CELL THERAPEUTICS INC
Form 10-Q
November 09, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: September 30, 2007

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-12465

CELL THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

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

(206) 282-7100

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	**Outstanding at October 31, 2007**
Common Stock, no par value	51,404,265

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CELL THERAPEUTICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,700	$ 17,129
Securities available-for-sale	26,251	36,708
Interest receivable	362	570
Prepaid expenses and other current assets	10,053	10,131
Total current assets	48,366	64,538
Property and equipment, net	6,106	7,915
Goodwill	17,064	17,064
Other intangibles, net	1,186	1,663
Other assets	12,231	10,641
Total assets	$ 84,953	$ 101,821
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 1,299	$ 639
Accrued expenses	23,308	28,567
Current portion of deferred revenue	80	80
Current portion of long-term obligations	1,698	2,816
Current portion of derivative liability		2,270
Current portion of convertible senior subordinated notes	27,407	
Current portion of convertible subordinated notes	28,490	
Total current liabilities	82,282	34,372
Deferred revenue, less current portion	418	478
Long-term obligations, less current portion	3,921	4,667
7.5% convertible senior notes	32,155	45,916
6.75% convertible senior notes	6,926	6,945
Convertible senior subordinated notes	55,150	82,557
Convertible subordinated notes		28,490
Total liabilities	180,852	203,425
Commitments and contingencies		
Minority interest in subsidiary	149	
Preferred stock, no par value:		
Authorized shares - 10,000,000		
Series A 3% Convertible Preferred Stock, $1,000 stated value, 20,000 shares designated; 6,850 and 0 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	5,188	
Series B 3% Convertible Preferred Stock, $1,000 stated value, 37,200 shares designated; 15,380 and 0 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	11,883	
Series C 3% Convertible Preferred Stock, $1,000 stated value, 20,250 shares designated; 8,284 and 0 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	6,229	
Shareholders deficit:		

Common stock, no par value:		
Authorized shares - 100,000,000		
Issued and outstanding shares - 51,404,265 and 36,397,230 at September 30, 2007 and December 31, 2006, respectively	954,015	860,691
Accumulated other comprehensive loss	(3,012)	(1,187)
Accumulated deficit	(1,070,351)	(961,108)
Total shareholders deficit	(119,348)	(101,604)
Total liabilities and shareholders deficit	$ 84,953	$ 101,821

See accompanying notes.

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CELL THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues:				
License and contract revenue	$ 20	$ 20	$ 60	$ 60
Total revenues	20	20	60	60
Operating expenses:				
Research and development	18,566	14,443	50,368	45,370
Selling, general and administrative	8,874	9,057	24,594	27,819
Acquired in-process research and development	21,343		21,343	
Amortization of purchased intangibles	219	200	638	588
Total operating expenses	49,002	23,700	96,943	73,777
Loss from operations	(48,982)	(23,680)	(96,883)	(73,717)
Other income (expense):				
Investment and other income	626	607	2,067	1,843
Interest expense	(2,463)	(3,552)	(10,057)	(16,888)
Foreign exchange gain (loss)	2,308	(115)	3,142	997
Make-whole interest expense		(213)	(2,310)	(24,753)
Gain (loss) on derivative liabilities	4	(879)	3,618	5,204
Gain on exchange of convertible notes				7,978
Settlement expense			(160)	(883)
Other income (expense), net	475	(4,152)	(3,700)	(26,502)
Loss before minority interest	(48,507)	(27,832)	(100,583)	(100,219)
Minority interest in net loss of subsidiary	36		36	
Net loss	(48,471)	(27,832)	(100,547)	(100,219)
Preferred stock beneficial conversion feature	(3,918)		(8,301)	
Preferred stock dividends	(214)		(395)	
Net loss attributable to common shareholders	$ (52,603)	$ (27,832)	$ (109,243)	$ (100,219)
Basic and diluted net loss per common share	$ (1.09)	$ (1.00)	$ (2.55)	$ (3.93)
Shares used in calculation of basic and diluted net loss per common share	48,202	27,890	42,873	25,533

See accompanying notes.

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CELL THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended September 30,	
	2007	**2006**
Operating activities		
Net loss	$ (100,547)	$ (100,219)
Adjustments to reconcile net loss to net cash used in operating activities:		
Acquired in-process research and development	21,343	
Depreciation and amortization	3,806	4,850
Minority interest in net loss of subsidiary	(36)	
Equity-based compensation expense	954	3,579
Loss on disposition of property and equipment	7	91
Amortization (accretion) of investment premium (discount)	(223)	85
Non-cash gain on convertible notes		(7,978)
Non-cash gain on derivative liabilities	(3,618)	(5,204)
Non-cash interest expense	3,910	10,445
Non-cash rent benefit	(144)	(11)
Loss on sale of investment securities	2	
Changes in operating assets and liabilities:		
Restricted cash		877
Interest receivable	209	(458)
Prepaid expenses and other current assets	711	4,714
Other assets	(2,183)	103
Accounts payable	(974)	(2,767)
Accrued expenses	(6,358)	2,189
Deferred revenue	(60)	(60)
Excess facilities obligations	(1,843)	(1,913)
Other long-term obligations	76	(416)
Total adjustments	15,579	8,126
Net cash used in operating activities	(84,968)	(92,093)
Investing activities		
Cash acquired in acquisition of Systems Medicine, Inc., net	675	
Purchases of securities available-for-sale	(34,682)	(57,635)
Proceeds from sales of securities available-for-sale	7,484	
Proceeds from maturities of securities available-for-sale	37,872	25,113
Purchases of property and equipment	(1,066)	(472)
Proceeds from sale of property and equipment		511
Net cash provided by (used in) investing activities	10,283	(32,483)
Financing activities		
Proceeds from issuance of Series A 3% convertible preferred stock and warrants, net	18,608	
Proceeds from issuance of Series B 3% convertible preferred stock and warrants, net	34,844	
Proceeds from issuance of Series C 3% convertible preferred stock and warrants, net	18,955	

Sale of common stock, net of offering costs		37,903
Proceeds from issuance of 7.5% convertible senior notes, net		31,177
Release of restricted cash related to 6.75% convertible senior notes		24,712
Mandatory redemptions of 6.75% convertible senior notes		(2,655)
Proceeds from common stock sold via the employee stock purchase plan		17
Payment of dividends on preferred stock	(183)	
Repayment of long-term obligations	(79)	(122)
Net cash provided by financing activities	72,145	91,032
Effect of exchange rate changes on cash and cash equivalents	(2,889)	(350)
Net decrease in cash and cash equivalents	(5,429)	(33,894)
Cash and cash equivalents at beginning of period	17,129	50,022
Cash and cash equivalents at end of period	$ 11,700	$ 16,128
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$ 6,556	$ 29,281
Cash paid for taxes	$	$
Supplemental disclosure of noncash investing and financing activities		
Issuance of common stock for acquisition of Systems Medicine, Inc.	$ 19,872	
Conversion of Series A 3% convertible preferred stock to common stock	$ 9,959	$
Conversion of Series B 3% convertible preferred stock to common stock	$ 16,859	$
Conversion of Series C 3% convertible preferred stock to common stock	$ 8,998	$
Conversion of 7.5% convertible senior notes to common stock	$ 15,294	$ 15,902
Conversion of 6.75% convertible senior notes to common stock	$	$ 69,345
Conversion of convertible senior subordinated notes to common stock	$	$ 4
Extinguishment of 5.75% convertible senior subordinated notes in exchange for 7.5% convertible senior notes	$	$ 39,518
Extinguishment of 5.75% convertible subordinated notes in exchange for 7.5% convertible senior notes	$	$ 1,150
Issuance of 7.5% convertible senior notes in exchange for 5.75% subordinated and senior subordinated notes	$	$ 33,156

See accompanying notes.

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CELL THERAPEUTICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Cell Therapeutics, Inc., or CTI or the Company, focuses on the development, acquisition and commercialization of drugs for the treatment of cancer. Our principal business strategy is focused on cancer therapeutics; an area with significant market opportunity that we believe is not adequately served by existing therapies. Our operations are primarily conducted in the United States and Italy.

Basis of Presentation

The accompanying unaudited financial information of CTI as of September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 has been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, such financial information includes all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the Company s financial position at such date and the operating results and cash flows for such periods. Operating results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the entire year.

Certain information and footnote disclosure normally included in financial statements in accordance with generally accepted accounting principles have been omitted pursuant to the rules of the Securities and Exchange Commission. These financial statements and the related notes should be read in conjunction with our audited annual financial statements for the year ended December 31, 2006 included in our Form 10-K.

The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Cell Therapeutics, Inc. and its wholly owned subsidiaries which include Cell Therapeutics Europe S.r.l., CTI Technologies, Inc., CTI Corporate Development, Inc., and from July 31, 2007, Systems Medicine, LLC. In the fourth quarter of 2006, the Company liquidated Cell Therapeutics (Ireland) Holding Limited. The Company also has a majority owned subsidiary, Aequus Biopharma, Inc.

Stock ownership by outside and related parties in Aequus Biopharma, Inc. is recorded as *minority interest in subsidiary* and stated net after allocation of losses in the subsidiary.

Reverse Stock-Split

On April 15, 2007, we effected a one-for-four reverse stock split of our common stock. All impacted amounts included in the condensed consolidated financial statements and notes thereto have been retroactively adjusted for the stock split. Impacted amounts include shares of common stock authorized and outstanding, share issuances, shares underlying stock options and warrants, shares reserved and loss per share.

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Liquidity

Our accompanying condensed consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve month period following the date of these financials. However, we have incurred losses since inception and we expect to generate losses from operations for at least the next several years primarily due to research and development costs for XYOTAX, pixantrone, brostallicin and CT-2106. We have approximately $55.9 million in principal due on our convertible subordinated and senior subordinated notes in June 2008, or the June 2008 notes. Our available *cash and cash equivalents*, *securities available-for-sale* and *interest receivable* of approximately $38.3 million as of September 30, 2007, is not sufficient to repay these notes and to fund our planned operations for the next twelve months which raises substantial doubt about our ability to continue as a going concern. While we plan to restructure the June 2008 notes, we may be unable to do this on favorable terms or at all. Accordingly, we will need to raise additional funds and are currently exploring alternative sources of equity or debt financing. While we have a 60 million (approximately $80 million) Step-Up Equity Financing Agreement with Société Générale which we may be able to utilize to provide additional equity funding, access to that funding depends in part on complying with certain Italian regulations; even if we are able to comply with such regulations, additional funding may not be available on favorable terms or at all. If additional funds are raised by issuing equity securities, substantial dilution to existing shareholders may result. If we fail to obtain additional capital when needed, we may be required to delay, scale back, or eliminate some or all of our research and development programs. The accompanying condensed consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty.

License and Contract Revenue

We may generate revenue from technology licenses, collaborative research and development arrangements, cost reimbursement contracts and research grants. Revenue under technology licenses and collaborative agreements typically consists of nonrefundable and/or guaranteed technology license fees, collaborative research funding, and various milestone and future product royalty or profit-sharing payments.

Revenue associated with up-front license fees and research and development funding payments under collaborative agreements is recognized ratably over the relevant periods specified in the agreement, generally the research and development period. If the time period is not defined in the agreement, we calculate the revenue recognition period based on our current estimate of the research and development period considering experience with similar projects, level of effort and the stage of development. Should there be a change in our estimate of the research and development period, we will revise the term over which the initial payment is recognized. Revenue from substantive at-risk milestones and future product royalties is recognized as earned based on the completion of the milestones and product sales, as defined in the respective agreements. Revenue under cost reimbursement contracts and research grants is recognized as the related costs are incurred. Payments received in advance of recognition as revenue are recorded as deferred revenue.

We evaluate multiple element arrangements pursuant to Emerging Issues Task Force, or EITF, 00-21, *Revenue Arrangements with Multiple Deliverables.* For multiple element arrangements that have continuing performance obligations, we recognize contract, milestone or license fees together with any up-front payments over the term of the arrangement as we complete our performance obligation, unless the delivered technology has stand alone value to the customer and there is objective, reliable evidence of fair value of the undelivered element in the arrangement. Additionally, pursuant to the guidance of Securities and Exchange Commission Staff Accounting Bulletin 104, or SAB 104, unless evidence suggests otherwise, revenue from consideration received is recognized on a straight-line basis over the expected term of the arrangement.

Research and Development Expenses

Research and development expenses include related salaries and benefits, clinical trial and related manufacturing costs, contract and other outside service fees, and facilities and overhead costs related to our research and development efforts. Research and development expenses also consist of costs incurred for proprietary and collaboration research and development and include activities such as product registries and investigator-sponsored

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trials. Research and development costs are expensed as incurred. Generally, in instances where we enter into agreements with third parties for research and development activities, costs are expensed upon the earlier of when non-refundable amounts are due or as services are performed unless there is an alternative future use of the funds in other research and development projects. Amounts due under such arrangements may be either fixed fee or fee for service, and may include upfront payments, monthly payments, and payments upon the completion of milestones or receipt of deliverables.

Acquired in-process research and development

Costs to acquire in-process research and development, or IPRD, projects and technologies which have no alternative future use and which have not reached technological feasibility at the date of merger or acquisition are expensed as incurred.

Impairment of Long-lived Assets

We review our long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted future cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value based on quoted fair market values.

Value Added Tax Receivable

Our European subsidiary is subject to Value Added Tax, or VAT, which is usually applied to all goods and services purchased and sold throughout Europe. The VAT receivable is approximately $11.6 million and $10.6 million as of September 30, 2007 and December 31, 2006, respectively, of which $6.1 million and $5.5 million is included in *other assets* and $5.5 million and $5.1 million is included in *prepaid expenses and other current assets* as of September 30, 2007 and December 31, 2006, respectively. This receivable balance typically has a three to five year collection period. We review our VAT receivable balance for impairment whenever events or changes in circumstances indicate the carrying amount might not be recoverable.

Net Loss Per Share

Basic net loss per share is calculated based on the net loss divided by the weighted average number of shares outstanding for the period excluding any dilutive effects of options, warrants, unvested share awards and convertible securities. Diluted earnings per share assumes the conversion of all dilutive convertible securities, such as convertible debt using the if-converted method, and assumes the exercise or vesting of other dilutive securities, such as options, warrants and share awards using the treasury stock method. As of September 30, 2007 and 2006, options, warrants, unvested share awards and rights, convertible debt and convertible preferred stock aggregating 21,712,488 and 12,084,679, common equivalent shares, respectively, prior to the application of the treasury stock method for options and warrants, were not included in the calculation of diluted net loss per share as they are anti-dilutive.

