

CELL THERAPEUTICS INC
Form 424B5
March 31, 2010
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Filed Pursuant to Rule 424(b)(5)

Registration Statement No.: 333-161442

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Maximum aggregate offering price	Amount of registration fee⁽¹⁾⁽²⁾
Series 4 Preferred Stock, no par value per share	\$20,000,000	\$1,426
Warrants to purchase shares of common stock, no par value per share	\$12,058,000	\$ 860 ⁽³⁾
Total	\$32,058,000	\$2,286

- (1) Calculated in accordance with Rule 457(r) under the Securities Act.
- (2) This Calculation of Registration Fee table shall be deemed to update the Calculation of Registration Fee table in the registrant's registration statement on Form S-3 (File No. 333-161442) in accordance with Rules 456(b) and 457(r) under the Securities Act.
- (3) Pursuant to Rule 457(g) under the Securities Act, the filing fee is calculated based on the price at which the warrants may be exercised.

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PROSPECTUS SUPPLEMENT

(to Prospectus dated August 19, 2009)

CELL THERAPEUTICS, INC.

20,000 Shares of Series 4 Preferred Stock

Warrants to Purchase 20,000,000 Shares of Common Stock

Pursuant to this prospectus supplement and the accompanying prospectus, we are offering 20,000 shares of Series 4 Convertible Preferred Stock, or the Series 4 Preferred Stock, and warrants to purchase up to 20,000,000 shares of common stock, or the warrants (and the 60,000,000 shares of common stock issuable from time to time upon conversion of the Series 4 Preferred Stock and exercise of the warrants) to certain institutional investors, or collectively, the Initial Purchasers. The purchase price for each share of Series 4 Preferred Stock and a warrant to purchase 1,000 shares of common stock is \$1,000. Each warrant to purchase shares of our common stock will have an exercise price of \$0.6029 per share. The warrants are exercisable six months and one day after the date of issuance and expire four years and one day from the date of issuance.

For a more detailed description of the Series 4 Preferred Stock and warrants, see the sections entitled "Description of Series 4 Preferred Stock" and "Description of Warrants" beginning on pages S-12 and S-14, respectively, of this prospectus supplement. For a more detailed description of our common stock issuable upon the conversion of the offered Series 4 Preferred Stock and exercise of the offered warrants, see the section entitled "Description of Capital Stock" beginning on page S-15 of this prospectus supplement.

Rodman & Renshaw, LLC acted as the sole placement agent and book runner on this transaction. The placement agent is not purchasing or selling any of these securities nor is it required to sell any specific number or dollar amount of securities, but has agreed to use its reasonable best efforts to sell the securities offered by this prospectus supplement.

This prospectus supplement and the accompanying prospectus also cover the sale of these securities by the Initial Purchasers to the public.

The Series 4 Preferred Stock and the warrants will not be listed on any national securities exchange. Our common stock is quoted on The NASDAQ Capital Market and on the *Mercato Telematico Azionario* stock market in Italy, or the MTA, under the symbol CTIC. On March 30, 2010, the last reported sale price of our common stock on The NASDAQ Capital Market was \$0.605.

Investing in the Series 4 Preferred Stock and warrants involves a high degree of risk. See the section entitled Risk Factors beginning on page S-5 of this prospectus supplement and in the documents we incorporate by reference in this prospectus supplement to read about factors you should consider before investing in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

	Shares of Series 4 Preferred Stock and warrants	Per share of Series 4 Preferred Stock and warrant (1)	Total
Offering price per share of Series 4 Preferred Stock and warrant	20,000	\$ 1,000	\$20,000,000
Placement agent fees (2)		\$ 50	\$ 1,000,000
Total proceeds to us before other expenses		\$ 950	\$19,000,000

(1) Table excludes shares of our common stock issuable upon exercise of the warrants offered hereby.

(2) A fee equal to 5% of the aggregate proceeds raised in this offering will be payable to the placement agent. The Series 4 Preferred Stock and warrants will be delivered to the Initial Purchasers on or about April 6, 2010.

This prospectus supplement is dated March 30, 2010.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information.

We are not making an offer of the Series 4 Preferred Stock and warrants (or the shares of common stock issuable from time to time upon conversion of the Series 4 Preferred Stock and exercise of the warrants) covered by this prospectus supplement in any jurisdiction where the offer is not permitted.

You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the respective dates thereof.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of Series 4 Preferred Stock and warrants (and the shares of common stock issuable from time to time upon conversion of the Series 4 Preferred Stock and exercise of the warrants) and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference. The second part is the accompanying prospectus, which gives more general information. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference, on the other hand, the information in this prospectus supplement shall control.

