

CELL THERAPEUTICS INC
Form PRE 14A
July 27, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant:

Filed by a Party other than the Registrant:

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

Cell Therapeutics, Inc.

(Name of Registrant as Specified In Its Charter)

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

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

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

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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T 206.282.7100 F 206.284.6206

July 27, 2010

Dear Shareholder:

You are cordially invited to attend the Cell Therapeutics, Inc. (the "Company") Annual Meeting of Shareholders, to be held at 10:00 a.m. Pacific Daylight Time (PDT) on Thursday, September 16, 2010, at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, USA. For those of you unable to attend in person, the Company expects to webcast the meeting and make information concerning the webcast available on the Company's website at <http://www.celltherapeutics.com>.

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

the office of the Borsa Italiana S.p.A.;

the office of the Company's Italian legal counsel, Legance Studio Legale Associato (contact person: Mr. Giorgio Vanzanelli), at Via Dante 7, 20123 Milan (if you have any questions, please call Elena Bellacicca, Investor Relations, CTI Life Sciences Limited at 39 02.72.01.00.55);

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

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

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

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

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

Sincerely,

James A. Bianco, M.D.

Chief Executive Officer

Shareholder

Cell Therapeutics, Inc., 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, USA

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CELL THERAPEUTICS, INC.

Notice of Annual Meeting of Shareholders

Thursday, September 16, 2010

To Cell Therapeutics, Inc. Shareholders:

The Annual Meeting of Shareholders (the Annual Meeting) of Cell Therapeutics, Inc. (the Company) will be held at 10:00 a.m. Pacific Daylight Time (PDT), on Thursday, September 16, 2010, at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, USA, for the following purposes:

- (1) to elect two Class I directors to the Company s board of directors (the Board), each to serve until the 2013 Annual Meeting of Shareholders;
- (2) to approve an amendment to the Company s amended and restated articles of incorporation to increase the total number of authorized shares from 810,000,000 to 1,210,000,000 and to increase the total number of authorized shares of common stock from 800,000,000 to 1,200,000,000;
- (3) to approve an amendment to the Company s 2007 Equity Incentive Plan, as amended (the 2007 Equity Plan), to increase the number of shares available for issuance under the 2007 Equity Plan by 45,000,000 shares;
- (4) to ratify the selection of Stonefield Josephson, Inc. as the Company s independent auditors for the year ending December 31, 2010;
- (5) to approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Annual Meeting to adopt Proposals (1) through (4); and

- (6) to transact such other business as may properly come before the meeting and all adjournments and postponements thereof.

All shareholders are invited to attend the Annual Meeting. Shareholders of record at the close of business on July 27, 2010, the record date fixed by the Board of Directors of the Company, are entitled to vote at the Annual Meeting and all adjournments and postponements thereof. A complete list of shareholders entitled to notice of, and to vote at, the Annual Meeting will be open to examination by the shareholders beginning ten (10) days prior to the Annual Meeting for any purpose germane to the Annual Meeting during normal business hours at the office of the secretary of the Company at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119.

Copies of the enclosed proxy statement may be obtained by the Company s Italian shareholders who do not hold their shares in registered form from any of the following places:

the office of the Borsa Italiana S.p.A.;

the office of the Company s Italian legal counsel, Legance Studio Legale Associato (contact person: Mr. Giorgio Vanzanelli), at Via Dante 7, 20123 Milan (if you have any questions, please call Elena Bellacica, Investor Relations, CTI Life Sciences Limited at 39 02.72.01.00.55);

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

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

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

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The proxy statement will be available for the Company's Italian shareholders at least twenty (20) days before the Annual Meeting date of September 16, 2010.

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

By Order of the Board of Directors

Louis A. Bianco
Executive Vice President, Finance & Administration

Seattle, Washington

July 27, 2010

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

(SEE PAGE 1 FOR MORE INFORMATION ON ITALIAN VOTING PROCEDURES).

Important Notice Regarding the Availability of Proxy Materials

for the Annual Meeting to Be Held on September 16, 2010:

This proxy statement is available on the Company's website at <http://www.celltherapeutics.com/shareholders>.

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CELL THERAPEUTICS, INC.

501 Elliott Avenue West, Suite 400

Seattle, Washington 98119

PROXY STATEMENT

Information Regarding Proxies

General

This proxy statement and the accompanying form of proxy are furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Cell Therapeutics, Inc. (the Company) for use at the Company's Annual Meeting of Shareholders (the Annual Meeting or shareholder meeting), to be held at 10:00 a.m. Pacific Daylight Time (PDT), on Thursday, September 16, 2010, at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, USA, and at any adjournment or postponement thereof.

At the Annual Meeting, shareholders will be asked to:

- (1) to elect two Class I directors to the Board, each to serve until the 2013 Annual Meeting of Shareholders (Proposal 1);
- (2) to approve an amendment to the Company's amended and restated articles of incorporation to increase the total number of authorized shares from 810,000,000 to 1,210,000,000 and to increase the total number of authorized shares of common stock from 800,000,000 to 1,200,000,000 (Proposal 2);
- (3) to approve an amendment to the Company's 2007 Equity Incentive Plan, as amended (the 2007 Equity Plan), to increase the number of shares available for issuance under the 2007 Equity Plan by 45,000,000 shares (Proposal 3);
- (4) to ratify the selection of Stonefield Josephson, Inc. as the Company's independent auditors for the year ending December 31, 2010 (Proposal 4);
- (5) to approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Annual Meeting to adopt Proposals (1) through (4) (Proposal 5) and, together with Proposals 1 through 4, the Proposals); and
- (6) to transact such other business as may properly come before the meeting and all adjournments and postponements thereof.

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Shareholder approval of Proposals 1, 2 and 3 is required by statutes or regulations applicable to the Company based on its listing on The NASDAQ Capital Market and its incorporation in the state of Washington.

This proxy statement and the accompanying proxy card are being first mailed to shareholders on or about August 11, 2010.

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

If you hold shares of the Company's common stock as a result of a merger with Novuspharma S.p.A. or if you acquired shares of the Company's common stock through an account with an Italian bank on the Mercato Telematico Azionario stock market in Italy (the MTA), you most likely hold these shares indirectly through the facilities of the Italian clearing agency, Monte Titoli, and through the banks and brokers participating in the Monte Titoli system (unless you or your broker has taken action to remove your shares from the Monte Titoli system and requested to have shares registered in your name). Persons holding shares of the Company's common stock through Monte Titoli are referred to as the Company's shareholders in Italy or the Company's Italian shareholders. Monte Titoli, in turn, holds these shares of the Company's common stock through the U.S. clearing

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agency, the Depository Trust Company (DTC). Pursuant to U.S. law, DTC will transfer its voting power over the shares in Monte Titoli s account to Monte Titoli. Monte Titoli has agreed with the Company that it will re-transfer its voting power over such shares to the persons holding certifications of participation (each, a Certification) in the Italian Central Depository System issued pursuant to Italian law (Article 85(4) of Legislative Decree no. 58/1998 and Article 21 and subsequent of CONSOB and the Bank of Italy Regulation dated February 22, 2008).