Derivatives Embedded in Certain Debt Securities

We evaluate financial instruments for freestanding or embedded derivatives in accordance with Statement of Financial Accounting Standards, or SFAS, No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and related guidance. Derivative instruments are recorded at fair value with changes in value recognized in the period of change.

Our 6.75% convertible senior notes, or 6.75% notes, contain a feature that provides for a make-whole payment upon any conversion of these notes. The payment is equal to the interest on the debt over its term less any amounts paid prior to the date of the conversion upon any conversion of these notes. This make-whole feature represents an embedded derivative which is required to be accounted for separately from the related debt securities. The fair value of this derivative is calculated based on a discounted cash flow model.

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Our 7.5% convertible senior notes, or 7.5% notes, include a feature that calls for make-whole payments in the event of automatic conversion or if the holder requires us to repurchase the notes upon certain non-stock changes in control. The payment is equal to $225 per $1,000 principal amount of the notes less any interest amounts paid prior to the date of conversion or repurchase. This make-whole feature also represents an embedded derivative that must be accounted for separately from the related debt securities. The fair value of this derivative is calculated using a Monte Carlo simulation model that incorporates factors such as the current price of our common stock, its volatility, and time to expiration of the make-whole feature. As of December 31, 2006, we determined that we would make additional discretionary make-whole payments to certain investors during 2007. These additional payments constituted modifications to the terms of the agreement and were included in the valuation model as of December 31, 2006. All additional planned discretionary make-whole payments were made during the three months ended March 31, 2007.

Changes in the estimated fair value of the derivative liabilities related to both our 6.75% and 7.5% notes are included in *gain (loss) on derivative liabilities* and will be calculated until the relevant feature expires or all of the relevant notes are converted or repurchased.

Foreign Currency Translation

For operations that have a functional currency other than the U.S. dollar, gains and losses resulting from the translation of the functional currency into U.S. dollars for financial statement presentation are not included in determining net loss but are accumulated in the cumulative foreign currency translation adjustment account as a separate component of shareholders deficit in accordance with SFAS No. 52*, Foreign Currency Translation*.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, or SFAS 157, which provides guidance on how to measure assets and liabilities that use fair value. This statement clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 will apply whenever another generally accepted accounting principle requires, or permits, assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This statement will also require additional disclosures in both annual and quarterly reports. SFAS 157 is effective for fiscal years beginning after November 2007, and will be adopted by us beginning January 1, 2008. We are currently evaluating the potential impact this statement may have on our financial statements, but do not believe the impact of adoption will be material.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, or SFAS 159. The Statement permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected would be reported in earnings at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements in order to facilitate comparisons between entities choosing different measurement attributes for similar types of assets and liabilities. SFAS 159 does not affect existing accounting requirements for certain assets and liabilities to be carried at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007, and will be adopted by us beginning January 1, 2008. We are currently evaluating the requirements of SFAS 159 and have not yet determined the impact on the financial statements.

In June 2007, the EITF reached a consensus on Issue 07-3, which focuses on whether non-refundable advance payments for goods or services that will be performed in future research and development activities should be accounted for as research and development costs or deferred and capitalized until the goods have been delivered or the related services have been rendered. EITF 07-3 is effective for periods beginning after December 15, 2007. Further, the EITF has Issue 07-1 currently under consideration. EITF 07-1 *Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property* is focused on how the parties to a collaborative agreement should account for costs incurred and revenue generated on sales to third parties,

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how sharing payments pursuant to a collaborative agreement should be presented in the income statement and certain related disclosure questions. We are currently evaluating the requirements of these issues and have not yet determined the impact on the financial statements.

Reclassifications

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

2. Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive income or loss. SFAS No. 130, *Reporting Comprehensive Income*, provides for unrealized gains and losses on our securities available-for-sale and net exchange gains or losses resulting from the translation of assets and liabilities of our foreign subsidiary to be included in other comprehensive income or loss. Total comprehensive loss was $49.8 million and $27.8 million for the three month periods ended September 30, 2007 and 2006, respectively. Total comprehensive loss was $102.4 million and $99.6 million for the nine month periods ended September 30, 2007 and 2006, respectively.

Information regarding the components of accumulated other comprehensive loss is as follows (in thousands):

	September 30, 2007	December 31, 2006
Foreign currency translation adjustment	$ (3,025)	$ (1,203)
Net unrealized gain on securities available-for-sale	13	16
Accumulated other comprehensive loss	$ (3,012)	$ (1,187)

3. Acquisition of Systems Medicine, Inc.

On July 31, 2007, we completed the acquisition of Systems Medicine, Inc., or SMi, in a stock for stock merger. Pursuant to the terms of the acquisition, we issued to SMi stockholders an aggregate of 4,211,856 shares of our common stock in exchange for outstanding SMi common stock. Of the total shares issued, 421,186 remain in an escrow account subject to any claim for indemnification made by us. Upon the twelve month anniversary of the closing date, the acquisition agreement provides instructions on the release of the remaining escrowed shares. Under the agreement, Systems Medicine, Inc. became Systems Medicine, LLC, or SM, and now operates as a wholly-owned subsidiary of CTI.

SMi s stockholders as of the date of acquisition could also receive a maximum of $15 million in additional consideration (payable in cash or stock at our election, subject to certain Nasdaq limitations on issuance of stock) upon the achievement of certain FDA regulatory milestones. At this time, it is not possible to predict whether these milestones will be achieved; accordingly, the following estimated purchase price does not reflect the payment of this contingent consideration.

The total cost of the acquisition is estimated to be approximately $20.4 million, based on the fair value of our common stock of $4.718, the average price of our common stock during a 5-business day period prior to the date of the acquisition agreement (July 17, 18, 19, 20 and 23, 2007) and related transaction costs, consisting primarily of financial advisory, legal and accounting fees. The direct transaction costs are estimated, pending resolution of certain accruals as of September 30, 2007, related to the acquisition. The total estimated purchase price of the acquisition is as follows (in thousands):

Total value of CTI common stock, including escrowed shares	$ 20,000
Estimated direct transaction costs	449
Total estimated purchase price	$ 20,449

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Based on the provisions of SFAS No. 141, *Business Combinations,* and EITF Issue No. 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business,* we determined the transaction to be an asset acquisition and accordingly, the total estimated purchase price as shown in the table above was allocated to SM s net tangible and intangible assets, including IPRD, based on their relative fair values as of July 31, 2007, the closing date of the acquisition. The estimated fair value of these assets in excess of the purchase price was then allocated on a pro rata basis to reduce in-process research and development and non-monetary long-lived assets. The allocation of the estimated purchase price as of the date of the acquisition is as follows (in thousands):

Cash and cash equivalents	$ 3,100
Prepaid expenses and other current assets	14
Other receivables	116
Notes receivable	99
Property and equipment	4
Intangible assets	68
Other non current assets	2
Accounts payable and accrued expenses	(2,297)
Promissory notes	(2,000)
Acquired in-process research and development	21,343
Total	$ 20,449

In-process research and development

Acquired IPRD for the acquisition was evaluated utilizing the present value of the estimated after-tax cash flows expected to be generated by purchased technology related to brostallicin, which, at the effective time of the acquisition, had not reached technological feasibility. Brostallicin is a novel synthetic second-generation DNA minor groove binder that has proven anti-cancer activity and has demonstrated synergism in combination with standard cytotoxic agents as well as with newer targeted therapies in preclinical experimental tumor models. The cash flow projections for revenues are based on estimates of growth rates and the aggregate size of the respective market for brostallicin, probability of technical success given the state of development at the time of acquisition, royalty rates based on an assessment of industry market rates, product sales cycles, and the estimated life of a product s underlying technology. The projections for revenues include assumptions that significant cash flows from product revenue would commence in 2011. Estimated operating expenses and income taxes are deducted from estimated revenue projections to arrive at estimated after-tax cash flows. Projected operating expenses include cost of goods sold, selling, general and administrative expenses, and research and development costs. The rate utilized to discount projected cash flows was approximately 18%, and was based on the relative risk of the in-process technology and was based primarily on risk adjusted rates of return for similar research and development programs in the industry and the weighted average cost of capital for CTI at the time of the acquisition.

The values associated with this program represent values ascribed by CTI s management, based on the discounted cash flows currently expected from the technology acquired and a pro rata allocation of the estimated fair values of non-monetary assets acquired in excess of the purchase price. The estimated cash flows include the estimated development costs and estimated product launch date with the estimated life of the product ending fourteen years after approval. If the project is not successfully developed, the business, results of operations and financial condition of CTI may be adversely affected. As of the date of the acquisition, CTI concluded that once completed, the technology under development can only be economically used for the specific and intended purpose and that the in-process technology has no alternative future use after taking into consideration the overall objective of the project, progress toward the objective, and uniqueness of development to this objective.

Pro forma results of operations (unaudited)

Our condensed consolidated statements of operations for the three and nine months ended September 30, 2007 include SM s results of operations for the period from July 31, 2007, the date of acquisition, to September 30, 2007.

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The following table sets forth the pro forma combined results of operations of CTI and SM for the three and nine months ended September 30, 2007 and 2006 (in thousands, except per share amounts):

	Three Months Ended September 30, (unaudited)		Nine Months Ended September 30, (unaudited)	
	2007	2006	2007	2006
Revenues	$ 20	$ 20	$ 60	$ 60
Net loss attributable to common shareholders	(53,691)	(28,238)	(112,561)	(101,205)
Basic and diluted net loss per common share	$ (1.08)	$ (0.88)	$ (2.44)	$ (3.40)

For pro forma purposes:

- CTI s unaudited results of operations for the three months ended September 30, 2007 and 2006 have been combined with SM s unaudited results of operations for the three months ended September 30, 2007 and 2006 as if the acquisition had occurred on July 1, 2007 and 2006, respectively;
- CTI s unaudited results of operations for the nine months ended September 30, 2007 and 2006 have been combined with SM s unaudited results of operations for the nine months ended September 30, 2007 and 2006 as if the acquisition had occurred on January 1, 2007 and 2006, respectively; and
- The pro forma results do not include the effect or the charge for IPRD for the three and nine months ended September 30, 2006 as this is a non recurring charge resulting from the acquisition. As our condensed consolidated statement of operations for the three and nine months ended September 30, 2007 includes IPRD, for consistency purposes the pro forma amounts above also include IPRD for these periods.

The unaudited pro forma combined financial data is intended for information purposes only and does not purport to represent what our results of operations would actually have been if the acquisition had in fact occurred on the dates indicated or to project our financial position or results of operations as of any future date or any future period.

4. Capital Stock

3% Convertible Preferred Stock

Series A

In February 2007, we issued 20,000 shares of our Series A 3% Convertible Preferred Stock, or Series A preferred stock. During the nine months ended September 30, 2007, 13,150 shares of Series A preferred stock were converted into 1,965,619 shares of common stock. There were no shares of Series A preferred stock converted during the three months ended September 30, 2007. As of September 30, 2007, we had approximately $51,000 of Series A preferred stock dividends accrued which were paid in October 2007.

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

Series B

In April 2007, we issued 37,200 shares of our Series B 3% convertible preferred stock, or Series B preferred stock. During the nine months ended September 30, 2007, 21,820 shares of Series B preferred stock were converted into 3,242,190 shares of common stock. There were no shares of Series B preferred stock converted during the three months ended September 30, 2007. As of September 30, 2007, we had approximately $115,000 of Series B preferred stock dividends accrued which were paid in October 2007.

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

Series C

In July 2007, we issued 20,250 shares of our Series C 3% convertible preferred stock, or Series C preferred stock, in a registered offering at an issue price of $1,000 per share with an annual dividend rate of 3%, payable quarterly. The Series C preferred stock is convertible at any time into a number of shares of our common stock determined by dividing the stated value of the preferred stock to be converted, which is initially $1,000 per share, by the conversion price, which is initially $3.90. The initial conversion price is subject to adjustment in certain events. The Series C preferred stock will have the right to the number of votes equal to the stated value, or $1,000 per share, divided by $4.53 in all matters as to which shareholders are required or permitted to vote with the common stock.

In connection with the Series C preferred stock issuance, we issued warrants to purchase an additional 2,596,148 shares of our common stock at an exercise price of $4.53 per share. The warrants will not be exercisable until six months after the date of issuance and will terminate on the second anniversary of the date upon which they become exercisable.

The holders of Series C preferred stock have the right to require us to redeem all or a portion of the Series C preferred stock shares, payable in common stock, upon the occurrence of certain triggering events for a redemption amount equal to the greater of (a) 130% of the stated value or (b) the product of (1) the volume weighted average price of the common stock on the trading day preceding the conversion multiplied by (2) the stated value divided by the conversion price; plus all accrued and unpaid dividends or other payments on such shares. In addition, at any time after the two-year anniversary of the original issue date and subject to the prior rights of the Series A and B preferred stock, holders of Series C preferred stock have the right to require us to redeem any of their outstanding Series C preferred stock for cash at the stated value plus any accrued but unpaid dividends or other payments due on the shares being redeemed. With respect to our accounting for the preferred stock, because redemption is at the option of the holder of the Series C preferred stock and is not certain to occur, it is considered contingently redeemable and is not classified as a liability under the scope of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. In addition, EITF Topic D-98, *Classification and Measurement of Redeemable Securities*, states that Rule 5-02.28 of Regulation S-X requires securities with redemption features that are not solely within the control of the issuer to be recorded outside of permanent equity. As the Series C preferred stock shares include certain redemption features that may be triggered by events or actions that are outside our control, we have classified these shares as mezzanine equity.

The net proceeds from the issuance of the Series C preferred stock of approximately $18.9 million were allocated between the fair value of the warrants and the Series C preferred stock. Using the Black-Scholes option pricing model, we calculated the relative fair value of the warrants to purchase 2,596,148 shares of our common stock to be approximately $3.7 million. This relative fair value has been recorded as a reduction of the mezzanine equity balance for the Series C preferred stock and an addition to common stock. Additionally, we calculated a beneficial conversion feature charge related to the conversion price for the Series C preferred stock to common stock of approximately $3.9 million. As the Series C preferred stock can be converted immediately, the amount of the beneficial conversion feature was immediately accreted and resulted in a deemed dividend. This charge was recorded as a dividend expense included in *preferred stock beneficial conversion feature* in determining the net loss attributable to common shareholders.