In this prospectus supplement, the terms CTI, Company, we, us, our and similar terms refer to Cell Therapeutics, Inc., a Washington corporation and its subsidiaries, unless the context otherwise requires.

You should rely only on the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus, or of any sale of the Series 4 Preferred Stock and warrants. You should read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference before making an investment decision. You should also read and consider the information in the documents we have referred you to in the section of this prospectus supplement entitled Incorporation of Certain Documents by Reference.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. In accordance with the Exchange Act, we file reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. Such reports, proxy statements and other information filed by us are available to the public free of charge at www.sec.gov. Copies of certain information filed by us with the SEC are also available on our website at www.celltherapeutics.com. You may also read and copy any document we file at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference facilities by calling the SEC at 1-800-SEC-0330.

Because our common stock is listed on The NASDAQ Capital Market, you may also inspect such reports, proxy statements and other information concerning us at the offices of The NASDAQ Stock Market LLC, or NASDAQ, at 1735 K Street, N.W., Washington, D.C. 20006.

This prospectus supplement and the accompanying prospectus are part of a registration statement we filed with the SEC. This prospectus supplement and the accompanying prospectus omit some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits in the registration statement for further information about us and the securities we are offering. Statements in this prospectus supplement or the accompanying prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical fact are forward-looking statements for purposes of these provisions, including:

any projections of cash resources, revenues, operating expenses or other financial terms;

any statements of the plans and objectives of management for future operations or programs;

any statements concerning proposed new products or services;

any statements regarding future operations, plans, regulatory filings or approvals;

any statements on plans regarding proposed or potential clinical trials or new drug filing strategies or timelines;

any statements regarding pending or future mergers or acquisitions; and

any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing.

In some cases, forward-looking statements can be identified by terms such as anticipates, believes, continue, could, estimates, expects, plans, potential, predicts, should or will or the negative thereof or other comparable terms. Such statements are based on management's current expectations and are subject to risks and uncertainties which may cause actual results to differ materially from those set forth in the forward-looking statements. There can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, but not limited to, the risk factors described in the section of this prospectus supplement entitled Risk Factors. All forward-looking statements and reasons why results may differ included in this prospectus are made as of the date hereof, and we assume no obligation to update any such forward-looking statement or reason why actual results might differ, except to the extent required by law.

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SUMMARY

The following summary highlights information contained elsewhere, or incorporated by reference, in this prospectus supplement and the accompanying prospectus. The following summary does not contain all of the information that you should consider before investing in our securities. To understand this offering fully, you should read this entire prospectus supplement and the accompanying prospectus carefully, including the financial statements and the documents incorporated by reference.

Our Company

We develop, acquire and commercialize novel treatments for cancer. Our goal is to build a leading biopharmaceutical company with a diversified portfolio of proprietary oncology drugs. Our research, development, acquisition and in-licensing activities concentrate on identifying and developing new, less toxic and more effective ways to treat cancer. Our operations are primarily conducted in the United States. During 2008, we had one approved drug, Zevalin[®] (ibrutinomab tiuxetan), which we acquired in 2007, generating product sales. We contributed Zevalin to a joint venture, RIT Oncology, LLC, or RIT Oncology, upon its formation in December 2008 and in March 2009 we finalized the sale of our 50% interest in RIT Oncology to the other member of the joint venture, Spectrum Pharmaceuticals, Inc. All of our current product candidates, including pixantrone, OPAXIO, brostallicin and bisplatinates, are under development.

Corporate Information

We were incorporated in the State of Washington in 1991. Our shares of common stock trade on The NASDAQ Capital Market under the symbol CTIC. Our principal executive offices are located at 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, and our phone number is (206) 282-7100. Our website is located at www.celltherapeutics.com; however, the information in, or that can be accessed through, our website is not part of this prospectus supplement or the accompanying prospectus.

Recent Developments

On March 22, 2010, we announced that the Oncologic Drugs Advisory Committee, or ODAC, of the U.S. Food and Drug Administration, or the FDA, has reviewed our New Drug Application, or NDA, for pixantrone for the treatment of relapsed or refractory aggressive non-Hodgkin's lymphoma and voted unanimously that clinical trial data is not adequate to support approval of pixantrone for patients with relapsed or refractory aggressive non-Hodgkin's lymphoma. ODAC is an independent panel of experts that evaluates data concerning the efficacy and safety of marketed and investigational products for use in the treatment of cancer and makes appropriate recommendations to the FDA. Following the ODAC decision, we requested a meeting with the FDA. However, the FDA noted it was reviewing the ODAC decision and declined a meeting prior to completing its review. Applicable regulations indicate that although the final decision regarding the approval of a product is made by the FDA, the FDA will consider ODAC's recommendations.

