

CELL THERAPEUTICS INC  
Form S-4/A  
September 18, 2003  
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As filed with the Securities and Exchange Commission on September 18, 2003

Registration No. 333-106906

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**AMENDMENT NO. 2 TO**  
**FORM S-4**

**REGISTRATION STATEMENT**

Under

**THE SECURITIES ACT OF 1933**

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**CELL THERAPEUTICS, INC.**

(Exact name of Registrant as specified in its charter)

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Washington  
(State or other jurisdiction of  
incorporation or organization)

2834  
(Primary Standard Industrial  
Classification Code Number)

91-1533912  
(I.R.S. Employer  
Identification Number)

501 Elliott Avenue West, Suite 400

Seattle, Washington 98119

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(206) 282-7100

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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**James A. Bianco, M.D.**

**President and Chief Executive Officer**

**Cell Therapeutics, Inc.**

**501 Elliott Avenue West, Suite 400**

**Seattle, Washington 98119**

**(206) 282-7100**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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*Copies to:*

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**Approximate date of commencement of proposed sale to the public:**

As soon as practicable after this registration statement becomes effective and upon completion of the merger of Novuspharma S.p.A., an Italian joint stock company, with and into the registrant as described in the agreement and plan of merger, dated as of June 16, 2003.

If the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If the Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**Cell Therapeutics, Inc.**

**501 Elliott Avenue West, Suite 400**

**Seattle, Washington 98119**

**United States of America**

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT!**

Dear CTI Shareholders: September 18, 2003

I am pleased to report that the board of directors of Cell Therapeutics, Inc. and the board of directors of Novuspharma S.p.A. have each unanimously approved the merger of Novuspharma with and into CTI. On October 23, 2003 we will hold a special meeting of shareholders of CTI, where we will ask you to approve the stock-for-stock merger. It is a condition to the completion of the merger that this approval be obtained. **Please vote by following the instructions in the enclosed proxy statement/prospectus, even if you plan to attend the meeting.**

We currently market TRISENOX<sup>®</sup> for relapsed/refractory acute promyelocytic leukemia and are developing XYOTAX (CT-2103), which is in pivotal Phase III trials for lung and ovarian cancers. In June 2003, we received fast track designation from the FDA for our XYOTAX pivotal trials in poor performance status, or PS2, patients with advanced non-small cell lung cancer. Novuspharma, a Bresso (Milan), Italy-based public biopharmaceutical company, is developing Pixantrone, a potentially less cardiotoxic, more active anthracycline in Phase III clinical trials for lymphoma. We have focused on discovering and acquiring late stage development products and commercializing innovative new treatments for cancer. In contrast, Novuspharma's expertise has focused primarily on predevelopment activities and early Phase I/II clinical development. We believe the strength of our combined product pipelines, potential cost savings and operating synergies, and the strong combined balance sheet of CTI and Novuspharma make this a smart strategic and financial transaction.

If our shareholders approve the merger and the other conditions to the merger are met, we will issue 2.45 shares of CTI common stock in exchange for each outstanding Novuspharma ordinary share, resulting in an expected issuance of approximately 16.0 million shares of CTI common stock based on the number of Novuspharma ordinary shares outstanding as of June 16, 2003. In addition, outstanding Novuspharma stock options will be accelerated and cancelled, and CTI will grant Novuspharma employees new options to purchase CTI common stock. Our European headquarters will relocate to Novuspharma's offices in Bresso (Milan) Italy, and Novuspharma will operate as an Italian branch, and later as an Italian subsidiary, of CTI. At the completion of the merger, CTI's bylaws will be amended to increase the size of the CTI board from nine to twelve. We will appoint Novuspharma nominees to two of the twelve board seats, and a third independent nominee will be identified by Novuspharma and mutually agreed upon by CTI and Novuspharma to fill the remaining board seat.

After careful review and consideration, the CTI board of directors has unanimously approved the merger agreement and the related transactions. **Your board of directors recommends that you vote FOR the merger proposal.**

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On September 17, 2003, CTI common stock, which trades on the Nasdaq National Market under the symbol CTIC, closed at \$11.05. We will apply to also list our common stock on Italy's Nuovo Mercato stock exchange under the symbol CTIC commencing upon the completion of the proposed merger.

Your vote is important. We cannot merge Novuspharma with and into CTI unless the holders of a majority of the shares voting at the CTI special meeting vote to approve the merger. Whether or not you plan to attend the special meeting, please vote by following the instructions in the enclosed proxy statement/prospectus to ensure that your shares will be represented at the special meeting. If you attend the special meeting and wish to vote in person, you may withdraw your proxy and do so.

You can find additional information about the proposed merger in the enclosed proxy statement/prospectus. Please consider the matters discussed under Risk Factors commencing on page 18 before voting. We encourage all shareholders to read this entire document carefully.

By Order of the Board of Directors,

James A. Bianco, M.D.

*President and Chief Executive Officer*

**PLEASE VOTE YOUR PROXY TODAY**

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**Neither the United States Securities and Exchange Commission nor any state securities commission nor the Republic of Italy Commissione Nazionale per le Società e la Borsa has approved or disapproved these securities, passed upon the fairness or merits of the merger of Novuspharma with and into CTI or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

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**This proxy statement/prospectus is dated September 18, 2003, and is being first mailed to CTI shareholders on or about September 23, 2003.**

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**CELL THERAPEUTICS, INC.**

**501 Elliott Avenue West, Suite 400**

**Seattle, Washington 98119**

**United States of America**

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**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**To be held on October 23, 2003 at 9:30 a.m. Seattle time**

To the Shareholders of Cell Therapeutics, Inc.:

We will hold a special meeting of shareholders of Cell Therapeutics, Inc. on Thursday, October 23, 2003 at 9:30 a.m., local time, at 501 Elliott Avenue West, Suite 400, Seattle, Washington, United States of America for the purposes of considering and acting on the following matters:

1. a proposal to approve the merger between Cell Therapeutics, Inc. and Novuspharma S.p.A. and the transactions contemplated thereby as set forth in the merger agreement dated as of June 16, 2003 between CTI and Novuspharma; and
2. to transact any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting.

The foregoing items of business are more fully described in the accompanying proxy statement/ prospectus, which we encourage you to read carefully. The approval of the merger proposal requires the affirmative vote of a majority of the votes cast at the CTI special meeting. **The CTI board of directors has unanimously approved the merger agreement and recommends that you vote FOR the merger proposal.**

Only those shareholders whose names appear on our records as owning shares of our common stock at the close of business on September 12, 2003, are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special meeting.