As of September 30, 2007, 11,966 shares of Series C preferred stock had been converted into 3,068,195 shares of common stock. As of that date we had approximately $45,000 of Series C preferred stock dividends accrued which were paid in October 2007.

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5. Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense related to employee stock options, employee stock purchases, and share awards under SFAS No. 123(R), *Share-Based Payment (Revised 2004)*, or SFAS 123(R), for the three and nine months ended September 30, 2007, which was allocated as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Research and development	$ 183	$ 314	$ 495	$ 1,393
Selling, general and administrative	217	763	459	2,186
Stock-based compensation expense included in operating expenses	$ 400	$ 1,077	$ 954	$ 3,579

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Risk-free interest rates	4.1%	4.7%	4.4%	4.9%
Expected dividend yield	None	None	None	None
Expected life (in years)	2.7	2.7	3.1	2.8
Expected volatility	76%	74%	76%	74%

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

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Our stock price volatility and option lives involve management s best estimates, both of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option. SFAS 123(R) also requires that we recognize compensation expense for only the portion of options expected to vest. Therefore, we applied an estimated forfeiture rate that we derived from historical employee termination behavior. If the actual number of forfeitures differs from our estimates, additional adjustments to compensation expense may be required in future periods.

6. Convertible Senior Notes

7.5% Convertible Senior Notes

During the nine months ended September 30, 2007, $15.3 million of our 7.5% notes were converted into 1.8 million shares of common stock. There were no conversions during the three months ended September 30, 2007. We had $33.5 million and $48.8 million principal amount of our 7.5% notes outstanding as of September 30, 2007 and December 31, 2006, respectively. In connection with the conversion of $6.2 million of these notes during the three months ended March 31, 2007 and $7.4 million of 7.5% notes on April 2, 2007, we made discretionary interest make-whole payments of approximately $2.3 million which is included in *make-whole interest expense* for the nine months ended September 30, 2007. There was no make-whole interest expense for the three months ended September 30, 2007. In May 2006, we made a discretionary make-whole payment of $1.7 million related to the conversion of approximately $7.4 million of the 7.5% notes which is included in *make-whole interest expense* for the nine months ended September 30, 2006.

The interest make-whole provision of the 7.5% notes represents an embedded derivative which is required to be accounted for separate from the underlying notes. At the issuance of the 7.5% notes, the interest make-whole feature was estimated to have a fair value of approximately $3.7 million and the initial recorded value of the 7.5% notes was reduced by this allocation. In addition, at December 31, 2006, we recorded an increase to the derivative balance of $1.8 million which represents the change in value as a result of the modification of the terms of the make-whole interest provision related to certain investors. The resulting discount to the notes is being accreted over the life of the notes as additional interest expense using the effective interest method. Accordingly, we recorded interest expense of $0.1 million and $0.6 million for the three months ended September 30, 2007 and 2006, respectively, and interest expense of $2.8 million and $1.1 million for the nine months ended September 30, 2007 and 2006, respectively. The expense recorded for the nine months ended September 30, 2007 was primarily related to accelerated accretion due to note conversions. The estimated fair value of the derivative liability is adjusted quarterly for changes in the estimated market value. The change in the estimated fair value was a loss of $20,000 and $0.9 million for the three months ended September 30, 2007 and 2006, respectively, and a gain of $3.5 million and $1.1 million for the nine months ended September 30, 2007 and 2006, respectively. These amounts were included in *gain (loss) on derivative liabilities*. At September 30, 2007, the fair value of the derivative was $30,000 and was recorded in *7.5% convertible senior notes*. At December 31, 2006, the fair value of the derivative was $3.6 million, $2.3 million of which was recorded in *current portion of derivative liability* and $1.3 million of which was recorded in *7.5% convertible senior notes*.

6.75% Convertible Senior Notes

The interest make-whole provision of the 6.75% notes represents an embedded derivative which is required to be accounted for separate from the underlying notes and was recorded as a derivative liability and a discount to the carrying value of the notes. The resulting discount to the notes is being accreted over the life of the notes as additional interest expense using the effective interest method. Accordingly, we recorded interest expense of $20,000 and $54,000 for the three months ended September 30, 2007 and 2006, respectively and interest expense of $59,000 and $4.0 million for the nine months ended September 30, 2007 and 2006, respectively. The expense recorded for the three and nine months ended September 30, 2006 was primarily related to accelerated accretion due to note conversions. The estimated fair value of the derivative liability was $0.2 million at September 30, 2007 and December 31, 2006 and was recorded in *6.75% convertible senior notes*. The change in the estimated fair value was $25,000 and $62,000 for the three months ended September 30, 2007 and 2006, respectively, and was $79,000 and $4.1 million for the nine months ended September 30, 2007 and 2006, respectively. These amounts were included in *gain (loss) on derivative liabilities.*

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5.75% Convertible Subordinated and Senior Subordinated Notes

As of September 30, 2007, $28.5 million of our 5.75% convertible subordinated notes and $27.4 million of our 5.75% convertible senior subordinated notes are included in our current liabilities. These notes are due in June 2008.

7. Restructuring Activities

During 2005, we reduced our workforce in the U.S. and Europe and terminated our aircraft lease. In conjunction with our workforce reduction we vacated a portion of our laboratory and office facilities and recorded excess facilities charges.

The following table summarizes the changes in the liability for restructuring activities during the nine months ended September 30, 2007 (in thousands):

	Excess Facilities Charges	Employee Separation Costs
Balance at December 31, 2006	$ 3,951	$ 27
Adjustments	126	1
Payments	(1,970)	(13)
Balance at September 30, 2007	$ 2,107	$ 15

Charges for excess facilities relate to our lease obligation for excess laboratory and office space in the U.S. that we have vacated as a result of the restructuring plan. Pursuant to SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* we recorded restructuring charges in 2005 when we ceased using this space. The liability is calculated as the present value of total lease commitments, net of estimated sublease income. We recorded additional restructuring expense of approximately $0.1 million for both the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006 we recorded additional restructuring expense of approximately $0.1 million and $0.4 million, respectively. These amounts are included in *selling, general and administrative* expense. The adjustments to restructuring expense were due to changes in our estimate of the timing and amount of cash flows related to these excess facilities as well as adjustments due to the passage of time. We periodically evaluate our existing needs, the current and estimated future values of our subleases, and other future commitments to determine whether we should record additional excess facilities charges or adjustments to such charges. As of September 30, 2007 and December 31, 2006 respectively, approximately $1.0 million and $2.6 million of the liability for restructuring activities is included in *current portion of long-term obligations* and approximately $1.1 million and $1.4 million is included in *long-term obligations, less current portion.*

8. Legal Proceedings

In April 2007, we entered into a settlement agreement with the United States Attorney s Office, or USAO, for the Western District of Washington arising out of their investigation into certain of our prior marketing practices relating to TRISENOX® (arsenic trioxide). Pursuant to this settlement agreement, we made a single payment of $10.6 million to the USAO, which included a settlement amount of $10.5 million and interest accrued on that amount since the date of reaching an agreement in principle, in return for a release of all government claims in connection with a qui tam action brought by a private plaintiff and related matters. This settlement does not address separate claims brought against the Company by the private party plaintiff in such matters, which generally relate to attorneys fees and employment related claims. The private party plaintiff s wrongful termination claims have been dismissed by the federal district court with prejudice.

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As of December 31, 2006, $10.5 million related to the USAO litigation matter was included in *accrued expenses*. As of March 31, 2007, this amount was increased by approximately $0.1 million to $10.6 million. We made the settlement payment of $10.6 million in April 2007.

On January 22, 2007, we filed a complaint in King County Washington Superior Court against The Lash Group, Inc. and Documedics Acquisition Co., Inc., our former third party reimbursement expert, seeking recovery of damages, including losses incurred by the Company in connection with our above referenced USAO investigation, defense and settlement of claims by the government concerning Medicare reimbursement for TRISENOX. On February 28, 2007, defendant The Lash Group, Inc. removed the case to federal court in the Western District of Washington.

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

9. Subsequent Events

In August 2007, we entered into an asset purchase agreement with Biogen Idec Inc., or BIIB, for the purchase of ZEVALIN® (ibritumomab tiuxetan), a radiopharmaceutical product, for development, marketing and sale in the United States. The transaction, which is expected to close in the fourth quarter of 2007, has been approved by our board of directors and the board of directors of BIIB and is subject to customary closing conditions, including receipt of third party consents.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes included in Item 1 of this Form 10-Q. The following discussion contains forward-looking statements which involve risks and uncertainties. When used in this Form 10-Q, terms such as anticipates, believes, continue, could, estimates, expects, intends, may, plans, potential, predicts, should, or will or the negative of those terms or other comparable terms are intended to identify such forward-looking statements. Such statements, which include statements concerning product sales, research and development expenses, selling, general and administrative expenses, additional financings and additional losses, are subject to known and unknown risks and uncertainties, including, but not limited to, those discussed below and elsewhere in this Form 10-Q and our Annual Report on Form 10-K, particularly in Factors Affecting Our Operating Results and Financial Condition, that could cause actual results, levels of activity, performance or achievement to differ significantly from those projected. Although we believe that expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We will not update any of the forward-looking statements after the date of this Form 10-Q to conform these statements to actual results or changes in our expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-Q.

OVERVIEW

We develop, acquire and commercialize novel treatments for cancer. Our goal is to build a leading biopharmaceutical company with a diversified portfolio of proprietary oncology drugs. Our research, development, acquisition and in-licensing activities concentrate on identifying and developing new, less toxic and more effective ways to treat cancer.

On July 31, 2007, we completed our acquisition of Systems Medicine, Inc., or SMi, a privately held oncology company, in a stock for stock merger valued at $20 million. SMi stockholders could also receive a maximum of $15 million in additional consideration (payable in cash or stock at our election, subject to certain Nasdaq limitations on issuance of stock) upon the achievement of certain U.S. Food and Drug Administration, or FDA, regulatory milestones. Under the agreement, SMi became Systems Medicine, LLC, or SM, and will operate as a wholly-owned subsidiary of CTI. SM holds worldwide rights to use, develop, import and export brostallicin, a synthetic DNA minor groove binding agent that has demonstrated anti-tumor activity and a favorable safety profile in clinical trials in which more than 200 patients have been treated to date. SM currently uses a genomic-based platform to guide development of brostallicin; we expect to use that platform to guide development of our licensed oncology products in the future. SM also has a strategic affiliation with the Translational Genomics Research Institute, or TGen, and has the ability to use TGen s extensive genomic platform and high throughput capabilities to target a cancer drug s context-of-vulnerability, which is intended to guide clinical trials toward patient populations where the highest likelihood of success should be observed, thereby potentially lowering risk and shortening time to market.

In August 2007, we entered into an asset purchase agreement with Biogen Idec Inc., or BIIB, for the purchase of ZEVALIN® (ibritumomab tiuxetan), or ZEVALIN, a radiopharmaceutical product, for development, marketing and sale in the United States. ZEVALIN was approved by the FDA in 2002 and BIIB reported $16.4 million in U.S. sales in 2006. The transaction, which is expected to close in the fourth quarter of 2007, has been approved by our board of directors and the board of directors of BIIB and is subject to customary closing conditions, including receipt of third party consents.

We are developing XYOTAX, paclitaxel poliglumex, for the treatment of non-small cell lung cancer, or NSCLC, and ovarian cancer. As announced in March and May 2005, our STELLAR 2, 3, and 4 phase III clinical studies for XYOTAX did not meet their primary endpoints of superior overall survival. However, we believe a pooled analysis of STELLAR 3 and 4 studies for treatment of first-line NSCLC patients who have poor performance status, or PS2, demonstrates a statistically significant survival advantage among women receiving XYOTAX when compared to women or men receiving standard chemotherapy. A survival advantage for women over men was also demonstrated in a first-line phase II clinical trial of XYOTAX and carboplatin, known as

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the PGT202 trial, supporting the potential benefit observed in the STELLAR 3 and 4 trials. In December, 2005, we initiated a phase III clinical trial, known as the PIONEER, or PGT305, study, for XYOTAX as first-line monotherapy in PS2 women with NSCLC. In November 2006, we suspended enrollment in the PIONEER trial to allow data related to recently enrolled patients to mature and to assess the differences in early cycle deaths observed between arms of the study. In December 2006, we agreed with the recommendation of the Data Safety Monitoring Board to close the PIONEER lung cancer clinical trial due, in part, to the diminishing utility of the PIONEER trial given our plans to submit a new protocol to the FDA. In early 2007, we submitted two new protocols under a Special Protocol Assessment, or SPA, to the FDA. The new trials, known as PGT306 and PGT307, focus exclusively on NSCLC in women with pre-menopausal estrogen levels, the subset of patients where XYOTAX demonstrated the greatest potential survival advantage in the STELLAR trials. We believe the lack of safe and effective treatment for women with advanced first-line NSCLC who have pre-menopausal estrogen levels represents an unmet medical need. We initiated the PGT307 trial in September 2007. Although the FDA has established the requirement that two adequate and well-controlled pivotal studies demonstrating a statistically significant improvement in overall survival will be required for approval of XYOTAX in the NSCLC setting, we believe that compelling results from PGT307, along with supporting evidence from prior clinical trials, will enable us to submit a new drug application, or NDA, in the United States. In Europe, we plan to submit a MAA in the first half of 2008, for first-line treatment of patients with advanced NSCLC who are PS2, based on a non-inferior survival and improved side effect profile which we believe was demonstrated in our STELLAR clinical trials. The basis for this filing has been reviewed by the Scientific Advice Working Party, or SAWP, at the European Medicines Agency, or EMEA; the EMEA agreed that switching the primary endpoint from superiority to noninferiority is feasible if the retrospective justification provided in the marketing application is adequate. The discussions with the SAWP focused on using the STELLAR 4 study as primary evidence of non-inferiority and the STELLAR 3 study as supportive.

