

CELL THERAPEUTICS INC
Form DEF 14A
May 26, 2006
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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.)

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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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T 206.282.7100 F 206.272.4010

May 26, 2006

Dear Shareholder:

You are cordially invited to attend the Cell Therapeutics, Inc. (CTI) Annual Meeting of Shareholders, to be held at 10:00 a.m. (PDT) on Friday, June 23, 2006, at Cell Therapeutics, Inc., located at 501 Elliott Avenue West, Seattle, Washington 98119.

Information concerning the business to be conducted at the meeting is included in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement. Immediately following the meeting, we will report on the operations of CTI and respond to questions you may have.

A copy of the 2005 Annual Report to Shareholders is also enclosed with proxy statements being sent to our U.S. shareholders. If you are an Italian shareholder, you may request a copy of the proxy statement and Annual Report from our Italian office located at Via Ariosto, 23, 20091 Bresso (MI)-Italy, Attn: Finance Director.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the meeting, it is important that your shares be represented. Therefore, we urge our U.S. shareholders to sign, date and promptly return the enclosed proxy in the enclosed postage paid envelope and we urge our Italian shareholders to request and return an Italian proxy card together with a completed certificate of participation. If your shares are held in a bank or brokerage account, 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 interest in CTI.

Sincerely,

James A. Bianco, M.D.

President & Chief Executive Officer

Shareholder

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

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CELL THERAPEUTICS, INC.

Notice of Annual Meeting of Shareholders

Friday, June 23, 2006

To Our Shareholders:

The Annual Meeting of Shareholders of Cell Therapeutics, Inc. (the Company) will be held at 10:00 a.m. (PDT) on Friday, June 23, 2006, at Cell Therapeutics Inc., located at 501 Elliott Avenue West, Seattle, Washington 98119, for the following purposes:

- 1) To elect two Class III directors, each to serve until the 2009 Annual Meeting, and to elect one Class I director, to serve until the 2007 Annual Meeting;
- 2) To approve an amendment to our amended and restated articles of incorporation to increase the number of authorized shares of common stock from 200,000,000 to 350,000,000, including amending and restating our articles of incorporation;
- 3) To approve an amendment to our 1996 Employee Stock Purchase Plan (the ESPP) to extend the term of the ESPP from 10 years from the date of the approval of the ESPP by our shareholders to 20 years from the date of the approval of the ESPP by our shareholders;
- 4) To approve an amendment to our 2003 Equity Incentive Plan (the 2003 Plan) to (a) increase the number of shares subject to the initial automatic grant of nonqualified stock options to non-employee directors upon joining the board of directors from 15,000 shares to 24,000 shares (the Initial Grant), (b) change the vesting of the Initial Grant from being fully vested at the date of grant to becoming vested after one year, (c) change, in part, the expiration of all option grants to non-employee directors from (i) three months following the cessation of such director's service on the board of directors for any reason other than death or disability and (ii) one year following the cessation of such director's service on the board by reason of death or disability to three years following the cessation of such director's service on the board of directors in all such cases, (d) alter the formula whereby directors may convert cash compensation into shares of common stock from an option pricing model determined by the board of directors to a rate of \$3 in option grant value for every \$1 in cash so converted, (e) increase the number of shares of common stock available for issuance under the 2003 Plan by 6,000,000 shares and (f) increase the maximum number of shares that may be issued pursuant to all awards granted to an individual in any one fiscal year under the 2003 Plan to 750,000 shares;
- 5) To approve the issuance of common stock at our election in connection with the payment of interest and make-whole amounts that may become due under our 7.5% convertible senior notes due 2011;
- 6) To ratify the selection of Stonefield Josephson, Inc. as our independent auditors for the year ending December 31, 2006; and
- 7) 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 meeting. Shareholders of record at the close of business on April 17, 2006, the record date fixed by the board of directors, are entitled to vote at the meeting and all adjournments and postponements thereof. A complete list of shareholders entitled to notice of, and to vote at, the meeting will be open to examination by the shareholders beginning ten days prior to the meeting for any purpose germane to the meeting during normal business hours at the office of the Secretary of the Company at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119.