Pixantrone is a fast track designated product that has been accepted for review by the FDA with a Prescription Drug User Fee Act date of April 23, 2010. We have requested accelerated approval of pixantrone, and proposed post-marketing commitments trials that are under review by the FDA. The FDA completed its inspection of the facility at NerPharMa (a pharmaceutical manufacturing company belonging to Nerviano Medical Sciences Srl, in Nerviano, Italy) that manufactures pixantrone and has found the site in compliance and acceptable for continued manufacturing of the drug product. **You should not infer that the aforementioned developments in any way increase the likelihood of FDA approval of our NDA.**

On March 12, 2010, a class action complaint was filed in the United States District Court for the Western District of Washington against us and certain of our officers and directors, styled *Cyril Sabbagh, individually and on behalf of all others similarly situated v. Cell Therapeutics, Inc., Dr. James A. Bianco, M.D., and Dr. Jack W. Singer* (Case No. 2:10-sv-00414). On March 19, 2010, a substantially similar class action complaint was filed in the same court, styled *Michael Laquidari, individually and on behalf of all others similarly situated v. Cell Therapeutics, Inc., Dr. James A. Bianco, M.D., and Dr. Jack W. Singer* (Case No. 2:10-cv-00480). The complaints allege that the defendants violated the federal securities laws by making certain alleged false and misleading statements. The plaintiffs seek unspecified damages on behalf of a putative class of purchasers of our securities from May 5, 2009 through February 8, 2010. As is typical in this type of litigation, additional purported securities class action lawsuits containing substantially similar allegations could be filed in the near future. We expect that all of the substantially similar securities class actions will be consolidated into a single action.

In January 2010, we issued and sold in a registered offering an aggregate of 30,000 shares of our Series 3 preferred stock, no par value, and warrants to purchase up to 8.6 million shares of our common stock for gross proceeds of \$30.0 million to certain institutional investors, or the Initial Purchasers. The Initial Purchasers subsequently converted all 30,000 shares of Series 3 preferred stock into 24.7 million shares of our common stock prior to the close of the transaction. The

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warrants remain outstanding and have an exercise price of \$1.18 per share of our common stock, are exercisable immediately and expire one year and one day after the date of issuance. In connection with the offering, we also issued to the placement agent a warrant to purchase up to 0.2 million shares of our common stock at an exercise price of \$1.517 per share. These warrants also are exercisable immediately and expire one year and one day after the date of issuance.

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THE OFFERING

The following is a brief summary of some of the terms of this offering and is qualified in its entirety by reference to the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus.

Securities we are offering	20,000 shares of Series 4 Preferred Stock and warrants to purchase up to 20,000,000 shares of common stock (and the 60,000,000 shares of common stock issuable upon conversion of the Series 4 Preferred Stock and exercise of the warrants). The purchase price for each share of Series 4 Preferred Stock and a warrant to purchase 1,000 shares of common stock is \$1,000. The shares of Series 4 Preferred Stock and warrants will be issued separately, but can only be purchased together in this offering.
Description of Series 4 Preferred Stock	
Dividends	Holder s of the Series 4 Preferred Stock are entitled to receive dividends equal (on an as if converted to common stock basis) to and in the same form as dividends actually paid on shares of common stock or other junior securities, as and if such dividends are paid. We have never declared or paid any cash dividends on our common stock and do not currently anticipate declaring or paying cash dividends on our common stock in the foreseeable future. See Dividend Policy.
Optional conversion	The Series 4 Preferred Stock can be converted at the holder s option at any time into shares of common stock at a conversion price determined by dividing the stated value of the Series 4 Preferred Stock to be converted into the conversion price, which is initially \$0.50. The initial conversion price is subject to adjustment in certain events, including a non-stock fundamental change or a common stock fundamental change, which are explained in more detail under the section entitled Description of Series 4 Preferred Stock.
Limitations on conversion	We cannot effect a conversion of the Series 4 Preferred Stock and no holder may request a conversion of its Series 4 Preferred Stock if such conversion would result in the holder and its affiliates beneficially owning 4.99% or more of our common stock, provided that a holder may elect to increase the conversion threshold to 9.99% of our common stock by providing us with 61 days prior notice.
Liquidation preference	In the event of our voluntary or involuntary dissolution, liquidation or winding up, each holder will be entitled to be paid a liquidation preference equal to the stated value of such holder s Series 4 Preferred Stock, plus accrued and unpaid dividends and any other payments that may be due on such shares, before any distribution of assets may be made to holders of capital stock ranking junior to the Series 4 Preferred Stock.
Voting rights	The Series 4 Preferred Stock will have no voting rights, except as otherwise expressly provided in our articles of incorporation or as otherwise required by law. However, we cannot amend our articles of incorporation, bylaws or other charter documents so as to materially, specifically and adversely affect the rights of the Series 4 Preferred Stock, repay, repurchase or offer to repay or repurchase or otherwise acquire any of our common stock or other securities junior to the Series 4 Preferred Stock, except in certain limited circumstances, or authorize or create any class of senior preferred stock, without the affirmative written consent of holders of a majority of the Series 4 Preferred Stock.
Description of warrants	The Initial Purchasers will receive a warrant to purchase 1,000 shares of common stock for each share of Series 4 Preferred Stock purchased in this offering. The warrants are exercisable at an exercise price of \$0.6029 per share of common stock. The warrants are exercisable six months and one day after the date of issuance and expire four years and one day after the date of issuance. See Description of Warrants.