We are developing pixantrone, a novel anthracycline derivative, for the treatment of non-Hodgkin s lymphoma, or NHL. An interim analysis of our ongoing phase III study of pixantrone, known as the EXTEND or PIX301 study, was performed by the independent Data Monitoring Committee in the third quarter of 2006. Based on their review, the study will continue. Pixantrone is also being studied in a phase II study, known as RAPID or PIX203, in which pixantrone is substituted for doxorubicin in the R-CHOP regimen compared to the standard R-CHOP regimen in patients with previously untreated diffuse large B-cell lymphoma. An interim analysis of the RAPID study was reported in July 2007. The interim analysis of the study showed that to date a majority of patients on both arms of the study achieved a major objective anti-tumor response (complete response or partial response). Patients on the pixantrone arm of the study had clinically significant reductions in the incidence of severe heart damage, infections, and thrombocytopenia (a reduction in platelets in the blood) as well as significant reduction in febrile neutropenia. The study, which is targeting enrollment of 280 patients, is expected to complete enrollment in 2009. In September 2007, we announced that we decided to conduct a full analysis of the EXTEND trial, instead of an interim analysis as previously planned. We currently anticipate completing enrollment in the EXTEND trial in the fourth quarter of this year with primary endpoint data and expect the final results to be reported in the first half of 2008. The FDA agreed that randomized safety data from the RAPID study (CHOP-R vs. CPOP-R) could be used to support the EXTEND results in an NDA submission for pixantrone. In addition, we launched a phase III trial of pixantrone in indolent NHL, the PIX303 trial, in September 2007, which will evaluate the combination of fludarabine, pixantrone, and rituximab versus fludarabine and rituximab in patients who have received at least one prior treatment for relapsed or refractory indolent NHL The target enrollment for the trial is 300 patients. In May 2007, we received fast track designation from the FDA for pixantrone for the treatment of relapsed or refractory indolent NHL.

We are developing brostallicin, which is a small molecule, anti-cancer drug with a novel, unique mechanism of action and composition of matter patent coverage. Data on more than 200 patients treated with brostallicin in phase I/II clinical trials reveal evidence of activity in patients with refractory cancer and patient/physician-friendly dosage and administration. A phase II study of brostallicin in relapsed/refractory soft tissue sarcoma met its pre-defined activity and safety hurdles and resulted in a first-line phase II study that is currently being conducted by the European Organization for Research and Treatment of Cancer (EORTC). Additionally, CTI plans to initiate a phase II/III myxoid liposarcoma trial in 2008. Brostallicin also has demonstrated synergism with new targeted agents as well as established treatments in pre-clinical trials.

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Due to resource constraints, we are currently focusing our efforts on near-term products in our pipeline, XYOTAX, pixantrone and brostallicin, and have no immediate plans to conduct additional CT-2106, polyglutamate camptothecin, clinical studies.

As of September 30, 2007, we had incurred aggregate net losses of approximately $1,070.4 million since inception. We expect to continue to incur additional operating losses for at least the next several years.

Critical Accounting Estimates

Management makes certain judgments and uses certain estimates and assumptions when applying accounting principles generally accepted in the United States in the preparation of our consolidated financial statements. We evaluate our estimates and judgments on an on-going basis and base our estimates on historical experience and on assumptions that we believe to be reasonable under the circumstances. Our experience and assumptions form the basis for our judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may vary from what we anticipate and different assumptions or estimates about the future could change our reported results. We believe the following accounting estimates are the most critical to us, in that they are important to the portrayal of our consolidated financial statements and require our most difficult, subjective or complex judgments in the preparation of our consolidated financial statements.

License and Contract Revenue

We may generate revenue from technology licenses, collaborative research and development arrangements, cost reimbursement contracts and research grants. Revenue under technology licenses and collaborative agreements typically consists of nonrefundable and/or guaranteed technology license fees, collaborative research funding, and various milestone and future product royalty or profit-sharing payments.

Revenue associated with up-front license fees and research and development funding payments under collaborative agreements is recognized ratably over the relevant periods specified in the agreement, generally the research and development period. If the time period is not defined in the agreement, we calculate the revenue recognition period based on our current estimate of the research and development period considering experience with similar projects, level of effort and the stage of development. Should there be a change in our estimate of the research and development period, we will revise the term over which the initial payment is recognized. Revenue from substantive at-risk milestones and future product royalties is recognized as earned based on the completion of the milestones and product sales, as defined in the respective agreements. Revenue under cost reimbursement contracts and research grants is recognized as the related costs are incurred. Payments received in advance of recognition as revenue are recorded as deferred revenue.

We evaluate multiple element arrangements pursuant to Emerging Issues Task Force, or EITF, 00-21, *Revenue Arrangements with Multiple Deliverables.* For multiple element arrangements that have continuing performance obligations, we recognize contract, milestone or license fees together with any up-front payments over the term of the arrangement as we complete our performance obligation, unless the delivered technology has stand-alone value to the customer and there is objective, reliable evidence of fair value of the undelivered element in the arrangement. Additionally, pursuant to the guidance of Securities and Exchange Commission Staff Accounting Bulletin 104, or SAB, No. 104, unless evidence suggests otherwise, revenue from consideration received is recognized on a straight-line basis over the expected term of the arrangement.

Impairment of Long-lived Assets

We review our long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted future cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value based on quoted fair market values.

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Valuation of Goodwill

In accordance with Statement of Financial Accounting Standards, or SFAS, No. 142*, Goodwill and Other Intangible Assets*, we review goodwill for impairment annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment by comparing the fair value of our single reporting unit to its carrying value. Our estimate of fair value is based on our current market capitalization. If the implied fair value of goodwill is less than its carrying value, an impairment charge would be recorded.

Derivatives Embedded in Certain Debt Securities

We evaluate financial instruments for freestanding or embedded derivatives in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and related guidance. Derivative instruments are recorded at fair value with changes in value recognized in the period of change.

Our 6.75% convertible senior notes, or 6.75% notes, contain a feature that provides for a make-whole payment upon any conversion of these notes. The payment is equal to the interest on the debt over its term less any amounts paid prior to the date of the conversion upon any conversion of these notes. This make-whole feature represents an embedded derivative which is required to be accounted for separately from the related debt securities. The fair value of this derivative is calculated based on a discounted cash flow model.

Our 7.5% convertible senior notes, or 7.5% notes, includes a feature that calls for make-whole payments in the event of automatic conversion or if the holder requires us to repurchase the notes upon certain non-stock changes in control. The payment is equal to $225 per $1,000 principal amount of the notes less any interest amounts paid prior to the date of conversion or repurchase. This make-whole feature also represents an embedded derivative that must be accounted for separately from the related debt securities. The fair value of this derivative is calculated using a Monte Carlo simulation model that incorporates factors such as the current price of our common stock, its volatility, and time to expiration of the make-whole feature. As of December 31, 2006, we determined that we would make additional discretionary make-whole payments to certain investors during 2007. These additional payments constituted modifications to the terms of the agreement and were included in the valuation model as of December 31, 2006. All additional planned discretionary make-whole payments were made during the three months ended March 31, 2007.

Changes in the estimated fair value of the derivative liabilities related to both our 6.75% and 7.5% notes are included in *gain (loss) on derivative liabilities* and will be calculated until the relevant feature expires or all of the relevant notes are converted or repurchased.

Purchase price allocation

Based on the provisions of SFAS No. 141, *Business Combinations,* the purchase price for SM was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date of July 31, 2007. An independent third-party valuation firm was engaged to assist in determining the fair values of in-process research and development and identifiable intangible assets. Such a valuation requires significant estimates and assumptions including but not limited to: determining the timing and expected costs to complete the in-process projects, projecting regulatory approvals, estimating future cash flows from product sales resulting from in-process projects, and developing appropriate discount rates and probability rates by project. We believe the fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions. However, these assumptions may be inaccurate, and unanticipated events and circumstances may occur.

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Restructuring Charges

We have recorded charges in connection with our restructuring activities, including estimates pertaining to employee separation costs, the related abandonment of excess facilities and impairment of fixed assets, and certain contract termination costs. Restructuring charges are recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The recognition of restructuring charges requires management to make certain judgments regarding the nature, timing and amount associated with the planned restructuring activities. At the end of each reporting period, we evaluate the appropriateness of the remaining accrued balances.

Stock-Based Compensation Expense

On January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment (Revised 2004)*, or SFAS 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options, share awards, and employee stock purchases related to the Employee Stock Purchase Plan based on estimated fair values. We adopted SFAS 123(R) using the modified prospective transition method, which required the application of the accounting standard as of January 1, 2006, the first day of our fiscal year 2006.

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

Our stock price volatility and option lives involve management s best estimates, both of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option. SFAS 123(R) also requires that we recognize compensation expense for only the portion of options expected to vest. Therefore, we applied an estimated forfeiture rate that we derived from historical employee termination behavior. If the actual number of forfeitures differs from our estimates, additional adjustments to compensation expense may be required in future periods.

RESULTS OF OPERATIONS

Three months ended September 30, 2007 and 2006.

***License and contract revenue*.** License and contract revenue for the three months ended September 30, 2007 and 2006 represents recognition of deferred revenue from the sale of Lisofylline material to Diakine.

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Research and development expenses. Our research and development expenses for compounds under development and discovery research are as follows (in thousands):

	Three Months Ended September 30,	
	2007	2006
Compounds under development:		
XYOTAX	$ 5,955	$ 6,412
Pixantrone	4,585	1,986
Brostallicin	772	
Other compounds	110	239
Operating expenses	6,603	5,508
Discovery research	541	298
Total research and development expenses	$ 18,566	$ 14,443

Costs for compounds under development include external direct expenses such as principal investigator fees, clinical research organization charges and contract manufacturing fees incurred for preclinical, clinical, manufacturing and regulatory activities associated with preparing the compounds for submissions of NDAs or similar regulatory filings to the FDA, EMEA or other regulatory agencies outside the United States and Europe. Operating costs include our personnel and occupancy expenses associated with developing these compounds. Discovery research costs include primarily personnel, occupancy and laboratory expenses associated with the discovery and identification of new drug targets and lead compounds. We do not allocate operating costs to the individual compounds under development as our accounting system does not track these costs by individual compound. As a result, we are not able to capture the total cost of each compound. Direct external costs incurred to date for XYOTAX, pixantrone and brostallicin are approximately $209.0 million, $35.4 million and $0.8 million, respectively. Costs for pixantrone prior to our merger with Novuspharma S.p.A, a public pharmaceutical company located in Italy, or CTI (Europe), in January 2004 are excluded from this amount. Costs for brostallicin prior to our acquisition of SMi on July 31, 2007 are also excluded from this amount.

Research and development expenses increased to approximately $18.6 million for the three months ended September 30, 2007, from approximately $14.4 million for the three months ended September 30, 2006. Costs for our XYOTAX program decreased primarily due to costs associated with our PIONEER trial which was suspended and closed in the fourth quarter of 2006. This decrease was partially offset by start-up costs associated with our PGT307 trial as well as an increase in manufacturing costs. Pixantrone costs increased primarily due to start-up costs associated with our PIX303 trial, as well as an increase in costs associated with our RAPID trial, mainly due to an increase in patient enrollment and costs for comparator drug. These increases were partially offset by a decrease in wrap-up costs for our phase I studies, as well as a decrease in costs associated with our EXTEND trial, primarily related to a decrease in patient enrollment. Costs incurred for brostallicin resulted from our acquisition of SMi in July 2007 and primarily relate to clinical development activities. Operating expenses increased primarily due to an increase in personnel costs, partially offset by a decrease in stock-based compensation expense related to the vesting of options and restricted stock during 2006.

Our lead drug candidates, XYOTAX, pixantrone and brostallicin are currently in clinical trials. Many drugs in human clinical trials fail to demonstrate the desired safety and efficacy characteristics. Even if our drugs progress successfully through initial human testing, they may fail in later stages of development. A number of companies in the pharmaceutical industry, including us, have suffered significant setbacks in advanced clinical trials, even after reporting promising results in earlier trials. Regulatory agencies, including the FDA and EMEA, regulate many aspects of a product candidate s life cycle, including research and development and preclinical and clinical testing. We or regulatory authorities may suspend clinical trials at any time on the basis that the participants are being exposed to unacceptable health risks. Completion of clinical trials depends on, among other things, the number of patients available for enrollment in a particular trial, which is a function of many factors, including the availability and proximity of patients with the relevant condition. We rely on third parties to conduct clinical trials, which may result in delays or failure to complete trials if the third parties fail to perform or meet applicable standards. Many of our drug candidates are still in research and preclinical development, which means that they have not yet been tested on humans. We will need to commit significant time and resources to develop these and additional product candidates.

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Our products will be successful only if:

- our product candidates are developed to a stage that will enable us to commercialize, sell, or license related marketing rights to third parties;
- our product candidates, if developed, are approved.

We will be dependent on the successful completion of these goals in order to generate revenues. The failure to generate such revenues may preclude us from continuing our research and development of these and other product candidates. We also enter into collaboration agreements for the development and commercialization of our product candidates. We cannot control the amount and timing of resources our collaborators devote to product candidates, which may also result in delays in the development or marketing of products.

Because of these risks and uncertainties, we cannot accurately predict when or whether we will successfully complete the development of our product candidates or the ultimate product development cost. We reported XYOTAX STELLAR 3 clinical trial results in March 2005 and STELLAR 2 and 4 results in May 2005, all of which missed their primary endpoints of superior overall survival. Approval in the EU would be targeted approximately 15 months following the submission of an MAA, which is planned for the first half of 2008 based on non-inferiority analyses.

We expect to begin generating revenue from the sale of ZEVALIN in the fourth quarter of 2007, if and when such transaction closes. The closing of that transaction remains subject to closing conditions, including obtaining certain third party consents; in the event that we are not able to complete the transaction, we will not recognize any additional revenue from ZEVALIN. In the event that we are able to complete the acquisition of ZEVALIN, we expect to incur additional costs associated with the relaunch and sales effort of ZEVALIN, as well as additional costs related to additional clinical trials to expand approved indications of ZEVALIN. As a result, any revenue generated by sales of Zevalin will not be enough to support our ongoing research, development, and operations for the next couple of years. We anticipate that funding to support our ongoing research, development and general operations will primarily come from public or private debt or equity financings, collaborations, milestones and licensing opportunities from current or future collaborators.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased to approximately $8.9 million for the three months ended September 30, 2007, from approximately $9.1 million for the three months ended September 30, 2006. This decrease is attributed to a $0.5 million decrease in stock-based compensation expense, a $0.4 million decrease in compensation and benefits primarily due to executive severance and bonus payments made in 2006, a $0.4 million decrease in depreciation and amortization related to assets becoming fully depreciated in 2006 and a $0.3 million decrease in sales and marketing expenses due to a shift in focus to clinical development from pre-marketing activities. These decreases were offset by an increase of approximately $0.9 million related to financial and administrative charges and corporate development activities, including expenses associated with our 2007 shareholder meetings as well as $0.5 million in increased legal expenses primarily related to implementing our corporate compliance program. We expect selling, general and administrative expenses to continue to be consistent in 2007 as compared to 2006.

