CELL THERAPEUTICS INC
Form DEF 14A
July 27, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant: x Filed by a Party other than the Registrant: ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

# Cell Therapeutics, Inc.

**(Name of Registrant as Specified In Its Charter)**

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

Payment of filing fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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July 27, 2012

Dear Shareholder:

You are cordially invited to attend the Cell Therapeutics, Inc. (the Company ) Annual Meeting of Shareholders, which will be held at 10:00 a.m. Pacific Daylight Time (PDT), on Friday, August 31, 2012, at 3101 Western Avenue, Suite 600, Seattle, Washington 98121, U.S.A. For those of you unable to attend in person, the Company expects to webcast the meeting and make information concerning the webcast available on the Company s website at http://www.celltherapeutics.com

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

the office of the Italian branch of the Company s subsidiary CTI Life Sciences Limited (contact person: Ms. Elena Bellacicca, Investor Relations, CTI Life Sciences Limited at +39 02 89659700), at Via Amedei 8, 20123 Milan, Italy;

the office of any of the depository banks (or Monte Titoli intermediaries) having the Company s shares in their accounts;

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

the Company s website at http://www.celltherapeutics.com/shareholders.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the meeting, it is important that your shares be represented. Therefore, the Company urges its U.S. shareholders to sign, date and promptly return the enclosed proxy card in the enclosed postage paid envelope and urges its Italian shareholders to request and return an Italian proxy card, together with a completed certification of participation in the Italian Central Depository System. If your shares are held in a U.S. bank or brokerage account or if you are registered directly with the Company as the record holder of your shares, you may be eligible to vote your proxy electronically or by telephone. Please refer to the enclosed voting form for instructions.

I look forward to greeting you personally and, on behalf of the Board of Directors and management, I would like to express our appreciation for your support of Cell Therapeutics, Inc.

Sincerely,

James A. Bianco, M.D.

President and Chief Executive Officer

Shareholder

**Cell Therapeutics, Inc., 3101 Western Avenue, Suite 600, Seattle, Washington 98121, U.S.A.**

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**CELL THERAPEUTICS, INC.**

**Notice of Annual Meeting of Shareholders**

**Friday, August 31, 2012**

To the Shareholders of Cell Therapeutics, Inc.:

The Annual Meeting of Shareholders (the Annual Meeting ) of Cell Therapeutics, Inc. (the Company ) will be held at 10:00 a.m. Pacific Daylight Time (PDT), on Friday, August 31, 2012 at 3101 Western Avenue, Suite 600, Seattle, Washington 98121, U.S.A., for the following purposes:

(1) to elect directors to the Company s Board of Directors ( Proposal 1 );

(2) to approve an amendment to the Company s amended and restated articles of incorporation to increase the total number of authorized shares from 384,999,999 to 751,666,666 and the total number of authorized shares of common stock from 383,333,333 to 750,000,000 ( Proposal 2 );

(3) to approve an amendment to the Company s 2007 Equity Incentive Plan, as amended and restated (the 2007 Equity Plan ) to increase the number of shares available for issuance under the 2007 Equity Plan by 15,000,000 shares ( Proposal 3 );

(4) to approve the shares issued to S*BIO Pte Ltd. in connection with, or to finance, the acquisition of assets of S*BIO Pte Ltd. and at the Company s option, to issue shares of common stock or shares of preferred stock in lieu of cash for up to 50% of the milestone payments pursuant to the asset purchase agreement entered into with S*BIO Pte Ltd. on April 18, 2012 ( Proposal 4 );

(5) to approve the issuance of shares of preferred stock and shares of common stock issuable upon conversion of the preferred stock, warrants and shares of common stock issuable upon the exercise of the warrants, and at the Company s option, the issuance of shares of common stock in lieu of cash upon exchange of such warrants issued to Socius CG II, Ltd. pursuant to the securities purchase agreement entered into in connection with the offering of Series 15 Convertible Preferred Stock on May 29, 2012 ( Proposal 5 );

(6) to ratify the selection of Marcum LLP as the Company s independent auditors for the year ending December 31, 2012 ( Proposal 6 );

(7) to approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Annual Meeting to adopt any of Proposals 1 through 6 ( Proposal 7 ); and

(8) to transact such other business as may properly come before the Annual Meeting and all adjournments and postponements thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. As more fully described in the Proxy Statement accompanying this Notice, Proposal 1 describes the election of three Class III directors to the Company s Board of Directors, each to serve until the 2015 annual meeting of shareholders.

The Board of Directors has approved the proposals described in the Proxy Statement and recommends that you vote FOR the nominees for directors listed in Proposal 1 and FOR Proposals 2, 3, 4, 5, 6 and 7.

All shareholders are cordially invited to attend the Annual Meeting. Only shareholders of record at the close of business on July 20, 2012, the record date fixed by the Board of Directors of the Company, are entitled to vote at the Annual Meeting and all adjournments and postponements thereof. A complete list of shareholders entitled

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to notice of, and to vote at, the Annual Meeting will be open to examination by the shareholders beginning ten (10) days prior to the Annual Meeting for any purpose germane to the Annual Meeting during normal business hours at the office of the secretary of the Company at 3101 Western Avenue, Suite 600, Seattle, Washington 98121, U.S.A.

If you are an Italian shareholder who does not hold shares in record name (*i.e.*, you hold shares through an Italian bank), you may obtain a copy of the Proxy Statement and a proxy card from any of the following places:

- the office of the Italian branch of the Company s subsidiary CTI Life Sciences Limited (contact person: Ms. Elena Bellacicca, Investor Relations, CTI Life Sciences Limited at +39 02 89659700), at Via Amedei 8, 20123 Milan, Italy;
- the office of any of the depository banks (or Monte Titoli intermediaries) having the Company s shares in their accounts;
- the Securities and Exchange Commission website at http://www.sec.gov; or
- the Company s website at http://www.celltherapeutics.com/shareholders.

The Proxy Statement will be available for the Company s Italian shareholders at least twenty (20) days before the Annual Meeting date of August 31, 2012.

**Whether or not you intend to be present at the Annual Meeting, U.S. shareholders are requested to sign and date the enclosed proxy card and return it in the enclosed envelope, and Italian shareholders are requested to request, sign, date and return an Italian proxy card, together with a completed certification of participation in the Italian Central Depository System. If you are one of the Company s Italian shareholders, please remember to request a certification of participation in the Italian Central Depository System from your broker and include it in the same envelope as your Italian proxy card in order for your vote to be counted. If your shares are held in a bank or brokerage account in the United States, or if you are registered directly with the Company as the record holder of your shares, you may be eligible to vote your proxy electronically or by telephone. Please refer to the enclosed voting form for instructions.**

By Order of the Board of Directors

Louis A. Bianco
Executive Vice President, Finance & Administration

Seattle, Washington

July 27, 2012

**YOUR VOTE IS IMPORTANT. ACCORDINGLY, YOU ARE URGED TO SIGN, DATE AND RETURN PROMPTLY THE ACCOMPANYING PROXY CARD IN THE ENCLOSED ENVELOPE REGARDLESS OF WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING. IF YOU ARE ONE OF THE COMPANY S SHAREHOLDERS IN ITALY, PLEASE REMEMBER TO PRINT AN ITALIAN PROXY CARD FROM THE COMPANY S WEBSITE, OR ANY OF THE LOCATIONS LISTED IN THE PROXY STATEMENT, SIGN AND DATE THE ITALIAN PROXY CARD, REQUEST A CERTIFICATION OF PARTICIPATION IN THE ITALIAN CENTRAL DEPOSITORY SYSTEM FROM YOUR BROKER AND INCLUDE THE ITALIAN PROXY CARD AND CERTIFICATION OF PARTICIPATION IN THE SAME ENVELOPE OR TELECOPY THEM TOGETHER TO THE FACSIMILE NUMBER PROVIDED ON THE ITALIAN PROXY CARD (SEE PAGE 3 FOR MORE INFORMATION ON ITALIAN VOTING PROCEDURES).**

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**Important Notice Regarding the Availability of Proxy Materials**

**for the Annual Meeting, Which Will Be Held on Friday, August 31, 2012:**

This Notice and the Proxy Statement are available on the Company s website at

http://www.celltherapeutics.com/shareholders.

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**CELL THERAPEUTICS, INC.**

**3101 Western Avenue, Suite 600**

**Seattle, Washington 98121, U.S.A.**

# PROXY STATEMENT

## Information Regarding Proxies

### General

This Proxy Statement and the accompanying form of proxy card are furnished in connection with the solicitation of proxies by the Board of Directors (the Board ) of Cell Therapeutics, Inc. (the Company ) for use at the Company s Annual Meeting of Shareholders (the Annual Meeting or shareholder meeting ), which will be held at 10:00 a.m. Pacific Daylight Time (PDT), on Friday, August 31, 2012, at 3101 Western Avenue, Suite 600, Seattle, Washington 98121, U.S.A., and at any adjournment or postponement thereof.

At the Annual Meeting, shareholders will be asked:

(1) to elect directors to the Company s Board ( Proposal 1 );

(2) to approve an amendment to the Company s amended and restated articles of incorporation to increase the total number of authorized shares from 384,999,999 to 751,666,666 and the total number of authorized shares of common stock from 383,333,333 to 750,000,000 ( Proposal 2 );

(3) to approve an amendment to the Company s 2007 Equity Incentive Plan, as amended and restated (the 2007 Equity Plan ) to increase the number of shares available for issuance under the 2007 Equity Plan by 15,000,000 shares ( Proposal 3 );

(4) to approve the shares issued to S*BIO Pte Ltd. ( S*BIO ) in connection with, or to finance, the acquisition of assets of S*BIO and at the Company s option, to issue shares of common stock or shares of preferred stock in lieu of cash for up to 50% of the milestone payments pursuant to the asset purchase agreement entered into with S*BIO on April 18, 2012 ( Proposal 4 );

(5) to approve the issuance of shares of preferred stock and shares of common stock issuable upon conversion of the preferred stock, warrants and shares of common stock issuable upon the exercise of the warrants, and at the Company s option, the issuance of shares of common stock in lieu of cash upon exchange of such warrants issued to Socius CG II, Ltd. ( Socius ), pursuant to the securities purchase agreement entered into in connection with the offering of Series 15 Convertible Preferred Stock on May 29, 2012 ( Proposal 5 );

(6) to ratify the selection of Marcum LLP as the Company s independent auditors for the year ending December 31, 2012 ( Proposal 6 );

(7) to approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Annual Meeting to adopt any of Proposals 1 through 6 ( Proposal 7 and together with Proposals 1 through 6, the Proposals ); and

(8) to transact such other business as may properly come before the Annual Meeting and all adjournments and postponements thereof.

As more fully described in this Proxy Statement, Proposal 1 describes the election of three Class III directors to the Board, each to serve until the 2015 annual meeting of shareholders.

Shareholder approval of Proposals 1, 2, 3, 4 and 5 are required by statutes or regulations applicable to the Company based on its listing on The NASDAQ Stock Market LLC ( NASDAQ ) and its incorporation in the State of Washington.

This Proxy Statement and the accompanying proxy card are being first mailed to shareholders on or about July 30, 2012.

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**Reverse Stock Split**

Pursuant to the Business Corporation Act of Washington, the Board may unilaterally determine that it is in the best interests of the shareholders and the Company to effectuate a reverse stock split. If the Company does not have any shares of preferred stock outstanding, the Company is not required to seek shareholder approval of such action before effectuating a reverse stock split. The primary objective of a reverse stock split, if undertaken, would be an anticipated increase of the per share trading price of the Company s common stock, which may enable the Company to satisfy the listing requirements of the Company s common stock under the NASDAQ Listing Rules and facilitate higher levels of institutional stock ownership, as investment policies of many institutional investors require minimum securities price points. On June 29, 2012, the Company received a notice from NASDAQ stating that, based on the closing bid price of the Company s common stock for the thirty (30) consecutive business days preceding such date, the Company no longer met the minimum $1.00 per share requirement for continued listing on The NASDAQ Capital Market. In accordance with NASDAQ Listing Rule 5810(c)(3)(A), the Company was provided a grace period of one hundred eighty (180) calendar days, or until December 26, 2012, to regain compliance. The Company may achieve compliance during the 180-day period if the closing bid price of the Company s common stock is at least $1.00 per share for a minimum of ten (10) consecutive trading days before December 26, 2012. The Company may be eligible for an additional grace period if it meets the initial listing standards, with the exception of bid price, for The NASDAQ Capital Market. If the Company meets the initial listing criteria, with the exception of bid price, it may be granted an additional 180 calendar day compliance period.