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

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

the office of the Borsa Italiana S.p.A.;

the office of the Company s Italian legal counsel, Legance Studio Legale Associato (contact person: Mr. Giorgio Vanzanelli), at Via Dante 7, 20123 Milan (if you have any questions, please call Elena Bellacicca, Investor Relations, CTI Life Sciences Limited at 39 02.72.01.00.55);

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

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

The proxy statement will be available for Italian shareholders at least twenty (20) days before the Annual Meeting date of September 16, 2010.

All of the Company s shareholders, including the Company s Italian shareholders, are cordially invited to attend the Annual Meeting. If you hold shares of the Company s common stock in Italy through Monte Titoli, your broker is required by Italian law to provide you with a Certification in the Italian Central Depository System.

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

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

By mail or facsimile. You may print an Italian proxy card from the Company s website at <http://www.celltherapeutics.com/shareholders> and use that proxy card to vote by mail or facsimile. Please mark your votes on the Italian proxy card and return it and your Certification by mail to the address shown on the card or by facsimile to the facsimile number shown on the card by the deadline shown on

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the card. Your name as you write it on your Italian proxy card must exactly match your name as printed on your Certification. Italian privacy law prevents the Company from learning in advance the names of the persons holding Certifications. Thus, you must include your Certification (or a complete copy) in the same envelope as your Italian proxy card in order for your vote to be counted (that is, in order to prove to the Company's inspector of election that you have the right to vote).

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

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

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

The Company's Italian shareholders who are registered directly with the Company as a record holder (*i.e.*, you hold your shares in registered form) may also vote via internet or by phone as described below.

If you do not hold your shares in registered form, you may request to be registered directly with the Company as a record holder, which will entitle you to receive shareholder materials for future meetings directly at your address as indicated in the registration. If you are interested in having your shares registered directly with the Company for the purposes of receiving shareholder information directly for future meetings, please contact your bank for more information on the procedures required for such registration, which would include, among other things, the submission of a registration request (together with a Certification) to the Company's transfer agent, the removal of your shares from Monte Titoli's account and the transfer of such shares to the United States directly in your name. Please note that registration in the Company's shareholder books may require you to take additional steps if and when you decide to dispose of your shares.

Solicitation of Proxies

This solicitation is made on behalf of the Board. All expenses in connection with the solicitation of proxies will be borne by the Company. In addition to solicitation by mail, the Company's officers, directors or other

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regular employees may solicit proxies by telephone, facsimile, electronic communication or in person. These individuals will not receive any additional compensation for these services. The Company has engaged The Proxy Advisory Group, LLC, to assist in the solicitation of proxies and provide related advice and informational support, for a service fee, plus customary disbursements, which are not expected to exceed \$35,000 in the aggregate.

Record Date, Voting Rights and Outstanding Shares

Only shareholders of record on the Company's books at the close of business on July 27, 2010 (the record date) will be entitled to notice of, and to vote at, the Annual Meeting. Each share of the Company's common stock, no par value, outstanding on the record date is entitled to one vote per share at the shareholder meeting. The Company does not have any other class of capital stock outstanding. At the close of business on the record date, there were issued and outstanding 758,475,531 shares of common stock. The presence at the shareholder meeting in person or by proxy of holders of record of one-third of the votes entitled to be cast is required to constitute a quorum for the transaction of all business at the shareholder meeting. Broker non-votes (as more fully described below) and shares held by persons abstaining will be counted in determining whether a quorum is present.

All votes will be tabulated by the inspector of election appointed for the shareholder meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. If a quorum exists at the shareholder meeting, all shares of common stock represented by properly executed proxies that are not revoked will be voted in accordance with the instructions, if any, given therein. In the absence of a quorum, the Chairman of the Annual Meeting may adjourn the Annual Meeting. Proxy cards that are signed and returned without specifying a vote or an abstention on any proposal specified therein will be voted according to the recommendations of the Board on such proposals. All proxy cards, whether received prior to or after the original date of the Annual Meeting, will be valid as to any postponements or adjournments of the Annual Meeting.

Abstentions

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

abstention shares are present and entitled to vote for purposes of determining the presence of a quorum;

abstentions will be treated as not voting for purposes of determining the approval of any matter submitted to the shareholders for a vote requiring a plurality, a majority or some other percentage of the votes *actually cast*; and

abstentions will have the same effect as votes against a proposal if the vote required is a majority or some other percentage of the *voting power present* for that proposal or of the votes *entitled to be cast* on that proposal.

Shares which abstain from voting for Proposal 2 will have the same effect as votes cast against that proposal since approval is based on the votes *entitled to be cast*. Shares which otherwise abstain from voting for all other proposals will not be counted as votes cast against that proposal and will have no effect on that proposal since approval is based on the number of votes *actually cast*.

Broker Non-Votes

If your shares are held in street name and you do not instruct your broker on how to vote your shares, your brokerage firm, in its discretion, may either leave your shares unvoted or vote your shares on routine matters.

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Proposals 2, 4 and 5 should be treated as a routine matters. The proposal to elect two Class I directors (Proposal 1) and the proposal to amend the 2007 Equity Plan (Proposal 3) are not considered routine matters and your broker will not vote on these proposals without your instructions. If you do not instruct the agent how to vote the shares in your account, your shares may constitute broker non-votes. Generally, broker non-votes occur when a broker is not permitted to vote on a certain matter without instructions from the beneficial owner, and such instructions are not given. Broker non-votes for each of the Proposals will have no effect on the Proposals since approval is based on the number of votes *actually cast*, except broker non-votes will have an effect on Proposal 2 because approval for that proposal is based on the votes *entitled to be cast*.

Voting Electronically or by Telephone

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

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

Revocability of Proxies

Any shareholder executing a proxy has the power to revoke it at any time prior to the voting thereof on any matter by delivering written notice to the Company s secretary, Louis A. Bianco, at the Company s principal executive offices, by executing and delivering another proxy dated as of a later date or by voting in person at the shareholder meeting. For the Company s Italian shareholders, any written notice of revocation or another proxy, in either case dated as of a later date, must also be accompanied by another Certification.