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Limitations on exercise	No holder may exercise its warrants to the extent that the exercise would result in the holder and its affiliates beneficially owning 4.99% or more of our common stock, provided that a holder may elect to increase the exercise threshold to 9.99% of our common stock by providing us with 61 days' prior notice.
Use of proceeds after expenses	We intend to use the net proceeds from this offering for general corporate purposes, which may include, among other things, paying interest on and/or retiring portions of our outstanding debt, funding research and development, preclinical and clinical trials, the preparation and filing of new drug applications and general working capital. See Use of Proceeds.
Market for the Series 4 Preferred Stock and warrants	There is no established public trading market for the Series 4 Preferred Stock or warrants and we do not expect a market to develop. In addition, we do not intend to apply for listing the Series 4 Preferred Stock or warrants on any national securities exchange.
Market for the common stock	Our common stock is quoted on The NASDAQ Capital Market and on the MTA under the symbol CTIC. On March 30, 2010, the last reported sale price of our common stock on The NASDAQ Capital Market was \$0.605.

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RISK FACTORS

You should carefully consider the risks under the heading "Risk Factors" beginning on page 18 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on February 26, 2010, which information is incorporated by reference in this prospectus supplement, and the additional risks described below and other information in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference before deciding to invest in our securities. If any of the identified risks actually occur, they could materially adversely affect our business, financial condition, operating results or prospects. Additional risks and uncertainties that we do not presently know or that we currently deem immaterial may also impair our business, financial condition, operating results and prospects.

Risks Related to Our Company

We need to raise additional funds and expect that we will need to continue to raise funds in the future, and additional funds may not be available on acceptable terms, or at all; failure to raise significant additional funds may cause us to cease development of our products and operations.

We have substantial operating expenses associated with the development of our product candidates and as of December 31, 2009 we had cash and cash equivalents of \$37.8 million.

As of December 31, 2009, our total current liabilities were \$63.9 million, including \$40.4 million related to our 4% convertible senior subordinated notes which are due in July 2010 and we also had additional debt outstanding. The aggregate long-term principal balance of our outstanding 7.5% and 5.75% convertible senior notes as of December 31, 2009 was \$21.2 million.

We do not expect that our existing cash and cash equivalents, securities available-for-sale, interest receivable as well as proceeds received from our offerings to date will provide sufficient working capital to fund our presently anticipated operations through the third quarter of 2010 and we would therefore need to raise additional capital. Raising additional capital may require that we issue additional shares of our currently authorized common stock. At a Special Meeting of Shareholders to be held on April 9, 2010, we are asking our shareholders to approve an amendment to our amended and restated articles of incorporation to increase the total number of authorized shares of our stock from 810,000,000 shares to 1,210,000,000 shares and to increase the total number of our authorized shares of common stock from 800,000,000 to 1,200,000,000 shares of common stock. We may not obtain sufficient votes from our shareholders for this amendment, which may limit our ability to raise additional funds through the issuance of additional shares. We may not be able to raise such capital or if we can, it may not be on favorable terms. There can be no assurance that we will have sufficient earnings, authorized shares, access to liquidity or cash flow in the future to meet our operating expenses and other obligations, including our debt service obligations.

Our NDA for pixantrone for the treatment of relapsed or refractory aggressive non-Hodgkin's lymphoma may not be approved by the FDA, which would likely adversely affect our financial condition and the value of our securities.

There can be no assurance as to whether or when we will receive regulatory approvals for the use of pixantrone for the treatment of relapsed or refractory aggressive non-Hodgkin's lymphoma. On the contrary, there is substantial risk that the FDA will not approve our NDA for pixantrone for the treatment of relapsed or refractory aggressive non-Hodgkin's lymphoma. On March 22, 2010, we announced that ODAC has reviewed our NDA for pixantrone for the treatment of relapsed or refractory aggressive non-Hodgkin's lymphoma and voted unanimously that clinical trial data is not adequate to support approval of pixantrone for patients with relapsed or refractory aggressive non-Hodgkin's lymphoma. Following the ODAC decision, we requested a meeting with the FDA. However, the FDA noted it was reviewing the ODAC decision and declined a meeting prior to completing its review. Although the FDA is not required to adhere to the recommendations of ODAC with respect to the approval of oncologic products, it frequently follows ODAC's recommendations. Accordingly, ODAC's conclusion that clinical trial data is not adequate to support the approval of pixantrone for patients with relapsed or refractory aggressive non-Hodgkin's lymphoma significantly increases the risk that the FDA will not approve our NDA. If we fail to obtain the FDA's approval of our NDA, our business and financial condition and the value of our securities would likely be adversely affected. See "Summary Recent Developments" for additional information.