Your vote is very important, regardless of the number of shares you own. Please vote as soon as possible to make sure that your shares are represented at the meeting. To vote your shares, you may either vote by mail by completing and returning the enclosed proxy card or, if you are a holder of record of CTI common shares, you may vote by telephone or the Internet by following the instructions on the enclosed proxy card. If you are a holder of record of CTI common stock, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares. Executed proxies with no instructions indicated will be voted FOR the merger proposal.

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By Order of the Board of Directors,

James A. Bianco, M.D.

*President and Chief Executive Officer*

Cell Therapeutics, Inc.

Seattle, Washington

United States of America

September 18, 2003

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**PROXY STATEMENT/PROSPECTUS**

We are furnishing this document, as a proxy statement, to holders of our common stock in connection with the solicitation of proxies by our board of directors for use at a special meeting of our shareholders. As a proxy statement, this document provides information to our shareholders for their consideration regarding the proposal to be presented at our special meeting of shareholders to approve the merger between CTI and Novuspharma S.p.A. as set forth in the agreement and plan of merger between CTI and Novuspharma dated as of June 16, 2003, which we call the merger agreement. Pursuant to the merger agreement, Novuspharma will merge with and into CTI. If the merger is approved by our shareholders and all other conditions to the completion of the merger are satisfied or waived, based on the number of Novuspharma ordinary shares outstanding as of June 16, 2003, we will issue approximately 16.0 million shares of CTI common stock in exchange for the cancelled ordinary shares of Novuspharma pursuant to an exchange ratio of 2.45 shares of CTI common stock for each Novuspharma ordinary share. Upon completion of the merger, based on the number of Novuspharma ordinary shares outstanding as of June 16, 2003, current CTI shareholders will own approximately 67.7% of the outstanding common stock of CTI and current Novuspharma shareholders will own approximately 32.3% of the outstanding CTI common stock. We will also issue options to purchase shares of CTI common stock to Novuspharma employees, to be determined in our discretion.

One condition to closing is that the shareholders of Novuspharma must also approve the merger at a special meeting of Novuspharma shareholders, which will be held at approximately the same time as our special meeting. The Novuspharma board of directors approved the merger and is informing Novuspharma shareholders of the terms of the proposed transaction by means of a separate document, the *Documento Informativo*, under Italian law.

Once the merger is completed, we will deliver this document, as a prospectus, to Novuspharma shareholders either before or at the same time that our exchange agent delivers newly-issued CTI common shares in exchange for the cancelled Novuspharma ordinary shares. As a prospectus, this document provides information relevant to the Novuspharma shareholders' investment decision to accept shares of our common stock in exchange for Novuspharma ordinary shares. It describes, among other things, each of the parties to the merger and the surviving company and explains the significant respects in which share ownership in the surviving company will differ from share ownership in Novuspharma.

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**See Risk Factors beginning on page 18 for a discussion of important factors  
that you should consider in determining how to vote on the merger.**

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On September 17, 2003, the closing sales price of our common stock, which trades on the Nasdaq National Market under the symbol CTIC, was \$11.05. We will apply to also list our common stock on Italy's Nuovo Mercato stock exchange under the symbol CTIC commencing upon the completion of the proposed merger.

**Neither the United States Securities and Exchange Commission nor any state securities commission nor the Republic of Italy Commissione Nazionale per le Società e la Borsa has approved or disapproved these securities, passed upon the fairness or merits of the merger of Novuspharma with and into CTI, or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**



**The date of this proxy statement/prospectus is September 18, 2003.**

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**CELL THERAPEUTICS, INC.**

**PROXY STATEMENT/PROSPECTUS**

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**ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates important business and financial information about Cell Therapeutics, Inc. from documents we have filed with the Securities and Exchange Commission that are not included in or delivered with this proxy statement/prospectus. If you call or write, we will send you copies of these documents, including any exhibits specifically incorporated by reference in the documents, without charge. You may contact us at:

Cell Therapeutics, Inc.

501 Elliott Avenue West, Suite 400

Seattle, Washington 98119

United States of America

Attention: Investor Relations

Telephone Number: (206) 272-4345

**In order to receive timely delivery of the documents in advance of the special meeting, you must make your request no later than October 17, 2003.**

For more information on the material incorporated by reference in this proxy statement/prospectus, see [Where You Can Find More Information](#).

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All references to dollars or \$ in this proxy statement/prospectus are references to United States dollars; all references to euros or are references to European Union, or EU, euros and all references to lira or Lit. are to the Italian lira. On September 17, 2003, the median 4 p.m. Greenwich Mean Time spot rate for the euro expressed in U.S. dollars per euro was approximately \$1.12 to 1.00. The exchange rate between the lira and the euro established pursuant to the Maastricht treaty is fixed at Lit. 1,936.27 to 1.00. Since January 1, 2002, the lira has been withdrawn from circulation. See [Conditions in Italy and the European Union Exchange Rates; European Economic and Monetary Union](#).

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**QUESTIONS AND ANSWERS ABOUT THE PROPOSAL**

**Q: When and where is the CTI special meeting?**

A: The special meeting of CTI shareholders will be held at 9:30 a.m., local time, on, October 23, 2003, at 501 Elliott Avenue, West, Suite 400, Seattle, Washington, United States of America.

**Q: Will I receive new stock certificates?**

A: No. If the merger is approved, your existing CTI stock certificates will not be replaced. Please do not send any stock certificates with your proxy card.

**Q: What do I need to do now?**

A: After you have carefully read this proxy statement/prospectus, please vote by either completing, signing and dating the enclosed proxy card and mailing it in the enclosed prepaid return envelope or, if you are a holder of record of CTI common shares, voting by telephone or electronically over the Internet by following the instructions on the enclosed proxy card as soon as possible, so that your shares of CTI common stock may be represented and voted at the special meeting of CTI's shareholders. If you attend the special meeting, you may vote in person even though you have submitted your proxy card.

If you hold your shares of CTI common stock through a broker, you may also have the option to vote those shares by telephone or over the Internet. Please refer to the separate instructions provided by your broker.

**Q: If my shares of CTI common stock are held in street name by my broker, will my broker automatically vote my shares of CTI common stock for me?**

A: No. Your broker is not permitted to vote your shares of CTI common stock on the merger proposal without specific instructions from you. Unless you follow the directions your broker provides you regarding how to instruct your broker to vote your shares of CTI common stock, your shares will not be voted.

**Q: What should I do if I receive more than one set of voting materials?**

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold your shares of CTI common stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a shareholder of record and your shares of CTI common stock are registered in more than one name, you will receive more than one proxy card. Please either complete, sign, date and return, or follow the instructions for voting by telephone or over the Internet provided on, each proxy card and voting instruction card that you receive.

**Q: Can I change my vote after I have mailed my proxy card?**

A: Yes. You may change your vote at any time before the special meeting by:

sending written notice to:

Cell Therapeutics, Inc.