Voting Agreements

At the time of the Company s merger with Novuspharma, S.p.A., the Company entered into an agreement with Monte Titoli, S.p.A., the Italian central clearing agency, in order to ensure that persons receiving beneficial interests in shares of the Company s common stock as a result of the merger would be able to vote those shares. Monte Titoli agreed that each time it is designated as proxy by DTC, Monte Titoli will execute a further omnibus proxy transferring its voting power to the persons who hold Certifications issued pursuant to Italian law (Article 85(4) of Legislative Decree no. 58/1998 and Article 21 and subsequent of CONSOB and Bank of Italy Regulation dated February 22, 2008).

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PROPOSAL 1

ELECTION OF CLASS I DIRECTORS

Summary

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

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

The Board has fixed the number of directors at 12. Currently, there are eight members of the Board. The Company's Nominating and Governance Committee is in the process of evaluating potential candidates to fill the vacancies on the Board. Proxies cannot be voted for a greater number of persons than the number of nominees named.

The current terms of office of the Class I directors, Mr. John H. Bauer and Dr. Phillip M. Nudelman, expire at the 2010 Annual Meeting. The current terms of office of the Class II directors, Dr. James A. Bianco, Dr. Vartan Gregorian and Dr. Frederick W. Telling, expire at the 2011 Annual Meeting. The current terms of office of the Class III directors, Mr. Richard L. Love, Dr. Mary O. Mundinger and Dr. Jack W. Singer, expire at the 2012 Annual Meeting.

Nominees for Election as Directors

Mr. Bauer and Dr. Nudelman have been nominated by the Board for election at the shareholder meeting as Class I directors for three year terms expiring at the 2013 Annual Meeting.

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

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

Vote Required and Board of Directors Recommendation

The two Class I nominees for director seats who receive the most votes cast at the shareholder meeting in person or by proxy shall be elected. Abstentions and broker non-votes will not be counted in the election of directors.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS

A VOTE IN FAVOR OF EACH NAMED NOMINEE.

Table of Contents**Information about Nominees and Continuing Directors**

The table below provides biographical information as of July 13, 2010 for each nominee for director and each person whose term of office as a director will continue after the shareholder meeting.

Name	Age	Director		Term Expiration
		Since	Class	
John H. Bauer(3)	69	2005	I	2010 Annual Meeting
James A. Bianco, M.D.	54	1991	II	2011 Annual Meeting
Vartan Gregorian, Ph.D.(3)(4)	76	2001	II	2011 Annual Meeting
Richard L. Love(2)	66	2007	III	2012 Annual Meeting
Mary O. Munding, Dr. PH(4)	73	1997	III	2012 Annual Meeting
Phillip M. Nudelman, Ph.D.(1)(2)(3)(4)	74	1994	I	2010 Annual Meeting
Jack W. Singer, M.D.	67	1991	III	2012 Annual Meeting
Frederick W. Telling, Ph.D.(2)(3)	58	2006	II	2011 Annual Meeting

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

Nomination for Election for a Term Continuing Until the 2013 Annual Meeting Class I Directors

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

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

Directors Continuing in Office Until the 2011 Annual Meeting Class II Directors

Dr. Bianco is the Company's principal founder and served as the Company's President and Chief Executive Officer and director from February 1992 to July 2008. With the addition of Craig W. Philips as President in August 2008, Dr. Bianco now serves as the Company's Chief Executive Officer and director. Prior to founding the Company, Dr. Bianco was an assistant professor of medicine at the University of Washington, Seattle, and an assistant member in the clinical research division of the Fred Hutchinson Cancer Research Center. From 1990 to 1992, Dr. Bianco was the director of the Bone Marrow Transplant Program at the Veterans Administration

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Medical Center in Seattle. Dr. Bianco currently serves on the board of directors of Arts Fund, Fred Hutchinson Business Alliance, Jose Carreras International, Leukemia Foundation, Marsha Rivkin Center for Ovarian Cancer Research, Nakea, LLC, and Seattle Police Foundation. Dr. Bianco received his B.S. degree in biology and physics from New York University and his M.D. from Mount Sinai School of Medicine. Dr. Bianco is the brother of Louis A. Bianco, the Company's Executive Vice President, Finance and Administration.

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

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

Directors Continuing in Office Until the 2012 Annual Meeting Class III Directors

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

Dr. Mundinger has been one of the Company's directors since April 1997. From 1986 to 2010, she was a dean and professor at the Columbia University School of Nursing, and an associate dean on the faculty of medicine at Columbia University. In July 2010, Dr. Mundinger was appointed the Edward M. Kennedy Professor in Health Policy and Dean Emeritus at the Columbia University School of Nursing. Dr. Mundinger received her doctorate in public health from Columbia's School of Public Health.

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

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Board of Directors and Committee Meetings

The Board held 31 meetings during the year ended December 31, 2009. Each of the directors attended at least 75% of the total number of meetings of the Board and of all committees of the Board during the time which they served. The Company's policy is to encourage attendance at the Annual Meeting. Seven of the directors in office at the time of the Company's 2009 Annual Meeting of Shareholders were in attendance at the Company's 2009 Annual Meeting of Shareholders.

The Board has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Governance Committee.

Audit Committee

The Audit Committee has responsibility for assisting the Board in fulfilling its responsibilities related to the Company's corporate accounting and reporting practices and the quality and integrity of the Company's financial reporting. The composition of the Audit Committee and the attributes of its members, and the responsibilities of the Audit Committee as reflected in its charter adopted by the Board, are intended to be in accordance with SEC rules and NASDAQ Listing Rules with regard to corporate audit committees. The Board has adopted a written charter for the Audit Committee, a copy of which is available on the Company's website at <http://www.celltherapeutics.com>.

The Audit Committee held six meetings during the year ended December 31, 2009. The Audit Committee currently consists of four non-employee directors: Mr. Bauer, Dr. Gregorian, Dr. Nudelman and Dr. Telling.

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

Compensation Committee

The Compensation Committee has broad responsibility for assuring that the Company's executive officers, including the Company's chief executive officer, are effectively compensated in terms of salaries, supplemental compensation and benefits that are internally equitable and externally competitive. The Compensation Committee also administers the Company's equity compensation plans and reviews and approves the Company's compensation disclosure and analysis included in the Company's annual report and proxy statement. The Compensation Committee held 14 meetings during the year ended December 31, 2009. The Compensation Committee currently consists of three non-employee directors: Mr. Love, Dr. Nudelman and Dr. Telling, each of whom meets the requirements of independence as set forth in the rules and regulations promulgated by the SEC and the NASDAQ Listing Rules. The Compensation Committee has a written charter, which is available at the Company's website at <http://www.celltherapeutics.com>.