Acquired in-process research and development. Acquired in-process research and development relates to a one-time non-cash charge recorded in connection with our acquisition of SMi in July 2007. This balance represents the estimated fair value of purchased technology that had not reached technological feasibility and had no alternative future use at the effective time of the acquisition.

Amortization of purchased intangibles. Amortization for the three months ended September 30, 2007 and 2006 is primarily related to the amortization of our assembled workforce asset in CTI (Europe).

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Investment and other income. Investment and other income for the three months ended September 30, 2007 and 2006 was approximately $0.6 million for both periods. This amount remained consistent between periods as our average securities available-for-sale balance and the prevailing interest rates on these investments did not fluctuate significantly between these periods.

Interest expense. Interest expense decreased to approximately $2.5 million for the three months ended September 30, 2007 from approximately $3.6 million for the three months ended September 30, 2006. This change is primarily due to a $0.5 million decrease in the amortization of the debt discount and a $0.3 million decrease in the amortization of debt issuance costs related to the conversion of our 7.5% notes during the three months ended September 30, 2006. In addition, interest expense on our 7.5% notes decreased approximately $0.3 million due to conversions of these notes during the second half of 2006 and the first six months of 2007.

Foreign exchange gain (loss). The foreign exchange activity for the three months ended September 30, 2007 and 2006 is due to fluctuations in foreign currency exchange rates, primarily related to payables denominated in foreign currencies.

Make-whole interest expense. Make-whole interest expense of $0.2 million for the three months ended September 30, 2006 is related to payments made upon the conversion of $0.7 million of our 6.75% notes.

Gain (loss) on derivative liabilities. The gain (loss) on derivative liabilities represents the change in the estimated fair value of our derivative liabilities related to the interest make-whole provisions on our 7.5% and 6.75% notes. The estimated fair value of these derivative liabilities did not change significantly during the three months ended September 30, 2007. During the three months ended September 30, 2006, we recorded a gain of approximately $0.1 million and a loss of approximately $0.9 million related to the derivative liability for our 6.75% and 7.5% notes, respectively.

Minority interest in net loss of subsidiary. Minority interest in net loss of subsidiary was approximately $36,000 for the three months ended September 30, 2007, and represents the minority owner s pro rata allocation of the losses in Aequus Biopharma Inc., or Aequus.

Nine months ended September 30, 2007 and 2006.

License and contract revenue. License and contract revenue for the nine months ended September 30, 2007 and 2006 represents recognition of deferred revenue from the sale of Lisofylline material to Diakine.

Research and development expenses. Our research and development expenses for compounds under development and discovery research are as follows (in thousands):

	Nine Months Ended September 30,	
	2007	2006
Compounds under development:		
XYOTAX	$ 16,631	$ 17,996
Pixantrone	11,493	7,277
Brostallicin	772	
Other compounds	432	794
Operating expenses	19,362	18,217
Discovery research	1,678	1,086
Total research and development expenses	$ 50,368	$ 45,370

Research and development expenses increased to approximately $50.4 million for the nine months ended September 30, 2007, from approximately $45.4 million for the nine months ended September 30, 2006. Costs for our XYOTAX program decreased primarily due to costs associated with our PIONEER trial which was suspended

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and closed in the fourth quarter of 2006. This decrease was partially offset by start-up costs associated with our PGT307 trial as well as an increase in manufacturing costs. Pixantrone costs increased due to an increase in costs associated with our RAPID trial, primarily related to increased patient enrollment and the cost for comparator drug, and start-up costs associated with our PIX303 trial. This increase was partially offset by a decrease in wrap-up costs for our phase I studies. Costs incurred for brostallicin resulted from our acquisition of SMi in July 2007 and primarily relate to clinical development activities. Operating expenses increased primarily due to an increase in personnel costs, partially offset by a decrease in stock based compensation expense.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased to approximately $24.6 million for the nine months ended September 30, 2007, from approximately $27.8 million for the nine months ended September 30, 2006. This decrease is primarily attributed to a $1.4 million decrease in stock-based compensation expense, a $1.4 million decrease related to legal expenses associated with our litigation with Micromet which was settled in April 2006, a $1.0 million decrease in sales and marketing expenses due to a shift in focus to clinical development from pre-marketing activities, a $0.9 million decrease in insurance costs due to decreased premiums, a $0.8 million decrease in depreciation and amortization related to assets becoming fully depreciated in 2006 and a $0.6 million decrease in compensation and benefits primarily related to executive bonus and severance expense in 2006. These decreases were offset by a $1.3 million increase in corporate development costs including an increase in travel expenses related to corporate development activities as well as increases related to strategic and consulting services, a $0.9 million increase in expenses related to our shareholder meetings held in 2007 and certain financial reporting activities and a $0.7 million increase in other legal expenses primarily related to litigation seeking recovery of losses incurred in our litigation with the USAO as well as expenses related to implementing our corporate compliance program.

Acquired in-process research and development. Acquired in-process research and development relates to a one-time non-cash charge recorded in connection with our acquisition of SMi in July 2007. This balance represents the estimated fair value of purchased technology that had not reached technological feasibility and had no alternative future use at the effective time of the acquisition.

Amortization of purchased intangibles. Amortization for the nine months ended September 30, 2007 and 2006 is primarily related to the amortization of our assembled workforce asset in CTI (Europe).

Investment and other income. Investment and other income for the nine months ended September 30, 2007 and 2006 was approximately $2.1 million and $1.8 million, respectively. This increase is due to a higher average securities available-for-sale balance offset slightly by lower prevailing interest rates on our investments during the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006.

Interest expense. Interest expense decreased to approximately $10.1 million for the nine months ended September 30, 2007 from approximately $16.9 million for the nine months ended September 30, 2006. This change is primarily due to a $4.2 million decrease in the amortization of debt issuance costs and a $3.9 million decrease in the amortization of the debt discount related to the conversion of our 6.75% notes during the nine months ended September 30, 2006. In addition, interest expense on our 5.75% convertible subordinated and senior subordinated notes decreased approximately $0.7 million due to exchanges of these notes for our 7.5% notes in April 2006. These decreases were offset by an increase in amortization of the debt discount of $1.7 million on our 7.5% notes primarily due to the conversion of $13.6 million of these notes during the nine months ended September 30, 2007. These conversions resulted in accelerated accretion of the additional debt discount that had been recorded in December 2006. In addition, interest expense on our 6.75% notes increased approximately $0.4 million.

Foreign exchange gain (loss). The foreign exchange gain for the nine months ended September 30, 2007 and 2006 is due to fluctuations in foreign currency exchange rates, primarily related to payables denominated in foreign currencies.

Make-whole interest expense. Make-whole interest expense of $2.3 million for the nine months ended September 30, 2007 is due to payments made related to the conversion of $13.6 million of our 7.5% notes. Make-whole interest expense of $24.8 million for the nine months ended September 30, 2006 is related to payments made upon the conversion of $69.3 million of our 6.75% notes and $7.4 million of our 7.5% notes.

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Gain (loss) on derivative liabilities. The gain on derivative liabilities of $3.6 million for the nine months ended September 30, 2007 represents the change in the estimated fair value of the derivative liabilities related to the interest make-whole provisions on our 7.5% and 6.75% notes of $3.5 million and $0.1 million, respectively. The amount of $5.2 million for the nine months ended September 30, 2006 represents the change in the estimated fair value of the derivative liabilities on our 6.75% and 7.5% notes of $4.1 million and $1.1 million, respectively.

Gain on exchange of convertible notes. During the nine months ended September 30, 2006, we recorded a gain of $8.0 million due to the extinguishment of approximately $40.7 million aggregate principal amount of our 5.75% convertible senior subordinated and convertible subordinated notes in exchange for approximately $33.2 million aggregate principal amount of our 7.5% notes. The gain is net of accrued interest of $0.9 million and issuance costs of $0.4 million attributable to the exchanged notes.

Settlement expense. Settlement expense for the nine months ended September 30, 2007 relates to interest accrued on the $10.5 million payment to the USAO for release of all claims in connection with the investigation of our marketing practices relating to TRISENOX and related matters. Interest was accrued from the date of reaching an agreement in principle with the USAO in the fourth quarter of 2006 and the payment was made in April 2007. Settlement expense for the nine months ended September 30, 2006 relates to the amount due under the settlement of our dispute with Micromet AG in May 2006 and is net of payables previously due to Micromet.

Minority interest in net loss of subsidiary. Minority interest in net loss of subsidiary was approximately $36,000 for the nine months ended September 30, 2007, and represents the minority owner s pro rata allocation of the losses in Aequus.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2007, we had approximately $38.3 million in cash and cash equivalents, securities available-for-sale and interest receivable.

Net cash used in operating activities decreased to approximately $85.0 million during the nine months ended September 30, 2007, compared to approximately $92.1 million for the same period during 2006 primarily due to a decrease in cash paid for interest offset by a decrease in the change in our total operating assets and liabilities and slight increase in our combined research and development and selling, general and administrative expenses. For the nine months ended September 30, 2007, our net loss included $2.3 million in make-whole interest payments related to conversions of our 7.5% notes. For the nine months ended September 30, 2006, our net loss included $24.8 million in make-whole interest payments related to conversions of our 6.75% and 7.5% notes.

Net cash provided by investing activities totaled approximately $10.3 million during the nine months ended September 30, 2007, compared to net cash used in investing activities of approximately $32.5 million for the same period during 2006. The net cash provided by or used in investing activities during these periods was primarily due to the net amount of proceeds from sales and maturities and cash paid for purchases of securities available-for-sale.

Net cash provided by financing activities totaled approximately $72.1 million and $91.0 million during the nine months ended September 30, 2007 and 2006, respectively. The net cash provided by financing activities for the nine months ended September 30, 2007 was primarily due to net proceeds of $18.6 million received from the sale of 20,000 shares of our Series A 3% convertible preferred stock and common stock warrants in February 2007, net proceeds of $34.8 million received from the sale of 37,200 shares of our Series B 3% convertible preferred stock and common stock warrants in April 2007, and net proceeds of $19.0 million received from the sale of 20,250 shares of our Series C 3% convertible preferred stock and common stock warrants in July 2007. The net cash provided by financing activities during the nine months ended September 30, 2006 was primarily due to net proceeds of $37.9 million received from the sale of approximately 23.1 million shares of our common stock in September 2006, $31.2 million received from the issuance of our 7.5% notes as well as $24.7 million in restricted cash related to the issuance of our 6.75% convertible senior notes that was released from escrow upon conversion of a portion of these notes.

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We have prepared our condensed financial statements assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business. We have incurred net losses since inception and we expect to generate losses from operations for at least the next several years primarily due to research and development costs for XYOTAX, pixantrone, brostallicin and CT-2106. We have approximately $55.9 million in principal due on our convertible subordinated and senior subordinated notes in June 2008 and our existing cash and cash equivalents, securities available-for-sale and interest receivable is not sufficient to repay these notes and to fund our planned operations for the next twelve months. While we plan to restructure these notes, we may be unable to do this on favorable terms or at all. These factors, among others, raise substantial doubt about our ability to continue as a going concern. We will also need to raise additional funds and are currently exploring alternative sources of equity or debt financing. While we have a 60 million (approximately $80 million) Step-Up Equity Financing Agreement with Société Générale which we may be able to utilize to provide additional equity funding, access to that funding depends in part on complying with certain Italian regulations; even if we are able to comply with such regulations, additional funding may not be available on favorable terms or at all. If additional funds are raised by issuing equity securities, substantial dilution to existing shareholders may result. If we fail to obtain additional capital when required, we may be required to delay, scale back, or eliminate some or all of our research and development programs.

Periodically, we may receive certain grants and subsidized loans from the Italian government and the EU through CTI (Europe). However, to date such grants have not been significant and we may not receive such funding because the grants and subsidies are awarded at the discretion of the relevant authorities. In addition, our future capital requirements will depend on many factors, including:

- results of our clinical trials;
- success in acquiring or divesting products, technologies or businesses;
- progress in and scope of our research and development activities; and
- competitive market developments.

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

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The following table includes information relating to our contractual obligations as of September 30, 2007 (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
7.5% Convertible senior notes (1)	$ 33,458	$	$	$ 33,458	$
6.75% Convertible senior notes (2)	7,000			7,000	
5.75% Convertible senior subordinated notes (3)	27,407	27,407			
4.0% Convertible senior subordinated notes (4)	55,150		55,150		
5.75% Convertible subordinated notes (5)	28,490	28,490			
Interest on convertible notes	18,792	7,468	9,826	1,498	
Operating leases:					
Facilities	30,252	6,798	11,412	10,734	1,308
Long term obligations (6)	2,437	669	812	956	
	$ 202,986	$ 70,832	$ 77,200	$ 53,646	$ 1,308

(1) The 7.5% convertible senior notes are convertible into shares of CTI common stock at a conversion rate of approximately 119.6298 shares of common stock per $1,000 principal amount of the notes, which is equivalent to a conversion price of approximately $8.36 per share.

(2) The 6.75% convertible senior notes are convertible into shares of CTI common stock at a conversion rate of approximately 95.0925 shares of common stock per $1,000 principal amount of the notes, which is equivalent to a conversion price of approximately $10.52 per share.

(3) The 5.75% convertible senior subordinated notes are convertible into shares of CTI common stock at a conversion rate of approximately 25 shares of common stock per $1,000 principal amount of the notes, which is equivalent to a conversion price of $40.00 per share.

(4) The 4.0% convertible senior subordinated notes are convertible into shares of CTI common stock at a conversion rate of approximately 18.5185 shares of common stock per $1,000 principal amount of the notes, which is equivalent to a conversion price of approximately $54.00 per share.