501 Elliott Avenue West, Suite 400

Seattle, Washington 98119

United States of America

Attention: Secretary;

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returning a later-dated proxy card;

changing your vote by telephone or electronically over the Internet; or

voting in person at the special meeting.

If you hold your shares through a broker and wish to change your vote, you must contact your broker.

**Q: Who can answer my questions?**

A: If you have questions, or want additional copies of this proxy statement/prospectus, please contact our proxy solicitor, Innisfree M&A Incorporated, by calling its toll-free number: (888) 750-5834. You may also contact us directly at:

Cell Therapeutics, Inc.

501 Elliott Avenue West, Suite 400

Seattle, Washington 98119

United States of America

Attention: Investor Relations

Telephone Number: (206) 272-4345

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**SUMMARY**

This section contains a general summary of some of the material information contained in this proxy statement/prospectus. We selected the information in the summary based on what we believe is most important to investors. To understand the merger, you should read the entire proxy statement/prospectus and the documents incorporated by reference.

**The Companies**

**CTI**

We develop, acquire and commercialize novel treatments for cancer. Our goal is to build a leading, vertically-integrated biopharmaceutical company with a diversified portfolio of proprietary oncology drugs. Our research, clinical development and in-licensing activities are concentrated on identifying new, less toxic and more effective ways to treat cancer. We market TRISENOX<sup>®</sup> for the treatment of a type of blood cell cancer called acute promyelocytic leukemia, or APL, in the U.S. and in the EU. XYOTAX, our lead drug candidate, is currently in three pivotal Phase III trials for the treatment of non-small cell lung cancer and we anticipate one pivotal Phase III trial for ovarian cancer to begin in late 2003.

We were incorporated in Washington in 1991. Our principal office is located at 501 Elliott Avenue West, Suite 400, Seattle, WA 98119. Our telephone number is (206) 282-7100. Our world wide web address is <http://www.cticseattle.com>. Information on our web site does not constitute part of this proxy statement/prospectus. CTI, TRISENOX and XYOTAX (formerly referred to as PG-TXL) are our proprietary marks. All other product names, trademarks and trade names referred to in this proxy statement/prospectus are the property of their respective owners.

**Novuspharma**

Novuspharma is an Italian biopharmaceutical company with a development strategy focused on the treatment of cancer, both by modifying existing chemotherapies to make them more effective and less toxic and by developing completely novel therapeutics for treatment of the disease. Novuspharma, with headquarters and a research facility at Via Ariosto 23, 20091 (telephone: +39 (02) 610 351) Bresso (Milan), Italy, began operations in 1999 following the spin-off of the oncology research and development department of Boehringer Mannheim Italia S.p.A. from F. Hoffman-La Roche Ltd. In November 2000, Novuspharma ordinary shares were listed on the Nuovo Mercato stock exchange in Italy. Novuspharma's pipeline includes Pixantrone, an investigational medicinal product currently in Phase III and Phase II clinical trials and another two products in Phase II clinical trials.

See Business of Novuspharma.

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### **The Merger**

#### **Ownership of the Combined Company Following the Merger**

At the closing of the merger, based on the number of Novuspharma ordinary shares outstanding as of June 16, 2003 and the exchange ratio of 2.45 CTI common shares for each Novuspharma ordinary share, CTI will issue approximately 16.0 million new shares of common stock to current Novuspharma shareholders. Upon completion of the merger, based on the number of Novuspharma ordinary shares outstanding as of June 16, 2003, current CTI shareholders will own approximately 67.7% of CTI's outstanding common stock and current Novuspharma shareholders will own approximately 32.3% of CTI's outstanding common stock. Based on the companies' respective closing share prices on June 16, 2003, the last full trading day prior to our announcement of the merger, Novuspharma's shareholders would receive an implied premium for their Novuspharma shares. The issuance of CTI common shares at any implied premium would likely result in dilution to the market price of CTI common stock. See Risk Factors Risks Related to the Merger and The Merger Agreement Conversion of Novuspharma Shares in the Merger.

#### **Material U.S. Federal Tax Considerations**

Generally, the exchange by Novuspharma shareholders of Novuspharma ordinary shares for shares of our common stock will not cause either Novuspharma shareholders or our shareholders to recognize any gain or loss for U.S. federal income tax purposes. However, Novuspharma shareholders might have to recognize gain or loss if their stock ownership in Novuspharma is sufficiently large. This tax treatment might not apply to all Novuspharma shareholders. A determination of the actual tax consequences of the merger to you if you are a Novuspharma shareholder can be complicated and will depend on your own specific situation and on variables not within our control or the control of Novuspharma. We urge Novuspharma shareholders to consult their own tax advisors for a full understanding of the tax consequences of the merger to them. See The Merger Material U.S. Federal Income Tax Considerations.

#### **Italian Tax Considerations**

Generally, the merger will not cause a taxable event for Italian income tax purposes for the Novuspharma shareholders who are resident in Italy for Italian tax purposes. Furthermore, the shares of our common stock received by the Novuspharma shareholders in the merger will have the same aggregate tax basis as the Novuspharma ordinary shares held by the Novuspharma shareholders prior to the merger. However, for Novuspharma shareholders who are resident outside of Italy for Italian tax purposes, with some exceptions described below, the merger may cause taxable gain to be recognized equal to the difference between the fair market value of the shares of our common stock received and the tax basis of Novuspharma shareholder's Novuspharma ordinary shares cancelled in the merger. Exceptions to this treatment may apply to non-resident shareholders:

who own no more than two percent of the Novuspharma voting rights or no more than five percent of the Novuspharma's total outstanding equity, and who meet certain other requirements, or

who are entitled to the benefits of almost any income-tax treaty between Italy and the shareholder's country of residence.



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The actual income tax consequences under Italian tax law will depend on a Novuspharma shareholder's specific situation and on factors not within the control of Novuspharma or us. We urge Novuspharma shareholders to consult their own tax advisor for a full understanding of the potential Italian tax consequences of the merger to them. See The Merger Material Italian Tax Considerations.

### **Rescission Rights; Dissenters' Rights**

Novuspharma shareholders will have rescission rights as specified under Italian law. At the closing of the merger, those Novuspharma shareholders that have exercised their rescission rights will be entitled to receive a cash payment for their Novuspharma ordinary shares in lieu of receiving any shares of CTI common stock. CTI shareholders will not have dissenters' rights in connection with the merger. See The Merger Rescission Rights; Dissenters' Rights. It is a condition to the closing of the merger that the amount of cash to be paid to holders of rescission shares not exceed \$25 million, although CTI and Novuspharma together can waive this condition.