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Whether or not you intend to be present at the 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 certificate of participation. If your shares are held in a bank or brokerage account, 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

May 26, 2006

YOUR VOTE IS IMPORTANT. ACCORDINGLY, YOU ARE URGED TO SIGN, DATE AND RETURN PROMPTLY THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE REGARDLESS OF WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING. IF YOU ARE ONE OF OUR SHAREHOLDERS IN ITALY, PLEASE REMEMBER TO REQUEST A CERTIFICATE OF PARTICIPATION IN THE CENTRAL DEPOSITARY SYSTEM FROM YOUR BROKER AND INCLUDE IT IN THE SAME ENVELOPE OR TELECOPY IT TOGETHER WITH YOUR ITALIAN PROXY CARD (see page 2 for more information on Italian voting procedures).

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CELL THERAPEUTICS, INC.

501 Elliott Avenue West, Suite 400

Seattle, WA 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 of Cell Therapeutics, Inc. for use at our Annual Meeting of Shareholders (the Annual Meeting), to be held at 10:00 a.m. (PDT) on Friday, June 23, 2006, at Cell Therapeutics, Inc., located at 501 Elliott Avenue West, Seattle, WA 98119, and at any adjournment or postponement thereof.

Only shareholders of record on our books at the close of business on April 17, 2006, which we will refer to as the record date, will be entitled to notice of, and to vote at, the Annual Meeting.

At the Annual Meeting, shareholders will be asked to:

- (1) elect two Class III directors to serve until the 2009 Annual Meeting and to elect one Class I director to serve until the 2007 Annual Meeting (Proposal 1);
- (2) approve an amendment to our amended and restated articles of incorporation to increase the number of authorized shares of common stock from 200,000,000 to 350,000,000, including amending and restating our articles of incorporation (Proposal 2);
- (3) approve an amendment to our 1996 Employee Stock Purchase Plan to extend the term of such plan from 10 years from the date of the approval of such plan by our shareholders, or April 29, 2006, to 20 years from the date of approval of such plan by our shareholders, or April 29, 2016 (Proposal 3);
- (4) approve an amendment to our 2003 Equity Incentive Plan previously approved by the board of directors to (a) increase the number of shares subject to the initial automatic grant of nonqualified stock options to non-employee directors upon joining the board of directors from 15,000 shares to 24,000 shares (the Initial Grant), (b) change the vesting of the Initial Grant from being fully vested at the date of grant to becoming vested after one year, (c) change, in part, the expiration of all option grants to non-employee directors from (i) three months following the cessation of such director's service on the board of directors for any reason other than death or disability and (ii) one year following the cessation of such director's service on the board by reason of death or disability to three years following the cessation of such director's service on the board of directors in all such cases, (d) alter the formula whereby directors may convert cash compensation into shares of common stock from an option pricing model determined by the board of directors to a rate of \$3 in option grant value for every \$1 in cash so converted (e) increase the number of shares available for issuance under such plan by 6,000,000 shares, and (f) increase the maximum number of shares that may be issued pursuant to all awards granted to an individual in any one fiscal year under the 2003 Plan to 750,000 shares (Proposal 4);

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(5) approve the issuance of common stock at our election in connection with the payment of interest and make-whole amounts that may become due under our 7.5% convertible senior notes due 2011 (Proposal 5); and

(6) ratify the selection of Stonefield Josephson, Inc. as our independent auditors for the year ending December 31, 2006 (Proposal 6 and, collectively, the Proposals).

This proxy statement and the accompanying proxy card are being first mailed to shareholders on or about May 26, 2006.

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Important Information for our Shareholders in Italy about Voting Procedures

If you hold our shares as a result of a merger with Novuspharma S.p.A. or if you acquired our stock on the Nuovo Mercato, you hold shares of our common stock indirectly through the facilities of the Italian clearing agency, called 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). We refer to persons holding our stock through Monte Titoli as our shareholders in Italy. Monte Titoli, in turn, holds these shares of our common stock through the U.S. clearing agency, called the Depository Trust Company, or 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 us that it will re-transfer its voting power over such shares to the persons holding Certifications of Participation in the Italian Central Depository System issued pursuant to Italian law (Article 85(4) of Legislative Decree no. 58/1998 and Article 34 of CONSOB Regulation 11768/1998).

