherwise requires.

3. Except as expressly provided for herein, the Collaboration Agreement shall continue in full force and have affect between the Parties, unamended.

4. Notwithstanding the date of execution hereof, this Amending Agreement shall be deemed to have taken effect as of the Seventh (7th) day of March 1995, being the effective date of the Collaboration Agreement.

IN WITNESS WHEREOF, the Parties have caused this Amending Agreement to be executed by their respective duly authorized officers as of the day and year first above written, each copy of which shall for all purposes be deemed an original.

CELL THERAPEUTICS, INC.

- ------------------------------
Witness

per:

Name: Dr. James Bianco
Title: President & CEO

- ------------------------------
Witness

BIOCHEM THERAPEUTIC INC.

- ------------------------------
Witness

per: /s/ Michael Grey

Name: Michael Grey
Title: President

- ------------------------------

Witness

per: /s/ Mario Thomas

Name: Mario Thomas

Title: Vice-President, Business Planning & Development

Exhibit 10.21

[LOGO]
BIOCHEM PHARMA
BIOCHEM THERAPEUTIC

Portions of this Exhibit have been omitted pursuant to a request for confidential treatment. The omitted portions are ***** marked and have been filed separately with the Commission

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SUPPLY AGREEMENT

By and between

BIOCHEM THERAPEUTIC INC.

and

CELL THERAPEUTICS, INC.

Made as OF MARCH 7, 1995

BIOCHEM THERAPEUTIC INC.

A SUBSIDIARY OR BIOCHEM PHARMA INC
275 ARMAND-FRAPPIER BLVD
LAVAL. QUEBEC
CANADA H7V 4A7
TEL: (514) 687-4910
FAX: (514) 978-7767

(The information below marked ***** by has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

SUPPLY AGREEMENT

THIS SUPPLY AGREEMENT is made and effective as of this 7th day of March, 1995, by and between Cell Therapeutics, Inc., a corporation organized and existing under the laws of the State of Washington, USA ("CTI") and BIOCHEM Therapeutic Inc., a corporation organized and existing under the laws of Quebec, Canada ("BIOCHEM").

WHEREAS:

CTI and BIOCHEM are parties to a certain Collaboration Agreement effective as of the _____ day of March, 1995 (the "Collaboration Agreement"); and

Pursuant to the Collaboration Agreement, CTI is to supply to BIOCHEM, and BIOCHEM is to purchase from CTI, Licensed Products and Combination Products to be used and sold by within the Territory; and

The parties wish to provide the specific terms and conditions under which such supply will occur.

NOW, THEREFORE, CTI and BIOCHEM agree as follows:

ARTICLE I

DEFINITIONS

Unless otherwise specified herein, capitalized terms used herein shall have the meaning indicated in the Collaboration Agreement. In addition, when used herein the following term shall have the meaning indicated:

1.1 "Manufacturing Cost" of a product manufactured for BIOCHEM under this Agreement shall mean the fully burdened manufacturing cost of producing the product, including the cost of direct materials, direct labour and allocated manufacturing overhead. Allocated manufacturing overhead, for purposes of Manufacturing Cost, shall consist of the allocation of those costs in support of manufacturing the specified volume of the product for BIOCHEM under this Agreement, including, without limitation, expenses related to utilities, operating supplies, plant maintenance, plant administrative services, supervisory labour, rent, insurance, taxes (other than income taxes, business taxes and occupation taxes, and depreciation, all allocable to production based on the application of existing U.S. generally accepted accounting principles applied on a consistent basis. The basis of allocation of such expenses to the manufacturing overhead for the product manufactured for BIOCHEM under this Agreement shall be the monthly volume of the product manufactured for BIOCHEM divided by the total monthly volume of all products manufactured at the particular manufacturing plant facility multiplied by the total manufacturing overhead costs allocable to total production for the month.

1.2 "Specifications" shall mean those specifications for each Licensed Product and Combination Product submitted to the U.S. Food and Drug Administration for marketing approval in the U.S. and approved by the FDA.