As of the date of this proxy statement, the closing bid price of the Company s common stock for the last thirty (30) days has been below $1.00 per share. If the Company is unable to attain compliance with the minimum bid price requirement, whether by effectuating a reverse stock split of the Company s common stock or otherwise, the Company s common stock may be delisted from The NASDAQ Capital Market. To address the Company s non-compliance with the minimum bid price requirement, the Board may determine in its discretion that the Company should complete a reverse stock split, which may be implemented prior to December 26, 2012 (the Reverse Stock Split ). If the Board approves the Reverse Stock Split, then the amount of shares referenced in Proposals 2, 3, 4 and 5 will be reduced in proportion to the ratio of the Reverse Stock Split. In such event, proportionate adjustments would also be made to the Company s outstanding equity awards, as well as the number of shares of Company common stock available for award grants under the 2007 Equity Plan. There can be no assurance that the Reverse Stock Split will have the intended effect or that any increase in the trading price of the Company s common stock will be proportional to the decrease in the number of outstanding shares.

The Company currently expects that if the Reverse Stock Split is implemented, it will have a ratio of between one-for-three and one-for-five. However, the Board may approve the Reverse Stock Split with a ratio above or below that range. The Board s decision as to whether to approve the Reverse Stock Split and its determination as to the ratio of any Reverse Stock Split will be based on a number of factors, including prevailing market conditions, existing and expected trading prices for the Company s common stock, actual or forecasted results of operations and the likely effect of such results on the market price of the Company s common stock. If the Company implements a one-for-three Reverse Stock Split, then on the effective date of the Reverse Stock Split (the Effective Date ), each shareholder will receive one new share of the Company s common stock in exchange for every three shares of the Company s common stock such shareholder holds. If the Company implements a one-for-four Reverse Stock Split, then on the Effective Date, each shareholder will receive one new share of the Company s common stock in exchange for every four shares of the Company s common stock such shareholder holds. If the Company implements a one-for-five Reverse Stock Split, then on the Effective Date, each shareholder will receive one new share of the Company s common stock in exchange for every five shares of the Company s common stock such shareholder holds. The Reverse Stock Split would affect all outstanding and authorized shares of the Company s common stock as well as the number of shares of common stock underlying stock options and other exercisable or convertible instruments outstanding on the Effective Date. No certificates for fractional shares of the Company s common stock would be issued in the Reverse Stock Split, but in lieu thereof, each holder of the Company s common stock who would otherwise have been entitled to a fraction of a share of the Company s common stock

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will be paid cash equal to such fraction times the closing price of the Company s common stock as reported on The NASDAQ Capital Market on the trading day immediately preceding the Effective Date.

*Except as otherwise expressly noted herein, references to a number of shares of the Company s common stock throughout this proxy statement do not give effect to the Reverse Stock Split described above.*

**Important Information for the Company s Shareholders in Italy about Voting Procedures**

If you hold shares of the Company s common stock as a result of a merger with Novuspharma S.p.A. or if you acquired shares of the Company s common stock through an account with an Italian bank on the Mercato Telematico Azionario stock market in Italy (the MTA ), you most likely hold these shares indirectly through the facilities of the Monte Titoli, S.p.A., the Italian central clearing agency ( Monte Titoli ), and through the banks and brokers participating in the Monte Titoli system (unless you or your broker has taken action to remove your shares from the Monte Titoli system and requested to have shares registered in your name). Persons holding shares of the Company s common stock through Monte Titoli are referred to as the Company s shareholders in Italy or the Company s Italian shareholders. Monte Titoli, in turn, holds these shares of the Company s common stock through the U.S. clearing agency, the Depository Trust Company ( DTC ). Pursuant to U.S. law, DTC will transfer its voting power over the shares in Monte Titoli s account to Monte Titoli. Monte Titoli has agreed with the Company that it will re-transfer its voting power over such shares to the persons holding certifications of participation (each, a Certification ) in the Italian Central Depository System issued pursuant to Italian law (Section 21 (and the following sections) of the Regulation enacted by the Bank of Italy and the Commissione Nazionale per le Società e la Borsa ( CONSOB ) on February 22, 2008).

In order to increase the number of shares owned by Italian shareholders that vote at the Annual Meeting so that the Company can achieve a quorum and take action at the Annual Meeting and facilitate voting regarding the matters submitted for approval at the Annual Meeting, all of which has been difficult in the past, the Company has requested that certain Italian banks, in the absence of the shareholder s instructions to the contrary, make book-entry transfers of the Company s common stock, in part or all of the shares, held in the name of and in the customer s account by such banks to an account opened in the name of the same banks at a U.S. broker-dealer on the record date. Under the securities laws of the United States and the rules of the New York Stock Exchange (the NYSE ), this will permit such U.S. broker-dealers who hold shares transferred to them from Italian banks to vote these shares for certain routine matters to be presented at the Annual Meeting to the extent that the Italian shareholders have not instructed their broker to vote the shares pursuant to the procedures provided for in this Proxy Statement and on the proxy card prepared for the Company s shareholders in Italy, which may be obtained from the Company s website at http://www.celltherapeutics.com. The Company s Italian shareholders will, however, maintain their right to instruct the U.S. broker-dealer so that the broker-dealer refrains from taking any action in relation to such shareholder s shares, including voting the shares. Accordingly, if you do not vote your shares by valid proxy or you do not provide any specific instruction in relation thereto on or before the date of the Annual Meeting and your shares are held through an Italian bank participating in this transfer procedure, your shares will be voted by the U.S. broker-dealer pursuant to the discretionary authority granted them under Rule 452 of the NYSE. However, you may still vote your shares yourself as provided below.

Copies of this Proxy Statement may be obtained by the Company s Italian shareholders from any of the following places:

- the office of the Italian branch of the Company s subsidiary CTI Life Sciences Limited (contact person: Ms. Elena Bellacicca, Investor Relations, CTI Life Sciences Limited at +39 02 89659700), at Via Amedei 8, 20123 Milan, Italy;

- the office of any of the depository banks (or intermediaries of Monte Titoli) having the Company s shares in their accounts;

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

- the Company s website at http://www.celltherapeutics.com/shareholders.

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This Proxy Statement will be available for the Company s Italian shareholders at least twenty (20) days before the Annual Meeting date of August 31, 2012. All of the Company s shareholders, including the Company s Italian shareholders, are cordially invited to attend the Annual Meeting. If you hold shares of the Company s common stock in Italy through Monte Titoli, your broker is required by Italian law to provide you with a Certification in the Italian Central Depository System.

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

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

*By mail or facsimile*. You may print an Italian proxy card from the Company s website at http://www.celltherapeutics.com/shareholders and use that proxy card to vote by mail or facsimile. Please mark your votes on the Italian proxy card and return it and your Certification by mail to the address shown on the card or by facsimile to the facsimile number shown on the card by the deadline shown on the card. Your name as you write it on your Italian proxy card must exactly match your name as printed on your Certification. Italian privacy law prevents the Company from learning in advance the names of the persons holding Certifications. Thus, you must include your Certification (or a complete copy) in the same envelope as your Italian proxy card in order for your vote to be counted (that is, in order to prove to the Company s inspector of election that you have the right to vote).

*By proxy*. You may name another person as a substitute proxy by any means permitted by Washington law and the Company s second amended and restated bylaws (the Bylaws ). That substitute proxy may then attend the Annual Meeting, provided that he or she provides your Certification or a complete copy thereof, together with your written authorization naming such person as your proxy, to the Company s inspector of election at the Annual Meeting in order to verify the authenticity of your proxy designation.

The Company strongly encourages its Italian shareholders to obtain a Certification and an Italian proxy card and submit them by mail to the address shown **on the Italian proxy card or, if possible, send by facsimile to the facsimile number shown on the Italian proxy card.** A significant percentage of the Company s shares are held by persons in Italy. If the Company s Italian shareholders do not take the time to vote, then the Company will not be able to obtain a quorum, in which case the Company would be unable to conduct any business at the Annual Meeting, and will not be able to obtain approval of the Proposals. **Your vote is important. Please obtain a Certification and an Italian proxy card and vote today.**

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

The Company s Italian shareholders who are registered directly with the Company as a record holder (*i.e.,* you hold your shares in registered form) may also vote via internet or by phone. If you do not hold your shares in registered form, you may request to be registered directly with the Company as a record holder, which will entitle you to receive shareholder materials for future meetings directly at your address as indicated in the registration. If

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you are interested in having your shares registered directly with the Company for the purposes of receiving shareholder information directly for future meetings, please contact your bank for more information on the procedures required for such registration, which would include, among other things, the submission of a registration request (together with a Certification) to the Company s transfer agent, the removal of your shares from Monte Titoli s account and the transfer of such shares to the United States directly in your name. Please note that registration in the Company s shareholder books may require you to take additional steps if and when you decide to dispose of your shares.

**Solicitation of Proxies**

This solicitation is made on behalf of the Board. All expenses in connection with the solicitation of proxies will be borne by the Company. In addition to solicitation by mail, the Company s officers, directors or other regular employees may solicit proxies by telephone, facsimile, electronic communication or in person. These individuals will not receive any additional compensation for these services. The Company has engaged The Proxy Advisory Group, LLC to assist in the solicitation of proxies and provide related advice and informational support, for a service fee, plus customary disbursements, which are not expected to exceed $30,000 in the aggregate.

**Record Date, Voting Rights and Outstanding Shares**

Only shareholders of record on the Company s books at the close of business on July 20, 2012 (the record date ) will be entitled to notice of, and to vote at, the Annual Meeting. Each holder of record of the Company s common stock, no par value per share, outstanding on the record date will be entitled to one vote per share on all matters to be voted upon at the Annual Meeting. As of the close of business on the record date, there were issued and outstanding 258,196,962 shares of common stock. As of the close of business on the record date, the Company does not have any other class of capital stock outstanding.

**Dissenters Rights or Appraisal Rights**

Pursuant to applicable Washington law, there are no dissenters or appraisal rights relating to the matters to be acted upon at the Annual Meeting.

**Quorum, Abstentions and Broker Non-Votes**

A quorum of shareholders must be established at the Annual Meeting in order to transact business at the Annual Meeting. Under the Business Corporation Act of Washington, a quorum may be established in one of two ways. Pursuant to the first quorum standard, the presence in person, by telephone or by proxy of the holders of at least one-third of the shares outstanding and entitled to vote at the Annual Meeting constitutes a quorum ( Quorum Standard 1 ). Therefore, the Company will need at least 86,065,654 shares of the Company s common stock present in person, by telephone or by proxy at the Annual Meeting for Quorum Standard 1 to be established. However, the Company may establish a quorum under the second quorum standard. In order to satisfy the second quorum standard, a majority of the shares outstanding and entitled to vote at the Annual Meeting other than shares held of record by DTC and credited to the account of stock depositories located in a member state of the European Union must be present in person, by telephone or by proxy at the Annual Meeting, provided the number of votes comprising such majority equals or exceeds one sixth of the shares outstanding and entitled to vote at the Annual Meeting ( Quorum Standard 2 ). As of the close of business on the record date, there were issued and outstanding 180,016,998 shares of the Company s common stock other than shares held of record by DTC and credited to the account of stock depositories located in a member state of the European Union. Accordingly, 90,008,499 of the shares of the Company s common stock other than shares held of record by DTC and credited to the account of stock depositories located in a member state of the European Union must be present in person, by telephone or by proxy at the Annual Meeting for Quorum Standard 2 to be established. All shares of the Company s common stock are eligible to vote for the Proposals, except that votes by Socius will not be counted in determining if a majority of the total votes cast on Proposals 4 and 5, voting in person or by proxy, have approved Proposals 4 or 5. Under Quorum Standard 2, certain shares are not counted for quorum purposes. However, even if a quorum is established under Quorum Standard 2, all shares are eligible to vote and all such votes will be counted.