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Products that appear promising in research and development may be delayed or fail to reach later stages of development or the market.

The successful development of pharmaceutical products is highly uncertain and obtaining regulatory approval to market drugs to treat cancer is expensive, difficult and risky. Products that appear promising in research and development may be delayed or fail to reach later stages of development or the market for several reasons, including:

clinical trial results may show the product to be less effective than desired or to have harmful or problematic side effects;

preclinical tests may show the product to be toxic or lack efficacy in animal models;

failure to receive the necessary U.S. and international regulatory approvals or a delay in receiving such approvals;

difficulties in formulating the product, scaling the manufacturing process, or getting approval for manufacturing;

manufacturing costs, pricing, reimbursement issues or other factors may make the product uneconomical to commercialize;

other companies or people have or may have proprietary rights to a product candidate, such as patent rights, and will not let the product candidate be sold on reasonable terms, or at all; or

the product candidate is not cost effective in light of existing therapeutics.

Preclinical and clinical data can be interpreted in different ways, which could delay, limit or prevent regulatory approval. Negative or inconclusive results or adverse medical events during a clinical trial could delay, limit or prevent regulatory approval. In addition, any significant problem in the production of our products, such as the inability of a supplier to provide raw materials or supplies used to manufacture our products; equipment obsolescence, malfunctions or failures; product quality or contamination problems; or changes in regulatory requirements or standards that require modifications to our manufacturing process could delay, limit or prevent regulatory approval which could have a material adverse effect on our business, financial condition and results or the trading price of our securities. There can be no assurance as to whether or when we will receive regulatory approvals for our products.

If there is an adverse outcome in the securities class action litigation that has been filed against us, our business may be harmed.

We and certain of our officers and directors are named as defendants in two purported securities class action lawsuits filed in the United States District Court for the Western District of Washington. These lawsuits are brought on behalf of a putative class of purchasers of our securities from May 5, 2009 through February 8, 2010 and seek unspecified damages. As is typical in this type of litigation, additional purported securities class action lawsuits containing substantially similar allegations could be filed in the near future. We expect that all of the substantially similar securities class actions will be consolidated into a single action. As with any litigation proceeding, we cannot predict with certainty the eventual outcome of pending litigation. Furthermore, we may have to incur substantial expenses in connection with this lawsuit. In the event of an adverse outcome, our business could be materially harmed.

Risks Related to this Offering

There is no public market for the Series 4 Preferred Stock or warrants being offered in this offering.

There is no established public trading market for the Series 4 Preferred Stock or warrants being offered in this offering, and we do not expect a market to develop. In addition, we do not intend to apply for listing of the Series 4 Preferred Stock or warrants on any securities exchange. Without an active market, the liquidity of the Series 4 Preferred Stock and warrants will be limited.

Since we have broad discretion in how we use the proceeds from this offering, we may use the proceeds in ways in which you disagree.

We intend to use the net proceeds from this offering for general corporate purposes. See Use of Proceeds. We have not allocated specific amounts of the net proceeds from this offering for any specific purpose. Accordingly, our management will have significant flexibility in applying the net proceeds of this offering. You will be relying on the judgment of our management with regard to the use of the net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. It is possible that the net proceeds will be invested in a way that does not yield a favorable, or any, return for our company. The failure of our management to use the net proceeds effectively could have a material adverse effect on our business, financial condition, operating results and cash flow.

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Purchasers of Series 4 Preferred Stock and warrants who convert their Series 4 Preferred Stock into common stock or exercise their warrants for shares of common stock will incur immediate dilution.

Upon conversion or exercise of your shares of Series 4 Preferred Stock or warrants for shares of common stock, as the case may be, you will experience immediate and substantial dilution because the per share conversion price of your shares of Series 4 Preferred Stock and the exercise price of your warrants will be higher than the net tangible book value per share of the outstanding common stock immediately after this offering. In addition, you will experience dilution when we issue additional shares of common stock that we are permitted or required to issue under outstanding options and warrants and under our stock option plan or other employee or director compensations plans.

Holders of our Series 4 Preferred Stock or warrants will have no rights as a holder of common stock until they acquire common stock.