ARTICLE II

SUPPLY OF PRODUCTS

2.1 Purchase and Sale of Products. Subject to the terms and conditions hereof, during the term of this Supply Agreement CTI shall supply to BIOCHEM, and BIOCHEM shall purchase from CTI, all of BIOCHEM's requirements of Licensed Products and Combination Products for use or sale in the Territory. In the event that the Licensed Products or Combination Products are manufactured by a CTI

licensee or third party manufacturer, CTI shall ensure that BIOCHEM receives supply of its requirements for Licensed Products and Combination Products from such licensee or third party manufacturer on the same terms and conditions as if supplied by CTI. All such products shall be supplied to BIOCHEM in the form of Bulk Materials, which shall be finally finished and filled by or on behalf of BIOCHEM.

2.2 Product Estimates and Purchase Orders. (a) If BIOCHEM decides, at its option, to have clinical trials conducted in the Territory or to use Licensed Product or Combination Product for non-commercial purpose, it shall so advise CTI and CTI shall supply to BIOCHEM licensed Product and/or Combination Product for such purpose at the price set forth in Section 2.3(i).

(b) During the 12 month period following approval of the sale of each Licensed Product or Combination Product by the HPB, ("HPB Approval") on the first business day of each month, BIOCHEM will provide CTI a forecast for the succeeding month, which forecast shall be binding on BIOCHEM.

(The information below marked by ***** has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

(c) (i) *****, BIOCHEM shall in good faith provide CTI with an estimate of the total number of units of each Licensed Product and Combination Product to be purchased by BIOCHEM over the ***** of shipments to be made by CTI during such

*****.

(ii) No fewer than ***** before the end of each ***** BIOCHEM shall provide CTI with a ***** forecast showing BIOCHEM's projected requirements of each Licensed Product and Combination Product during the upcoming *****, the first ***** of which forecast

shall constitute firm purchase commitments in units and cost by BIOCHEM.

(c) CTI shall use its best efforts to ship all Licensed Products and Combination Products in the form and at the tine specified by BIOCHEM, with the proper identification on the packaging as required by applicable authorities. CTI shall use its best efforts to fill each purchase order from the same production lot.

(d) Each Licensed Product and Combination Product shipped by CTI shall have a remaining shelf-life as of the date of shipment equal to the greater of 12 months or one-half of the total approved shelf-life of such product.

(e) All orders placed by BIOCHEM hereunder shall be in writing in the form of a purchase order, shall be identified by a purchase order number, and shall be transmitted to CTI by mail or facsimile. CTI shall send to BIOCHEM written confirmation of each such purchase order, and of all forecasts made by BIOCHEM hereunder, within one week of CTI's receipt thereof.

2.3 Price. (a) The cost to BIOCHEM of Licensed Products and Combination Products supplied by CTI hereunder shall be:

(The information below marked by ****** has been omitted by a request for confidential treatment. The omitted portion has been separately filed with the Commission)

(i) for materials to be used for clinical studies or other non-commercial purposes, ******;

(ii) for materials to be used for commercial sale or for promotion in support of commercial sale, ******; provided, however, that the cost to BIOCHEM of a Licensed Product supplied pursuant to this Supply Agreement shall not, in any calendar year, ******

(b) BIOCHEM shall be responsible for freight, freight brokerage, customs duties, insurance and risk of loss following the delivery of Licensed Products to BIOCHEM, F.O.B. CTI's manufacturing facilities in the United States of America, pursuant to BIOCHEM's instructions.

2.4 Non-Conforming Product. Licensed Products and Combination Products supplied by CTI hereunder shall be produced by CTI in accordance with the Specifications and in accordance with all U.S. law and regulations (including CGMP regulations of the FDA). As between the parties, any claim of non-conforming product must be submitted to CTI within the period of remaining shelf life for such product as specified by CTI, accompanied by a report of analysis thereof made within such period of remaining shelf life, using methods generally approved in the U.S. and Canadian pharmaceutical industries. If, after CTI's own investigation (which shall be completed within 30 days after receipt by CTI of BIOCHEM's report), CTI, in its reasonable judgment, Agrees with the claim of nonconformity and BIOCHEM has paid for the non-conforming product, CTI shall promptly replace the non-conforming product with conforming product or, at BIOCHEM's option, credit BIOCHEM for the amount paid for the non-conforming product, including freight, brokerage, customs duties and insurance charges previously paid by BIOCHEM with respect thereto. The non-conforming product shall be returned to CTI if requested by CTI in writing within 30 days after receipt by CTI of BIOCHEM's report, at CTI's expense; absent such request, BIOCHEM shall destroy the non-conforming product at CTI's expense. If, after its own analysis, CTI does not agree with the claim of non-conformity, the parties shall in good faith attempt to agree upon a settlement of the issue, failing which the matter may be referred for arbitration as provided herein. During the pendency of any such settlement negotiations or arbitration, CTI shall use its best efforts to replace the allegedly non-conforming Licensed Product. If a

claim regarding a Licensed Product or Combination Product is made by a third party, BIOCHEM shall promptly give

notice thereof to CTI following receipt of same and the above delay for claiming non-conformity and limit of CTI's liability shall not apply regarding third party claims.