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All votes will be tabulated by the inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions, withheld votes and broker non-votes. Abstentions and broker non-votes will be counted in determining whether a quorum is present, *except* that abstentions and broker non-votes of shares credited to the account of stock depositories located in a member state of the European Union (including shares that are held through Monte Titoli) and not transferred in accordance with the procedure described in Important Information for the Company s Shareholders in Italy about Voting Procedures above will not be counted in determining whether a quorum is present for purposes of establishing Quorum Standard 2. Abstentions represent a shareholder s affirmative choice to decline to vote on a proposal. Broker non-votes occur when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular matter because such broker, bank or other nominee does not have discretionary authority to vote on that matter and has not received voting instructions from the beneficial owner. Brokers, banks and other nominees typically do not have discretionary authority to vote on non-routine matters. Under the rules of the NYSE, as amended, which apply to all NYSE-licensed brokers (the NYSE Rules ), brokers have discretionary authority to vote on routine matters when they have not received timely voting instructions from the beneficial owner.

If a quorum is established at the Annual Meeting, all shares of the Company s common stock represented by properly executed proxies that are not revoked will be voted in accordance with the instructions, if any, given therein. In the absence of a quorum, the Chairman of the Annual Meeting may adjourn the Annual Meeting. Proxy cards that are signed and returned without specifying a vote or an abstention on any proposal specified therein will be voted according to the recommendations of the Board on such proposals, which recommendations are in favor of all of the Proposals, and will be voted, in the proxies discretion, upon such other matter or matters that may properly come before the Annual Meeting and any such postponements or adjournments thereof. All proxy cards, whether received prior to or after the original date of the Annual Meeting, will be valid as to any postponements or adjournments of the Annual Meeting.

When an eligible voter attends the shareholder meeting but affirmatively decides not to vote, the eligible voter s decision not to vote is called an abstention. Properly executed proxy cards that are marked abstain or withhold authority on any proposal will be treated as abstentions for that proposal. The Company will treat abstentions as follows:

- abstention shares are present and entitled to vote for purposes of determining the presence of a quorum;
- abstentions will be treated as not voting for purposes of determining the approval of any matter submitted to the shareholders for a vote requiring a plurality, a majority or some other percentage of the votes *actually cast*; and
- abstentions will have the same effect as votes against a proposal if the vote required is a majority or some other percentage of the *voting power present* for that proposal or of the votes *entitled to be cast* on that proposal.

In Proposal 1, the three Class III nominees for director seats who receive the most votes cast at the shareholder meeting in person, by telephone or by proxy shall be elected. Abstentions and broker non-votes have no effect on the outcome of Proposal 1. No cumulative voting for directors is permitted under the Company s amended and restated articles of incorporation.

The affirmative vote of a majority of votes *actually cast* that are present in person, by telephone or by proxy is required to approve Proposal 2, provided that the affirmative vote for Proposal 2 equals or exceeds 15% of the votes *entitled to be cast*. If the affirmative vote does not equal or exceed 15% of the votes *entitled to be cast*, abstentions will have the effect of votes cast against Proposal 2. However, if the affirmative vote equals or exceeds the 15% threshold, then abstentions will not be counted and will have no effect on the outcome of Proposal 2. Proposal 2 is considered to be a routine matter under the NYSE Rules and, accordingly, if you do not instruct your broker, bank or other nominee on how to vote the shares in your account for Proposal 2, brokers will be permitted to exercise their discretionary authority to vote for such proposals.

The affirmative vote of a majority of votes *actually cast* that are present in person, by telephone or by proxy is required to approve Proposals 3, 4, 5, 6 and 7. Abstentions will not be counted as votes cast against Proposals 3, 4, 5, 6 and 7 and will have no effect on the outcome of Proposals 3, 4, 5, 6 and 7 because approval is based on the number of votes *actually cast*.

Votes by Socius will not be counted in determining if a majority of the total votes cast on Proposals 4 and 5, voting in person or by proxy have approved Proposals 4 or 5. According to the Schedule 13G/A filed on June 6, 2012 by Socius, Socius beneficially owned 25,000,000 shares of common stock, which included 20,000,000 shares of common stock and warrants to purchase 13,333,332 shares of common stock. Pursuant to the terms of such warrants, Socius may not exercise or exchange its warrants to the extent that the exercise or exchange, as applicable, would result in Socius and its affiliates beneficially owning more than 9.9% of our common stock.

Because the vote under Proposals 3, 4 and 5 are considered to be non-routine matters under the NYSE Rules, if you do not instruct your broker, bank or other nominee on how to vote the shares in your account for Proposals 3, 4 and 5, brokers will not be permitted to exercise their voting authority and uninstructed shares will constitute broker non-votes. Proposals 6 and 7 are considered to be routine matters under the NYSE Rules and, accordingly, if you do not instruct your broker, bank or other nominee on how to vote the shares in your account for Proposals 6 or 7, brokers will be permitted to exercise their discretionary authority to vote for such proposals. Broker non-votes for Proposals 3, 4 and 5 will have no effect on the outcome of Proposals 3, 4 and 5 because approval is based on the number of votes *actually cast*.

**Voting Electronically or by Telephone**

If your shares are registered in the name of a bank or brokerage firm in the United States, you may be eligible to vote your shares electronically over the internet or by telephone. A large number of banks and brokerage firms are participating in the Broadridge Investor Communication Solutions ( Broadridge ) online program. This program provides eligible shareholders who receive a paper copy of this Proxy Statement the opportunity to vote via the internet or by telephone. If your bank or brokerage firm is participating in Broadridge s program, your voting form will provide instructions. If your voting form does not reference internet or telephone information, please complete and return the paper proxy card in the self-addressed postage paid envelope provided.

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

**Revocability of Proxies**

Any shareholder executing a proxy has the power to revoke it at any time prior to the voting thereof on any matter by delivering written notice to the Company s secretary, Louis A. Bianco, at the Company s principal executive offices, by executing and delivering another proxy dated as of a later date or by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not, by itself, revoke a proxy. For the Company s Italian shareholders, any written notice of revocation or another proxy, in either case dated as of a later date, must also be accompanied by another Certification.

**Voting Agreements**

At the time of the Company s merger with Novuspharma, S.p.A., the Company entered into an agreement with Monte Titoli in order to ensure that persons receiving beneficial interests in shares of the Company s common stock as a result of the merger would be able to vote those shares. Monte Titoli agreed that each time it is designated as proxy by DTC, Monte Titoli will execute a further omnibus proxy transferring its voting power to the persons who hold Certifications issued pursuant to Italian law (Section 21 (and the following sections) of the Regulation enacted by the Bank of Italy and CONSOB on February 22, 2008).

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## PROPOSAL 1

## ELECTION OF DIRECTORS

### Summary

The Company s amended and restated articles of incorporation and the Bylaws provide for the Board to be divided into three approximately equal classes of directors serving staggered three-year terms. Each director holds office until the later of the term elected or until his or her successor is elected. As a result, approximately one-third of the total number of directors are elected every year at the Annual Meeting.

Under the Bylaws, the number of directors constituting the entire Board may be decreased or increased by majority action of either the Board or the shareholders. Unless a director resigns or is removed for cause, no decrease in the number of directors may have the effect of shortening the term of any incumbent director. In the event of a vacancy on the Board, the Bylaws permit a majority of the remaining directors in office to fill the vacancy, and the director then chosen will hold office until the next shareholders meeting at which directors are elected. At such meeting, the director will stand for election until the later of the term elected or until his or her successor is elected.

The Board has fixed the number of directors at 12. Currently, there are nine members of the Board. From time to time, the Company s Nominating and Governance Committee evaluates potential candidates to fill the vacancies on the Board. Proxies cannot be voted for a greater number of persons than the number of nominees named.

The current terms of office of the Class I directors, Mr. John H. Bauer, Dr. Phillip M. Nudelman and Dr. Reed V. Tuckson, expire at the 2013 annual meeting of shareholders. The current terms of office of the Class II directors, Dr. James A. Bianco, Dr. Vartan Gregorian and Dr. Frederick W. Telling, expire at the 2014 annual meeting of shareholders. The current terms of office of the Class III directors, Mr. Richard L. Love, Dr. Mary O. Mundinger and Dr. Jack W. Singer, expire at the Annual Meeting.

### Nominees for Election as Directors

Mr. Love, Dr. Mundinger and Dr. Singer have been nominated by the Board for election at the Annual Meeting as Class III directors for three year terms expiring at the 2015 annual meeting of shareholders.

If elected, each nominee will hold office until the later of expiration of his or her term or until his or her successor is elected. It is intended that the accompanying proxy will be voted for the election as directors of Mr. Love, Dr. Mundinger and Dr. Singer unless the proxy contains contrary instructions.

Each nominee has agreed to serve if elected and the Company has no reason to believe that any of the nominees will not be a candidate or will be unable to serve. However, if any of the nominees should become unable or unwilling to serve as a director, the persons named in the proxy have advised the Company that they will vote for the election of the substitute nominee or nominees designated by the Board.

### Vote Required and Board of Directors Recommendation

The three Class III nominees for director seats who receive the most votes cast at the Annual Meeting in person, by telephone or by proxy shall be elected. No cumulative voting for directors is permitted under the Company s amended and restated articles of incorporation. Abstentions and broker non-votes will have no effect on the outcome of the election of directors. Proxies cannot be voted for a greater number of persons than the number of nominees named.

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**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS**

**A VOTE IN FAVOR OF EACH NAMED NOMINEE.**

**Information about Nominees and Continuing Directors**

The table below provides biographical information as of June 29, 2012 for each nominee for director and each person whose term of office as a director will continue after the shareholder meeting.

| Name | Age | Director Since | Class | Term Expiration |
|---|---|---|---|---|
| John H. Bauer(3) | 71 | 2005 | I | 2013 Annual Meeting |
| James A. Bianco, M.D. | 55 | 1991 | II | 2014 Annual Meeting |
| Vartan Gregorian, Ph.D.(3)(4) | 78 | 2001 | II | 2014 Annual Meeting |
| Richard L. Love(2)(4) | 68 | 2007 | III | 2012 Annual Meeting |
| Mary O. Mundinger, DrPH(2)(4) | 75 | 1997 | III | 2012 Annual Meeting |
| Phillip M. Nudelman, Ph.D.(1)(2)(3)(4) | 76 | 1994 | I | 2013 Annual Meeting |
| Jack W. Singer, M.D. | 69 | 1991 | III | 2012 Annual Meeting |
| Frederick W. Telling, Ph.D.(2)(3) | 60 | 2006 | II | 2014 Annual Meeting |
| Reed V. Tuckson, M.D. | 61 | 2011 | I | 2013 Annual Meeting |

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

**Nomination for Election for a Term Continuing Until the 2015 Annual Meeting Class III Directors**

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

***Dr. Mundinger*** has been one of the Company s directors since April 1997. From 1986 to 2010, she was a dean and professor at the Columbia University School of Nursing, and an associate dean on the faculty of medicine at Columbia University. In July 2010, Dr. Mundinger was appointed the Edward M. Kennedy Professor in Health Policy and Dean Emeritus at the Columbia University School of Nursing. Dr. Mundinger has served on the board of directors of United Health Group and Gentiva Health Services and is an elected member of the Institute of Medicine of the National Academies, the American Academy of Nursing and the New York Academy of Medicine. Dr. Mundinger received her doctorate in public health from Columbia s School of Public Health.

***Dr. Singer*** is one of the Company s founders and directors and currently serves as the Company s Executive Vice President, Global Medical Affairs and Translational Medicine. Dr. Singer has been one of the Company s directors since its inception in September 1991. From January 2004 to June 2012, Dr. Singer was the Company s Executive Vice President, Chief Medical Officer. From July 1995 to January 2004, Dr. Singer was the Company s Executive Vice President, Research Program Chairman and from April 1992 to July 1995, he served as the Company s Executive Vice President, Research and Development. Prior to joining the Company, Dr. Singer was a professor of medicine at the University of Washington and a full member of the Fred Hutchinson Cancer Research Center. From 1975 to 1992, Dr. Singer was the Chief of Medical Oncology at the Veterans Administration Medical Center in Seattle. Dr. Singer received his M.D. from State University of New York, Downstate Medical College.