All of our Italian shareholders are cordially invited to attend our annual meeting in the United States. If you hold our stock in Italy through Monte Titoli, your broker is required by Italian law to provide you with a Certification of Participation in the Italian Central Depository System, which we refer to as your Certification. If you wish to attend our annual meeting and vote in person, please present your Certification at the door. Alternatively, if you would like to vote by mail, you must obtain an Italian proxy card. If you did not receive an Italian proxy card with this proxy statement, you may print one from our Internet site at www.cticseattle.com/investors_events-share.htm. Please mark your votes on the Italian proxy card and return it and your Certification by mail to the address shown on the card by the deadline shown on the card. Your name, as you write it on your Italian proxy card must exactly match your name, as printed on your Certification. Italian privacy law prevents us 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 our inspector of election that you have the right to vote). Holders of Certifications may also name a substitute proxy by any other means permitted by Washington law and our bylaws. If you use an alternate means, the person you name as your proxy must provide your Certification, or a complete copy thereof, together with your written authorization naming such person as your proxy, to our inspector of election in order to verify the authenticity of your proxy designation.

We strongly encourage our Italian shareholders to obtain a Certification and submit it, together with an Italian proxy card, by mail to the address shown on the Italian proxy card. A significant percentage of our shares are held by persons in Italy. If our Italian shareholders do not take the time to vote, we will not obtain a quorum, in which case we would be unable to conduct any business at the annual meeting. **Your vote is important. Please obtain a Certification and vote today.**

Solicitation of Proxies

This solicitation is made on behalf of our board of directors. All expenses in connection with the solicitation of proxies will be borne by us. In addition to solicitation by mail, our officers, directors or other regular employees may solicit proxies by telephone, facsimile, electronic communication or in person. These individuals will not receive any additional compensation for these services. We have engaged The Proxy Advisory Group, LLC, to assist in the solicitation of proxies for a \$7,500 services fee and the reimbursement of customary disbursements.

Voting Rights and Outstanding Shares

Each share of our common stock, without par value, outstanding on the record date is entitled to one vote per share at the Annual Meeting. We do not have any other class of capital stock outstanding. At the close of business on the record date, there were issued and outstanding 102,889,997 shares of common stock. The presence at the Annual Meeting in person or by proxy of holders of record of a majority of the outstanding shares of voting stock is required to constitute a quorum for the transaction of all business at the Annual Meeting. Broker non-votes (i.e., shares held by a broker or nominee which are represented at the meeting, but with

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respect to which the broker or nominee is not empowered to vote on a particular non-routine proposal) 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 elections appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. If a quorum exists at the Annual 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. 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 of directors on such proposals.

For Proposals 1 and 6, if your shares are held in street name and you do not instruct your broker on how to vote your shares, your brokerage firm may either leave your shares unvoted or vote your shares. Shares represented by abstentions for Proposals 1 and 6 will not be counted as votes cast against Proposals 1 and 6 and will have no effect on these proposals since approval is based on the number of votes actually cast. For Proposals 2, 3, 4 and 5, if your shares are held in street name and you do not instruct your broker on how to vote your shares, your brokerage firm will not have the authority to vote your shares, and your shares will constitute broker non-votes. Shares represented by broker non-votes and abstentions will have the same effect as votes against Proposal 2 to amend our articles of incorporation, since approval of this proposal is based on the number of votes entitled to be cast. Broker non-votes and abstentions will not be counted as votes against Proposals 3, 4 and 5 and will have no effect on the proposals, since approval is based solely on the number of votes actually cast.

Voting Electronically or by Telephone

If your shares are registered in the name of a bank or brokerage firm, 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 ADP Investor Communication Services online program. This program provides eligible shareholders who receive a paper copy of the annual report and proxy statement the opportunity to vote via the Internet or by telephone. If your bank or brokerage firm is participating in ADP'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.

Revocability of Proxies

Any shareholder of record 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 our assistant secretary, Donald W. Wyatt, at our principal executive offices, by executing and delivering another proxy dated as of a later date or by voting in person at the meeting. For our 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 of Participation in the Italian Central Depository System.