### **Treatment of Novuspharma Options**

The merger agreement provides that, prior to the effective time of the merger, the vesting of each outstanding Novuspharma stock option will be accelerated and, to the extent not exercised prior to completion of the merger, will be terminated and cancelled. CTI has agreed to issue new options to employees of Novuspharma to be determined in our discretion. The number of CTI shares subject to each new option and the vesting schedule of each new option will be determined by CTI, and the per share exercise price of each new CTI option will be equal to the greater of:

the average of the closing prices for a share of CTI common stock on the Nasdaq National Market for each trading day during the one-month period immediately preceding the completion of the merger or the closing price on the date of grant; and

the average of the closing prices for a share of CTI common stock on the Nuovo Mercato Telematico Azionario for each trading day during the one-month period immediately preceding the completion of the merger or the closing price on the date of grant.

We expect to grant these replacement options under Novuspharma's existing option plans, which we will assume upon completion of the merger.

See The Merger Agreement Treatment of Novuspharma Options in the Merger.

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### **Recommendation of the CTI Board of Directors**

After careful consideration, the CTI board of directors unanimously:

determined that the merger and the merger agreement (including the merger plan ( progetto di fusione ) in the form attached to the merger agreement), are advisable and fair to and in the best interests of CTI and our shareholders;

approved the merger, the merger plan, the merger agreement and the transactions contemplated by the merger agreement; and

**recommends that you vote FOR the proposal to approve the merger and the transactions contemplated thereby.**

In reaching its conclusion that the merger is advisable and fair to and in the best interests of CTI and our shareholders, and in deciding to approve the merger agreement, the CTI board of directors considered a number of factors, both positive and negative, as more fully described in The Merger CTI's Reasons for the Merger; Recommendation of the CTI board of directors.

### **Opinion of CTI's Financial Advisor**

In connection with the merger, the CTI board of directors received a written opinion of CIBC World Markets Corp. as to the fairness, from a financial point of view, to CTI of the exchange ratio. The full text of CIBC World Markets' written opinion, dated June 16, 2003, is attached to this proxy statement/prospectus as *Appendix G*. We encourage you to read this opinion carefully in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken. CIBC World Markets' opinion was provided to the CTI board of directors in its evaluation of the exchange ratio, does not address any other aspect of the merger and does not constitute a recommendation to any shareholder as to any matters relating to the merger.

### **Board of Directors Following the Merger**

Upon completion of the merger, we will have a twelve member board composed of the nine persons currently on the CTI board of directors, at least two persons currently on the Novuspharma board of directors and a third independent director to be identified by Novuspharma and mutually agreed to by CTI and Novuspharma. Pursuant to the merger agreement, our bylaws will be amended upon completion of the merger to increase the size of the CTI board to twelve. See The Merger Agreement Corporate Organization and Governance and Management of Our Combined Company after the Merger.

### **Interests of Certain Persons in the Merger**

Novuspharma's executive officers and some of Novuspharma's directors have interests in the merger, including;

Silvano Spinelli, Novuspharma's chief executive officer and managing director, Cesare Parachini, Novuspharma's chief financial officer, and Maria Gabriela Camboni, Novuspharma's director of development, have entered into employment agreements with CTI, including a grant of restricted stock and severance equal to the greater of the severance

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provided by Italian law and applicable collective bargaining agreements or 18 months of salary (24 months in the case of Mr. Spinelli);

Erich Platzer, chairman of the board of Novuspharma, and Dr. Spinelli will become directors of CTI following the merger;

Novuspharma executives could be entitled to severance payments, which vary in amount according to seniority, under Italian law if they leave their jobs after the merger; and

former employees of Novuspharma, including former directors and executives of Novuspharma, will be granted options to purchase shares of CTI common stock in amounts to be determined in CTI's discretion.

See The Merger Interests of Certain Persons in the Merger.

**Material Terms of the Merger Agreement**

The merger agreement is the primary legal document that governs the merger. We have attached a copy of the merger agreement as *Appendix A* to this proxy statement/prospectus and encourage you to read it. A few of its key terms are listed below:

**Conditions to Completion of the Merger**

Several conditions must be satisfied before either party is obligated to complete the proposed merger, including, among others:

CTI shareholders must approve the merger and the transactions contemplated by the merger and Novuspharma shareholders must approve the merger plan;

the Nasdaq National Market must approve the listing, subject to official notice of issuance, of the shares of CTI common stock issuable in connection with the merger;

the Borsa Italiana must approve the listing of CTI common stock on the Nuovo Mercato;

no litigation may be pending or threatened by a governmental entity seeking to enjoin or prohibit the completion of the merger, and no legal restraint or prohibition may prevent the completion of the merger;

the SEC must declare CTI's registration statement on Form S-4, of which this proxy statement/prospectus forms a part, effective and must not have issued or initiated, or to CTI's or Novuspharma's knowledge, threatened a stop order suspending its effectiveness;



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the waiting period under any applicable antitrust laws (and any extensions thereof) must expire or terminate and we must obtain all material antitrust approvals, if any;

each party must receive a written opinion from its Italian tax counsel;

the amount of cash to be paid to the holders of Novuspharma ordinary shares exercising rescission rights must not exceed \$25 million;

Novuspharma must receive a report from KPMG S.p.A. as to the valuation methods adopted by the Novuspharma board of directors in determining the exchange ratio;

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the representations and warranties of the other party must be true and correct as of the closing date of the merger as though made on the closing date, or if representations and warranties expressly relate to an earlier date, then as of that date, except, in each case or in the aggregate, as does not constitute a material adverse effect on the other party;

the other party must perform or comply in all material respects with all of its agreements and covenants set forth in the merger agreement on or prior to the closing date of the merger;

the other party has not experienced a material adverse effect that would significantly harm either party's business or impair either party's operations as defined in the merger agreement;

the two-month period provided by Italian law for Novuspharma creditor claims must expire or otherwise be satisfied; and

the CTI board must appoint the Novuspharma nominees to the CTI board.

The merger agreement provides that any or all of the conditions to both parties' obligations may be waived by both parties together, and any or all of the conditions to either party's obligations may be waived by that party. However, the parties cannot waive any conditions imposed by law, such as receipt of necessary shareholder approvals.

See The Merger Agreement Conditions.

## **Prohibition on Solicitation of Other Offers**

The merger agreement contains detailed provisions prohibiting CTI and Novuspharma from pursuing transactions that would conflict with the merger. These no-solicitation provisions prohibit CTI and Novuspharma, as well as their officers, directors, employees and representatives, from taking any action to solicit an alternative transaction (as defined in the merger agreement).