**Directors Continuing in Office Until the 2013 Annual Meeting Class I Directors**

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

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

***Dr. Tuckson*** has been one of the Company s directors since September 2011. Dr. Tuckson is the Executive Vice President and Chief of Medical Affairs of UnitedHealth Group and has served in that capacity since December 2006. Prior to his position at UnitedHealth Group, from January 2006 to December 2006, Dr. Tuckson served as Senior Vice President, Professional Standards, for the American Medical Association. He has also served as President of the Charles R. Drew University of Medicine and Science in Los Angeles, Senior Vice President for Programs of the March of Dimes Birth Defects Foundation and Commissioner of Public Health for the District of Columbia. He currently serves on the board of directors of the Alliance for Health Reform, the American Telemedicine Association, the National Patient Advocate Foundation, Project Sunshine, and the Arnold P. Gold Foundation and on the advisory committee to the Director of the National Institute of Health. Dr. Tuckson received his B.S. degree in Zoology from Howard University and his medical doctor degree from the Georgetown University School of Medicine, and completed the Hospital of the University of Pennsylvania s General Internal Medicine Residency and Fellowship programs.

**Directors Continuing in Office Until the 2014 Annual Meeting Class II Directors**

***Dr. Bianco*** is the Company s principal founder and serves as the Company s President and Chief Executive Officer and director. Dr. Bianco has served as the Company s Chief Executive Officer and director since February 1992. He also served as the Company s President from February 1992 to July 2008 and was appointed President of the Company again on July 25, 2012. Prior to founding the Company, Dr. Bianco was an assistant professor of medicine at the University of Washington, Seattle, and an assistant member in the clinical research division of the Fred Hutchinson Cancer Research Center. From 1990 to 1992, Dr. Bianco was the director of the Bone Marrow Transplant Program at the Veterans Administration Medical Center in Seattle. Dr. Bianco currently serves on the board of directors of the Seattle Police Foundation. Dr. Bianco received his B.S. degree in biology and physics from New York University and his M.D. from Mount Sinai School of Medicine. Dr. Bianco is the brother of Louis A. Bianco, the Company s Executive Vice President, Finance and Administration.

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

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

**Board of Directors and Committee Meetings**

The Board held seventeen meetings during the year ended December 31, 2011, including three meetings of the independent directors. Each of the directors serving on the Board in 2011 attended at least 75% of the total number of meetings of the Board and of all committees of the Board during the time which they served. The Company s policy is to encourage attendance at the Annual Meeting. Three of the directors in office at the time of the Company s 2011 annual meeting of shareholders were in attendance at the Company s 2011 annual meeting of shareholders.

The Board has an Audit Committee, a Compensation Committee and a Nominating and Governance Committee.

*Audit Committee*

The Audit Committee has responsibility for assisting the Board in overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company. The Audit Committee assists the Board in oversight and monitoring of (i) the integrity of the Company s financial statements, (ii) the Company s compliance with legal and regulatory requirements, (iii) the independent auditor s qualifications, independence and performance, (iv) the Company s internal audit function and (v) the Company s internal controls over financial reporting and systems of disclosure controls and procedures. The Board has adopted a written charter for the Audit Committee, a copy of which is available on the Company s website at http://www.celltherapeutics.com. The composition of the Audit Committee and the attributes of its members, and the responsibilities of the Audit Committee as reflected in its charter adopted by the Board, are intended to be in accordance with SEC rules and NASDAQ Listing Rules with regard to corporate audit committees.

The Audit Committee held six meetings during the year ended December 31, 2011. The Audit Committee currently consists of four non-employee directors: Mr. Bauer (Chairperson), Dr. Gregorian, Dr. Nudelman and Dr. Telling.

The Board has determined that each of the current members of the Audit Committee meets the requirements of independence as set forth in Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), the rules and regulations promulgated by the SEC and the NASDAQ Listing Rules. Additionally, the Board has determined that Mr. Bauer qualifies as an audit committee financial expert as defined under the rules and regulations of the SEC and that he has accounting and related financial management expertise within the meaning of the NASDAQ Listing Rules.

*Compensation Committee*

The Compensation Committee has responsibility for assisting the Board in carrying out the Board s responsibilities relating to compensation of the Company s chief executive officer and all other officers with the title of executive officer and above or who otherwise report directly to the chief executive officer and the Compensation Committee has overall responsibility for approving and evaluating all compensation plans, policies and programs of the Company as they affect such officers. The Compensation Committee also administers the Company s equity compensation plans and reviews and approves the Company s compensation disclosure and analysis included in the Company s annual report and proxy statement. The Compensation Committee held eleven meetings during the year ended December 31, 2011. The Compensation Committee currently consists of four non-employee directors: Dr. Telling (Chairperson), Mr. Love, Dr. Mundinger and Dr. Nudelman, each of whom meets the requirements of independence as set forth in the rules and regulations promulgated by the SEC and the NASDAQ Listing Rules. The Compensation Committee has a written charter, which is available at the Company s website at http://www.celltherapeutics.com.

*Nominating and Governance Committee*

The Company believes that its Board as a whole should encompass a range of talent, skill, diversity, and expertise enabling it to provide sound guidance with respect to the Company s operations and interests. In addition to considering a candidate s background and accomplishments, candidates are reviewed in the context of the current composition of the Board and the evolving needs of the Company s business. The Company s policy is to have at least a majority of directors qualify as independent under the NASDAQ Listing Rules and the Company s Corporate Governance Guidelines, which are available at the Company s website at http://www.celltherapeutics.com.

The Nominating and Governance Committee is responsible for establishing standards and processes so that the Board can be properly constituted to meet its fiduciary obligations to the Company and its shareholders and so that the Company has and follows appropriate governance standards. The Nominating and Governance Committee is responsible for overseeing the evaluation of the Board and the Company s management and reviewing with the Board, on an annual basis, the desired Board qualifications, expertise, characteristics and other factors for potential consideration, which review includes consideration of diversity, skills and experience. The Nominating and Governance Committee is responsible for conducting searches for potential Board members with corresponding attributes and evaluating and proposing nominees for election to the Board. The Nominating and Governance Committee seeks directors with strong reputations and experience in areas relevant to the strategy and operations of the Company s business, particularly industries and growth segments that the Company serves, as well as key experience with regulatory agencies such as the U.S. Food and Drug Administration and the European Medicines Agency. Each of the nominees for election as a director at the Annual Meeting and each of the Company s current directors holds or has held senior executive positions in, and/or has experience serving on the boards of directors and board committees of, large, complex organizations and has operating experience that meets this objective. In these positions, they have also gained experience in core management skills, such as strategic and financial planning, public company financial reporting, corporate governance, risk management, and leadership development.

The Nominating and Governance Committee also believes that each of the nominees and current directors has other key attributes that are important to an effective board: integrity and demonstrated high ethical standards; sound judgment; analytical skills; the ability to engage management and each other in a constructive and collaborative fashion; diversity of origin, background, experience, and thought; and the commitment to devote significant time and energy to service on the Board and its committees.

The Nominating and Governance Committee ensures that nominations to the Board are made such that the Board is properly constituted in addition to evaluating both the composition and governance of the Board and the Company s corporate governance. Although the Company does not have a policy regarding diversity, the Nominating and Governance Committee seeks a broad range of perspectives and considers both the personal

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characteristics (gender, ethnicity, age) and experience (industry, professional, public service) of directors and prospective nominees to the Board. The Nominating and Governance Committee held four meeting during the year ended December 31, 2011. The Nominating and Governance Committee currently consists of four non-employee directors: Dr. Mundinger (Chairperson), Dr. Gregorian, Mr. Love and Dr. Nudelman, all of whom meet the independence requirements as set forth in the rules and regulations promulgated by the SEC and the NASDAQ Listing Rules. The Nominating and Governance Committee has a written charter, which is available at the Company s website at http://www.celltherapeutics.com.

**Director Independence**

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

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

In making independence determinations, the following relationships were considered:

- Dr. Nudelman serves on the board of directors of OptiStor and was granted stock options of OptiStor when he joined the board of directors in 2002. However, Dr. Nudelman is not a controlling shareholder or employee of OptiStor.

- Dr. Nudelman s son, Mark Nudelman, serves as the President and Chief Executive Officer of the Hope Heart Institute. We made a charitable donation to the Hope Heart Institute in 2011; however, the amount falls within NASDAQ prescribed limits.

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

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

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

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

Other than as described above, in 2011, there were no transactions, relationships or arrangements not disclosed as related person transactions that were considered by the Board in determining that the applicable independence standards were met by each of the directors.

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**Leadership Structure**

The Board does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board as the Board believes it is in the best interests of the Company to make that determination based on the position and direction of the Company and the membership of the Board. Pursuant to the Bylaws, the Board in its discretion may elect a Chairman from among its members. The Board has determined that having an independent director serve as Chairman of the Board is in the best interest of the Company at this time. Dr. Nudelman has served as our Chairman of the Board since October 2005. Because Dr. Nudelman meets the independence standards of the NASDAQ Listing Rules, he also presides over separate meetings for the independent directors. The Board regularly provides such independent directors separate meeting time. This structure ensures a greater role for the independent directors in the oversight of the Company and active participation of the independent directors in setting agendas and establishing Board priorities and procedures. Further, this structure permits the Chief Executive Officer to focus on the management of the Company s day-to-day operations, while the Chairman of the Board presides at all meetings of the Board and shareholders at which he is present; establishes the agenda for each Board s meeting; sets a schedule of an annual agenda, to the extent foreseeable; calls and prepares the agenda for and presides over separate sessions of the independent directors; acts as a liaison between the independent directors and the Company s management and performs such other powers and duties as may from time to time be assigned to him by the Board or as may be prescribed by the Bylaws. The Board will review from time to time the appropriateness of its leadership structure and implement any changes at it may deem necessary.

**Risk Oversight**

Companies face a variety of risks, including credit risk, liquidity risk, and operational risk. The Board believes an effective risk management system will (1) timely identify the material risks that the Company faces, (2) communicate necessary information with respect to material risks to senior executives and, as appropriate, to the Board or relevant committee of the Board, (3) implement appropriate and responsive risk management strategies consistent with Company s risk profile, and (4) integrate risk management into Company decision-making.

The Board takes the lead in overseeing risk management and the Audit Committee makes periodic reports to the Board regarding briefings provided by management and advisors as well as the Committee s own analysis and conclusions regarding the adequacy of the Company s risk management processes. Material risks are identified and prioritized by management, and each prioritized risk is referred to a committee of the Board or the full Board for oversight. For example, management refers strategic risks to the full Board while financial risks are referred to the Audit Committee. The Board regularly reviews information regarding the Company s credit, liquidity, and operations, as well as the risks associated with each, and annually reviews the Company s risk management program as a whole. Also, the Compensation Committee periodically reviews the Company s compensation programs to help ensure that they do not encourage excessive risk-taking. Please see the Risk Considerations section of the Compensation Discussion and Analysis below for more information.

In addition to the formal compliance program, the Board encourages management to promote a corporate culture that incorporates risk management into the Company s corporate strategy and day-to-day business operations. The Board also continually works, with the input of the Company s executive officers, to assess and analyze the most likely areas of future risk for the Company.

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**Code of Ethics**

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

Cell Therapeutics, Inc.

Attention: Investor Relations

3101 Western Avenue, Suite 600

Seattle, WA 98121

(206) 282-7100

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

**Corporate Governance Guidelines**

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

**Shareholder Proposals**

A shareholder may recommend a person as a slate nominee for director by writing to the secretary of the Company. Director nominations and/or shareholder proposals pursuant to Rule 14a-8 of the Exchange Act intended for inclusion in the proxy statement related to the next annual meeting of shareholders should be sent to the secretary of the Company at 3101 Western Avenue, Suite 600, Seattle, Washington 98121, U.S.A. and must be received by April 1, 2013. Under the Bylaws, notice of any other shareholder proposal or the nomination of a candidate for election as a director to be made at the 2013 annual meeting of shareholders (whether or not included in the proxy statement) must be received by June 2, 2013 and must comply with the Bylaws. If a shareholder gives notice of such proposal after such date, the Company s proxy holders will be allowed to use their discretionary voting authority to vote the shares they represent as the Board may recommend, which may include a vote against the shareholder proposal when and if the proposal is raised at the Company s 2013 annual meeting. If the Company changes the date of its next annual meeting of shareholders by more than 30 days from the date of the previous year s annual meeting of shareholders, then the deadlines are a reasonable time before the Company begins to print and send its proxy materials.