Nominating and Governance Committee

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

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and determines on an annual basis, the appropriate skills and characteristics required for directors as well as the composition of the Board as a whole. The Nominating and Governance Committee identifies candidates for election to the Board; reviews their skills, characteristics and experience; and recommends nominees for director to the Board for approval. The Nominating and Governance Committee seeks directors with strong reputations and experience in areas relevant to the strategy and operations of the Company's business, particularly industries and growth segments that the Company serves, as well as key experience with regulatory agencies such as the U.S. Food and Drug Administration and the European Medicines Agency. Each of the nominees for election as a director at the Annual Meeting and each of the Company's current directors holds or has held senior executive positions in, and/or has experience serving on the boards of directors and board committees of, large, complex organizations and has operating experience that meets this objective. In these positions, they have also gained experience in core management skills, such as strategic and financial planning, public company financial reporting, corporate governance, risk management, and leadership development.

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

The Nominating and Governance Committee ensures that nominations to the Board are made such that the Board is properly constituted in addition to evaluating both the composition and governance of the Board and the Company's corporate governance. Although the Company does not have a policy regarding diversity, the Nominating and Governance Committee seeks a broad range of perspectives and considers both the personal characteristics (gender, ethnicity, age) and experience (industry, professional, public service) of directors and prospective nominees to the Board. The Nominating and Governance Committee held two meetings during the year ended December 31, 2009. The Nominating and Governance Committee currently consists of three non-employee directors: Dr. Gregorian, Dr. Munding and Dr. Nudelman, all of whom meet the independence requirements as set forth in the rules and regulations promulgated by the SEC and the NASDAQ Listing Rules. The Nominating and Governance Committee has a written charter, which is available at the Company's website at <http://www.celltherapeutics.com>.

Director Independence

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

The Company, the Nominating and Governance Committee and the Board are involved in the process for determining the independence of acting directors and director nominees. The Company solicits relevant information from directors and director nominees via a questionnaire, which covers material relationships, compensatory arrangements, employment and any affiliation with the Company. In addition to reviewing information provided in the questionnaire, the Company asks the Company's executive officers on an annual basis regarding their awareness of any existing or currently proposed transactions, arrangements or understandings involving the Company in which any director or director nominee has or will have a direct or indirect material interest, including charitable contributions made by the Company to nonprofit organizations with which any director is affiliated. The Company shares its findings with the Nominating and Governance Committee and the Board regarding the NASDAQ Listing Rules and SEC independence requirements and any information regarding the director or director nominee that suggests that such individual is not independent. The Board discusses all relevant issues, including consideration of any transactions, relationships or arrangements which are not required to be disclosed under Item 404(a) of Regulation S-K, prior to making a determination with respect to the independence of each director.

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In making independence determinations, the following relationships were considered:

Mr. Love served in previous years in an executive position and was a consultant in the first quarter of 2008 at Translational Genomics Research Institute (TGen), a non-profit biomedical research institute, and was a consultant in the first quarter of 2008. The Company made payments to TGen in 2009 for services related to clinical trials for brostallicin, however the amounts fall within NASDAQ prescribed limits.

Dr. Nudelman served on the Board of Directors of the Hope Heart Institute until December 2008. Dr. Nudelman's son, Mark Nudelman, serves as its President and Chief Executive Officer. The Company made a charitable donation to the Hope Heart Institute in 2009, however the amount falls within NASDAQ prescribed limits.

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

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

All of the non-management directors of the Company are independent under the NASDAQ Listing Rules. The independent directors are: John H. Bauer, Vartan Gregorian, Ph.D., Richard L. Love, Mary O. Mundinger, Dr. PH, Phillip M. Nudelman, Ph.D., and Frederick W. Telling, Ph.D.

James A. Bianco and Jack W. Singer, M.D are not independent by virtue of their positions as Chief Executive Officer of the Company and Executive Vice President, Chief Medical Officer of the Company, respectively.

Other than as described above, in 2009 there were no transactions, relationships or arrangements not disclosed as related person transactions that were considered by the Board in determining that the applicable independence standards were met by each of the directors.

Leadership Structure

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

Risk Oversight

Companies face a variety of risks, including credit risk, liquidity risk, and operational risk. The Board believes an effective risk management system will (1) timely identify the material risks that the Company faces,

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(2) communicate necessary information with respect to material risks to senior executives and, as appropriate, to the Board or relevant committee of the Board, (3) implement appropriate and responsive risk management strategies consistent with Company's risk profile, and (4) integrate risk management into Company decision-making.

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

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

Code of Ethics

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

Cell Therapeutics, Inc.

Attention: Investor Relations

501 Elliott Avenue West, Suite 400

Seattle, WA 98119

(206) 282-7100

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

Corporate Governance Guidelines

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

Shareholder Proposals

A shareholder may recommend a person as a slate nominee for director by writing to the secretary of the Company. Director nominations and/or shareholder proposals pursuant to Rule 14a-8 of the Exchange Act intended for inclusion in the proxy statement related to the next Annual Meeting should be sent to the secretary of the Company at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119 and must be received by March 31, 2011. If the Company changes the date of its next Annual Meeting by more than 30 days from the date of the previous year's Annual Meeting, then the deadline is a reasonable time before the Company begins to print and send its proxy materials. Under the Company's amended and restated bylaws, notice of any other shareholder proposal or the nomination of a candidate for election as a director to be made at the 2011 Annual Meeting

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(whether or not included in the proxy statement) must be received by June 18, 2011 and must comply with the amended and restated bylaws. As set forth in the Company's amended and restated bylaws, each notice of nomination should contain the following information: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the SEC had each nominee been nominated, or intended to be nominated, by the Board; and (e) the consent of each nominee to serve as a director of the company if so elected. All the director nominees named in the proxy statement met the Board's criteria for membership and were recommended by the Nominating and Governance Committee for election by shareholders at this shareholder meeting.

The Nominating and Governance Committee considers shareholder recommendations of nominees for election to the Board if they comply with the foregoing bylaw requirements and are accompanied by a comprehensive written resume of the recommended nominee's business experience and background and a consent in writing signed by the recommended nominee that he or she is willing to be considered as a nominee and, if nominated and elected, he or she will serve as a director. Shareholders should send their written recommendations of nominees accompanied by the aforesaid documents to the principal executive offices of the Company addressed to: Cell Therapeutics, Inc., 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, Attention: Secretary.