2.5 Method of Payment. Subject to Section 2.4, payments due pursuant to this Supply Agreement shall be made by wire transfer of United States Dollars in the requisite amount to such account as CTI may from time to time designate by written notice to BIOCHEM, without set-off.

ARTICLE III

TERMS AND CONDITIONS

3.1 Shipment. As to each order placed by BIOCHEM pursuant to Section 2.2, CTI shall ship materials to such destinations as may be specified by BIOCHEM, by a carrier reasonably identified by BIOCHEM. Except as provided herein with respect to non-conforming product, title and risk of loss as to all materials shipped shall pass upon transfer by CTI to such carrier at the manufacturing facility. A packing list will be included in each shipment. BIOCHEM shall be the importer of record of each shipment.

3.2 Payment. Within ten days after each shipment ordered and shipped pursuant to this Supply Agreement, an invoice relating to such shipment shall be rendered by CTI to BIOCHEM, and payment thereon shall be due within 30 days of the later of the receipt of the invoice or the date on which such shipment is released by HPB, if such release is required. BIOCHEM shall pay CTI interest on overdue payments at the lesser of: (i) 12 percent per annum, or (ii) the maximum rate allowed under Washington law.

3.3 Purchase Order Cancellation. BIOCHEM, on notice to CTI, may cancel any or all outstanding purchase orders covering a period beyond the first three months of its rolling annual forecast.

3.4 Governing Terms. All sales hereunder shall be subject to the provisions hereof (including the Specifications) and shall not be subject to the terms and conditions contained on any purchase order of BIOCHEM or confirmation of CTI, except insofar as any such purchase order or confirmation establishes: (i) the quantity of any Licensed Products or Combination Products ordered; (ii) the shipment date; (iii) the shipment routes; or (iv) the carrier.

3.5 Taxes. BIOCHEM shall bear all applicable governmental taxes (such as sale, use or similar taxes), except: (i) any tax on its profits (such as an income tax or business and occupations tax) that CTI may be required to pay or collect as a result of this Supply Agreement; (ii) personal property taxes assessable on Licensed Products supplied hereunder before title thereto has passed; and (iii) any taxes or charges required by law to be withheld from payments made to CTI.

3.6 Prohibition on Resale. BIOCHEM shall use Licensed Products and Combination Products supplied hereunder solely within the scope of the license granted in the Collaboration Agreement.

3.7 Compliance With Law. Except as otherwise expressly provided herein or in the Collaboration Agreement, BIOCHEM shall be responsible, at its expense, for complying with all applicable regulatory requirements relating to the import, use, marketing or sale of Licensed Products and Combination Products supplied hereunder in the Territory and CTI shall provide BIOCHEM with its reasonable

assistance in this regard. CTI shall be responsible, at its expense, for complying with all applicable U.S. laws and regulatory requirements for its manufacture and supply of the Licensed Products and Combination Products.

3.8 No Implied Representations, Warranties or Conditions. In addition to the representations and warranties set forth in the Collaboration Agreement, CTI warrants that Licensed Products and Combination Products supplied hereunder shall meet the Specifications, and shall be merchantable and free from defects and that CTI shall comply with all U.S. laws and regulations (including CGMP regulations of the FDA) in the manufacture and supply of products. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN OR IN THE COLLABORATION AGREEMENT, CTI MAKES NO REPRESENTATIONS OR WARRANTIES AND THERE ARE NO CONDITIONS, EXPRESS OR IMPLIED, STATUTORY OR OTHERWISE, WITH RESPECT TO ANY PRODUCT SUPPLIED HEREUNDER.