As set forth in the Bylaws, each notice of nomination should contain the following information: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the SEC had each nominee been nominated, or intended to be nominated, by the Board; and (e) the consent of each nominee to serve as a director of the company if so elected. All the director nominees named in this Proxy Statement met the Board s criteria for membership and were recommended by the Nominating and Governance Committee for election by shareholders at this shareholder meeting.

The Nominating and Governance Committee considers shareholder recommendations of nominees for election to the Board if they comply with the foregoing bylaw requirements and are accompanied by a comprehensive written resume of the recommended nominee s business experience and background and a consent in writing signed by the recommended nominee that he or she is willing to be considered as a nominee and, if nominated and elected, he or she will serve as a director. Properly communicated shareholder recommendations will be considered in the same manner as recommendations received from other sources. Shareholders should send their written recommendations of nominees accompanied by the aforesaid documents to the principal executive offices of the Company addressed to: Cell Therapeutics, Inc., 3101 Western Avenue, Suite 600, Seattle, Washington 98121, U.S.A. Attention: Secretary.

**Communicating Concerns to Directors**

Shareholders who wish to communicate with the Company s directors to report complaints or concerns related to accounting, internal accounting controls or auditing may do so using the Audit Committee procedures for the receipt of such communication. The procedures allow submitting the complaint or concern either online or telephonically, with a more detailed description of the procedures set forth in the Company s Whistleblower Policy which is available on the Company s website at http://www.celltherapeutics.com.

Shareholders and other interested parties may communicate with the Board and the Chairman of the Board on other matters by writing to Dr. Nudelman, c/o Cell Therapeutics, Inc., Head of Legal Affairs, 3101 Western Avenue, Suite 600, Seattle, Washington 98121, U.S.A. The Head of Legal Affairs will perform a legal review in the normal discharge of his duties to ensure that communications forwarded to Dr. Nudelman are appropriate. Items that are unrelated to the duties and responsibilities of the Board such as mass mailings, junk mail, personal employee complaints not related to accounting, internal controls, auditing or officer conduct (which are reviewed and forwarded by the Head of Legal Affairs pursuant to the terms of the Company s Whistleblower Policy), inquiries regarding clinical trials or the Company s operations generally, job inquiries, surveys, business solicitations or advertisements will not be forwarded to Dr. Nudelman. In addition, material that is threatening or similarly unsuitable will not be forwarded to Dr. Nudelman. Any communication that is relevant to the conduct of the Company s business and is not forwarded will be retained for one year and made available to Dr. Nudelman and any other independent director on request. The independent directors have granted the Head of Legal Affairs discretion to decide what correspondence shall be forwarded to Dr. Nudelman and what shall be shared with the Company s management, in all cases with specific instructions that any personal employee complaints be forwarded as set forth in the Company s Whistleblower Policy. If items are forwarded to Dr. Nudelman, he will decide in his own discretion whether to circulate them to other members of the Board.

**Non-Employee Director Compensation Table**

The following table presents information regarding the compensation paid for fiscal year 2011 to members of the Board who are not also employees of the Company (the non-employee directors ). The compensation paid to Dr. Bianco and Dr. Singer, who are also employed by the Company, for fiscal year 2011 is presented below in the Summary Compensation Table and the related explanatory tables. Dr. Bianco and Dr. Singer are generally not entitled to receive additional compensation for their services as directors.

| Name | Fees Earned or Paid in Cash ($) | Stock Awards ($)(1)(2)(3) | Option Awards ($)(1)(2)(3) | Non-Equity Incentive Plan Compensation ($) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| John H. Bauer | 107,500 | 258,777 | 4,397 | | | | 370,474 |
| Vartan Gregorian, Ph.D. | 99,750 | 258,777 | 4,397 | | | | 362,724 |
| Richard L. Love | 100,250 | 258,777 | 4,397 | | | | 363,224 |
| Mary O. Mundinger, DrPH | 97,500 | 258,777 | 4,397 | | | | 360,474 |
| Phillip M. Nudelman, Ph.D. | 146,500 | 358,778 | 4,397 | | | | 509,675 |
| Frederick W. Telling, Ph.D.(4) | 118,750 | 271,577 | 4,397 | | | 2,500 | 397,224 |
| Reed V. Tuckson, M.D.(5) | 5,500 | 221,842 | 8,929 | | | | 236,271 |

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(1) The amounts reported in the Stock Awards and Option Awards columns of the table above reflect the fair value on the grant date of the stock awards and option awards, respectively, granted to the Company s non-employee directors during fiscal year 2011 as determined under generally accepted accounting principles used to calculate the value of equity awards for purposes of the Company s financial statements. For a discussion of the assumptions and methodologies used to calculate the amounts reported above, please see the discussion of equity awards contained in Note 14 (Share-Based Compensation) to the Company s Consolidated Financial Statements, included as part of the Company s Annual Report on Form 10-K as filed with the SEC on March 8, 2012.

(2) The table below presents the number of shares subject to outstanding and unexercised option awards and the number of shares subject to unvested stock awards held by each of the Company s non-employee directors as of December 31, 2011.

| Director | Number of Shares Subject to Outstanding Options as of 12/31/2011 | Number of Unvested Restricted Shares/Units as of 12/31/2011 |
|---|---|---|
| John H. Bauer | 15,899 | 13,749 |
| Vartan Gregorian, Ph.D. | 16,022 | 13,749 |
| Richard L. Love | 15,900 | 13,749 |
| Mary O. Mundinger, DrPH | 16,059 | 13,749 |
| Phillip M. Nudelman, Ph.D. | 16,096 | 13,749 |
| Frederick W. Telling, Ph.D. | 15,849 | 13,749 |
| Reed V. Tuckson, M.D. | 11,000 | 21,333 |

(3) On March 21, 2011, each of the non-employee directors (other than Dr. Tuckson) received a grant of 20,833 restricted shares, with a grant-date fair value of $54,375. In connection with his appointment to the Company s board of directors, Dr. Tuckson was granted on September 22, 2011, an award of 18,000 restricted shares, with a grant-date fair value of $17,640, and an option to purchase 6,000 shares, with a grant-date fair value of $4,532. On November 11, 2011, each of the non-employee directors was granted an award of 3,333 restricted shares and an option to purchase 5,000 shares pursuant to the Company s non-employee director compensation program described below. Each of these restricted stock awards had a grant-date fair value of $3,800, and each of these options had a grant-date fair value of $4,397. On November 29, 2011, each of the non-employee directors (other than Dr. Nudelman) was granted 187,292 fully-vested shares with a grant-date fair value of $200,402, and Dr. Nudelman was granted 280,938 fully-vested shares with a grant-date fair value of $300,604. See footnote (1) above for the assumptions used to value each of these awards granted to the non-employee directors in 2011.

(4) For Dr. Telling, the Fees Earned or Paid in Cash column of the table above includes $2,500 fees for his service on the board of directors of Aequus; the Stock Awards column includes $13,000, which represents the grant date fair value (as determined under generally accepted accounting principles) of an award of 100,000 restricted shares of Aequus granted to him in February 2011; and the amount in the All Other Compensation column represents a payment by Aequus as partial reimbursement of his tax obligations in connection with this award. Of the 100,000 restricted shares of Aequus granted to Dr. Telling, 58,333 shares were unvested as of December 31, 2011. Dr. Telling did not receive any other compensation in 2011 for his services to Aequus.

(5) Dr. Tuckson was appointed to the Company s board of directors, effective September 22, 2011.

**Non-Employee Director Compensation**

*Equity Grants.* Under the Company s Director Compensation Policy in effect during 2011, the Company s non-employee directors received equity compensation as follows: (i) each new non-employee director was granted 18,000 shares of restricted stock and options to purchase 6,000 shares of the Company s common stock upon joining the Board, each such grant to vest over three years in substantially equal annual installments, subject to the non-employee director s continued service to the Company through the applicable vesting date; and (ii) on the date of the 2011 annual meeting of shareholders, each continuing non-employee director was granted an award of 3,333 shares of restricted stock and an option to purchase 5,000 shares of the Company s common stock, each such grant to vest in full upon the earlier of (x) the one-year anniversary of the date of grant, and (y) the date immediately preceding the date of the 2012 annual meeting of shareholders, subject to the non-employee director s continued service to the Company through the vesting date. The Company s non-employee directors are also eligible to receive discretionary grants of equity awards under the 2007 Equity Plan from time to time.

As described in the 2012-2014 Performance Awards section of the Compensation Discussion and Analysis below, the Compensation Committee had previously granted equity awards in 2009 to each of the named executive officers that would vest if the Company achieved certain performance goals by December 31, 2011. At the same time, our board of directors approved grants of similar awards to each of the non-employee directors (other than Dr. Tuckson who was not on our board of directors at that time). The 2009 awards granted to the executives and directors expired on December 31, 2011 as the goals were not achieved. As described in the Compensation Discussion and Analysis below, the Compensation Committee approved the grants of the 2012-2014 Performance Awards to the named executive officers that will be payable in fully vested shares of Company common stock if the Company achieves certain financial and operational performance goals by December 31, 2014. In connection with the expiration of the 2009 awards, our board of directors also approved the grant, effective January 3, 2012, to each non-employee director of a 2012-2014 Performance Award that will be payable in fully vested shares of the Company s common stock upon the achievement of the performance goals identified for the named executive officers awards in the Compensation Discussion and Analysis below, subject to the goals being achieved before December 31, 2014 and the director s continued service with the Company. As with the awards granted to the executives, a portion of each non-employee director s 2012-2014 Performance Award was granted in the form of restricted stock. The number of shares that will be payable in respect of each award will be determined based on the applicable payout percentage assigned to that particular goal and the number of the Company s issued and outstanding shares at the time the goal is achieved, subject to reduction on a share-for-share basis for any shares of restricted stock that vest in connection with the achievement of that particular goal and subject also to the applicable share limits of the Company s equity incentive plan.

The award percentages corresponding to the various performance goals for each of the non-employee directors are set forth in the following table:

| | Performance Goals and Applicable Award Percentages | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Name** | **Pix MAA Approval** | **Pix NDA Approval** | **Opaxio NDA Approval** | **Market Cap Goal** | **$50M Sales Goal** | **$100M Sales Goal** | **Cash Flow Break Even** | **EPS Goal** |
| Phillip M. Nudelman, Ph.D. | 0.068% | 0.113% | 0.013% | 0.1125% | 0.045% | 0.09% | 0.045% | 0.018% |
| All Other Non-Employee Directors | 0.045% | 0.075% | 0.008% | 0.075% | 0.03% | 0.06% | 0.03% | 0.013% |

As noted above, the 2012-2014 Performance Awards became effective January 3, 2012. Accordingly, these awards are considered part of each director s compensation for 2012 under SEC rules and are therefore not reflected in Non-Employee Director Compensation Table above (as the table reflects compensation for fiscal year 2011).

The Board amended the equity award provisions of the Director Compensation Policy effective June 27, 2012. Under the revised Director Compensation Policy, the Company s non-employee directors will not receive stock options but will receive stock awards as follows: (i) each new non-employee director will be granted an award of fully vested shares of the Company s common stock in connection with joining the Board, with the number of shares to equal $100,000 divided by the closing price of a share of the Company s common stock on the date of grant of the award; and (ii) in connection with each annual meeting of shareholders commencing with the 2012 Annual Meeting, each continuing non-employee director will be granted an award of fully vested shares

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of the Company s common stock, with the number of shares to equal $100,000 ($125,000 in the case of a non-employee director who is serving, after such annual meeting of shareholders, as the Chair of the Board) divided by the closing price of a share of the Company s common stock on the date of grant of the award. Each grant will be rounded to the nearest whole share.