Voting Agreements

At the time of our merger with Novuspharma, we 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 our 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 the U.S. clearing agency, The Depository Trust Company, or DTC, Monte Titoli will execute a further omnibus proxy transferring its voting power to the persons who hold Certifications of Participation in the Italian Central Depository System, issued pursuant to Italian law (Article 85(4) of Legislative Decree no. 58/1998 and Article 34 of CONSOB Regulation 11768/1998).

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PROPOSAL 1

ELECTION OF DIRECTORS

Summary

Our amended and restated articles of incorporation and our amended and restated bylaws provide for the board of directors 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 and qualified. As a result, approximately one-third of the total number of directors are elected every year at the annual meeting of shareholders.

Under our bylaws, the number of directors constituting the entire board of directors may be decreased or increased by majority action of either the board of directors or the 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 of directors, our 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 and qualified.

The board of directors has fixed the number of directors at twelve. Currently, there are six members of the board of directors. Our nominating and governance committee is in the process of evaluating potential candidates to fill the vacancies on our 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 III directors, Dr. Jack W. Singer and Dr. Mary O. Munding, expire at the Annual Meeting. The current term of office of Mr. John H. Bauer, who was appointed by the board of directors in October 2005 to serve as a Class I director, expires at the Annual Meeting. The current term of the office of the other Class I director, Dr. Phillip M. Nudelman, expires at the 2007 Annual Meeting. The current terms of office of the Class II directors, Dr. James A. Bianco and Dr. Vartan Gregorian, expire at the 2008 Annual Meeting.

Nominees for Election as Directors

Mr. Bauer has been nominated by the board of directors for election at the Annual Meeting as a Class I director for a one year term expiring at the 2007 Annual Meeting. Dr. Munding and Dr. Singer have been nominated by the board of directors for election at the Annual Meeting as Class III directors for three year terms expiring at the 2009 Annual Meeting.

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

Each nominee has agreed to serve if elected, and we have 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 us that they will vote for the election of the substitute nominee or nominees designated by the board of directors.

Vote Required and Board of Directors' Recommendation

The three nominees for director who receive the most votes cast at the Annual 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.

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The table below provides biographical information for each nominee for director and each person whose term of office as a director will continue after the Annual Meeting.

Name	Age as of March 31, 2006	Director Since	Class	Term Expiration
James A. Bianco, M.D.	49	1991	II	2008 Annual Meeting
John H. Bauer (3)	65	2005	I	2006 Annual Meeting
Vartan Gregorian, Ph.D (2)(3)(4)	71	2001	II	2008 Annual Meeting
Mary O. Mundinger, Dr. PH (2)(4)	68	1997	III	2006 Annual Meeting
Phillip M. Nudelman, Ph.D. (1)(2)(3)(4)	70	1994	I	2007 Annual Meeting
Jack W. Singer, M.D.	63	1991	III	2006 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 Three-Year Term Expiring at the 2006 Annual Meeting Class III Directors

Dr. Mundinger has been one of our directors since April 1997. Since 1986, she has been a dean and professor at the Columbia University School of Nursing, and an associate dean on the faculty of medicine at Columbia University. Dr. Mundinger currently serves on the board of directors of United Health Group and Gentiva Health Services. Dr. Mundinger received her doctorate of public health from Columbia's School of Public Health.

Dr. Singer is one of our founders and directors and currently serves as our executive vice president, chief medical officer. Dr. Singer has been one of our directors since our inception in September 1991. He also serves on the board of directors of DiaKine Therapeutics, Inc. From July 1995 to January 2004, Dr. Singer was our executive vice president, research program chairman and from April 1992 to July 1995, he served as our executive vice president, research and development. Prior to joining us, 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.

Nomination for Election at the 2006 Annual Meeting for a Term Continuing Until the 2007 Annual Meeting Class I Director

Mr. Bauer was appointed to our board of directors in October 2005. Mr. Bauer was formerly Executive Vice President for Nintendo of America Inc. from 1994 to 2003. While at Nintendo of America Inc., he had direct responsibility for all administrative and finance functions. He is currently serving as a consultant to Nintendo of America Inc. In addition, he serves as an executive advisor and chief financial officer at DigiPen Institute of Technology. From 1979 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.