(5) The 5.75% convertible subordinated notes are convertible into shares of CTI common stock at a conversion rate of approximately 7.353 shares of common stock per $1,000 principal amount of the notes, which is equivalent to a conversion price of approximately $136.00 per share.

(6) Long-term obligations do not include $2.1 million related to excess facilities charges and $1.1 million recorded as a long-term obligation for benefits owed to our Italian employees pursuant to Italian Law. The timing of the payments related to this obligation is unknown as the benefit is paid upon an employee s separation from the Company.

The remaining amount of milestone payments we may be required to pay pursuant to the amended agreement with PG-TXL Company L.P. is $14.9 million. The timing of these payments is based on trial commencements and completions and regulatory and marketing approval with the FDA and EMEA.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Market Risk

We are exposed to market risk related to changes in interest rates that could adversely affect the value of our investments. We maintain a short-term investment portfolio consisting of interest bearing securities with an average maturity of less than one year. These securities are classified as available-for-sale . These securities are interest bearing and thus subject to interest rate risk and will fall in value if market interest rates increase. Since we generally hold our fixed income investments until maturity, we do not expect our operating results or cash flows to be affected significantly by a sudden change in market interest rates related to our securities portfolio. The fair value of our securities available-for-sale at September 30, 2007 and December 31, 2006 was $26.3 million and $36.7 million, respectively. For each one percent change in interest rates, the fair value of our securities available-for-sale would change by approximately $122,000 and $135,000 as of September 30, 2007 and December 31, 2006, respectively.

Foreign Exchange Market Risk

We are exposed to risks associated with foreign currency transactions insofar as we use U.S. dollars to make contract payments denominated in euros or vice versa. As the net positions of our unhedged foreign currency transactions fluctuate, our earnings might be negatively affected. In addition, we are exposed to risks associated with the translation of euro-denominated financial results and accounts into U.S. dollars. Although our reporting currency remains the U.S. dollar, a significant portion of our consolidated costs now arise in euros, which we translate into U.S. dollars for purposes of financial reporting, based on exchange rates prevailing during the applicable reporting period. In addition, the reported carrying value of our euro-denominated assets and liabilities will be affected by fluctuations in the value of the U.S. dollar as compared to the euro. Accordingly, changes in the value of the U.S. dollar relative to the euro might have an adverse effect on our reported results of operations and financial condition, and fluctuations in exchange rates might harm our reported results and accounts from period to period.

We have foreign exchange risk related to foreign-denominated cash and cash equivalents and interest receivable (foreign funds). Based on the balance of foreign funds at September 30, 2007 of $3.7 million, an assumed 5%, 10% and 20% negative currency exchange movement would result in fair value declines of $0.2 million, $0.4 million and $0.7 million.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our President and Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our President and Chief Executive Officer and our Chief Financial Officer have concluded that the Company did maintain effective disclosure controls and procedures.

Remediation of Material Weaknesses

During the nine months ended September 30, 2007, to remedy the material weaknesses in our internal control over financial reporting described in our Annual Report on Form 10-K for the period ended December 31, 2006, we implemented enhanced review and approval procedures that are designed to help ensure we accurately record accounts payable and accrued expense balances in CTI (Europe), and trained personnel in key finance positions in CTI (Europe) regarding the enhanced procedures and appropriate levels of oversight and review. These revised control processes have been operating for a sufficient period of time and have been tested to provide management with reasonable assurance as to their effectiveness. Although management believes the material weaknesses mentioned above have been remediated, we will continue to monitor the effectiveness of the revised procedures.

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(b) Changes in Internal Control over Financial Reporting

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

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In April 2007, we entered into a settlement agreement with the United States Attorney s Office, or USAO, for the Western District of Washington arising out of their investigation into certain of our prior marketing practices relating to TRISENOX, which was divested to Cephalon, Inc. in July 2005. We have also entered into a corporate integrity agreement with the HHS-OIG that requires us to establish a compliance committee and compliance program and adopt a formal code of conduct. The USAO settlement agreement disclaimed any admission of wrongdoing by the Company, and it does not address separate claims brought against the Company by the private party plaintiff in such matters, which generally relate to attorney s fees and employment related claims. The private party plaintiff s wrongful termination claims have been dismissed by the federal district court with prejudice.

On January 22, 2007, we filed a complaint in King County Washington Superior Court against The Lash Group, Inc. and Documedics Acquisition Co., Inc., our former third party reimbursement expert, seeking recovery of damages, including losses incurred by the Company in connection with our above referenced USAO investigation, defense and settlement of claims by the government concerning Medicare reimbursement for TRISENOX. On February 28, 2007, defendant The Lash Group, Inc. removed the case to federal court in the Western District of Washington.

Item 1A. Risk Factors

Factors Affecting Our Operating Results and Financial Condition

We expect to continue to incur net losses, and we might never achieve profitability.

We were incorporated in 1991 and have incurred a net operating loss every year. As of September 30, 2007, we had an accumulated deficit of approximately $1,070.4 million. We are pursuing regulatory approval for XYOTAX, pixantrone and brostallicin and will need to conduct research, development, testing and regulatory compliance activities, expenses which, together with projected general and administrative expenses, will result in operating losses for the foreseeable future. We may never become profitable, even if we are able to commercialize products currently in development or otherwise.

We have a substantial amount of debt.

We have a substantial amount of debt outstanding, and our annual interest expense with respect to our debt is significant. Unless we generate substantial sales from one of our potential products or raise substantial additional capital, we may not be able to repay this debt or the interest, liquidated damages or other payments that may become due with respect to our debt. Prior to this debt becoming due, we may engage in one or more restructuring transactions which could involve, among other things, an effective increase in interest rates, alteration of terms or exchanges involving the issuance of additional shares of common stock or other arrangements which may dilute or be adverse to the value of our common stock.

We expect to need to raise additional funds in the near future, and they may not be available on acceptable terms, or at all.

Since the beginning of 2007, we have sold shares of our Series A 3% convertible preferred stock, Series B 3% convertible preferred stock and Series C 3% convertible preferred stock in three separate offerings, pursuant to which we raised an aggregate of approximately $77.5 million in gross proceeds. However, we expect that our existing cash and cash equivalents, securities available for sale and interest receivable, including amounts received from the preferred stock issuances, will not be sufficient to fund our operations at current levels for the next twelve months and accordingly, we expect that we will need to raise additional funds. We are exploring alternatives to raise additional capital through public or private equity financings, partnerships, debt financings, bank borrowings or other sources, including but not limited to the Step-Up Equity Financing Agreement we entered into with Société Générale in June 2006. In particular, we will need to raise additional funds to complete the additional clinical trials for

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XYOTAX, pixantrone and brostallicin, to complete our anticipated acquisition of ZEVALIN from BIIB, which we expect will close in the fourth quarter of 2007 and, if that transaction is successfully consummated, to fund additional clinical trials for ZEVALIN in the future.

We may raise such capital through public or private equity financings, partnerships, debt financings or restructurings, bank borrowings or other sources. Additional funding may not be available on favorable terms or at all. If adequate funds are not otherwise available, we will further curtail operations significantly, including the delay, modification or cancellation of operations and plans related to XYOTAX, pixantrone, brostallicin and other products we may be developing. To obtain additional funding, we may need to enter into arrangements that require us to relinquish rights to certain technologies, drug candidates, products and/or potential markets. In addition, some financing alternatives, such as the Step-Up Equity Financing Agreement, may require us to meet additional regulatory requirements in Italy and the U.S., which may increase our costs and adversely affect our ability to obtain financing. To the extent that additional capital is raised through the sale of equity, or securities convertible into equity, shareholders may experience dilution of their proportionate ownership of us.

We may not receive the regulatory approvals required for us to raise funds using the Step-Up Equity Financing Agreement.

In June 2006, we announced that we had entered into a Step-Up Equity Financing Agreement with Société Générale, pursuant to which we had the option, subject to the satisfaction of certain conditions, to issue shares of our common stock to Société Générale. We are required to file and obtain an authorization for the publication of an Italian Listing Prospectus prior to being able to issue the number of shares that would be necessary under this agreement to access an adequate amount of the credit line, and any delays or restrictions relating to this could potentially impair our ability to raise funds through this agreement. We initially filed such prospectus with Commissione Nazionale per la Societa e la Borsa (CONSOB, one of the Italian authorities that regulate companies listed on Italy s public markets) in April 2007 and are continuing to work with them to have it published. We will not be able to raise funds by issuing shares to Société Générale pursuant to this agreement if we are unable to comply with Italian regulations on the sale of our common stock under this agreement, and we may be unable to raise necessary funds from other sources.

We may be unable to obtain a quorum for meetings of our shareholders and therefore unable to take certain corporate actions.

Our bylaws require that a quorum, consisting of a majority of the outstanding shares of voting stock, be represented in person or by proxy in order to transact business at a meeting of our shareholders. A quorum was not present at either of our scheduled annual meetings of shareholders in 2006. While we were able to obtain quorum at a special meeting of shareholders on April 10, 2007 and at our annual shareholders meeting on September 25, 2007, we may be unable to obtain quorum at future annual or special meetings of shareholders. If we are unable to obtain a quorum at our shareholder meetings and thus fail to get shareholder approval of corporate actions, such failure could have a materially adverse effect on the Company. It is possible that even if we are able to obtain a quorum for our meetings of the shareholders we may still not receive enough votes to approve proxy proposals presented at such meeting and, depending on the proposal in question, such failure could have a materially adverse effect on the Company.

We could fail in financing efforts if we fail to receive shareholder approval when needed.

We are required under the Nasdaq Marketplace Rules to obtain shareholder approval for any issuance of additional equity securities that would comprise more than 20% of our total shares of common stock outstanding before the issuance of the securities at a discount to the greater of book or market value in an offering that is not deemed to be a public offering by Nasdaq. Funding of our operations in the future may require shareholder approval for purposes of complying with the Nasdaq Marketplace Rules. We could require such approval to raise additional funds, but might not be successful in obtaining any such required shareholder approval.

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We are required to comply with the regulatory structure of Italy because our stock is traded on the MTAX, which could result in administrative challenges.

Our stock is traded on the MTAX stock market in Milan, Italy and we are required to also comply with the rules and regulations of CONSOB and Borsa Italiana, which collectively regulate companies listed on Italy s public markets. Conducting our operations in a manner that complies with all applicable laws and rules requires us to devote additional time and resources to regulatory compliance matters. For example, the process of seeking to understand and comply with the laws of each country, including tax, labor and regulatory laws, might require us to incur the expense of engaging additional outside counsel, accountants and other professional advisors and might result in delayed business initiatives as we seek to ensure that each new initiative will comply with all regulatory regimes. Compliance with Italian listing requirements may delay additional issuances of our common stock; we are currently taking appropriate steps to conform to the requirements of the Italian stock exchange and CONSOB to allow such additional issuances.

We have identified material weaknesses in our internal control over financial reporting and we have received an adverse opinion on internal control over financial reporting from our independent registered public accounting firm in connection with their annual internal control attestation process.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We identified that as of December 31, 2006 we had the following material weaknesses relative to the effectiveness of our internal control over financial reporting:

- We did not maintain an effective review and approval process in CTI (Europe) to ensure the accuracy of accounts payable and accrued expenses for certain activities shared by headquarters and CTI (Europe) in conformity with generally accepted accounting principles.

- We did not maintain effective internal controls related to the financial reporting process to detect errors that are not identified by the process level controls in CTI (Europe).

During the first nine months of 2007, to remedy the material weaknesses in our internal control over financial reporting, we implemented enhanced review and approval procedures that are designed to help ensure we accurately record accounts payable and accrued expense balances in CTI (Europe), and trained personnel in key finance positions in CTI (Europe) regarding the enhanced procedures and appropriate levels of oversight and review.

The existence of a material weakness is an indication that there is more than a remote likelihood that a material misstatement of our financial statements will not be prevented or detected in the current or any future period. If we fail to maintain an effective system of internal controls, we may not be able to report our financial results accurately, which may cause investors to lose confidence in our reported financial information and have an adverse effect on the trading price of our common stock.

If we are not able to successfully identify and complete valuable acquisition opportunities, we may not achieve the anticipated growth we would otherwise achieve were such acquisitions accomplished.

We currently plan to further expand our product portfolio through acquisitions of other complementary businesses or technologies or marketed products. For example, in July 2007, we acquired SMi, a privately held oncology company, and gained worldwide rights to brostallicin, a DNA minor groove binding agent with proven anti-tumor activity which is currently in phase II clinical studies. Additionally, in August 2007, we entered into an asset purchase agreement with BIIB for the purchase of ZEVALIN for development, marketing and sale in the United States. The transaction, which is expected to close in the fourth quarter of 2007, has been approved by our board of directors and the board of directors of BIIB and is subject to customary closing conditions, including receipt of third party consents. Mergers and acquisitions are inherently risky, and we cannot assure you that we will be able to complete these acquisitions or that our acquisitions will be successful. The successful execution of our acquisition strategy will depend on our ability to identify, negotiate, complete and integrate such acquisitions and, if necessary, obtain satisfactory debt or equity financing to fund those acquisitions. Failure to manage and successfully integrate acquired businesses could harm our business.

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If we are not able to successfully integrate recent and future acquisitions, our management s attention could be diverted, and efforts to integrate future acquisitions could consume significant resources.

The acquisition of SMi, and if successful, the acquisition of ZEVALIN or any other future acquisition that we may undertake, will also involve numerous risks related to the integration of the acquired asset or entity into the Company after the acquisition is completed. These risks include the following:

- difficulties in integrating the operations, technologies, and products of the acquired companies;
- diversion of management s attention from normal daily operations of the business;
- inability to maintain the key business relationships and the reputations of acquired businesses;
- entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;
- dependence on unfamiliar affiliates and partners;
- reduction in the development or commercialization of existing products due to increased focus on the development or commercialization of the acquired products;
- responsibility for the liabilities of acquired businesses;
- inability to maintain our internal standards, controls, procedures and policies at the acquired companies or businesses; and
- potential loss of key employees of the acquired companies.

In addition, if we finance or otherwise complete acquisitions by issuing equity or convertible debt securities, our existing shareholders may be diluted.

If we are unable to complete the acquisition of ZEVALIN there may be adverse effects on our financial and operating results.