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

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

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

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## PROPOSAL 2

## APPROVAL OF AN AMENDMENT TO THE COMPANY S ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES

**Summary**

The Company is asking you to approve an amendment to the Company s amended and restated articles of incorporation to (a) increase the total number of authorized shares from 384,999,999 to 751,666,666 and (b) increase the total number of authorized shares of common stock from 383,333,333 to 750,000,000 shares, in each case, before giving effect to the Reverse Stock Split. The additional common stock to be authorized by adoption of the amendment would have rights identical to the Company s currently outstanding common stock. The number of authorized shares of the Company s preferred stock will not be affected by this amendment nor by any other proposal considered at the Annual Meeting. The number of authorized shares of the Company s preferred stock will be maintained at 1,666,666 before giving effect to the Reverse Stock Split.

The Company is seeking shareholder approval of this Proposal 2 because a number of the Company s currently authorized shares of common stock have been issued or are reserved for issuance upon exercise or conversion of existing derivative securities (*i.e.*, securities convertible or exchangeable into the Company s common stock). Because of the number of shares issued or reserved for issuance under various convertible securities, warrants, other derivative securities and otherwise, the Company believes it does not have a sufficient number of shares of common stock authorized at present to continue to fund its operations, including its research and development activities of key drug candidates and its pre-commercial activities prior to the potential approval of Pixuvri™ (pixantrone dimaleate), or Pixuvri, in the U.S. In order to continue to fund its operations, the Company will need to raise additional capital from financing sources. One of the ways the Company may raise such capital is by issuing shares of common stock and/or derivative securities from time to time. Without additional authorized shares of common stock, the Company will be unable to raise all of the financing it will likely need to maintain its operations. Other important corporate needs, including the potential issuance of shares in a merger or issuing stock-based incentive rewards to the Company s employees and directors, require additional authorized shares of common stock as well. As of the date of this Proxy Statement, the Company has no plans, arrangements or understandings, written or oral, relating to the issuance of any of the newly-authorized shares of additional common stock to be authorized by the approval of this Proposal 2, except, assuming that the Company obtains shareholder approval for Proposals 4 and 5, for the issuance of common stock (i) as a result of an election by the Company to pay S*BIO up to 50% of the potential milestone payments described in Proposal 4 in shares of common stock or preferred stock convertible into common stock in lieu of cash, (ii) upon conversion of the Series 15-2 Preferred Stock (as defined in Proposal 5), (iii) upon exercise of the Warrants (as defined in Proposal 5) or (iv) upon an election by the Company to pay for the value for any exchange of the Warrants in shares of common stock in lieu of cash.

Article II of the Company s amended and restated articles of incorporation currently authorizes the Company to issue up to 384,999,999 shares of stock, 383,333,333 of which are designated as common stock, no par value per share, and 1,666,666 shares of which are designated as preferred stock, no par value per share, in each case, before giving effect to the Reverse Stock Split. The Company s common stock is all of a single class, with equal voting, distribution, liquidation and other rights. As of June 29, 2012, before giving effect to the Reverse Stock Split, 248,625,047 shares of common stock were issued and outstanding (before giving effect to the automatic conversion of 15,000 shares of Series 16 Preferred Stock into 12,605,042 shares of common stock as discussed in Proposal 4), 1,516,902 shares of common stock were reserved for issuance under the Company s 1994 Equity Incentive Plan, as amended, and 2007 Equity Plan, 225,974 shares of common stock were reserved for issuance under the Company s 2007 Employee Stock Purchase Plan, as amended, 48,422,290 shares of common stock were reserved for issuance under outstanding warrants, 12,605,042 shares of common stock were reserved for issuance upon conversion of preferred stock and 65 shares of common stock were reserved for issuance upon exercise of outstanding restricted share rights.

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The Company anticipates that it may issue additional shares of common stock in the future in connection with one or more of the following:

- the Company s Shareholder Rights Agreement, dated December 28, 2009;
- corporate transactions, such as stock splits or stock dividends;
- financing transactions, such as public or private offerings of common stock or derivative securities;
- debt or equity restructuring or refinancing transactions, such as debt exchanges or offerings of new convertible debt or modifications to existing securities or as payments of interest on debt securities;
- acquisitions;
- strategic investments;
- partnerships, collaborations and other similar transactions;
- the Company s stock incentive plans; and
- other corporate purposes that have not yet been identified.

In order to provide the Board with certainty and flexibility to undertake transactions to support the Company s operations, the Board deems it is in the best interests of the shareholders and the Company to increase the number of authorized shares of the Company s common stock. In addition to periodic discussions regarding fund raising opportunities, the Company also engages in periodic discussions with potential partners, strategic investments and acquisition candidates, including product lines, as part of the Company s business model. If any of these discussions come to a definitive understanding and if this Proposal 2 is adopted, it is possible that the Company could use some or all of the newly-authorized shares in connection with one or more such transactions subsequent to the increase in the number of authorized shares. The Company also plans to continue to issue shares of common stock pursuant to its stock incentive plans subsequent to the increase in the number of authorized shares. As of the date of this Proxy Statement, the Company has no plans, arrangements or understandings, written or oral, relating to the issuance of any of the newly-authorized shares of additional common stock to be authorized by the approval of this Proposal 2, except, assuming that the Company obtains shareholder approval for Proposals 4 and 5, for the issuance of common stock (i) as a result of an election by the Company to pay S*BIO up to 50% of the potential milestone payments described in Proposal 4 in shares of common stock or preferred stock convertible into common stock in lieu of cash, (ii) upon conversion of the Series 15-2 Preferred Stock (as defined in Proposal 5), (iii) upon exercise of the Warrants (as defined in Proposal 5) or (iv) upon an election by the Company to pay for the value for any exchange of the Warrants in shares of common stock in lieu of cash. The increase in authorized shares will not have any immediate effect on the rights of existing shareholders. To the extent that additional authorized shares are issued in the future, such shares could be dilutive to the Company s existing shareholders by decreasing the existing shareholders percentage equity ownership.

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**Text of the Proposed Amendment**

If this Proposal 2 is approved, the Company proposes to amend its amended and restated articles of incorporation by replacing Section 1 of Article II in its entirety as follows (which language below will be the actual language that will be included in the Company s amended and restated articles of incorporation):

ARTICLE II

Authorized Capital Stock

1. Classes. The Corporation shall be authorized to issue two classes of shares of stock to be designated, respectively, Common Stock and Preferred Stock. The total number of shares which the Corporation shall have authority to issue shall be Seven Hundred Fifty-One Million Six Hundred Sixty-Six Thousand Six Hundred Sixty-Six (751,666,666); the total number of authorized shares of Common Stock shall be Seven Hundred Fifty Million (750,000,000); and the total number of authorized shares of Preferred Stock shall be One Million Six Hundred Sixty-Six Thousand Six Hundred Sixty-Six (1,666,666).

If the amendment to the Company s amended and restated articles of incorporation is adopted, it will become effective upon filing of the amendment to the Company s amended and restated articles of incorporation with the Secretary of State of the State of Washington.

**Reverse Stock Split**

If the amendment to the Company s amended and restated articles of incorporation is adopted and the Reverse Stock Split is subsequently implemented, then, the Company will further amend its amended and restated articles of incorporation on the Effective Date to implement the Reverse Stock Split. Proposal 2 requests increasing the Company s total authorized shares and authorized common stock, each by 366,666,667 shares before giving effect to the Reverse Stock Split. After the Effective Date, this increase will be adjusted to a total of 122,222,222 shares in the case of a one-for-three Reverse Stock Split, 91,666,666 shares in the case of a one-for-four Reverse Stock Split or 73,333,333 shares in the case of a one-for-five Reverse Stock Split. Therefore:

- If Proposal 2 is approved and a one-for-three Reverse Stock Split is implemented, then after the Effective Date, the Company s total number of authorized shares will be 250,555,555, the total number of authorized shares of common stock will be 250,000,000 and the total number of authorized shares of preferred stock will be 555,555.

- If Proposal 2 is approved and a one-for-four Reverse Stock Split is implemented, then after the Effective Date, the Company s total number of authorized shares will be 187,916,666, the total number of authorized shares of common stock will be 187,500,000 and the total number of authorized shares of preferred stock will be 416,666.

- If Proposal 2 is approved and a one-for-five Reverse Stock Split is implemented, then after the Effective Date, the Company s total number of authorized shares will be 150,333,333, the total number of authorized shares of common stock will be 150,000,000 and the total number of authorized shares of preferred stock will be 333,333.

**Vote Required and Board of Directors Recommendation**

Approval of the proposed amendment to the Company s amended and restated articles of incorporation requires the affirmative vote of the holders of a majority of shares of common stock voting on this proposal in person, by telephone or by proxy at the Annual Meeting, provided that the affirmative vote for this Proposal 2 equals or exceeds 15% of the votes entitled to be cast. If the affirmative vote does not equal or exceed 15% of the votes entitled to be cast, abstentions will have the effect of votes cast against Proposal 2. However, if the affirmative vote equals or exceeds the 15% threshold, then abstentions will not be counted and will have no effect on the outcome of Proposal 2.

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**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS**

**A VOTE FOR THE APPROVAL OF**

**THE AMENDMENT TO THE COMPANY S**

**AMENDED AND RESTATED ARTICLES OF INCORPORATION.**

If Proposal 2 is adopted, the additional authorized shares of common stock would become issuable upon the approval of the Board at such times, in such amounts, and upon such terms as the Board may determine, without further approval of the shareholders, unless such approval is expressly required by applicable law, regulatory agencies, The NASDAQ Capital Market, the MTA or any other exchange or quotation service on which the Company s common stock may then be listed. Furthermore, current shareholders will have no preemptive rights to purchase additional shares. Shareholder approval of this amendment will not, by itself, cause any change in the Company s capital accounts. However, any future issuance of additional shares of common stock authorized pursuant to this Proposal 2 would ultimately result in dilution of existing shareholders equity interests.

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## PROPOSAL 3

## APPROVAL OF AN AMENDMENT TO THE COMPANY S

## 2007 EQUITY INCENTIVE PLAN

*The following proposal does not give effect to the Reverse Stock Split. If the Board approves the Reverse Stock Split, then the number of shares subject to the proposed amendment to the 2007 Equity Plan (and each other reference to a number of shares in this proposal) will be reduced in proportion to the ratio of the Reverse Stock Split.*

### Summary

The Company is asking you to approve an amendment to the Company s 2007 Equity Plan. The Board approved the proposed amendment on July 16, 2012, subject to shareholder approval. The proposed amendment would increase the maximum number of shares of the Company s common stock authorized for issuance under the 2007 Equity Plan by 15,000,000 shares.

The Board has determined that it is advisable to increase the maximum number of shares available for issuance under the 2007 Equity Plan in order to provide flexibility for the Company to continue to award meaningful incentives to the Company s executive officers and key employees. At the Company s 2011 annual meeting of shareholders, the Company s shareholders approved amendments to the 2007 Equity Plan, including an amendment to increase the shares of the Company s common stock available for issuance under the 2007 Equity Plan by 14,000,000 shares to 32,610,180 shares. However, in light of the equity grants made over the past year as part of the Company s ongoing efforts to retain its senior management team and other key employees, the Board determined that the number of shares currently available under the 2007 Equity Plan does not give the Company sufficient authority and flexibility to adequately provide for future incentives.

As of June 29, 2012:

- A total of 1,451,580 shares of the Company s common stock were subject to outstanding options under all of the Company s equity incentive plans (including the 2007 Equity Plan and legacy plans under which we will make no more grants).

- A total of 21,238,352 shares of the Company s common stock were subject to outstanding restricted stock awards under all of the Company s equity incentive plans. For purposes of clarity, this number includes the restricted stock component of the 2012-2014 Performance Awards described on page 61 in the Compensation Discussion and Analysis.

- A total of 65,322 shares of the Company s common stock were available for new award grants under the 2007 Equity Plan. This number of shares does not include any additional shares that we would be required to issue if all of the remaining vesting conditions of the 2012-2014 Performance Awards described on page 61 in the Compensation Discussion and Analysis were satisfied. Please also see the New Plan Benefits discussion on page 32.