Communicating Concerns to Directors

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

Shareholders and other interested parties may communicate with the Board and the chairman on other matters by writing to Dr. Nudelman, c/o Cell Therapeutics, Inc., Vice President, Legal Affairs, 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119. The Vice President, Legal Affairs will perform a legal review in the normal discharge of his duties to ensure that communications forwarded to Dr. Nudelman are appropriate. Items that are unrelated to the duties and responsibilities of the Board such as mass mailings, junk mail, personal employee complaints not related to accounting, internal controls, auditing or officer conduct (which are reviewed and forwarded by the Vice President, Legal Affairs pursuant to the terms of the Company's Whistleblower Policy), inquiries regarding clinical trials or the Company's operations generally, job inquiries, surveys, business solicitations or advertisements will not be forwarded to Dr. Nudelman. In addition, material that is threatening or similarly unsuitable will not be forwarded to Dr. Nudelman. Any communication that is relevant to the conduct of the Company's business and is not forwarded will be retained for one year and made available to Dr. Nudelman and any other independent director on request. The independent directors have granted the Vice President, Legal Affairs discretion to decide what correspondence shall be forwarded to Dr. Nudelman and what shall be shared with the Company's management, in all cases with specific instructions that any personal employee complaints be forwarded as set forth in the Company's Whistleblower Policy. If items are forwarded to Dr. Nudelman, he will decide in his own discretion whether to circulate them to other members of the Board.

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PROPOSAL 2

APPROVAL OF AN AMENDMENT TO THE COMPANY'S ARTICLES OF INCORPORATION

TO INCREASE THE NUMBER OF AUTHORIZED SHARES

Summary

The Company is asking you to approve an amendment to the Company's amended and restated articles of incorporation to (a) increase the total number of authorized shares from 810,000,000 shares to 1,210,000,000 shares and (b) increase the total number of authorized shares of common stock from 800,000,000 shares to 1,200,000,000 shares. The additional common stock to be authorized by adoption of the amendment would have rights identical to the Company's currently outstanding common stock. The number of authorized shares of the Company's preferred stock will not be affected by this amendment nor by any other proposal considered at the Annual Meeting. The number of authorized shares of the Company's preferred stock will be maintained at 10,000,000.

Substantially all of the Company's currently authorized common stock has been issued or is reserved for issuance upon exercise or conversion of existing derivative securities. Because of the number of shares reserved for issuance under various convertible securities, warrants, other derivative securities and otherwise, the Company does not have enough shares authorized at present to effect an equity financing of any substantial amount or to exchange for equity the Company's outstanding notes. In order to continue to fund its operations, the Company will need to raise additional capital from financing sources. One of the ways the Company raises such cash is by issuing shares and derivative securities from time to time. Without additional authorized shares of common stock, the Company will be unable to raise all of the financing it will likely need to maintain its operations. Other important corporate needs, including the potential issuance of shares in a merger or issuing stock-based incentive rewards to the Company's employees, require additional authorized shares of common stock as well.

Article II of the Company's amended and restated articles of incorporation currently authorizes the Company to issue up to 810,000,000 shares of stock, 800,000,000 of which are designated as common stock, no par value, and 10,000,000 shares of which are designated as preferred stock, no par value. The Company's common stock is all of a single class, with equal voting, distribution, liquidation and other rights. As of July 27, 2010, 758,475,531 shares of common stock were issued and outstanding, 993,494 shares of common stock were reserved for issuance under the Company's 1994 Equity Incentive Plan and the Company's 2007 Equity Plan (this amount does not include the 45,000,000 additional shares that will be available under the 2007 Equity Plan if shareholders approve Proposal 3), 1,457,357 shares of common stock were reserved for issuance under the Company's 2007 Employee Stock Purchase Plan (the "ESPP"), warrants to purchase 34,153,340 shares of common stock were issued and outstanding, 122,620 shares of common stock were reserved for issuance upon conversion of the Company's 7.5% convertible senior notes due April 30, 2011 and 363,766 shares of common stock were reserved for issuance upon conversion of the Company's 5.75% convertible senior notes due December 15, 2011.

In connection with capital markets transactions to raise additional funds, on May 27, 2010 and July 27, 2010, the Company issued warrants to purchase 37,768,000 shares of common stock as further described below. The Company currently does not maintain a reserve for these warrants. As a result, if you approve Proposal 2, then 37,768,000 shares of the additional 400,000,000 shares authorized will likely be used for a reserve upon exercise of the warrants.

Series 5 Financing

On May 23, 2010, the Company entered into a Securities Purchase Agreement (the "Series 5 Purchase Agreement") between the Company and the purchasers thereunder (the "Series 5 Purchasers"). Pursuant to the Series 5 Purchase Agreement, the Company agreed to issue (i) 21,000 shares of Series 5 Preferred Stock, no par

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value per share (the Series 5 Preferred Stock), initially convertible into 52,500,000 shares of common stock and (ii) warrants (the Series 5 Warrants) to purchase up to 26,250,000 shares of common stock, for an aggregate offering price of \$21 million (the Series 5 Financing). The Series 5 Purchasers elected to convert all 21,000 shares of Series 5 Preferred Stock and to receive 52,500,000 shares of common stock issuable upon such conversion at the closing. The Company closed the Series 5 Financing on May 27, 2010.

Each Series 5 Warrant has an exercise price of \$0.50 per share of common stock. The Series 5 Warrants are exercisable six months and one day after the date of issuance and terminate four years, six months and one day after the date of issuance, provided that the exercisability of the Series 5 Warrants is subject to, and conditioned upon, the Company's receipt of shareholder approval of an amendment to its amended and restated articles of incorporation to increase the authorized shares of common stock available for issuance thereunder by 400,000,000 shares or the Company's notification to holders of the Series 5 Warrants that shares of common stock have become available and are reserved for issuance upon exercise of the Series 5 Warrants. In addition, to the extent that shares of common stock are not available or reserved for issuance upon exercise of the Series 5 Warrants on the date when the Series 5 Warrants are first exercisable, the Company has agreed to reserve for issuance upon exercise of the Series 5 Warrants any shares of common stock that are currently reserved for issuance upon conversion, exchange or exercise of outstanding securities to the extent that any such reserved shares become available for issuance following the expiration of such securities in accordance with their terms. The foregoing obligation does not apply to shares of common stock reserved pursuant to the Company's equity incentive plans and will terminate in its entirety upon receipt of the shareholder approval referred to above.

In addition, on May 27, 2010, the Company issued warrants to purchase 1,050,000 shares of common stock to Rodman & Renshaw, LLC, as placement agent, as partial compensation for its services in connection with the Series 5 Financing (the Series 5 Placement Agent Warrants). The Series 5 Placement Agent Warrants have an exercise price of \$0.50 per share of common stock. The Series 5 Placement Agent Warrants are exercisable six months and one day after the date of issuance and terminate five years after the date of issuance, provided that the exercisability of the warrants is subject to, and conditioned upon, the Company's receipt of the shareholder approval or notification described above for the Series 5 Warrants.