3.9 Inspections: Quality Assurance Rights and Obligations.

(a) BIOCHEM shall have the right to send authorized representatives to manufacturing facilities where Licensed Products or Combination Products are manufactured during each production run of product to audit any manufacturing and testing operations that BIOCHEM deems reasonably appropriate to confirm that production of each batch of product is in compliance with current good manufacturing practice regulations set forth in 21 Code of Federal Regulations Part 211, as the same may be amended from time to time ("CGMP Regulations"), and at any other time upon reasonable notice to CTI. Upon request, CTI agrees to notify BIOCHEM of the next production run of product. CTI agrees to cooperate with BIOCHEM's authorized representatives conducting such audits.

(b) BIOCHEM, at its expense, shall have the right to assay samples and to perform such microbiological tests as BIOCHEM deems necessary on samples from any production run of product produced for BIOCHEM hereunder and CTI shall furnish such samples and other testing materials as BIOCHEM may reasonably request for such purpose.

(c) For each batch of product produced for BIOCHEM hereunder, CTI shall furnish to BIOCHEM on or before the date of each shipment, along with any testing samples that may be requested by BIOCHEM for assay and microbiological testing purposes pursuant to subsection (b) above, a certificate that the batch of Licensed Products and Combination Products, as applicable, of which the submitted samples are representative, was manufactured, tested, and delivered in full compliance with all applicable laws and regulation, including CGMP Regulations and a copy of CTI's certificate of analysis that all product included in such shipment comply in all respects with the applicable Specification.

(d) Copies of CTI's batch records as required to be maintained by FDA regulations and guidelines, including quality assurance data, pertaining to Licensed Product or Combination Product (as required by FDA regulations and guidelines), as applicable, shall be furnished to BIOCHEM at the time of shipment.

(e) Notwithstanding anything herein to the contrary, any failure on the part of BIOCHEM to discover any non-conformance, either during the production process or upon inspection of shipments shall not relieve CTI of its warranties hereunder or under the Collaboration Agreement.

3.10 HPB Inspections. CTI agrees that if required to obtain registration of, or HPB authorization to test, product in the Territory, CTI will permit or obtain permission for officials of the HPB to inspect the facilities where Licensed Products or Combination Products are manufactured and will take such action as such authorities may require.

3.11 Access to Books and Records. Upon written request, BIOCHEM shall have the right to appoint a Certified Public Accountant selected by CTI and acceptable to BIOCHEM, who shall, at BIOCHEM's expense, have access, during reasonable business hours, at CTI's

place of business and not more often than once each calendar year, to such of CTI's books, records, and reports as are necessary to verify the correctness of any statements or reports to be supplied in respect of the purchase price payable by BIOCHEM to CTI under this Agreement in respect of any calendar year ending not more than sixty (60) months prior to the date of such request.

3.12 Product Handling and Distribution. BIOCHEM shall identify Licensed Products sold or otherwise distributed by it with a vendor lot number that is traceable to the specific shipment purchased from CTI hereunder. BIOCHEM shall permit CTI to review periodically BIOCHEM' 5 product handling and distribution procedures and records, and to visit BIOCHEM's facilities at reasonable times with a representative of BIOCHEM present in order to assure compliance with the requirements of this Section 3.12.

ARTICLE IV

TERM; TERMINATION

4.1 Term. The term of this Supply Agreement shall commence on the date first above written. Unless sooner terminated pursuant to Section 4.2, or unless the license for the specific Licensed Product or Combination Product is terminated earlier pursuant to the Collaboration Agreement, this Supply Agreement shall terminate, on a Licensed Product-by-Licensed Product and Combination Product-by-Combination Product basis, 20 years following the termination or expiration of the Term with respect to each such product under the Collaboration Agreement.

4.2 Termination. (a) Failure by a Party to comply with any of the material obligations contained herein shall entitle the Party not in default to give to the Party in default notice specifying the nature of the default and requiring it to make good such default. If such default is not cured within sixty (60) days after the receipt of such notice, or diligent steps taken to cure if by

its nature such default could not be cured in sixty (60) days, the Party not in default shall be entitled, without prejudice to any of its other rights conferred on it by this Agreement, and in addition to any other remedies available to it by law or in equity, to terminate shall be stayed if, during such sixty (60) day period, the Party alleged to have been in default shall:

(i) have initiated arbitration in accordance with Section 10.12 of the Collaboration Agreement, with respect to the alleged default; and

(ii) be diligently and in good faith cooperating in the prompt resolution of such arbitration proceedings.