The proposed share increase would facilitate the Company s ability to continue to grant equity incentives pursuant to the 2007 Equity Plan, which are vital to the Company s ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which the Company must compete. The Company s employees are some of its most valuable assets, and such awards are crucial to the Company s ability to motivate individuals in its service to achieve its goals. The Company strongly believes that the approval of the proposed share increase is instrumental to the Company s continued success.

### Vote Required and Board of Directors Recommendation

Approval of the proposed amendment to the 2007 Equity Plan requires the affirmative vote of the holders of a majority of the shares of the Company s common stock that are voting on this Proposal 3 in person, by

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telephone or by proxy at the Annual Meeting. Abstentions and broker non-votes will not be counted and will have no effect on the outcome of Proposal 3. In the event the shareholders fail to approve the amendment to the 2007 Equity Plan, the 2007 Equity Plan will continue in operation pursuant to its existing terms with no change in the number of shares authorized for issuance under the 2007 Equity Plan. In addition, whether or not the amendment to the 2007 Equity Plan are approved, the Board may, pursuant to the terms of the 2007 Equity Plan and subject to the NASDAQ Listing Rules, make any other changes to the 2007 Equity Plan that it believes would be in the Company s and the Company s shareholders best interests.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE**

**APPROVAL OF THE AMENDMENT TO THE 2007 EQUITY PLAN.**

**Summary of the 2007 Equity Plan**

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

*Purpose of the 2007 Equity Plan*

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

*Types of Awards Granted under the 2007 Equity Plan*

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

*Administration of the 2007 Equity Plan*

A committee of at least two non-employee members of the Board (the Plan Administrator ) administers the 2007 Equity Plan. To make grants to certain of the Company s officers and key employees, the members of the Plan Administrator must qualify as non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934 (the Exchange Act ), and as outside directors under Section 162(m) of the Internal Revenue Code (so that the Company can receive a federal tax deduction for certain compensation paid under the 2007 Equity Plan). The Board has delegated general administrative authority for the 2007 Equity Plan to the Compensation Committee of the Board (the Compensation Committee ).

Subject to the terms of the 2007 Equity Plan, the Plan Administrator has the discretion to select the employees, consultants and directors who will receive Awards, to determine the terms and conditions of such Awards (for example, the number of shares subject to an Award, the exercise price, and vesting schedule), to interpret the provisions of the 2007 Equity Plan and outstanding Awards, to amend outstanding Awards (including the authority to accelerate vesting), to extend an option s post-termination exercise period (but not beyond the original option term), to adopt procedures and subplans as are necessary or appropriate to permit participation in the 2007 Equity Plan by employees and directors who are foreign nationals or employed outside the United States and to adopt, interpret, amend or revoke rules for the administration, interpretation and application of the 2007 Equity Plan.

The Plan Administrator may delegate any part of its authority and powers under the 2007 Equity Plan to one or more of the Company s directors and/or officers, but only the Plan Administrator itself can make Awards to

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participants who are the Company s executive officers. References to the Plan Administrator in this proposal include the Plan Administrator and any directors or officers to whom the Plan Administrator properly delegates authority.

*Authorized Shares*

The aggregate number of shares of the Company s common stock that currently may be issued pursuant to Awards under the 2007 Equity Plan is 32,610,180 shares. If shareholders approve the proposed amendment, this limit would be increased to 47,610,180 shares. The maximum number of shares that may be subject to stock options and stock appreciation rights granted under the 2007 Equity Plan to any individual in a calendar year is 13,500,000 shares, and the maximum number of shares that may be subject to awards intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code (other than stock options and stock appreciation rights) granted under the 2007 Equity Plan to any individual in a calendar year is 13,500,000 shares.

If an Award is settled in cash, or is cancelled, terminates, expires, or lapses for any reason (with the exception of the termination of a tandem stock appreciation right upon exercise of the related option, or the termination of a related option upon exercise of the corresponding tandem stock appreciation right), any shares subject to such Award again shall be available for subsequent Awards under the 2007 Equity Plan. Shares that are exchanged by a participant or withheld by the Company as full or partial payment in connection with any Award under the 2007 Equity Plan, as well as any shares exchanged by a participant or withheld by the Company or one of its affiliates to satisfy the tax withholding obligations related to any Award, shall not be available for subsequent Awards under the 2007 Equity Plan. To the extent that shares are delivered pursuant to the exercise of a stock appreciation right or option granted under the 2007 Equity Plan, the number of underlying shares as to which the exercise related shall be counted against the applicable share limits above, as opposed to only counting the shares issued. (For purposes of clarity, if a stock appreciation right relates to 100,000 shares and is exercised at a time when the payment due to the participant is 15,000 shares, 100,000 shares shall be charged against the applicable share limits under the 2007 Equity Plan with respect to such exercise.)

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

*Eligibility to Receive Awards*

The Plan Administrator selects the employees (including executive officers), consultants and directors who will be granted Awards under the 2007 Equity Plan. As of July 2, 2012, the Company had approximately 105 officers and employees, including all of the Company s named executive officers who are still serving in that capacity as of July 2, 2012, and seven non-employee directors who were eligible to receive Awards under the 2007 Equity Plan. The actual number of individuals who will receive an Award under the 2007 Equity Plan cannot be determined in advance because the Plan Administrator has the discretion to select the participants.

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*Stock Options*

A stock option is the right to acquire shares of the Company s common stock at a fixed exercise price for a fixed period of time. Under the 2007 Equity Plan, the Plan Administrator may grant nonqualified stock options and/or incentive stock options. The Plan Administrator will determine the number of shares covered by each option.

The exercise price of the shares subject to each option is set by the Plan Administrator but generally cannot be less than 100% of the fair market value on the date of grant. In addition, the exercise price of an incentive stock option must be at least 110% of fair market value (on the grant date) if the participant owns stock possessing more than 10% of the total combined voting power of all classes of the Company s stock and any of the Company s subsidiaries. However, the Company may grant certain options with exercise prices equal to less than the fair market value of the Company s common stock on the date of grant in connection with its acquisition of another company. The fair market value of the Company s common stock is generally the last quoted sales price for the shares on The NASDAQ Capital Market on the applicable date.

Options vest and become exercisable at the times and on the terms established by the Plan Administrator at the time of grant. Options granted under the 2007 Equity Plan expire at the times established by the Plan Administrator, but not later than 10 years after the grant date (such term is limited to five years in the case of an incentive stock option granted to a participant who owns stock possessing more than 10% of the total combined voting power of all classes of the Company s stock and any of the Company s subsidiaries). The Plan Administrator may determine the effect of termination of employment or service on the rights and benefits under options and in doing so may make distinctions based upon the cause of termination or other factors.

The exercise price of each option granted under the 2007 Equity Plan must be paid in full in cash or its equivalent at the time of exercise. The Plan Administrator also may permit payment through the tender of shares that are already owned by the participant, or by any other form of legally permissible consolidation which the Plan Administrator determines to be consistent with the purpose of the 2007 Equity Plan.

*Stock Appreciation Rights*

Awards of stock appreciation rights may be granted in tandem with or in connection to all or any part of an option, either concurrently with the grant of an option or at any time thereafter during the term of the option, or may be granted independently of options. The Plan Administrator has complete discretion to determine the number of stock appreciation rights granted to any employee, consultant or director.

The Plan Administrator determines the terms of stock appreciation rights, except that the exercise price of a stock appreciation right that is granted independently of an option may not be less than 100% of the fair market value of the shares on the date of grant and the exercise price of a stock appreciation right that is granted in tandem with or in connection to an option may not be less than the exercise price of the related option. In addition, the Plan Administrator may determine the effect of termination of employment or service on the rights and benefits under stock appreciation rights and in doing so may make distinctions based upon the cause of termination or other factors.

A stock appreciation right granted in tandem with an option will entitle the participant to exercise the stock appreciation right by surrendering to the Company a portion of the unexercised related option. The participant will receive in exchange from the Company an amount equal to the excess of the fair market value of the shares on the date of exercise of the stock appreciation right covered by the surrendered portion of the related option over the exercise price of the shares covered by the surrendered portion of the related option. When a stock appreciation right granted in tandem with an option is exercised, the related option, to the extent surrendered, will cease to be exercisable. A stock appreciation right granted in connection with an option will be exercisable until, and will expire no later than, the date on which the related option ceases to be exercisable or expires. A stock appreciation right granted in connection with an option will automatically be deemed exercised after the related option is exercised.

Stock appreciation rights may also be granted independently of options. Such a stock appreciation right will entitle the participant, upon exercise, to receive from the Company an amount equal to the excess of the fair market value of the shares on the date of exercise over the exercise price. A stock appreciation right granted without a related option will be exercisable, in whole or in part, at such time as the Plan Administrator will specify in the stock appreciation right agreement. Stock appreciation rights granted under the 2007 Equity Plan expire at the times established by the Plan Administrator, but not later than ten years after the date of grant.

The Company s obligation arising upon the exercise of a stock appreciation right may be paid in shares, in cash, or any combination thereof, as the Plan Administrator may determine.

*Restricted Stock and Restricted Stock Units*

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

In determining whether an Award of restricted stock or restricted stock units should be made, and/or the vesting schedule for any such Award, the Plan Administrator may impose whatever conditions to vesting as it determines to be appropriate or determine that fully-vested shares should be awarded. For example, the Plan Administrator may determine to grant an Award of restricted stock or restricted stock units that will vest only if the participant continues employment and certain performance goals established by the Plan Administrator are satisfied.

The Plan Administrator may also provide that Awards of restricted stock or restricted stock units include rights to receive dividends or dividend equivalents based on the amount of dividends paid on outstanding shares of the Company s common stock, provided that as to any dividend equivalent rights granted in connection with an Award granted under the 2007 Equity Plan that is subject to performance-based vesting requirements, no dividend equivalent payment will be made unless the related performance-based vesting conditions of the Award are satisfied (or, in the case of a restricted stock or similar Award where the dividend must be paid as a matter of law, the dividend payment will be subject to forfeiture or repayment, as the case may be, if the related performance-based vesting conditions are not satisfied).

*Cash Awards*

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

*Deferred Payments*

The 2007 Equity Plan authorizes the Plan Administrator to permit the deferred payment of Awards in accordance with and subject to such rules and procedures determined by the Plan Administrator in its sole discretion.

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*Performance Goals*

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

*Change of Control*

In the event of a change of control of the Company, the Plan Administrator may provide for the successor corporation to either assume or provide a substitute award for each outstanding stock option and stock appreciation right. In the event the successor corporation refuses to assume or provide a substitute award, the Plan Administrator will provide at least 15 days notice that the options or stock appreciation rights under the 2007 Equity Plan will immediately vest and become exercisable as to all of the shares subject to such Award and that such Award will terminate upon the expiration of such notice period. If the successor corporation assumes or provides a replacement Award and the participant is terminated by the successor corporation for reasons other than misconduct during the 12-month period following the change of control, then such participant s options and stock appreciation rights will immediately vest and become exercisable as to all of the shares subject to such Award.

Additionally, in the event of a change of control of the Company, the Plan Administrator may provide for any vesting conditions or Company repurchase or reacquisition rights with respect to restricted stock and restricted stock units to be assigned to the successor corporation. In the event the successor corporation refuses to assume any such vesting conditions or repurchase or reacquisition rights, such vesting conditions or repurchase or reacquisition rights will lapse and the participant will be fully vested in such shares of restricted stock or restricted stock units. If the vesting conditions or repurchase or reacquisition rights are assigned to the successor corporation and the participant is terminated by the successor corporation for reasons other than misconduct during the 12-month period following such change of control, then any vesting conditions or repurchase or reacquisition rights will lapse with respect to such participant s restricted stock and restricted stock units (or the property for which the restricted stock and restricted stock units were converted upon the change of control) and the participant will be fully vested in such restricted stock and restricted stock units (or the property for which the restricted stock and restricted stock units were converted upon the change of control). The Plan Administrator may also provide in the Award agreement or other agreements that one or more Awards will be subject to different vesting rules than those described above in connection with a change of control of the Company.