Series 6 Financing and Warrant Exchange

On July 25, 2010, the Company entered into a Securities Purchase Agreement (the Series 6 Purchase Agreement) with the purchaser thereunder (the Series 6 Purchaser). Pursuant to the Series 6 Purchase Agreement, the Company agreed to issue to the Series 6 Purchaser (i) 4,060 shares of Series 6 Preferred Stock, no par value per share (the Series 6 Preferred Stock), and (ii) warrants (the Series 6 Warrants) to purchase an aggregate of 5,800,000 shares of common stock, for an aggregate offering price of \$4.06 million (the Series 6 Financing). The Series 6 Purchaser elected to convert all 4,060 shares of Series 6 Preferred Stock and to receive 11,600,000 shares of common stock issuable upon such conversion at the closing. The Company closed the Series 6 Financing on July 27, 2010.

The initial exercise price for each of the Series 6 Warrants is \$0.42 per share. The Series 6 Warrants are exercisable at any time on or after the six month and one day anniversary of the date of initial issuance and on or before the four year, six month and one day anniversary of the date of initial issuance, provided that the Series 6 Warrants will not be exercisable unless and until (i) the Company amends its amended and restated articles of incorporation to increase the authorized shares of common stock available for issuance thereunder by 400,000,000 shares after receiving shareholder approval thereof or (ii) the Company notifies the holders of the Series 6 Warrants that shares of common stock have otherwise become available and are reserved for issuance upon exercise of the Series 6 Warrants. In the event that shares of common stock otherwise become available for reservation following the date of initial issuance of the Series 6 Warrants, the Company will reserve all or a portion of such shares for issuance upon exercise of the Series 6 Warrants, provided that (a) the foregoing obligation does not apply to shares of common stock reserved pursuant to the Company's equity incentive plans, (b) if shares of common stock must be reserved pursuant to the terms of any outstanding warrants to purchase

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common stock issued on or about May 27, 2010, shares must be reserved for issuance upon the exercise of those warrants in priority to the reservation of shares for issuance upon the exercise of the warrants issued pursuant to the Series 6 Financing and (c) any such shares that become available shall be reserved pro rata among all warrants originally issued on or about July 27, 2010 (or in exchange or substitution therefor) and any other warrants that otherwise have a substantially similar reservation provision.

In addition, on July 25, 2010, the Company agreed to issue warrants to purchase an aggregate of 348,000 shares of common stock (the Series 6 Placement Agent Warrant) to a placement agent as partial compensation for its services in connection with the Series 6 Financing. The Series 6 Placement Agent Warrant has an exercise price of \$0.42 per share of common stock. The terms of the Series 6 Placement Agent Warrant are substantially the same as the Series 6 Warrants.

Also on July 25, 2010, the Company entered into a privately negotiated exchange agreement (the Exchange Agreement) with an accredited investor (the Holder) to exchange existing warrants to purchase an aggregate of 4,320,000 shares of common stock at an exercise price of \$1.18 per share for new warrants to purchase the same number of shares of common stock at an exercise price of \$0.42 per share (the Exchange Warrants). In connection with such exchange, the Holder gave up the requirement in its existing warrants that the Company reserve shares underlying its warrants. The Exchange Warrants issued pursuant to the Exchange Agreement in substantially the same form as the Series 6 Warrants and the Series 6 Placement Agent Warrant.

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

the Company's Shareholder Rights Agreement, dated December 28, 2009;

corporate transactions, such as stock splits or stock dividends;

financing transactions, such as public or private offerings of common stock or convertible securities;

debt or equity restructuring or refinancing transactions, such as debt exchanges or offerings of new convertible debt or modifications to existing securities or as payments of interest on debt securities;

acquisitions;

strategic investments;

partnerships, collaborations and other similar transactions;

the Company's stock incentive plans;

other corporate purposes that have not yet been identified; and

exercise of the Series 5 Warrants, Series 5 Placement Agent Warrants, Series 6 Warrants, Series 6 Placement Agent Warrants and Exchange Warrants.

In order to provide the Board with certainty and flexibility to undertake transactions to support the Company's future business growth, the Board deems it is in the best interests of the shareholders and the Company to increase the number of authorized shares of the Company's common

stock.

In addition to periodic discussions regarding fund raising opportunities, the Company also engages in periodic discussions with potential partners, strategic investments and acquisition candidates, including product lines, as part of the Company's business model. If any of these discussions came to a definitive understanding and if this Proposal 2 is adopted, it is possible that the Company could use some or all of the newly authorized shares in connection with one or more such transactions subsequent to the increase in the number of authorized shares. The Company also plans to continue to issue shares of common stock pursuant to its stock incentive plans subsequent to the increase in the number of authorized shares. The Company currently has no plan, commitment, arrangement, understanding or agreement, either oral or written, regarding the issuance of common stock in connection with one or more such strategic transactions subsequent to the increase in the number of authorized shares.

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Text of the Proposed Amendment

If this Proposal 2 is approved, the Company proposes to amend its amended and restated articles of incorporation by replacing Section 1 of Article II in its entirety as follows:

ARTICLE II

Authorized Capital Stock

1. Classes. The Corporation shall be authorized to issue two classes of shares of stock to be designated, respectively, Common Stock and Preferred Stock. The total number of shares which the Corporation shall have authority to issue shall be One Billion Two Hundred Ten Million (1,210,000,000); the total number of authorized shares of Common Stock shall be One Billion Two Hundred Million (1,200,000,000) and the total number of authorized shares of Preferred Stock shall be Ten Million (10,000,000).

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

Vote Required and Board of Directors Recommendation

Approval of the amendment to the Company's amended and restated articles of incorporation requires the affirmative vote of a majority of the votes entitled to be cast on this Proposal 2 in person or by proxy at the Annual Meeting. Abstentions will have the same effect as votes cast against Proposal 2.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS

A VOTE FOR THE APPROVAL OF

THE AMENDMENT TO THE COMPANY'S ARTICLES OF INCORPORATION.

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

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PROPOSAL 3

APPROVAL OF AN AMENDMENT TO THE COMPANY'S

2007 EQUITY INCENTIVE PLAN

Summary

The Company is asking you to approve an amendment to the Company's 2007 Equity Plan to increase the maximum number of shares authorized for issuance under the 2007 Equity Plan by 45,000,000 shares. The Board approved the proposed share increase on June 24, 2010.