In addition to the prohibitions on solicitation of other offers, the merger agreement provides that neither Novuspharma nor CTI will withdraw, qualify or modify, or propose publicly to withdraw, qualify or modify, in a manner adverse to the other party, the approval or recommendation by its board of the merger or the merger agreement, unless:

in the case of CTI, if its board determines in good faith, after consultation with outside legal counsel, that the failure to take such action would result in a reasonable likelihood that its board would breach its fiduciary duties to CTI's shareholders under applicable laws; and

in the case of Novuspharma, if Novuspharma receives a superior proposal (as defined in the merger agreement), and after receipt of advice from outside counsel its board determines in good faith that the failure to take such action would result in a reasonable likelihood that its board would breach its fiduciary duties to Novuspharma's shareholders under applicable laws, and Novuspharma complies with certain conditions described in the merger agreement.

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Each of CTI and Novuspharma must submit the merger to its shareholders for a vote even if its board changes, withdraws, qualifies or modifies its recommendation relating to the merger.

See The Merger Agreement No Solicitation of Transactions.

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### **Termination of the Merger Agreement**

Under circumstances specified in the merger agreement, each company may terminate the merger agreement. These circumstances include, among others:

if the terminating party is not in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement, upon certain breaches of the other party's representations, warranties, covenants or agreements (but only after a 30-day cure period if the breach is curable by April 15, 2004 through exercise of commercially reasonable efforts);

if the merger is not consummated by April 15, 2004;

if any required shareholder approval is not obtained;

at any time prior to the terminating party's shareholders' meeting, by the board of directors of the terminating party if the other party's board of directors has:

failed to recommend without modification or qualification that the other party's shareholders approve the merger and the transactions contemplated by the merger agreement;

subsequently withdrawn its recommendation;

modified or qualified its recommendation in a manner adverse to the terminating party's interests; or

failed to reconfirm its recommendation within ten business days following a written request from the terminating party to do so.

See The Merger Agreement Termination.

### **Termination Fee**

Either we or Novuspharma could be entitled to a termination fee of \$4.75 million from the other party if:

the merger is not completed by April 15, 2004 or the other party's shareholders do not approve the merger, a third party makes an offer or proposal for an alternative transaction before termination of the merger agreement and the other party enters into an agreement for or consummates an acquisition (as defined in the merger agreement) within 12 months after termination of the merger agreement;

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the other party's board fails to recommend the merger, withdraws its recommendation of the merger, modifies or qualifies its recommendation of the merger in an adverse manner or fails to reconfirm its recommendation within ten business days following a written request; or

the other party commits a material breach of the no-solicitation provisions.

See The Merger Agreement Termination Fee.

**Table of Contents****Comparative Stock Prices and Dividends**

Shares of our common stock currently trade in the United States on the Nasdaq National Market under the symbol CTIC, and Novuspharma ordinary shares currently trade in Italy on the Nuovo Mercato under the symbol NOV.MI. The following table presents:

the last reported per share sales price of our common stock;

the last reported per share sales price of Novuspharma ordinary shares, stated in euros;

the last reported per share sales price of Novuspharma ordinary shares, converted to dollars at the exchange rate then prevailing; and

the implied value of the merger consideration of 2.45 shares of CTI common stock per Novuspharma ordinary share, based on the closing price of CTI common stock on each of the dates shown;

in each case on June 16, 2003, the last full trading day prior to the public announcement of the proposed merger, and on September 12, 2003, which is a recent date prior to the date of this proxy statement/prospectus. The implied value of the merger consideration has been determined by multiplying the last reported sales price per share of CTI common stock on each date by 2.45, which is the exchange ratio in the merger. Neither we nor Novuspharma have ever paid dividends.

Date	CTI Common Stock (dollars)	Novuspharma Ordinary Shares		Implied Value of Merger Consideration per Novuspharma Ordinary Share (dollars)
		(euros)	(dollars)*	
June 16, 2003	\$ 14.75	22.59	\$ 26.76	\$ 36.14
September 12, 2003	\$ 10.76	22.69	\$ 25.66	\$ 26.36

\* Based on the exchange rate then prevailing.

The market prices of our common stock and Novuspharma's ordinary shares and the exchange rate between the U.S. dollar and the euro fluctuate. You should obtain current market quotations and exchange rates.

See Comparative Stock Prices and Dividends.

**Table of Contents****Comparative Historical and Pro Forma Combined Per Share Data**

The following table sets forth historical per share data of CTI and Novuspharma and combined per share data on an unaudited pro forma basis after giving effect to the proposed merger based on the fixed exchange ratio of 2.45 shares of CTI common stock for each Novuspharma ordinary share, and resulting in the issuance of approximately 16.0 million shares of CTI common stock. This number is based on the total outstanding Novuspharma ordinary shares as of June 30, 2003.

CTI presented the pro forma per share data below based on each company's unaudited pro forma combined per share data for the six months ended June 30, 2003 and the year ended December 31, 2002. You should read this information along with the selected historical financial data, the unaudited pro forma condensed combined financial statements and the separate audited historical consolidated financial statements of CTI and Novuspharma and the notes thereto incorporated into or included elsewhere in this proxy statement/prospectus. The unaudited pro forma combined per share data does not necessarily indicate the operating results that CTI would have achieved had the proposed merger been consummated January 1, 2002 or the financial position at June 30, 2003 had the proposed merger been consummated at that date. You should not consider the data to represent future operating results of the combined company.

CTI computed the historical book value per share of common stock as of June 30, 2003 and as of December 31, 2002 by dividing total shareholders' equity by the number of shares of common stock outstanding at the end of each period. CTI computed the pro forma combined book value per share as of June 30, 2003 by dividing pro forma shareholders' equity by the pro forma number of shares of common stock as of the end of June 30, 2003. CTI computed the equivalent pro forma loss per share by multiplying the pro forma loss per share by the fixed 2.45 exchange ratio, and computed the equivalent pro forma book value per share by multiplying the pro forma combined book value per share by the fixed 2.45 exchange ratio.

	<b>As of and for the Six Months Ended June 30, 2003</b>	<b>As of and for the Year Ended December 31, 2002</b>
	_____	_____
<b>Historical Cell Therapeutics, Inc.</b>		
Basic and diluted net loss per share	\$ (1.85)	\$ (1.48)
Book value per share	(.52)	1.32
<b>Historical Novuspharma</b>		
Basic and diluted net loss per share	(2.37)	(4.65)
Book value per share	14.72	17.01
<b>Pro forma combined</b>		
Basic and diluted net loss per share	\$ (1.61)	\$ (1.61)
Book value per share	1.91	
<b>Equivalent pro forma combined per Novuspharma share</b>		
Basic and diluted net loss per share	\$ (3.94)	\$ (3.94)
Book value per share	4.68	

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**Selected CTI Historical Consolidated Financial Data**

The following sets forth selected historical financial information with respect to CTI as of the dates and for the periods indicated. CTI derived the statement of operations data set forth below for the six months ended June 30, 2003 and 2002 and the balance sheet data as of June 30, 2003 from CTI's unaudited financial statements and are incorporated in this proxy statement/prospectus by reference. CTI derived the statement of operations data set forth below for the fiscal years ended December 31, 2002, 2001 and 2000 and the balance sheet data as of December 31, 2002 and 2001 from CTI's audited financial statements and are incorporated in this proxy statement/prospectus by reference. CTI derived the statement of operations data set forth below for the fiscal years ended December 31, 1999 and 1998 and the balance sheet data as of December 31, 2000, 1999 and 1998 from CTI's audited financial statements that are not included or incorporated by reference in this proxy statement/prospectus. The unaudited financial statements include all adjustments, consisting of recurring adjustments which CTI considers necessary for a fair presentation of its financial position and results of operations for these periods.