Until you acquire shares of common stock upon conversion or exercise of the Series 4 Preferred Stock and warrants, as the case may be, you will have no rights with respect to our common stock, other than the right of the convertible preferred stock to receive dividends equal to and in the same term as dividends actually paid on common stock, including rights to vote or respond to tender offers. Upon conversion or exercise of your Series 4 Preferred Stock or warrants, as the case may be, you will be entitled to exercise the rights of a holder of common stock only as to matters for which the record date occurs after the conversion or exercise date.

Risks Related to Holders of our Common Stock

Shares of common stock are equity securities and are subordinate to our existing and future indebtedness.

Shares of our common stock are common equity interests. This means that our common stock ranks junior to any preferred stock that we may issue in the future, to our indebtedness, and to all creditor claims and other non-equity claims against us and our assets available to satisfy claims on us, including claims in a bankruptcy or similar proceeding. Our existing and future indebtedness may restrict payment of dividends on our common stock.

Additionally, unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of our common stock, (i) dividends are payable only when and if declared by our board of directors or a duly authorized committee of our board of directors, and (ii) as a corporation, we are restricted to making dividend payments and redemption payments out of legally available assets. We have never paid a dividend on our common stock and have no current intention to pay dividends in the future. Further, our common stock places no restrictions on our business or operations or on our ability to incur indebtedness or engage in any transactions, subject only to the voting rights available to shareholders generally.

The market price of shares of our common stock may be adversely affected by market conditions affecting the stock markets in general, including price and trading fluctuations on The NASDAQ Capital Market.

The market price of our common stock may be adversely affected by market conditions affecting the stock markets in general, including price and trading fluctuations on The NASDAQ Capital Market. These conditions may result in (i) volatility in the level of, and fluctuations in, the market prices of stocks generally and, in turn, our shares of common stock, and (ii) sales of substantial amounts of our common stock in the market, in each case that could be unrelated or disproportionate to changes in our operating performance.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our shares of common stock.

We are not restricted from issuing additional shares of common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, shares of common stock or preferred stock or any substantially similar securities. The market price of our shares of common stock or preferred stock could decline as a result of sales of a large number of shares of our common stock or preferred stock or similar securities in the market after consummation of this offering or the perception that such sales could occur in the future. In addition, we are asking our shareholders to approve an amendment to our amended and restated articles of incorporation to increase the total number of authorized shares of our stock from 810,000,000 shares to 1,210,000,000 shares and to increase the total number of our authorized shares of common stock from 800,000,000 to 1,200,000,000 shares of common stock at a Special Meeting of Shareholders to be held on April 9, 2010. If our shareholders approve the amendment, we would have a substantial number of additional shares of common stock that could be issued.

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

The market price for securities of biopharmaceutical and biotechnology companies, including ours, historically has been highly volatile, and the market from time to time has experienced significant price and volume fluctuations that are unrelated to the operating performance of such companies. For example, during the twelve month period ended March 30, 2010, our stock price has ranged from a low of \$0.12 to a high of \$2.23. Fluctuations in the trading price or liquidity of our common stock may adversely affect the value of your investment in our common stock.

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

announcements by us or others of results of preclinical testing and clinical trials and regulatory actions;

announcements of technological innovations or new commercial therapeutic products by us, our collaborative partners or our present or potential competitors;

our issuance of additional debt, equity or other securities, which we need to pursue in 2010 to generate additional funds to cover our current debt and operating expenses;

our quarterly operating results;

developments or disputes concerning patent or other proprietary rights;

developments in our relationships with collaborative partners;

acquisitions or divestitures;

litigation and government proceedings;

adverse legislation, including changes in governmental regulation;

third-party reimbursement policies;

changes in securities analysts' recommendations;

short selling;

changes in health care policies and practices;

halting or suspension of trading in our common stock by NASDAQ, CONSOB or the Borsa Italiana;

economic and other external factors; and

general market conditions.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. For example, in the case of our company, beginning in March 2005, several class action lawsuits were instituted against us and certain of our directors and officers and a derivative action lawsuit was filed against our full board of directors. While these lawsuits were dismissed with prejudice, as a result of these types of lawsuits, we could incur substantial legal fees and our management's attention and resources could be diverted from operating our business as we respond to the litigation. We maintain significant insurance to cover these risks for us and our directors and officers, but our insurance is subject to high deductibles to reduce premium expense, and there is no guarantee that the insurance will cover any specific claim that we may face in the future, or that it will be adequate to cover all potential liabilities and damages.

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

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

a classified board of directors so that only approximately one third of our board of directors is elected each year;

elimination of cumulative voting in the election of directors;

procedures for advance notification of shareholder nominations and proposals;

the ability of our board of directors to amend our amended and restated bylaws without shareholder approval; and

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the ability of our board of directors to issue shares of preferred stock without shareholder approval upon the terms and conditions and with the rights, privileges and preferences as the board of directors may determine.