The current 2007 Equity Plan was approved by the Company's shareholders at the Company's 2007 Annual Meeting of Shareholders. The Board has determined that it is advisable to increase the maximum number of shares available for issuance under the 2007 Equity Plan in order to provide flexibility for the Company to continue to award meaningful incentives to the Company's executive officers and key employees. At the Company's 2009 Annual Meeting of Shareholders, the Company's shareholders approved an amendment to the 2007 Equity Plan to increase the shares of the Company's common stock available for issuance under the 2007 Equity Plan by 45,000,000 shares to 71,661,082 shares. However, in light of the Company's strong stock price performance during fiscal 2009 and in light of performance-based awards granted by the Company to certain executive officers and key employees in December 2009 to provide additional performance-based incentives to these individuals (as discussed in more detail below under "New Plan Benefits" and the portion of the Compensation Discussion and Analysis under the heading "Equity Awards Approved in Fiscal 2009" on page 37 of this proxy statement), these additional shares are covered by awards that have been granted by the Company. As of July 13, 2010, no shares remained available for additional award grant purposes under the 2007 Equity Plan.

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

Vote Required and Board of Directors' Recommendation

Approval of the amendment to the 2007 Equity Plan to increase the number of shares authorized for issuance under the 2007 Equity Plan requires the affirmative vote of the holders of a majority of the shares of the Company's common stock that are voting on this Proposal 3 in person or by proxy at the Annual Meeting. Abstentions and broker non-votes will not be counted. In the event the shareholders fail to approve the amendment to the 2007 Equity Plan, the 2007 Equity Plan will continue in operation pursuant to its existing terms with no change in the number of shares authorized for issuance under the 2007 Equity Plan. In addition, whether or not the amendment to the 2007 Equity Plan is approved, the Board may, pursuant to the terms of the 2007 Equity Plan and subject to the NASDAQ Listing Rules, make any other changes to the 2007 Equity Plan that it believes would be in the Company's and the Company's shareholders' best interests.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE

APPROVAL OF THE AMENDMENT TO THE 2007 EQUITY PLAN.

Summary of the 2007 Equity Plan

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

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Purpose of the 2007 Equity Plan

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

Types of Awards Granted under the 2007 Equity Plan

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

Administration of the 2007 Equity Plan

A committee of at least two non-employee members of the Board (the Plan Administrator) administers the 2007 Equity Plan. To make grants to certain of the Company's officers and key employees, the members of the Plan Administrator must qualify as non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934 (the Exchange Act), and as outside directors under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code) (so that the Company can receive a federal tax deduction for certain compensation paid under the 2007 Equity Plan). The Board has delegated general administrative authority for the 2007 Equity Plan to the Compensation Committee of the Board (the Compensation Committee).

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

The Plan Administrator may delegate any part of its authority and powers under the 2007 Equity Plan to one or more of the Company's directors and/or officers, but only the Plan Administrator itself can make Awards to participants who are the Company's executive officers. References to the Plan Administrator in this proposal include the Plan Administrator and any directors or officers to whom the Plan Administrator properly delegates authority.

Authorized Shares

The aggregate number of shares of the Company's common stock that currently may be issued pursuant to Awards under the 2007 Equity Plan is 71,661,082 shares. If shareholders approve the proposed amendment, this limit would be increased to 116,661,082 shares. As of July 13, 2010, no shares remained available for additional award grant purposes under the 2007 Equity Plan.

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

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or for the assumption, substitution or exchange of any or all outstanding Awards or the cash, securities or property deliverable to the holder of any or all outstanding Awards, based upon the distribution or consideration payable to holders of the Company's common stock upon or in respect of such event.

Eligibility to Receive Awards

The Plan Administrator selects the employees (including executive officers), consultants and directors who will be granted Awards under the 2007 Equity Plan. As of July 13, 2010, the Company had approximately 92 officers and employees, including all of the Company's named executive officers who are still serving in that capacity as of July 13, 2010, and six non-employee directors who were eligible to receive Awards under the 2007 Equity Plan. The actual number of individuals who will receive an Award under the 2007 Equity Plan cannot be determined in advance because the Plan Administrator has the discretion to select the participants.

Stock Options

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

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

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

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

Stock Appreciation Rights

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

The Plan Administrator determines the terms of stock appreciation rights, except that the exercise price of a stock appreciation right that is granted independently of an option may not be less than 100% of the fair market value of the shares on the date of grant and the exercise price of a stock appreciation right that is granted in

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tandem with or in connection to an option may not be less than the exercise price of the related option. In addition, the Plan Administrator may determine the effect of termination of employment or service on the rights and benefits under stock appreciation rights and in doing so may make distinctions based upon the cause of termination or other factors.

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

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

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

Restricted Stock and Restricted Stock Units

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

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

Cash Awards

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

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Deferred Payments

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

Performance Goals

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

Change of Control

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

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

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

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Limited Transferability of Awards

Awards granted under the 2007 Equity Plan generally may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the applicable laws of descent and distribution. However, participants may, in a manner specified by the Plan Administrator, transfer nonqualified stock options (a) pursuant to a court-approved domestic relations order relating to child support, alimony payments or marital property rights and (b) by bona fide gift to (1) a member of the participant's immediate family; (2) a trust or other entity for the sole benefit of the participant and/or his or her immediate family; (3) a partnership, limited liability company or other entity whose members are the participant and/or his or her immediate family; or (4) certain limited tax-qualified charities.

Amendment and Termination of the 2007 Equity Plan

The Board generally may amend, suspend or terminate the 2007 Equity Plan at any time and for any reason (subject to shareholder consent as may be required by applicable law). However, no amendment or termination of the 2007 Equity Plan may alter or impair the rights of a participant with respect to an outstanding Award without his or her consent; provided that such consent shall not be required if the Board determines, in its sole and absolute discretion, that the amendment, suspension or termination (a) is required or advisable in order for the Company, the 2007 Equity Plan or the Award to satisfy applicable law, to meet the requirements of any accounting standard or to avoid any adverse accounting treatment, or (b) in connection with any change of control event, is in the best interests of the Company or its shareholders. In addition, the Board may not, without shareholder consent, reduce the exercise price of any outstanding option or cancel and re-grant options at a lower exercise price.

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

Federal Income Tax Consequences

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

Nonqualified Stock Options

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

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Incentive Stock Options

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

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

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

Stock Appreciation Rights

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

Restricted Stock and Restricted Stock Units

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

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

Cash Awards

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

Table of Contents***Tax Effect for the Company***

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

Accounting Treatment

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

New Plan Benefits

The Company has not approved any Awards that are conditioned upon shareholder approval of the proposed amendment to the 2007 Equity Plan. The Company is not currently considering any other specific Award grants under the 2007 Equity Plan. If the proposed amendment to the 2007 Equity Plan had been in effect in fiscal 2009, the Company expects that its Award grants for fiscal 2009 would not have been substantially different from those actually made in that year under the 2007 Equity Plan. The number of Awards that non-employee directors may receive under the 2007 Equity Plan is set forth in the Company's Revised Director Compensation Policy, which is described in the section entitled Non-Employee Director Compensation below.