Operating results for the six months ended June 30, 2003 do not necessarily indicate the results that may be expected for the entire year ending December 31, 2003 or any other future interim period. You should read the following selected historical financial information of CTI in conjunction with CTI's Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements of CTI and related notes thereto, which are incorporated in this proxy statement/prospectus by reference to CTI's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002 and Quarterly Report on Form 10-Q for the six months ended June 30, 2003. See [Where You Can Find More Information](#).



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	Six Months Ended June 30,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
(In thousands, except per share data)							
<b>Consolidated Statement of Operations Data:</b>							
Revenues:							
Product sales	\$ 9,591	\$ 3,914	\$ 11,393	\$ 6,130	\$ 502	\$	\$
License and contract revenue	1,419	614	5,503	106			13,200
<b>Total revenues</b>	<b>11,010</b>	<b>4,528</b>	<b>16,896</b>	<b>6,236</b>	<b>502</b>		<b>13,200</b>
Operating expenses:							
Cost of product sold	398	225	423	394	19		
Research and development(1)	42,652	26,093	58,759	44,669	26,574	27,682	29,942
Selling, general and administrative	25,817	22,266	49,800	35,268	20,421	9,788	10,889
Amortization of purchased intangibles(2)	667	3,351	6,701	9,390	9,390		
<b>Total operating expenses</b>	<b>69,534</b>	<b>51,935</b>	<b>115,683</b>	<b>89,721</b>	<b>56,404</b>	<b>37,470</b>	<b>40,831</b>
<b>Loss from operations</b>	<b>(58,524)</b>	<b>(47,407)</b>	<b>(98,787)</b>	<b>(83,485)</b>	<b>(55,902)</b>	<b>(37,470)</b>	<b>(27,631)</b>
Other income (expense):							
Investment income	1,105	3,056	4,819	9,200	4,517	1,692	3,094
Interest expense	(3,826)	(5,697)	(11,240)	(5,988)	(544)	(502)	(435)
Gain on exchange of convertible subordinated notes			55,305				
<b>Other income (expense), net</b>	<b>(2,721)</b>	<b>(2,641)</b>	<b>48,884</b>	<b>3,212</b>	<b>3,973</b>	<b>1,190</b>	<b>2,659</b>
<b>Net loss</b>	<b>(61,245)</b>	<b>(50,048)</b>	<b>(49,903)</b>	<b>(80,273)</b>	<b>(51,929)</b>	<b>(36,280)</b>	<b>(24,972)</b>
Preferred stock dividend				(1,372)	(508)	(5,201)	
<b>Net loss applicable to common shareholders</b>	<b>\$ (61,245)</b>	<b>\$ (50,048)</b>	<b>\$ (49,903)</b>	<b>\$ (81,645)</b>	<b>\$ (52,437)</b>	<b>\$ (41,481)</b>	<b>\$ (24,972)</b>
Basic and diluted net loss per common share							
	\$ (1.85)	\$ (1.44)	\$ (1.48)	\$ (2.41)	\$ (2.07)	\$ (2.67)	\$ (1.62)
Shares used in computation of basic and diluted net loss per common share							
	33,141	34,807	33,763	33,822	25,345	15,552	15,410

(1) Amount in 2001 includes an equity-based expense of \$9.2 million related to the issuance of 350,000 warrants for the achievement of a XYOTAX milestone.

(2) Effective January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) 142 *Goodwill and Other Intangible Assets*. SFAS 142 requires that goodwill no longer be amortized.

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	June 30,	December 31,				
	2003	2002	2001	2000	1999	1998
	(In thousands)					
<b>Consolidated Balance Sheet Data:</b>						
Cash, cash equivalents, securities available-for-sale and interest receivable	\$ 150,942	\$ 142,157	\$ 259,421	\$ 156,434	\$ 24,248	\$ 47,072
Working capital	144,249	129,849	250,142	146,384	17,705	44,143
Total assets	196,833	186,780	303,750	190,111	30,848	58,156
Convertible senior subordinated notes(3)	160,459	85,460				
Convertible subordinated notes	29,640	29,640	175,000			
Other long-term obligations, less current portion	5,464	6,704	3,892	1,060	2,653	3,888
Total long-term obligations, less current portion	195,563	121,804	178,892	1,060	2,653	3,888
Accumulated deficit	(401,700)	(340,455)	(290,552)	(210,279)	(158,350)	(122,070)
Total shareholders equity (deficit)	(17,278)	43,483	109,557	177,943	20,904	47,165

(3) On June 23, 2003, CTI issued 4% convertible senior subordinated notes resulting in gross proceeds of \$75 million.

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**Selected Novuspharma Historical Consolidated Financial Data**

Novuspharma derived the following selected financial data related to the statement of operations for the years ended December 31, 2002, 2001 and 2000, and the balance sheet data as of December 31, 2002 and 2001 from Novuspharma's audited financial statements presented in euros which are prepared in accordance with U.S. GAAP, appearing elsewhere in this proxy statement/prospectus. Novuspharma derived the financial data related to the statement of operations for the years ended December 31, 1999 and 1998 and the balance sheet data as of December 31, 2000, 1999, and 1998 from Novuspharma's unaudited financial statements presented in euros which are prepared in accordance with U.S. GAAP, and which are not included in this proxy statement/prospectus. Novuspharma derived the financial data related to the statement of operations for the six-month period ended June 30, 2003 and 2002 and the balance sheet data at June 30, 2003 from Novuspharma's unaudited financial statements presented in euros which are prepared in accordance with U.S. GAAP, and which are included in this proxy statement/prospectus. The unaudited financial statements include all adjustments, consisting of recurring adjustments, which Novuspharma considers necessary for a fair presentation of its financial position and results of operations for these periods.