(b) The right of a Party to terminate this Agreement shall not be affected in any way by its waiver or failure to take action with respect to any prior default.

4.3 Effect of Termination. Termination of this Supply Agreement shall not relieve CTI from its obligation to deliver all Licensed Products and Combination Products ordered by binding purchase orders covering the first three months of the rolling forecast received and accepted by CTI prior to the effective date of such expiration or termination, unless termination is effected by CTI pursuant to Section 4.2, nor shall expiration or termination relieve BIOCHEM from accepting and, upon delivery, paying for any such products unless termination is effected by BIOCHEM pursuant to Section 4.2. Termination shall not limit BIOCHEM's right to sell products in its possession or delivered to it and accepted by BIOCHEM in accordance with the terms of this Agreement after expiration or termination pursuant to the provisions of the Collaboration Agreement.

4.4 Other Remedies. Nothing in this Supply Agreement shall be construed as

limiting the rights and remedies otherwise available to the parties, whether at law or equity.

ARTICLE V

GENERAL PROVISIONS

5.1 Notices. All notices and demands required or permitted to be given or made pursuant to this Supply Agreement shall be in writing and given as specified in the Collaboration Agreement.

5.2 Assignment. The rights and obligations of a party hereunder may be assigned only upon the prior written consent of the other party, which consent may be withheld by the latter in its sole discretion; provided, however, that BIOCHEM may assign its rights to take supply hereunder to any Affiliate, on the condition that: (a) such Affiliate agrees to be bound by the terms and conditions of this Supply Agreement; (b) CTI receives notice from BIOCHEM of its intent to assign at least 30 days prior to the effective date of such assignment; and (c) BIOCHEM guarantees to CTI performance by such affiliate of its obligations hereunder.

5.3 Governing Law. This Supply Agreement shall be governed by the laws of the State of Washington, U.S.A., without reference to conflicts of laws principles.

5.4 Time. Time is of the essence in this Supply Agreement.

5.5 Independent Contractors. Nothing in this Supply Agreement is intended or shall be deemed to constitute a partnership, agency, employer-employee or joint venture relationship between the Parties. All activities by the parties hereunder shall be performed by them as independent contractors. Neither party shall incur any debts or make any commitments for the other party, except t& the extent, if at all, specifically provided herein.

5.6 No Waiver. Failure of a party to insist upon strict observance of or compliance with any of the terms of this Supply Agreement in one or more instances shall not be deemed to be a waiver of its rights to insist upon such observance or compliance with the other terms hereof, at that point in time or in the future.

5.7 Dispute Resolution. Any dispute or claim arising out of, or in connection with, this Supply Agreement or with regard to the performance of any obligation hereunder by either party shall be resolved by reference to the dispute resolution procedures set forth in the Collaboration Agreement.

IN WITNESS WHEREOF, the parties have executed this Supply Agreement effective on the date first set forth above.

CELL THERAPEUTICS, INC.

/s/ James Bianco
By: James Bianco
Title: President

BIOCHEM THERAPEUTIC INC.

/s/ Michael Grey

By: Michael Grey
Title: President

/s/ Mario Thomas
- ----------
By: Dr. Mario Thomas
Title: Vice-President,
Business Development

EXHIBIT 10.26

X
X
X

Re: Consulting Agreement with Cell Therapeutics, Inc.

Dear :

We understand that you are willing to continue your consulting relationship with Cell Therapeutics, Inc. ("CTI"). We are pleased that your expertise will remain available to help us meet our research and development goals. Although we intend that your consultantship may cover a broad subject matter range, your primary responsibilities will include those related to your role as a Scientific Advisory Board ("SAB") Member, as defined in further detail below.

Your consultantship with us shall be on the following terms:

1. This agreement shall be effective as of the date of your acceptance hereof and shall terminate [number, (#)] years after the date of your acceptance. This agreement may be terminated at any time by you or by CTI upon thirty (30) days advance written notice to the other.

2. Your position shall be that of an independent contractor and not an employee or agent of CTI.

3. In consideration of your consulting services rendered to CTI (as specified below), you shall be paid at a rate of [amount] dollars ($number) per eight-hour day. In this regard, CTI shall only make payment at this rate upon its receipt of a monthly invoice provided by you, detailing the time spent on the respective project, the date(s) on which the consulting work was performed and the nature of the effort conducted on behalf of CTI.