In December 2009, the Company approved Awards of restricted stock units under the 2007 Equity Plan to eligible employees and directors. (The Company refers to these Awards as the December 2009 Performance Awards.) As described in the Compensation Discussion and Analysis portion of this proxy statement under the heading Equity Awards Approved in Fiscal 2009 on page 37 below, the December 2009 Performance Awards will be payable in shares of the Company's common stock if certain performance goals are achieved on or before December 31, 2011, with the number of shares payable upon achievement of the related performance goal to be determined by multiplying the payout percentage that has been assigned by the Compensation Committee to that goal for purposes of the participant's award by the number of shares of the Company's common stock issued and outstanding at the time the Compensation Committee certifies that the particular goal has been achieved. The payout percentages for the December 2009 Performance Awards granted to the named executive officers are identified in the table below and in the Compensation Discussion and Analysis, and the number of shares that would have been issued to each of these executives had the December 2009 Performance Awards been payable at the time of grant (based on the Company's total issued and outstanding shares on the grant date) are set forth in the Grants of Plan-Based Awards Table on page 46 below.

As described in the Compensation Discussion and Analysis under the heading Subsequent Committee Actions on page 41 below, the Company approved an amendment in July 2010 that converted a portion of each of the December 2009 Performance Awards to restricted shares. The restricted shares issued to the executives and directors pursuant to this conversion are subject to the same performance-based vesting requirements as the December 2009 Performance Awards to which they relate. Any restricted shares that vest in connection with the achievement of a performance goal on or before December 31, 2011 will reduce on a share-for-share basis the

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number of shares that would have been delivered under the original December 2009 Performance Award upon achievement of that performance goal (and, if the number of shares that would have been delivered under the original December 2009 Performance Award upon achievement of a performance goal is less than the number of restricted shares that vest on achievement of that performance goal under the July 2010 award, a number of such restricted shares equal to the difference will be forfeited to the Company so that the executive or director retains no more shares related to that particular performance goal than the number of shares that would have otherwise been deliverable with respect to that goal under the original December 2009 Performance Award).

As noted above, there were no shares remaining available under the 2007 Equity Plan for future award grants as of July 13, 2010 (after giving effect to the conversion of a portion of the December 2009 Performance Awards to awards of restricted stock as described above). Accordingly, if shareholders approve the proposed 2007 Equity Plan amendment and any of the December 2009 Performance Awards are or thereafter become payable in accordance with their terms, a portion of the shares requested pursuant to the proposed amendment would be used to make payment of such Awards. If, at the time payment is otherwise due with respect to the December 2009 Performance Awards, there are not sufficient shares available under the 2007 Equity Plan (after reserving sufficient shares to cover the other Awards then outstanding under the 2007 Equity Plan), the number of shares payable with respect to the December 2009 Performance Awards will be proportionately reduced such that the share limits of the 2007 Equity Plan will not be exceeded.

The following table sets forth for each of the groups identified below the aggregate percentage of the Company's then-outstanding shares that would be payable under the December 2009 Performance Awards and the aggregate number of restricted shares that are subject to the July 2010 awards (and would be used to reduce the number of any shares payable in respect of the December 2009 Performance Awards as described above), subject in each case to satisfaction of the performance and other conditions applicable to the Awards:

Name and Position	Aggregate Payout Percentages for December 2009 Performance Awards	Aggregate Shares of Restricted Stock Subject to July 2010 Conversion Awards
Executive Group		
James A. Bianco, M.D. Chief Executive Officer	3.45%	9,966,610
Louis A. Bianco Executive Vice President, Finance and Administration	1.40%	4,041,827
Daniel G. Eramian Executive Vice President, Corporate Communications	1.035%	2,989,983
Craig W. Philips President	2.07%	5,979,967
Jack W. Singer, M.D. Executive Vice President, Chief Medical Officer	1.40%	4,041,827
Total for Executive Group (5 persons)	9.355%	27,020,214
Non-Executive Director Group (6 persons)	2.6335%	6,481,864
Non-Executive Officer Employee Group	0%	0

As of July 26, 2010, the closing price of the Company's common stock on The NASDAQ Capital Market was \$0.40 per share.

Table of Contents**Aggregate Past Grants Under the 2007 Equity Plan**

As of July 13, 2010, Awards covering 74,142,749 shares of the Company's common stock had been granted under the 2007 Equity Plan. (This number of shares includes shares subject to Awards that expired or terminated without having been exercised and paid and became available for new Award grants under the 2007 Equity Plan, but this table does not reflect the December 2009 Performance Awards granted to the named executive officers and other eligible persons under the 2007 Equity Plan other than a portion of such awards converted into awards of restricted stock in July 2010 as described above. The following table shows information regarding the distribution of those Awards among the persons and groups identified below, option exercises and restricted stock vesting prior to and option and unvested restricted stock holdings as of that date.

Name and Position	STOCK OPTIONS				RESTRICTED STOCK/UNITS(1)		
	Number of Shares Subject to Past Option Grants	Number of Shares Acquired On Exercise	Number of Shares Underlying Options as of February 1, 2010		Number of Shares/Units Subject to Past Awards	Number of Shares/Units Vested as of July 13, 2010	Number of Shares/Units Outstanding and Unvested as of July 13, 2010
Named Executive Officers:							
James A. Bianco, M.D.	25,375		25,375		18,117,060	7,160,931	10,956,129
Chief Executive Officer							
Louis A. Bianco	14,336		14,336		7,057,040	2,717,558	4,339,482
Executive Vice President, Finance and Administration							
Daniel G. Eramian	8,225		8,225		5,464,289	2,176,651	3,287,638
Executive Vice President, Corporate Communications							
Craig W. Philips	15,000		10,000	5,000	10,856,797	4,289,186	6,567,611
President							
Jack W. Singer, M.D.	14,725		14,725		7,057,040	2,717,558	4,339,482
Executive Vice President, Chief Medical Officer							
Total for All Current Executive Officers as a Group (5 persons):	77,661		72,661	5,000	48,552,226	19,061,884	29,490,342
Non-Executive Directors:							
John H. Bauer	35,400		5,400	30,000	1,889,809	873,148	1,016,661
Vartan Gregorian, Ph.D.	36,025						