Operating results for the six months ended June 30, 2003 do not necessarily indicate the results that may be expected for the entire year ending December 31, 2003 or any other future interim period. You should read the following data together with Management's Discussion and Analysis of Financial Condition and Results of Operations of Novuspharma and the financial statements, related notes and other financial information of Novuspharma included in this proxy statement/prospectus. See the Novuspharma financial statements starting on page FIN-1. Novuspharma was originally formed on September 21, 1983 but did not begin operations until January 1, 1999 following the spin-off of the oncology research and development department of Boehringer Mannheim Italia S.p.A. from F. Hoffman-La Roche Ltd.

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Amounts in accordance with U.S. GAAP

	Six Months Ended		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(unaudited)	(unaudited)				(unaudited)	(unaudited)
(In thousands, except share and per share amounts)							
<b>Statement of Operations Data:</b>							
Revenues:							
Research grants	1,535	2,659	5,493	1,396	78		
Research services provided to third parties	175	1	65	90	1,045	1,910	
<b>Total revenues</b>	<b>1,710</b>	<b>2,660</b>	<b>5,558</b>	<b>1,486</b>	<b>1,123</b>	<b>1,910</b>	
Operating expenses:							
Research and development	(12,772)	(12,309)	(33,861)	(14,440)	(8,179)	(4,176)	
General and administrative	(6,077)	(3,489)	(6,478)	(5,388)	(2,998)	(2,540)	(9)
Amortization of purchased intangibles	(1)	(1)	(2)	(183)	(183)	(182)	
<b>Total operating expenses</b>	<b>(18,850)</b>	<b>(15,799)</b>	<b>(40,341)</b>	<b>(20,011)</b>	<b>(11,360)</b>	<b>(6,898)</b>	<b>(9)</b>
Loss from operations	(17,140)	(13,139)	(34,783)	(18,525)	(10,237)	(4,988)	(9)
Other income (expense):							
Investment income	880	988	1,921	15	2		
Interest income (expense)	796	1,443	2,502	6,506	1,158	(37)	
Gain on foreign currency	54	99	174	39	41		
<b>Other income (expense), net</b>	<b>1,730</b>	<b>2,530</b>	<b>4,597</b>	<b>6,560</b>	<b>1,201</b>	<b>(37)</b>	
Loss before taxation	(15,410)	(10,609)	(30,186)	(11,965)	(9,036)	(5,025)	(9)
Income taxes							(1)
<b>Net loss</b>	<b>(15,410)</b>	<b>(10,609)</b>	<b>(30,186)</b>	<b>(11,965)</b>	<b>(9,036)</b>	<b>(5,025)</b>	<b>(10)</b>
Basic and diluted net loss per ordinary share							
	(2.37)	(1.63)	(4.65)	(1.83)	(1.95)	(1.54)	(0.00)
Shares used in calculation of basic and diluted net loss per ordinary share							
	6,511,882	6,494,520	6,491,771	6,553,551	4,640,242	3,262,142	2,000,000

Amounts in accordance with U.S. GAAP

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	Six Months Ended	December 31,				
	June 30,					
	2003	2002	2001	2000	1999	1998
	(unaudited)			(unaudited)	(unaudited)	(unaudited)
<b>Balance Sheet Data:</b>						
Cash, cash equivalents and securities available-for-sale	95,580	108,343	140,836	156,036	2,372	99
Total assets	107,650	121,658	149,721	160,962	6,800	136
Other long-term obligations, less current portion	1,441	1,155	825	715	618	
Accumulated deficit during the development stage	(72,591)	(56,580)	(26,026)	(14,061)	(5,025)	(45)
Total shareholders equity	96,267	110,236	141,931	154,966	2,157	60

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**Selected Unaudited Pro Forma Combined Financial Data of CTI and Novuspharma**

CTI based the following selected unaudited pro forma combined balance sheet data as of June 30, 2003 and the selected unaudited pro forma combined statement of operations data for the six months ended June 30, 2003 and the year ended December 31, 2002 on the historical consolidated financial statements of CTI and Novuspharma after giving effect to the proposed merger which is being accounted for as an asset purchase. CTI reclassified Novuspharma's financial information to conform Novuspharma's presentation format to that of CTI. CTI based the selected unaudited pro forma combined financial data on estimates and assumptions which are preliminary. The unaudited pro forma combined financial statements do not purport to represent what CTI's financial position or results of operations actually would have been if the proposed merger had in fact occurred on the dates indicated or to project CTI's financial position or results of operations as of any future date or for any future period.

For pro forma purposes:

CTI combined its balance sheet as of June 30, 2003 with Novuspharma's balance sheet as of June 30, 2003 as if the proposed merger had occurred on June 30, 2003;

CTI combined its unaudited statement of operations for the six months ended June 30, 2003 with Novuspharma's statement of operations for the six months ended June 30, 2003 as if the proposed merger had occurred on January 1, 2003; and

CTI combined its statement of operations for the year ended December 31, 2002 with Novuspharma's statement of operations for the year ended December 31, 2002 as if the proposed merger had occurred on January 1, 2002.

CTI translated the Novuspharma amounts combined in the pro forma combined financial statements referred to above to U.S. dollars using a spot rate of 1.1503 as of June 30, 2003 and an average rate of 1.1052 and .94525 for the six months ended June 30, 2002 and the year ended December 31, 2002, respectively.

CTI allocated the total estimated purchase price of \$199.6 million, calculated as described in Note 1 to the unaudited pro forma condensed combined financial statements, to the net tangible and intangible assets acquired in connection with the proposed merger, based initially on management's estimates of fair values as of June 30, 2003. An independent third party performed a preliminary valuation of intangible assets which formed the basis for the estimates of the fair value of the intangible assets reflected in the unaudited pro forma condensed combined financial statements. A final determination of fair values, which cannot be made prior to the completion of the proposed merger, will be based on the final valuation. This final valuation will be based on the actual net tangible and intangible assets of Novuspharma that exist as of the date of completion of the proposed merger. The purchase price in excess of these estimated fair values was then allocated on a pro rata basis to in-process research and development and non-monetary long-lived assets. In addition to the effect of the final valuation, the timing of completion of the proposed merger, and other changes in Novuspharma's net tangible assets which occur prior to completion of the proposed merger could cause material differences in the information presented.

You should read these selected unaudited pro forma combined financial data in conjunction with the historical financial statements and the related notes thereto of Novuspharma and Management's

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Discussion and Analysis of Financial Condition and Results of Operations of Novuspharma included elsewhere in this proxy statement/prospectus. You should also read this data in conjunction with CTI's historical consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations, which are incorporated herein by reference to CTI's Annual Report on Form 10-K/A for the year ended December 31, 2002 and Quarterly Report on Form 10-Q for the six months ended June 30, 2003, and Management's Discussion and Analysis of Financial Conditions and Results of Operations of Novuspharma, included elsewhere in this proxy statements/prospectus.

See Unaudited Pro Forma Condensed Combined Financial Statements of CTI and Novuspharma.