In further consideration for your consulting services, CTI shall grant to you an option to acquire [number] shares (number) of CTI Common Stock ("option") upon your indicating acceptance of the terms below. The option shall incrementally vest each year of the agreement term, according to the following schedule:

[number] shares	-	1 year from date of acceptance
[number] shares	-	2 years from date of acceptance
[number] shares	-	Total

The option shall be contingent upon approval by the Board of Directors; shall be exercisable at a price equal to the fair market value of CTI Common Stock on the Grant Date (your acceptance date); and is otherwise subject to the terms and conditions of CTI's 1994 Equity Incentive Plan and the Company's Non-Qualified Stock Option Agreement which we will timely send to you upon the Board's approval, and which you must execute as a condition of the grant of such option.

When your consulting services will involve travel outside of the [metropolitan location] area, CTI shall make appropriate arrangements for reimbursing reasonable travel expenses that you incur.

4. Although CTI shall not specifically restrict the subject matter upon which you consult, your services will primarily be rendered in connection with your role as a SAB Member. Specifically, we expect that you will work with CTI to:

- attend periodic SAB meetings as requested by CTI management and/or the SAB Chair, Michael Hanley, MD;

- provide your expertise as a member of SAB sub-groups, established to address specific issues or concerns identified from time to time;

- assist in identifying and evaluating third party opportunities (including research and development) in related technologies, subject to paragraph 5(a) below;

- critically evaluate CTI's research and development programs;

- advise CTI scientists in research strategy and direction;

- assist CTI scientists with investigating and understanding mechanisms of action; and

- review progress of CTI's specific projects and research and development efforts with management.

CTI employees or agents may consult with you individually, by telephone or facsimile or provide documents for your review and analysis.

- ------------

You will be engaged by CTI as a consultant for the exchange of ideas only and shall not direct or conduct research for or on behalf of CTI.

5. You shall not disclose to others or utilize for your own research, without CTI's written consent, any unpublished information concerning CTI's scientific or business interests, including any proprietary cell signaling technology, with which you become familiar in your contacts with us. Similarly, you shall not: 1) disclose to others the results of any specific nature of your consulting work for CTI; 2) use any unpublished or proprietary information provided to you by CTI for purposes other than providing consulting services to CTI; or 3) accept consulting or employment from a for-profit entity involved with therapeutics that are second messenger, signaling pathway agonists or antagonists. Your obligations under this paragraph shall continue beyond termination of this agreement insofar as they relate to your activities under this agreement prior to its termination.

6. If in connection with your consultantship, you contribute as an inventor (as determined by applicable laws regarding inventorship) to any invention for CTI, you shall assign your right, title and interest in the invention, domestic or foreign, to CTI, signing all papers, executing all oaths, and doing everything necessary and proper to assign to CTI domestic and foreign rights to said inventions.

CTI will compensate you for any expense you incur in assigning, obtaining, maintaining, and enforcing any patent covering any invention for which you are a named inventor, as set forth above. CTI will also reasonably and fairly compensate you for time which you may spend subsequent to the termination of this agreement in securing or enforcing CTI's rights in the invention. These obligations shall continue beyond the term of this agreement.

It is our understanding that you have no pre-existing obligations which are inconsistent with your acceptance of the foregoing terms or which would preclude your complete performance under the above terms. If our understanding is correct and if you accept the foregoing terms, please so indicate by signing, dating, and returning to us the enclosed duplicate counterpart original of this letter.

We look forward to your continued association with us.

Sincerely,

CELL THERAPEUTICS, INC.

Authorized Official

Accepted and Agreed to this ____ day of _____, 199_.

_____ _____

[name of individual consultant] Tax ID No.

EXHIBIT 10.27

X
X
X

Re: Consulting Agreement with Cell Therapeutics, Inc.

Dear :

We understand that you are willing to continue your consulting relationship with Cell Therapeutics, Inc. ("CTI"). We are pleased that your expertise will remain available to help us meet our research and development goals. Although we intend that your consultantship may cover a broad subject matter range, your primary responsibilities will include those related to your role as a Clinical Advisory Board ("CAB") Member, as defined in further detail below.

Your consultantship with us shall be on the following terms:

1. This agreement shall be effective as of the date of your acceptance hereof and shall terminate [number, (#)] years after the date of your acceptance. This agreement may be terminated at any time by you or by CTI upon thirty (30) days advance written notice to the other.