As discussed above, the completion of the ZEVALIN acquisition is subject to customary closing conditions, including receipt of third party consents. We cannot be assured that all closing conditions will be satisfied. Failure to complete the acquisition would prevent us from realizing the anticipated benefits of the transaction, including the ability to generate revenue from the commercial sale of ZEVALIN. In addition, substantial cost will have been incurred in connection with the transaction, which will produce little or no benefit if the acquisition is not completed. These factors may adversely affect our financial and operating results as well as the trading price of our common stock.

If we are unable to expand label usage of ZEVALIN, we may not recognize the full value of the asset and there may be adverse effects on our expected financial and operating results.

In the event that we are able to complete the acquisition of ZEVALIN, we intend to seek expansion of the approved uses, or labeled uses, of ZEVALIN. However, there can be no guarantee that we will be able to get approval for such label expansion in full or in part. If we are not able to obtain approval for expansion of the labeled uses for ZEVALIN, or if we are otherwise unable to fulfill our marketing, sales and distribution plans for ZEVALIN, we may not recognize the full anticipated value of ZEVALIN, in which case we may not achieve our anticipated financial

and operating results.

We may not realize any royalties, milestone payments or other benefits under the License and Co-Development agreement entered into with Novartis Pharmaceutical Company Ltd.

We have entered into a License and Co-Development agreement related to XYOTAX and pixantrone with Novartis International Pharmaceutical Ltd., or Novartis, pursuant to which Novartis received an exclusive worldwide license for the development and commercialization of XYOTAX and an option to enter into an exclusive worldwide license to develop and commercialize pixantrone. We will not receive any royalty or milestone payments under this agreement unless Novartis elects to participate in the development and commercialization of XYOTAX or if Novartis exercises its option related to pixantrone and we are able to reach a definitive agreement. Novartis is under no obligation to make such election or exercise such right and may never do so. In addition, even if Novartis exercises such rights, any royalties and milestone payments we may be eligible to receive from Novartis are subject to the receipt of the necessary regulatory approvals and the attainment of certain sales levels. We may never receive the necessary regulatory approvals and our products may not reach the necessary sales levels.

We may be delayed, limited or precluded from obtaining regulatory approval of XYOTAX given that our three STELLAR phase III clinical trials for the treatment of non-small cell lung cancer did not meet their primary endpoints.

In March 2005, we announced the results of STELLAR 3, and in May 2005, we announced the results of STELLAR 2 and 4, our phase III clinical trials of XYOTAX in non-small cell lung cancer. All three trials did not achieve their primary endpoints of superior overall survival compared to current marketed agents for treating NSCLC. Preclinical and clinical data can be interpreted in different ways, which could delay, limit or preclude regulatory approval. Negative or inconclusive results or adverse medical events during a clinical trial could delay, limit or prevent regulatory approval. Our success depends in large part on obtaining regulatory approval of XYOTAX.

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In December 2006, we closed the PIONEER clinical trial and in 2007, we initiated a new study, PGT307, which focuses on the primary efficacy endpoint of survival in women with NSCLC and pre-menopausal estrogen levels. We have decided not to initiate an additional study, the PGT306 trial, for which we have submitted a special protocol assessment, or SPA, because we believe that compelling evidence from the PGT307 trial, along with supporting evidence from earlier clinical trials, may be adequate to submit an NDA. We may not receive compelling evidence or any positive results from the PGT307 trial, which would preclude our planned submission of an NDA.

Based on discussions with the EMEA Scientific Advice Working Party, we plan to submit an MAA in Europe based on results of the STELLAR trials, specifically the STELLAR 4 trial, however a successful regulatory outcome from the EMEA is not assured as the EMEA s final opinion cannot be predicted until they have had the opportunity to complete a thorough review of the clinical data that will be presented in the MAA.

We are subject to extensive government regulation.

We are subject to rigorous and extensive regulation by the FDA in the United States and by comparable agencies in other states and countries. Failure to comply with regulatory requirements could result in various adverse consequences, including possible delay in approval or refusal to approve a product, withdrawal of approved products from the market, product seizures, injunctions, monetary penalties, or criminal prosecution.

Our products may not be marketed in the United States until they have been approved by the FDA and may not be marketed in other countries until they have received approval from the appropriate agencies. None of our current products have received approval. Obtaining regulatory approval requires substantial time, effort and financial resources, and we may not be able to obtain approval of any of our products on a timely basis, or at all. If our products are not approved in a timely fashion, our business and financial condition may be adversely affected.

In addition, both before and after approval, our contract manufacturers and our products are subject to numerous FDA requirements covering, among other things, testing, manufacturing, quality control, labeling, advertising, promotion, distribution and export. Manufacturing processes must conform to current Good Manufacturing Practice, or cGMPs. The FDA and other regulatory authorities periodically inspect manufacturing facilities to assess compliance with cGMPs. Accordingly, manufacturers must continue to expend time, money and effort to maintain compliance.

The marketing and promotion of pharmaceuticals is also heavily regulated, particularly with regard to prohibitions on the promotion of products for off-label uses. In April 2007, we entered into a settlement agreement with the United States Attorney s Office, or USAO, for the Western District of Washington arising out of their investigation into certain of our prior marketing practices relating to TRISENOX, which was divested to Cephalon Inc. in July 2005. As part of that settlement agreement, and in anticipation of potentially acquiring ZEVALIN, a commercially approved drug, we also entered into a corporate integrity agreement with the HHS-OIG that requires us to establish a compliance committee and compliance program and adopt a formal code of conduct. The USAO settlement does not address separate claims brought against the Company by the private party plaintiff in such matters, which generally relate to attorney s fees and employment related claims.

Additionally, we are subject to numerous regulations and statutes regulating the manner of selling and obtaining reimbursement for our products that receive marketing approval. For example, federal statutes generally prohibit providing certain discounts and payments to physicians to encourage them to prescribe our product. Violations of such regulations or statutes may result in treble damages, criminal or civil penalties, fines or exclusion of CTI or our employees from participation in federal and state healthcare programs. Although we have policies prohibiting violations of relevant regulations and statutes, unauthorized actions of our employees or consultants (including unlawful off-label promotion), or unfavorable interpretations of such regulations or statutes may result in third-parties or regulatory agencies bringing legal proceedings or enforcement actions against us.

We face direct and intense competition from our competitors in the biotechnology and pharmaceutical industries, and we may not compete successfully against them.

Competition in the oncology market is intense and is accentuated by the rapid pace of technological development. We anticipate that we will face increased competition in the future as new companies enter the market.

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Our competitors in the United States and elsewhere are numerous and include, among others, major multinational pharmaceutical companies, specialized biotechnology companies and universities and other research institutions. Specifically:

- If we are successful in bringing XYOTAX to market, we will face direct competition from oncology-focused multinational corporations. XYOTAX will compete with other taxanes. Many oncology-focused multinational corporations currently market or are developing taxanes, epothilones, and other cytotoxic agents, which inhibit cancer cells by a mechanism similar to taxanes, or similar products including, among others, Bristol-Myers Squibb Co., which markets paclitaxel; Aventis, which markets docetaxel; Genentech and OSI Pharmaceuticals, which markets Tarceva ; Genentech, which markets Avastin , Lilly, which markets Alimta, and American Pharmaceutical Partners, which markets Abraxane . In addition, other companies such as NeoPharm Inc. and Telik, Inc. are also developing products which could compete with XYOTAX.

- Because pixantrone is intended to provide less toxic treatment to patients who have failed standard chemotherapy treatment, if pixantrone is brought to market, it is not expected to compete directly with many existing chemotherapies. However, pixantrone will face competition from currently marketed anthracyclines, such as mitoxantrone (Novantrone®), and new anti-cancer drugs with reduced toxicity that may be developed and marketed.

- If we are successful in bringing brostallicin to market, we will face direct competition from other minor groove binding agents including, Yondelis®, which is currently developed by PharmaMar and has received Authorization of Commercialization from the European Commission for soft tissue sarcoma.

Many of our competitors, either alone or together with their collaborators and in particular, the multinational pharmaceutical companies, have substantially greater financial resources and development and marketing teams than us. In addition, many of our competitors, either alone or together with their collaborators, have significantly greater experience than we do in developing, manufacturing and marketing products. As a result, these companies products might come to market sooner or might prove to be more effective, less expensive, have fewer side effects or be easier to administer than ours. In any such case, sales of our products or eventual products would likely suffer and we might never recoup the significant investments we are making to develop these product candidates.

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

The ongoing efforts of governmental and third-party payors to contain or reduce the cost of healthcare may affect our ability to commercialize our products successfully. Governmental and other third-party payors continue to attempt to contain healthcare costs by:

- challenging the prices charged for health care products and services,

- limiting both coverage and the amount of reimbursement for new therapeutic products,

- denying or limiting coverage for products that are approved by the FDA but are considered experimental or investigational by third-party payors,

- refusing in some cases to provide coverage when an approved product is used for disease indications in a way that has not received FDA marketing approval, and

- denying coverage altogether.

The trend toward managed healthcare in the United States, the growth of organizations such as health maintenance organizations, and legislative proposals to reform healthcare and government insurance programs could significantly influence the purchase of healthcare services and

products, resulting in lower prices and reducing demand for our products. In addition, in almost all European markets, pricing and choice of prescription pharmaceuticals are subject to governmental control. Therefore, the price of our products and their reimbursement in Europe will be determined by national regulatory authorities.

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Even if we succeed in bringing any of our proposed products to the market, they may not be considered cost-effective and third-party reimbursement might not be available or sufficient. If adequate third-party coverage is not available, we may not be able to maintain price levels sufficient to realize an appropriate return on our investment in research and product development. In addition, legislation and regulations affecting the pricing of pharmaceuticals may change in ways adverse to us before or after any of our proposed products are approved for marketing.

Even if our drug candidates are successful in clinical trials, we may not be able to successfully commercialize them.

Since our inception in 1991, we have dedicated substantially all of our resources to the research and development of our technologies and related compounds. All of our compounds currently are in research or development, and none have been submitted for marketing approval.

Prior to commercialization, each product candidate requires significant research, development and preclinical testing and extensive clinical investigation before submission of any regulatory application for marketing approval. The development of anti-cancer drugs, including those we are currently developing, is unpredictable and subject to numerous risks. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons including that they may:

be found ineffective or cause harmful side effects during preclinical testing or clinical trials,

fail to receive necessary regulatory approvals,

be difficult to manufacture on a scale necessary for commercialization,

be uneconomical to produce,

fail to achieve market acceptance, or

be precluded from commercialization by proprietary rights of third parties.

The occurrence of any of these events could adversely affect the commercialization of our products. Products, if introduced, may not be successfully marketed and/or may not achieve customer acceptance. If we fail to commercialize products or if our future products do not achieve significant market acceptance, we will not likely generate significant revenues or become profitable.

If any of our license agreements for intellectual property underlying XYOTAX, pixantrone, brostallicin, or any other products are terminated, we may lose our rights to develop or market that product.

We have licensed intellectual property, including patent applications from The University of Vermont, Hoffman La Roche and others, including the intellectual property relating to pixantrone. We have also in-licensed the intellectual property relating to our drug delivery technology that uses polymers that are linked to drugs, known as polymer-drug conjugates, including XYOTAX and CT-2106. Some of our product development programs depend on our ability to maintain rights under these licenses. Each licensor has the power to terminate its agreement with us if we fail to meet our obligations under these licenses. We may not be able to meet our obligations under these licenses. If we default under any license agreements, we may lose our right to market and sell any products based on the licensed technology.

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

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

obtain patent protection for our products or processes both in the United States and other countries,

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protect trade secrets, and

prevent others from infringing on our proprietary rights.

When polymers are linked, or conjugated, to drugs, the results are referred to as polymer-drug conjugates. We are developing drug delivery technology that links chemotherapy to biodegradable polymers. For example, XYOTAX is paclitaxel, the active ingredient in Taxol®, one of the world s best selling cancer drugs, linked to polyglutamate. We may not receive a patent for all of our polymer-drug conjugates and we may be challenged by the holder of a patent covering the underlying drug and/or methods for its use or manufacture.

The patent position of biopharmaceutical firms generally is highly uncertain and involves complex legal and factual questions. The U.S. Patent and Trademark Office has not established a consistent policy regarding the breadth of claims that it will allow in biotechnology patents. If it allows broad claims, the number and cost of patent interference proceedings in the United States and the risk of infringement litigation may increase. If it allows narrow claims, the risk of infringement may decrease, but the value of our rights under our patents, licenses and patent applications may also decrease. Patent applications in which we have rights may never issue as patents and the claims of any issued patents may not afford meaningful protection for our technologies or products. In addition, patents issued to us or our licensors may be challenged and subsequently narrowed, invalidated or circumvented. Litigation, interference proceedings or other governmental proceedings that we may become involved in with respect to our proprietary technologies or the proprietary technology of others could result in substantial cost to us. Patent litigation is widespread in the biotechnology industry, and any patent litigation could harm our business. Costly litigation might be necessary to protect a patent position or to determine the scope and validity of third-party proprietary rights, and we may not have the required resources to pursue any such litigation or to protect our patent rights. Any adverse outcome in litigation with respect to the infringement or validity of any patents owned by third parties could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us to cease using a product or technology.

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

Our products could infringe on the intellectual property rights of others, which may cause us to engage in costly litigation and, if unsuccessful, could cause us to pay substantial damages and prohibit us from selling our products.

We attempt to monitor patent filings but have not conducted an exhaustive search for patents that may be relevant to our products and product candidates in an effort to guide the design and development of our products to avoid infringement. We may not be able to successfully challenge the validity of these patents and could have to pay substantial damages, possibly including treble damages, for past infringement and attorneys fees if it is ultimately determined that our products infringe a third party s patents. Further, we may be prohibited from selling our products before we obtain a license, which, if available at all, may require us to pay substantial royalties. Moreover, third parties may challenge the patents that have been issued or licensed to us. Even if infringement claims against us are without merit, or if we challenge the validity of issued patents, lawsuits take significant time, may be expensive and may divert management attention from other business concerns.

We may be unable to obtain the raw materials necessary to produce our XYOTAX product candidate in sufficient quantity to meet demand when and if such product is approved.