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

*Limited Transferability of Awards*

Awards granted under the 2007 Equity Plan generally may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the applicable laws of descent and distribution. However, participants may, in a manner specified by the Plan Administrator, transfer nonqualified stock options (a) pursuant to a court-approved domestic relations order relating to child support, alimony payments or marital property rights and (b) by bona fide gift to (1) a member of the participant s immediate family; (2) a trust or

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other entity for the sole benefit of the participant and/or his or her immediate family; (3) a partnership, limited liability company or other entity whose members are the participant and/or his or her immediate family; or (4) certain limited tax-qualified charities.

*Amendment and Termination of the 2007 Equity Plan*

The Board generally may amend, suspend or terminate the 2007 Equity Plan at any time and for any reason (subject to shareholder consent as may be required by applicable law). However, no amendment or termination of the 2007 Equity Plan may alter or impair the rights of a participant with respect to an outstanding Award without his or her consent; provided that such consent shall not be required if the Board determines, in its sole and absolute discretion, that the amendment, suspension or termination (a) is required or advisable in order for the Company, the 2007 Equity Plan or the Award to satisfy applicable law, to meet the requirements of any accounting standard or to avoid any adverse accounting treatment, or (b) in connection with any change of control event, is in the best interests of the Company or its shareholders. In no case (except due to an adjustment to reflect a stock split or other event referred to under Authorized Shares above, or any repricing that may be approved by stockholders) will the Board or the Plan Administrator (1) amend an outstanding stock option or stock appreciation right to reduce the exercise price of the Award, (2) cancel, exchange, or surrender an outstanding stock option or stock appreciation right in exchange for cash or other awards for the purpose of repricing the Award, or (3) cancel, exchange, or surrender an outstanding stock option or stock appreciation right in exchange for an option or stock appreciation right with an exercise price that is less than the exercise price of the original Award.

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

**Federal Income Tax Consequences**

The following is a brief summary of the general federal income tax consequences to U.S. taxpayers and the Company with respect to the grant, vesting and exercise of Awards granted under the 2007 Equity Plan. This summary does not purport to be complete and does not discuss the tax consequences of a participant s death, the tax consequences of an Award that is subject to but does not satisfy the deferred compensation rules of Section 409A of the Internal Revenue Code, or the tax laws of any locality, state or foreign country in which the participant may reside. Tax consequences for any particular individual may be different.

*Nonqualified Stock Options*

No taxable income is recognized when a nonqualified stock option is granted to a participant. Upon exercise of a nonqualified stock option with respect to vested shares, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the shares purchased over the exercise price of the option. Any taxable income recognized in connection with exercise of a nonqualified stock option would be added to the tax basis of the shares and, with respect to an employee, is subject to tax withholding by the Company. Any additional gain or loss recognized upon any later disposition of the shares would be either long-term or short-term capital gain or loss, depending on how long the stock was held.

*Incentive Stock Options*

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

If the participant exercises the option and then later sells or otherwise disposes of the shares more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as long-term capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two-or one-year holding periods described above, (a) if the sale price exceeds the exercise price, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option, and the excess (if any) between the sales price and the fair market value of the shares on the exercise date will be taxed as capital gain or (b) if the sale price is less than the exercise price, the participant will recognize a capital loss equal to the difference between the exercise price and the sale price.

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

*Stock Appreciation Rights*

No taxable income is recognized when a stock appreciation right is granted to a participant. Upon exercise of a stock appreciation right, the participant will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any shares received as of the payment date. Any additional gain or loss recognized upon any later disposition of the shares would be either long-term or short-term capital gain or loss, depending on how long the stock was held.

*Restricted Stock and Restricted Stock Units*

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

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

*Cash Awards*

Upon receipt of cash, the recipient will have taxable ordinary income, in the year of receipt, equal to the cash received. Any cash received by an employee will be subject to tax withholding by the Company.

*Tax Effect for the Company*

The Company generally will be entitled to a tax deduction in connection with an Award under the 2007 Equity Plan in an amount equal to the ordinary income realized by a participant at the time the participant recognizes such income (for example, upon the exercise of a nonqualified stock option). Special rules limit the deductibility of compensation paid to the chief executive officer and to certain of the Company s other executive officers. If compensation attributable to Awards to such individuals is not performance-based within the meaning of Section 162(m) of the Internal Revenue Code, the Company may not be permitted to deduct compensation paid to such individuals to the extent that aggregate non-performance-based compensation exceeds $1,000,000 per individual in any tax year. Furthermore, if an Award is accelerated under the 2007 Equity Plan in connection with a change in control (as this term is used under the Internal Revenue Code), the Company may not be permitted to deduct the portion of the compensation attributable to the acceleration ( parachute payments ) if it exceeds certain threshold limits under the Internal Revenue Code (and certain related excise taxes may be triggered).

**Accounting Treatment**

The Company will recognize compensation expense in connection with Awards granted under the 2007 Equity Plan as required under applicable accounting standards. The Company currently amortizes compensation expense associated with equity Awards over an Award s requisite service period and establishes the fair value of equity Awards in accordance with applicable accounting standards.

**New Plan Benefits**

Except as described below, the Company has not approved any Awards that are conditioned upon shareholder approval of the proposed amendment to the 2007 Equity Plan and the Company is not currently considering any other specific Award grants under the 2007 Equity Plan. If the proposed amendment to the 2007 Equity Plan had been in effect in fiscal 2011, the Company expects that its Award grants for fiscal 2011 would not have been substantially different from those actually made in that year under the 2007 Equity Plan.

As described in more detail in the Compensation Discussion and Analysis under the heading 2012-2014 Performance Awards beginning on page 61, certain of the Company s prior performance-based equity awards expired on December 31, 2011 as the related vesting goals had not been achieved and, in connection with the expiration of those awards, the Compensation Committee granted new performance-based equity awards effective January 3, 2012. (The Company refers to these new performance-based equity awards as the 2012-2014 Performance Awards ). If one or more of the performance goals applicable to the 2012-2014 Performance Awards are timely achieved, an award recipient will be entitled to receive a number of shares of Company common stock (subject to the applicable share limits of the Company s equity incentive plan) determined by multiplying (1) an award percentage corresponding to the particular performance goal by (2) the total number of outstanding shares of Company common stock, determined on a non-fully diluted basis, as of the date the Compensation Committee certifies that the particular performance goal has been achieved (subject to reduction for any restricted shares that have been granted to the award recipient and that vest upon attainment of the related performance goal). Assuming that all of the remaining vesting conditions applicable to the awards were satisfied, and based on the total number of outstanding shares of Company common stock as of June 29, 2012, the total number of shares of Company common stock that would be payable with respect to the 2012-2014 Performance Awards (after giving effect to the corresponding vesting of restricted stock awards as noted above) would be 9,629,919 shares. This amount exceeds the 65,322 shares available for new awards grants under the 2007 Equity Plan as of June 29, 2012. If shareholders do not approve this proposal to amend the 2007 Equity Plan and in the future the vesting conditions of the 2012-2014 Performance Awards are satisfied, the number of shares the Company would deliver in payment of those awards would be limited to the number of shares then available for new award grants under the 2007 Equity Plan. If shareholders approve this proposal to amend the 2007 Equity Plan, the Company expects (based on its current capitalization and subject to any new awards) to have sufficient shares available to cover any vesting of the 2012-2014 Performance Awards.

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The following table shows information regarding the distribution of the shares that would be deliverable, among the persons and groups identified below, assuming that all of the remaining vesting conditions applicable to the 2012-2014 Performance Award are satisfied, after giving effect to the corresponding vesting of restricted stock awards as noted above and based on the total number of outstanding shares of Company common stock as of June 29, 2012.

| Name and Position | Number of Shares |
|---|---|
| **Named Executive Officers:** | |
| James A. Bianco, M.D.<br>Chief Executive Officer(1) | 2,727,723 |
| Louis A. Bianco<br>Executive Vice President, Finance and Administration | 1,132,636 |
| Daniel G. Eramian<br>Executive Vice President, Corporate Communications | 816,575 |
| Craig W. Philips<br>President(2) | 1,635,639 |
| Jack W. Singer, M.D.<br>Executive Vice President, Global Medical Affairs and Translational Medicine | 1,132,636 |
| Total for All Current Executive Officers as a Group (6 persons): | 7,445,209 |
| **Non-Executive Directors:** | |
| John H. Bauer | 291,419 |
| Vartan Gregorian, Ph.D. | 291,419 |
| Richard L. Love | 291,419 |
| Mary O. Mundinger, DrPH | 291,419 |
| Phillip M. Nudelman, Ph.D. | 436,196 |
| Frederick W. Telling, Ph.D. | 291,419 |
| Reed V. Tuckson, M.D. | 291,419 |
| Total for All Current Non-Executive Directors as a Group (7 persons) | 2,184,710 |
| Each other person who has received 5% or more of the options, warrants or rights under the 2007 Equity Plan | |
| All employees, including all current officers who are not executive officers or directors, as a group | |
| Total | 9,629,919 |

(1) Dr. Bianco was appointed President of the Company on July 25, 2012.

(2) Mr. Philips resigned as President on June 16, 2012, effective as of July 16, 2012.

To the extent there are sufficient shares available for new award grants under the plan, the Company expects to grant equity awards under the 2007 Equity Plan to its non-employee directors who continue in office after the Annual Meeting. The equity award component of the Company s non-employee director compensation program is described above under Non-Employee Director Compensation beginning on page 17. The annual grants for the non-employee directors are determined based on the closing price of our common stock on the date of the grant of the awards as described above. The closing price of the Company s common stock on The NASDAQ Capital Market on June 29, 2012 was $0.58 per share. Assuming, for illustrative purposes only, that the price of the common stock used to convert the $100,000 grant date dollar amounts for the non-employee director awards into shares was $0.60 (the assumed per share closing price of the Company s common stock on the applicable grant date), the number of shares that would be granted to each of the Company s non-employee directors in connection with the Annual Meeting would be 166,667 (208,333 shares for the grant to the Chair of the Board as his grant date dollar value is $125,000, for an aggregate of 1,208,335 shares granted in connection with the Annual Meeting to the Company s non-employee directors, assuming seven non-employee directors, including the Chair of the Board, continue in office after the Annual Meeting). The number of shares awarded by the Company to the non-employee directors in any year will vary based on such factors as the number of non-employee directors and new non-employee directors in the year, and the Company s stock price. The Board may also modify the Company s non-employee director compensation program from time to time.

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**Aggregate Past Grants Under the 2007 Equity Plan**

As of June 29, 2012, Awards covering 39,403,930 shares of the Company s common stock had been granted under the 2007 Equity Plan. This number of shares includes shares subject to Awards that expired or terminated without having been exercised and paid and became available for new Award grants under the 2007 Equity Plan. This number of shares, and the information reflected in the table below, includes the restricted shares subject to the Company s performance-based restricted stock awards that were scheduled to vest on December 31, 2011 but that were forfeited because the related performance goals were not satisfied and the restricted stock component of the 2012-2014 Performance Awards described on page 61 in the Compensation Discussion and Analysis. The following table shows information regarding the distribution of those Awards among the persons and groups identified below, option exercises and restricted stock vesting prior to and option and unvested restricted stock holdings as of that date.

| | STOCK OPTIONS | | | | RESTRICTED STOCK/UNITS | | |
|---|---|---|---|---|---|---|---|
| | | | Number of Shares Underlying Options as of June 29, 2012 | | | | |
| **Name and Position** | **Number of Shares Subject to Past Option Grants** | **Number of Shares Acquired on Exercise** | **Exercisable** | **Unexercisable** | **Number of Shares/ Units Subject to Past Awards** | **Number of Shares/ Units Vested as of June 29, 2012** | **Number of Shares/Units Outstanding and Unvested as of June 29, 2012** |
| **Named Executive Officers:** | | | | | | | |
| James A. Bianco, M.D.<br>Chief Executive Officer(1) | 4,227 | | 4,227 | | 9,257,728 | 2,143,384 | 5,444,531 |
| Louis A. Bianco<br>Executive Vice President, Finance and Administration | 2,388 | | 2,388 | | 3,401,511 | 694,266 | 2,030,854 |
| Daniel G. Eramian<br>Executive Vice President, Corporate Communications | 1,370 | | 1,370 | | 2,698,270 | 564,409 | 1,633,360 |