2. Your position shall be that of an independent contractor and not an employee or agent of CTI.

3. In consideration of your consulting services rendered to CTI (as specified below), you shall be paid at a rate of [amount] dollars ($number) per eight-hour day. In this regard, CTI shall only make payment at this rate upon its receipt of a monthly invoice provided by you, detailing the time spent on the respective project, the date(s) on which the consulting work was performed and the nature of the effort conducted on behalf of CTI.

In further consideration for your consulting services, CTI shall grant to you an option to acquire [number] shares (number) of CTI Common Stock ("option") upon your indicating acceptance of the terms below. The option shall incrementally vest each year of the agreement term, according to the following schedule:

[number] shares	-	1 year from date of acceptance
[number] shares	-	2 years from date of acceptance
[number] shares	-	Total

The option shall be contingent upon approval by the Board of Directors; shall be exercisable at a price equal to the fair market value of CTI Common Stock on the Grant Date (your acceptance date); and is otherwise subject to the terms and conditions of CTI's 1994 Equity Incentive Plan and the Company's Non-Qualified Stock Option Agreement which we will timely send to you upon the Board's approval, and which you must execute as a condition of the grant of such option.

When your consulting services will involve travel outside of the [metropolitan location] area, CTI shall make appropriate arrangements for reimbursing reasonable travel expenses that you incur.

4. Although CTI shall not specifically restrict the subject matter upon which you consult, your services will primarily be rendered in connection with your role as a CAB Member. Specifically, we expect that you will work with CTI to:

- attend periodic CAB meetings as requested by CTI management and/or the CAB Chair, E. Donnall Thomas, MD;

- provide your expertise as a member of CAB sub-groups, established to address specific issues or concerns identified from time to time;

- critically evaluate CTI's clinical development programs;

- advise CTI Medical Affairs personnel in clinical program strategy, direction and design; and

- review progress of CTI's clinical development studies and projects with CTI management.

CTI employees or agents may consult with you individually, by telephone or facsimile or provide documents for your review and analysis.

- ------------

5. You shall not disclose to others or utilize for your own research, without CTI's written consent, any unpublished information concerning CTI's scientific or business interests, including any proprietary cell signaling technology, with which you become familiar in your contacts with us. Similarly, you shall not: 1) disclose to others the results of any specific nature of your consulting work for CTI; 2) use any unpublished or proprietary information provided to you by CTI for purposes other than providing consulting services to CTI; or 3) accept consulting or employment from a for-profit entity involved with therapeutics that are second messenger, signaling pathway agonists or antagonists. Your obligations under this paragraph shall continue beyond termination of this agreement insofar as they relate to your activities under this agreement prior to its termination.

6. If in connection with your consultantship, you contribute as an inventor (as determined by applicable laws regarding inventorship) to any invention for CTI, you shall assign your right, title and interest in the invention, domestic or foreign, to CTI, signing all papers, executing all oaths, and doing everything necessary and proper to assign to CTI domestic and foreign rights to said inventions.

CTI will compensate you for any expense you incur in assigning, obtaining, maintaining, and enforcing any patent covering any invention for which you are a named inventor, as set forth above. CTI will also reasonably and fairly compensate you for time which you may spend subsequent to the termination of this agreement in securing or enforcing CTI's rights in the invention. These obligations shall continue beyond the term of this agreement.

It is our understanding that you have no pre-existing obligations which are inconsistent with your acceptance of the foregoing terms or which would preclude your complete performance under the above terms. If our understanding is correct and if you accept the foregoing terms, please so indicate by signing, dating, and returning to us the enclosed duplicate counterpart original of this letter.

We look forward to your continued association with us.

Sincerely,

CELL THERAPEUTICS, INC.

Authorized Official

Accepted and Agreed to this ____ day of _____, 199_.

_____ _____

[name of individual consultant] Tax ID No.

EXHIBIT 11.1

CELL THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
COMPUTATION OF NET LOSS PER SHARE

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
NET LOSS	$(15,328,143)	$(19,499,283)	$(19,992,475)	$(4,641,260)	$(2,194,412)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	15,331,876	16,507,395	16,699,364	16,520,277	17,268,103
NET LOSS PER SHARE	$ (1.00)	$ (1.18)	$ (1.20)	$ (0.28)	$ (0.13)