Pursuant to our Rights Plan, an acquisition of 20% or more of our common stock could result in the exercisability of the preferred stock purchase right accompanying each share of our common stock (except those held by a 20% shareholder, which become null and void), thereby entitling the holder to receive upon exercise, in lieu of a number of units of preferred stock, that number of shares of our common stock having a market value of two times the exercise price of the right. The existence of our Rights Plan could have the effect of delaying, deferring or preventing a third party from making an acquisition proposal for us and may inhibit a change in control that some, or a majority, of our stockholders might believe to be in their best interest or that could give our stockholders the opportunity to realize a premium over the then-prevailing market prices for their shares.

In addition, as a Washington corporation, we are subject to Washington law which imposes restrictions on some transactions between a corporation and certain significant shareholders. These provisions, alone or together, could have the effect of deterring or delaying changes in incumbent management, proxy contests or changes in control.

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USE OF PROCEEDS

We estimate that the net proceeds of this offering, after deducting placement agent fees and our estimated offering expenses, and excluding the proceeds, if any, from the exercise of the warrants issued in this offering, will be approximately \$18.5 million.

We currently intend to use the net proceeds from this offering for working capital and for general corporate purposes, which may include, among other things, paying interest on and/or retiring portions of our outstanding debt, funding research and development, preclinical and clinical trials, the preparation and filing of new drug applications and general working capital. Set forth below are details of certain of our outstanding indebtedness that we may retire, in whole or in part, with the net proceeds from this offering (principal amounts as of December 31, 2009):

our approximately \$40.4 million 4% Convertible Senior Subordinated Notes due 2010 mature on July 1, 2010;

our approximately \$10.3 million 7.5% Convertible Senior Notes due 2011 mature on April 30, 2011; and

our approximately \$10.9 million 5.75% Convertible Senior Notes due 2011 mature on December 15, 2011.

We cannot estimate precisely the allocation of the net proceeds from this offering among these uses. The amounts and timing of the expenditures may vary significantly, depending on numerous factors, including the progress of our clinical trials and other development efforts, as well as the amount of cash used in our operations. Accordingly, our management will have broad discretion in the application of the net proceeds of this offering. We reserve the right to change the use of proceeds as a result of certain contingencies such as competitive developments, opportunities to acquire technologies or products and other factors. Pending the uses described above, we may temporarily invest the net proceeds of this offering in short- and medium-term interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

DETERMINATION OF OFFERING PRICE

Prior to this offering, there was no public market for the Series 4 Preferred Stock or warrants. The terms and conditions of the Series 4 Preferred Stock, including the dividend rate and the conversion price, and the warrants, including the exercise price, were determined by negotiation by us and the placement agent. The principal factors considered in determining these terms and conditions include:

the market price of our common stock;

the information set forth in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference, and otherwise available to the placement agent;

our history and prospects and the history of, and prospects for, the industry in which we compete;

our past and present financial performance and an assessment of our management;

our prospects for future earnings and the present state of our development;

the general condition of the securities markets at the time of this offering;

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the recent market prices of, and demand for, publicly traded common stock of generally comparable companies; and

other factors deemed relevant by the placement agent and us.

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RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth our ratio of earnings to combined fixed charges and preferred stock dividends for each of the periods indicated:

	Year ended December 31,				
	2009	2008	2007	2006	2005
Ratio of earnings to combined fixed charges and preferred stock dividends (1)					

- (1) Earnings were not sufficient to cover combined fixed charges and preferred stock dividends. Earnings consist of income (loss) before provision for income taxes plus fixed charges. Fixed charges consist of interest charges and that portion of rental payments under operating leases we believe to be representative of interest. Earnings for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, were insufficient to cover fixed charges, and fixed charges and preferred stock dividends, by \$116.8, \$202.9, \$148.3, \$135.8 and \$102.5 (in millions), respectively. For this reason, no ratios are provided for these periods.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock and do not currently anticipate declaring or paying cash dividends on our common stock in the foreseeable future. We currently intend to retain all of our future earnings, if any, to finance operations. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and other factors that our board of directors may deem relevant.

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DESCRIPTION OF SERIES 4 PREFERRED STOCK

The material terms and provisions of the Series 4 Preferred Stock being offered pursuant to this prospectus supplement and the accompanying prospectus are summarized below. This summary is subject to, and qualified in its entirety by, the rights, preferences and privileges of the Series 4 Preferred Stock set forth in the articles of amendment to our amended and restated articles of incorporation to be filed as an exhibit to our Current Report on Form 8-K which we will file with the SEC in connection with this offering.