We may not be able to continue to purchase the materials necessary to produce XYOTAX, including paclitaxel, in adequate volume and quality. Paclitaxel is derived from certain varieties of yew trees and the supply of paclitaxel is controlled by a limited number of companies. Paclitaxel is available and we have purchased it from several sources. We purchase the raw materials paclitaxel and polyglutamic acid from a single source on a purchase order

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basis. Should the paclitaxel or polyglutamic acid purchased from our sources prove to be insufficient in quantity or quality, should a supplier fail to deliver in a timely fashion or at all, or should these relationships terminate, we may not be able to obtain a sufficient supply from alternate sources on acceptable terms, or at all.

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

We do not currently have internal analytical laboratory or manufacturing facilities to allow the testing or production of drug products in compliance with cGMPs. Because we do not directly control our suppliers, these vendors may not be able to provide us with finished product when we need it.

We will be dependent upon these third parties to supply us in a timely manner with products manufactured in compliance with cGMPs or similar manufacturing standards imposed by foreign regulatory authorities where our products will be tested and/or marketed. While the FDA and other regulatory authorities maintain oversight for cGMP compliance of drug manufacturers, contract manufacturers may at times violate cGMPs. The FDA and other regulatory authorities may take action against a contract manufacturer who violates cGMPs. One of our products under development, XYOTAX, has a complex manufacturing process, which may prevent us from obtaining a sufficient supply of drug product for the clinical trials and commercial activities currently planned or underway on a timely basis, if at all. The active pharmaceutical ingredients and finished products for pixantrone and brostallicin are both manufactured by a single vendor.

If we do not successfully develop additional products, we may be unable to generate significant revenue or become profitable.

We divested our sole commercial product, TRISENOX, in July 2005. XYOTAX, pixantrone, brostallicin and CT-2106 are currently in clinical trials and may not be successful. For example, our STELLAR phase III clinical trials for XYOTAX for the treatment of non-small cell lung cancer failed to meet their primary endpoints. A number of companies in the pharmaceutical industry, including us, have suffered significant setbacks in advanced clinical trials, even after reporting promising results in earlier trials. We will need to commit significant time and resources to develop this and additional product candidates. Our product candidates will be successful only if:

- our product candidates are developed to a stage that will enable us to commercialize them or sell related marketing rights to pharmaceutical companies;
- we are able to commercialize product candidates in clinical development or sell the marketing rights to third parties; and
- our product candidates, if developed, are approved by the regulatory authorities.

We are dependent on the successful completion of these goals in order to generate revenues. The failure to generate such revenues may preclude us from continuing our research and development of these and other product candidates.

If we are unable to enter into new licensing arrangements, our future product portfolio and potential profitability could be harmed.

One component of our business strategy is in-licensing drug compounds developed by other pharmaceutical and biotechnology companies or academic research laboratories. Substantially all of our product candidates in clinical development are in-licensed from a third party, including XYOTAX, pixantrone, brostallicin and CT-2106.

Competition for new promising compounds and commercial products can be intense. If we are not able to identify future in-licensing opportunities and enter into future licensing arrangements on acceptable terms, our future product portfolio and potential profitability could be harmed.

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We may take longer to complete our clinical trials than we expect, or we may not be able to complete them at all.

Before regulatory approval for any potential product can be obtained, we must undertake extensive clinical testing on humans to demonstrate the safety and efficacy of the product. Although for planning purposes we forecast the commencement and completion of clinical trials, the actual timing of these events can vary dramatically due to a number of factors.

We may not obtain authorization to permit product candidates that are already in the preclinical development phase to enter the human clinical testing phase. Authorized preclinical or clinical testing may not be completed successfully within any specified time period by us, or without significant additional resources or expertise to those originally expected to be necessary. Many drugs in human clinical trials fail to demonstrate the desired safety and efficacy characteristics. Clinical testing may not show potential products to be safe and efficacious and potential products may not be approved for a specific indication. Further, the results from preclinical studies and early clinical trials may not be indicative of the results that will be obtained in later-stage clinical trials. Data obtained from clinical trials are susceptible to varying interpretations. Government regulators and our collaborators may not agree with our interpretation of our clinical trial results. In addition, we or regulatory authorities may suspend clinical trials at any time on the basis that the participants are being exposed to unacceptable health risks or for other reasons. Completion of clinical trials depends on, among other things, the number of patients available for enrollment in a particular trial, which is a function of many factors, including the number of patients with the relevant conditions, the nature of the clinical testing, the proximity of patients to clinical testing centers, the eligibility criteria for tests as well as competition with other clinical testing programs involving the same patient profile but different treatments.

We have limited experience in conducting clinical trials. We expect to continue to rely on third parties, such as contract research organizations, academic institutions and/or cooperative groups, to conduct, oversee and monitor clinical trials as well as to process the clinical results and manage test requests, which may result in delays or failure to complete trials, if the third parties fail to perform or to meet the applicable standards.

If we fail to commence or complete, need to perform more or larger clinical trials than planned or experience delays in any of our present or planned clinical trials, our development costs may increase and/or our ability to commercialize our product candidates may be adversely affected. If delays or costs are significant, our financial results and our ability to commercialize our product candidates may be adversely affected.

If we fail to establish and maintain collaborations or if our partners do not perform, we may be unable to develop and commercialize our product candidates.

We have entered into collaborative arrangements with third-parties to develop and/or commercialize product candidates and are currently seeking additional collaborations. For example, we entered into an agreement with the Gynecologic Oncology Group to perform a phase III trial of XYOTAX in patients with ovarian cancer. Additional collaborations might be necessary in order for us to fund our research and development activities and third-party manufacturing arrangements, seek and obtain regulatory approvals and successfully commercialize our existing and future product candidates. If we fail to enter into additional collaborative arrangements or fail to maintain our existing collaborative arrangements, the number of product candidates from which we could receive future revenues would decline.

Our dependence on collaborative arrangements with third parties will subject us to a number of risks that could harm our ability to develop and commercialize products, including that:

- collaborative arrangements may not be on terms favorable to us;
- disagreements with partners may result in delays in the development and marketing of products, termination of our collaboration agreements or time consuming and expensive legal action;
- we cannot control the amount and timing of resources partners devote to product candidates or their prioritization of product candidates and partners may not allocate sufficient funds or resources to the development, promotion or marketing of our products, or may not perform their obligations as expected;

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- partners may choose to develop, independently or with other companies, alternative products or treatments, including products or treatments which compete with ours;
- agreements with partners may expire or be terminated without renewal, or partners may breach collaboration agreements with us;
- business combinations or significant changes in a partner s business strategy might adversely affect that partner s willingness or ability to complete its obligations to us; and
- the terms and conditions of the relevant agreements may no longer be suitable.

The occurrence of any of these events could adversely affect the development or commercialization of our products.

Because we base several of our drug candidates on unproven novel technologies, we may never develop them into commercial products.

We base several of our product candidates upon novel technologies that we are using to develop drugs for the treatment of cancer. These technologies have not been proven. Furthermore, preclinical results in animal studies may not predict outcomes in human clinical trials. Our product candidates may not be proven safe or effective. If these technologies do not work, our drug candidates may not develop into commercial products.

We are subject to additional legal duties, additional operational challenges and additional political and economic risks related to our operations in Italy.

A portion of our business is based in Italy. We are subject to duties and risks arising from doing business in Italy, such as:

- Italian employment law, including collective bargaining agreements negotiated at the national level and over which we have no control;
- European data protection regulations, under which we will be unable to send private personal data, including many employment records and some clinical trial data, from our Italian offices to our U.S. offices until our U.S. offices self-certify their adherence to the safe harbor framework established by the U. S. Department of Commerce in consultation with the European Commission;
- tariffs, customs, duties and other trade barriers; and
- capital controls, terrorism and other political risks.

We are also subject to the following operational challenges, among others, as a result of our merger with Novuspharma and having a portion of our business and operations based in Italy:

- effectively pursuing the clinical development and regulatory approvals of all product candidates;
- successfully commercializing products under development;

coordinating research and development activities to enhance introduction of new products and technologies;

coalescing the Italian business culture with our own and maintaining employee morale; and

maintaining appropriate uniform standards, controls, procedures and policies relating to financial reporting and employment related matters, and the conduct of development activities that comply with both U.S. and Italian laws and regulations.

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We may not succeed in addressing these challenges, risks and duties, any of which may be exacerbated by the geographic separation of our operations in the United States and in Italy. These risks related to doing business in Italy could harm the results of our operations.

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

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

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

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

We may not be able to conduct animal testing in the future, which could harm our research and development activities.

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

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Our operations in Italy make us subject to increased risk regarding currency exchange rate fluctuations.

As a result of operations in Italy, we are exposed to risks associated with foreign currency transactions insofar as we use U.S. dollars to make contract payments denominated in euros or vice versa. As the net positions of our foreign currency transactions might fluctuate, our earnings might be negatively affected. In addition, we are exposed to risks associated with the translation of euro-denominated financial results and accounts into U.S. dollars. Our reporting currency will remain as the U.S. dollar; however, a portion of our consolidated financial obligations will arise in euros. In addition, the carrying value of some of our assets and liabilities will be affected by fluctuations in the value of the U.S. dollar as compared to the euro. Changes in the value of the U.S. dollar as compared to the euro might have an adverse effect on our reported results of operations and financial condition.

Risks Related To the Securities Markets

Our stock price is extremely volatile, which may affect our ability to raise capital in the future and may subject the value of your investment in our securities to sudden decreases.

The market price for securities of biopharmaceutical and biotechnology companies, including ours, historically has been highly volatile, and the market from time to time has experienced significant price and volume fluctuations that are unrelated to the operating performance of such companies. For example, during the twelve month period ended September 30, 2007, our stock price, as adjusted to reflect the one-for-four reverse stock split effected in April 2007, ranged from a low of $2.85 to a high of $7.80. Fluctuations in the trading price or liquidity of our common stock may adversely affect the value of your investment in our common stock.

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

- announcements by us or others of results of preclinical testing and clinical trials and regulatory actions;
- announcements of technological innovations or new commercial therapeutic products by us, our collaborative partners or our present or potential competitors;
- the issuance of additional debt, equity or other securities;
- our quarterly operating results;
- developments or disputes concerning patent or other proprietary rights;
- developments in our relationships with collaborative partners;
- acquisitions or divestitures;
- litigation and government proceedings;
- adverse legislation, including changes in governmental regulation;

third-party reimbursement policies;

changes in securities analysts recommendations;

changes in health care policies and practices;

economic and other external factors; and

general market conditions.

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In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been instituted. For example, in the case of our company, beginning in March 2005, several class action lawsuits were instituted against CTI, James Bianco and Max Link and a derivative action lawsuit was filed against CTI s full board of directors. While these lawsuits were dismissed with prejudice, as a result of these types of lawsuits, we could incur substantial legal fees and our management s attention and resources could be diverted from operating our business as we respond to the litigation.

Anti-takeover provisions in our charter documents and under Washington law could make removal of incumbent management or an acquisition of us, which may be beneficial to our shareholders, more difficult.

Provisions of our articles of incorporation and bylaws may have the effect of deterring or delaying attempts by our shareholders to remove or replace management, to commence proxy contests, or to effect changes in control. These provisions include:

- a classified board so that only approximately one third of the board of directors is elected each year;
- elimination of cumulative voting in the election of directors;
- procedures for advance notification of shareholder nominations and proposals;
- the ability of our board of directors to amend our bylaws without shareholder approval; and
- the ability of our board of directors to issue shares of preferred stock without shareholder approval upon the terms and conditions and with the rights, privileges and preferences as the board of directors may determine.

In addition, as a Washington corporation, we are subject to Washington law which imposes restrictions on some transactions between a corporation and certain significant shareholders.

These provisions, alone or together, could have the effect of deterring or delaying changes in incumbent management, proxy contests or changes in control.

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

(a) On September 25, 2007, we held our 2007 Annual Meeting of Shareholders, or Annual Meeting. Each share of Common stock was entitled to one vote per share, each share of Series A 3% Preferred Stock was entitled to approximately 149.5 votes per share, each share of Series B Preferred Stock was entitled to approximately 148.6 votes per share and each share of Series C 3% Preferred Stock was entitled to approximately 220.8 votes per share.

(b) See (c) below.

(c) At the Annual Meeting, the following Directors were elected to serve until the Annual Meeting of Shareholders indicated below and until their respective successors are elected and qualified:

Director Nominated	Term Expires	VOTES FOR	WITHHELD
John H. Bauer	2010	28,306,060	2,193,475
Mary O. Mundinger, Dr. PH	2009	28,300,923	2,198,612
Phillip M. Nudelman, Ph.D.	2010	28,175,406	2,324,129

Jack W. Singer, M.D.	2009	28,216,916	2,282,619
Frederick W. Telling, Ph.D.	2008	28,955,753	1,543,782

Other directors whose terms of office continued after the meeting are James A. Bianco, M.D. and Vartan Gregorian, Ph.D.

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Our shareholders approved the 2007 Employee Stock Purchase Plan, or the ESPP, and the reservation of 250,000 shares of common stock for issuance under the ESPP. With respect to this proposal, there were 12,805,347 votes cast for the proposal, 469,306 votes cast against the proposal, 11,684,544 abstentions and 5,540,338 broker non-votes.

Our shareholders approved the amendment and restatement of our 2003 Equity Incentive Plan as our 2007 Equity Incentive Plan, or 2007 Plan, to, among other things, remove provisions of the existing 2003 Equity Incentive Plan requiring mandatory grants of specific amounts to directors and increase the number of shares of common stock available for issuance under the 2007 Plan by 5,000,000 shares. With respect to this proposal, there were 11,255,776 votes cast for the proposal, 515,123 votes cast against the proposal, 13,172,409 abstentions and 5,556,227 broker non-votes.

Our shareholders also ratified the selection of Stonefield Josephson, Inc. as our independent auditors for the years ending December 31, 2006 and 2007. With respect to this proposal, there were 27,717,127 votes cast for the proposal, 230,745 votes cast against the proposal and 2,551,663 abstentions.

The foregoing matters are described in detail in the Company s proxy statement dated August 28, 2007 for the Annual Meeting. No other matters were voted on at the Annual Meeting.

(d) Not applicable.

Item 6. Exhibits

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

CELL THERAPEUTICS, INC.

(Registrant)

Dated: November 9, 2007

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

President and Chief Executive Officer

Dated: November 9, 2007

By: /s/ Louis A. Bianco
Louis A. Bianco

Executive Vice President,

Finance and Administration

(Principal Financial Officer,

Chief Accounting Officer)