Directors Continuing in Office Until the 2007 Annual Meeting Class I Director

Dr. Nudelman has been one of our directors since March 1994. Since May 2000, he has been the president and chief executive officer of The Hope Heart Institute. From 1998 to 2000, he was the chairman of the board of Kaiser/Group Health. From 1990 to 2000, Dr. Nudelman was the president and chief executive officer of Group Health Cooperative of Puget Sound, a health maintenance organization. Dr. Nudelman received his B.S. degree

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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 2008 Annual Meeting Class II Directors

Dr. Bianco is our principal founder and has been our president and chief executive officer since February 1992 and one of our directors since our inception in September 1991. Prior to founding CTI, Dr. Bianco was an assistant professor of medicine at the University of Washington, Seattle, and an assistant member in the clinical research division of the Fred Hutchinson Cancer Research Center. From 1990 to 1992, Dr. Bianco was the director of the Bone Marrow Transplant Program at the Veterans Administration Medical Center in Seattle. Dr. Bianco currently serves on the board of directors of Jose Carreras International Leukemia Foundation, Fred Hutchinson Business Alliance, Arts Fund, Seattle Police Foundation and Marsha Rivkin Center for Ovarian Cancer Research. 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, our executive vice president, finance and administration.

Dr. Gregorian has been one of our 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.

Director Independence

The board of directors has determined that two of the three directors standing for election have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and meet the requirements of independence as set forth in the rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market listing standards. Furthermore, the board of directors has determined that the following four out of the six current members of the Board meet the requirements of independence as set forth in the rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market listing standards: John H. Bauer, Vartan Gregorian, Ph.D., Mary O. Mundinger, Dr. PH and Phillip M. Nudelman, Ph.D.

Board of Directors and Committee Meetings

Our board of directors held 20 meetings during the year ended December 31, 2005. Each of the directors attended at least 75% of the total number of meetings of the board of directors and the total number of meetings held by all committees of the board of directors during the time which they served, with the exception of Mr. Bauer, who was unable to attend one of the meetings of the board of directors held subsequent to his appointment due to extenuating circumstances. Our policy is to encourage attendance at the annual meeting. All of our directors in office at the time of our 2005 Annual Meeting were in attendance at our 2005 Annual Meeting.

The board of directors 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 of directors in fulfilling its responsibilities related to our corporate accounting and reporting practices and the quality and integrity of our financial reporting. The composition of the audit committee and the attributes of its members, and the responsibilities of

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the audit committee as reflected in its charter adopted by our board of directors, are intended to be in accordance with Securities and Exchange Commission rules and Nasdaq listing requirements with regard to corporate audit committees. The board of directors has adopted a written charter for the audit committee, a copy of which was included as an appendix to our definitive proxy statement filed on May 14, 2003 and which is available on our website at www.cticseattle.com.

The audit committee held 15 meetings during the year ended December 31, 2005. The audit committee currently consists of three non-employee directors: Mr. Bauer, Dr. Gregorian and Dr. Nudelman.

The board of directors 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, the rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market listing standards. Additionally, the board of directors 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 Stock Market listing standards.

Compensation Committee

The compensation committee has broad responsibility for assuring that our executive officers, including our 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 our 2003 and 1994 Equity Incentive Plans, our Cell Therapeutics, Inc. Novuspharma S.p.A. Stock Option Plan (Novuspharma Plan) and our 1996 Employee Stock Purchase Plan. The compensation committee held 11 meetings during the year ended December 31, 2005. The compensation committee currently consists of three non-employee directors: Dr. Gregorian, Dr. Munding and Dr. Nudelman, all of whom meet the requirements of independence as set forth in the rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market listing standards. The compensation committee has a written charter, which is available at our website at www.cticseattle.com.

Nominating and Governance Committee

The nominating and governance committee ensures that the board of directors is properly constituted in addition to evaluating both the composition and governance of our board of directors and our corporate governance. The nominating and governance committee also oversees the board evaluation process. Three meetings of the nominating and governance committee were held during the year ended December 31, 2005. The nominating and governance committee currently consists of three non-employee directors: Drs. Gregorian, Munding and Nudelman, all of whom meet the independence requirements as set forth in the rules and regulations promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market listing standards. The nominating and governance committee has a written charter, which is available at our website at www.cticseattle.com.