Rank

The Series 4 Preferred Stock will, with respect to dividend rights and rights upon our liquidation, dissolution or winding up, rank senior to our common stock and we may not redeem, purchase or otherwise acquire any material amount of common stock or other securities junior to the Series 4 Preferred Stock except for repurchases of up to 30,000,000 shares of common stock in any 12 month period from employees, officers, directors, consultants or others who perform services for the company and who are subject to an agreement with the company providing a right of repurchase of such shares at cost or on the occurrence of certain events, such as termination of employment.

Dividends

Holders of the Series 4 Preferred Stock are entitled to receive dividends on shares of the Series 4 Preferred Stock (on an as if converted to common stock basis) to and in the same form as dividends actually paid on shares of the common stock or other junior securities. All accrued but unpaid dividends on the Series 4 Preferred Stock shall increase the stated value of the Series 4 Preferred Stock, but when such dividends are actually paid such increase shall be rescinded.

Liquidation Preference

Upon our voluntary or involuntary dissolution, liquidation or winding up, holders of the Series 4 Preferred Stock will be entitled to receive the stated value of such holder's shares of Series 4 Preferred Stock plus any accrued and unpaid dividends and other payments that may be due on the shares before the holders of common stock or any other junior securities of the company receive any payments from such liquidation. In the event the amount available for payment of this liquidation preference is less than the full amount of the stated value of all shares of Series 4 Preferred Stock then outstanding, the assets to be distributed to the holders of the Series 4 Preferred Stock will be ratably distributed among such holders in accordance with the respective amounts that would be payable on such holder's shares if the liquidation preference was paid in full.

Conversion

The Series 4 Preferred Stock shall be convertible at the option of the holders thereof into registered shares of our common stock at anytime after the closing of the transaction into the number of shares of common stock determined by dividing the aggregate stated value of the Series 4 Preferred Stock being converted by the conversion price then in effect. The initial conversion price is \$0.50 and is subject to adjustment as described below. This right to convert is limited by the beneficial ownership limitation described below.

Beneficial Ownership Limitation

We may not effect any conversion and the holder may not request conversion of the Series 4 Preferred Stock if following such conversion the holder and its affiliates would beneficially own in excess of 4.99% of our common stock, provided that a holder may elect to increase the conversion threshold to 9.99% by providing us with 61 days' prior notice. The amount of beneficial ownership of the holder and its affiliates will be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations of that section.

Conversion Price Adjustment

Stock Dividends and Stock Splits. If we pay a stock dividend or otherwise make a distribution payable in shares of the common stock on the shares of the common stock or any common stock equivalents, subdivide or combine our outstanding common stock, or reclassify our common stock in such a way that we issue additional shares of capital stock of the company, the conversion price will be adjusted by multiplying the then existing conversion rate by a fraction the numerator of which is the number of shares outstanding immediately before the distribution, dividend, adjustment or recapitalization and the denominator of which is the number of shares outstanding immediately after such action.

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Rights Offerings. If we issue rights, options or warrants to holders of the common stock giving such holders a right to subscribe for or purchase shares of common stock at a price per share lower than the volume weighted average price of the common stock on the record date for such issuance and do not offer the same rights to the holders of the Series 4 Preferred Stock, the conversion price will be adjusted to reflect the rights offering by multiplying such conversion price by a fraction the numerator of which is the number of shares outstanding before such record date plus the number of shares which the aggregate offering price (assuming full subscription) would purchase at the value weighted average price of the common stock on such record date and the denominator of which is the number of shares of common stock outstanding on the record date plus the aggregate number of shares offered for subscription or purchase.

Pro Rata Distributions. If we distribute evidences of our indebtedness, assets (including cash or cash dividends), warrants or other rights to subscribe for our securities (other than common stock) to the holders of the common stock, then the conversion price will be adjusted by multiplying the conversion price in effect immediately prior to the record date for such distribution by a fraction the numerator of which is the volume weighted average price of the common stock on such record date minus the fair market value at such record date of the distributed evidence of indebtedness, asset, warrant or other right applicable to one share of common stock, such fair market value to be determined by the board in good faith, and the denominator of which is the volume weighted average price of the common stock on such record date.

Fundamental Transaction. If we effect a fundamental transaction (as defined below), then upon any future conversion of the Series 4 Preferred Stock, the holders will have the right to receive, for each share of common stock they would have received upon such conversion, the same kind and amount of securities, cash or property as such holder would have been entitled to receive in the transaction had it been the holder of a share of common stock immediately prior to the transaction. The term fundamental transaction means any of the following:

a merger or consolidation of the company with or into another entity;

the sale of all or substantially all of the assets of the company in one transaction or a series of related transactions;