Meetings of Non-Management Directors

Our non-management directors meet in executive session at each regularly scheduled board meeting, without management present.

Consideration of Director Nominees

A shareholder may recommend a person as a nominee for director by writing to the secretary of the company. Director nominations intended for inclusion in next year's proxy statement pursuant to SEC Rule 14a-8 should be sent to the Secretary of CTI at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119 and must be received by December 28, 2006. Under CTI's bylaws, notice of any other shareholder proposal or the nomination of a candidate for election as a director to be made at the 2007 Annual Meeting of Shareholders (but not included in the proxy statement) must be received by March 25, 2007 (not less than 90 days prior to the

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first anniversary of the previous year's Annual Meeting) and must comply with the bylaws. As set forth in the company's 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 Securities and Exchange Commission had each nominee been nominated, or intended to be nominated, by the board of directors; 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 Annual Meeting.

The nominating and governance committee considers shareholder recommendations of nominees for election to the board of directors if they 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.

John H. Bauer was appointed by the board of directors in October 2005, pursuant to a recommendation from the nominating and governance committee, to fill a vacancy on the board of directors created by the resignation of directors in August 2005. Mr. Bauer currently stands for election to the board of directors as part of Proposal 1. Mr. Bauer was interviewed by our chief executive officer, Dr. Bianco, and one of our non-management directors, Dr. Nudelman, and was recommended to the nominating and governance committee by Dr. Nudelman.

Communicating Concerns to Directors

Shareholders and other interested parties may communicate with our board of directors and the chairman by writing to Dr. Nudelman, c/o Cell Therapeutics, Inc., General Counsel, 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119. The General Counsel 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 of directors 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 General Counsel pursuant to the terms of our Whistle Blower Policy), inquiries regarding clinical trials or our operations generally, job inquiries, surveys, business solicitations or advertisements will not be forwarded to Dr. Nudelman. In addition, material that is hostile, threatening or similarly unsuitable will not be forwarded to Dr. Nudelman. Any communication that is relevant to the conduct of CTI'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 General Counsel discretion to decide what correspondence shall be forwarded to Dr. Nudelman and what shall be shared with CTI management, in all cases with specific instructions that any personal employee complaints be forwarded as set forth in our Whistle Blower Policy.

Director Resignation

On August 19, 2005, Silvano Spinelli resigned as a director of CTI effective immediately. In written correspondence provided by Mr. Spinelli to CTI concerning the circumstances of his resignation, he stated that he disagreed with the decision by the board of directors to not replace the current Chief Executive Officer. A copy of this written correspondence was included as Exhibit 17.1 to our Current Report on Form 8-K filed on August 22, 2005.

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Directors who are also our employees are not paid an annual retainer, nor are they compensated for serving on the board. Information regarding compensation otherwise received by our directors who are also executive officers is provided under the heading "Compensation of Executive Officers" on page 37 of this proxy statement. As increased by our board of directors effective for meetings after February 17, 2006 and presented for shareholder approval as part of Proposal 4, our non-employee directors are paid meeting fees as follows:

	Annual Cash	Meeting Fees (\$)		Telephone Meeting Fees (\$)	
	Retainer (\$)	Board	Committee	Board	Committee
Board Member	25,000(1)	1,500		1,000	
Chairman of the Board	Plus 22,000	1,500		1,000	
Audit Committee Member	Plus 1,000		500		500
Audit Committee Chair	Plus 7,500(2)		500		500
Compensation Committee Member	Plus 1,000		500		500
Compensation Committee Chair	Plus 5,000(2)		500		500
Other Board Committee Member	Plus 1,000		500		500
Other Board Committee Chair	Plus 2,500(2)		500		500

(1) Prior to February 17, 2006, members of the board of directors were paid an annual cash retainer of \$18,000.

(2) Prior to February 17, 2006, the chairperson of a committee of the board of directors was paid an annual cash retainer of \$1,000.

In addition, all non-employee directors are reimbursed for their expenses incurred in attending board meetings.

During 2005, pursuant to our 2003 Equity Incentive Plan, each non-employee director also received one of the following fully-vested option grants:

Grant Type	Option Grants
Initial Grant Upon Appointment Directors (1)	15,000