**Table of Contents****Selected Unaudited Pro Forma Combined Financial Data****of Cell Therapeutics, Inc. and Novuspharma S.p.A.**

	<b>Six Months Ended June 30, 2003</b>	<b>Year Ended December 31, 2002</b>
	<b>(in thousands, except per share data)</b>	
<b>Pro Forma Combined Statement of Operations Data:</b>		
Revenues:		
Product sales	\$ 9,591	\$ 11,393
License and contract revenue	3,309	10,757
<b>Total revenues</b>	<b>12,900</b>	<b>22,150</b>
Operating expenses:		
Cost of product sold	398	423
Research and development	56,875	90,981
Selling, general and administrative	32,848	56,553
Amortization of purchased intangibles	1,000	7,366
<b>Total operating expenses</b>	<b>91,121</b>	<b>155,323</b>
Loss from operations	(78,221)	(133,173)
Other income (expense):		
Investment income	3,017	9,164
Interest expense	(3,826)	(11,240)
Gain on exchange of convertible subordinated notes		55,305
<b>Other income (expense), net</b>	<b>(809)</b>	<b>53,229</b>
<b>Net loss</b>	<b>\$ (79,030)</b>	<b>\$ (79,944)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (1.61)</b>	<b>\$ (1.61)</b>
<b>Shares used in calculation of basic and diluted net loss per common share</b>	<b>49,168</b>	<b>49,790</b>
	<b>June 30, 2003</b>	
	<b>(in thousands)</b>	
<b>Pro Forma Combined Balance Sheet Data:</b>		
Cash, cash equivalents and securities available-for-sale	\$ 259,695	
Working capital	242,295	
Total assets	324,560	
Convertible subordinated and senior subordinated notes(1)	190,099	
Other long-term obligations, less current portion	5,537	
Accumulated deficit	(484,784)	



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Total shareholders equity

94,225

See Notes to Unaudited Pro Forma Condensed Combined Financial Statements beginning on p. 132.

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**RISK FACTORS**

CTI and Novuspharma will operate as a combined company following the merger in a market environment that cannot be predicted and that involves significant risks, many of which will be beyond our control. In addition to the other information contained in or incorporated by reference into this proxy statement/prospectus, you should carefully consider the risks described below before deciding how to vote your shares of CTI common stock. The risks described below are not the only ones facing our combined company. If additional risks and uncertainties that are not presently known to CTI and Novuspharma or are not currently believed to be material materialize, they also may adversely affect the merger and CTI and Novuspharma as a combined company.

**Risks Related to the Business of Our Combined Company**

**We expect that our combined company will continue to incur losses for the foreseeable future, and we might never achieve profitability.**

CTI was incorporated in 1991 and has incurred a net operating loss every year. As of June 30, 2003, CTI had an accumulated deficit of approximately \$401.7 million. Since Novuspharma began operating on January 1, 1999, Novuspharma has incurred a net operating loss every year. As of June 30, 2003, Novuspharma had an accumulated deficit of approximately 72.6 million. Our combined company may never become profitable, even if we are able to commercialize additional products. Our combined company will need to conduct significant research, development, testing and regulatory compliance activities that, together with projected general and administrative expenses, we expect will result in substantial increasing operating losses for at least the next several years. Even if our combined company does achieve profitability, it may not be able to sustain or increase profitability on a quarterly or annual basis.

**If our combined company is unable to develop additional products, we may be unable to generate significant revenue or become profitable.**

CTI has only one product, TRISENOX, for relapsed or refractory acute promyelocytic leukemia, or APL, that has received marketing approval to date, while none of Novuspharma's products have yet received marketing approval. CTI's leading drug candidates, TRISENOX for other indications, XYOTAX and CT-2106, and Novuspharma's leading drug candidate, Pixantrone, are currently in clinical trials. The clinical trials of TRISENOX, XYOTAX, CT-2106 or Pixantrone or any of our combined company's future drug candidates may not be successful. Even if our drugs progress successfully through initial human testing, they may fail in later stages of development. A number of companies in the pharmaceutical industry, including CTI and Novuspharma, have suffered significant setbacks in advanced clinical trials, even after reporting promising results in earlier trials. For example, in CTI's first Phase III human trial for lisofylline, completed in March 1998, CTI failed to meet its two primary endpoints, or goals, even though it met its endpoints in two earlier Phase II trials for lisofylline. As a result, CTI is no longer developing lisofylline as a potential product. Many of CTI's and Novuspharma's drug candidates are still in research and pre-clinical development, which means that they have not yet been tested on humans. Our combined company will need to commit significant time and resources to develop these and additional product candidates. Our combined company's product candidates will be successful only if:

our combined company's product candidates are developed to a stage that will enable us to commercialize them or sell related marketing rights to pharmaceutical companies;

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our combined company is able to commercialize product candidates in clinical development or sell the marketing rights to third parties; and

our product candidates, if developed, are approved.

Our combined company will be dependent on the successful completion of these goals in order to generate revenues. The failure to generate such revenues may preclude our combined company from continuing our research and development of these and other product candidates.

**Our combined company may need to raise additional funds in the future, and they may not be available on acceptable terms, or at all.**

We expect that our combined company's capital resources and the interest earned thereon will enable our combined company to maintain our planned operations through at least early 2005. Beyond that time, or if our combined company's plans or assumptions change or are inaccurate, we will have to raise additional funds to continue the development of our technologies and complete the commercialization of products, if any, resulting from our technologies. Our combined company may raise such capital through public or private equity financings, partnerships, debt financings, bank borrowings, or other sources.

Additional funding may not be available on favorable terms or at all. If adequate funds are not otherwise available, our combined company may curtail operations significantly, including the delay, modification or cancellation of research and development programs aimed at bringing new products to market. To obtain additional funding, our combined company may need to enter into arrangements that require us to relinquish rights to certain technologies, drug candidates, products and/or potential markets. To the extent that additional capital is raised through the sale of equity, or securities convertible into equity, you may experience dilution of your proportionate ownership of our combined company.

After the merger, our combined company expects to receive certain grants and subsidized loans from the Italian government and the European Community through our combined company's Italian subsidiary. However, our combined company may not receive the relevant funding because the grants and subsidies are awarded in the discretion of the relevant authorities.

**If the merger is completed, we will be subject to risks relating to fluctuations in the exchange rate of the dollar relative to the euro, which could cause costs to be greater than we expect and introduce additional volatility in our reported quarterly results.**

Following the completion of the merger we will be exposed to risks associated with foreign currency transactions insofar as we might desire to use dollars to make contract payments denominated in euros or vice versa. As the net positions of our unhedged foreign currency transactions might fluctuate, our earnings might be negatively affected. In addition, following the completion of the merger, we will be exposed to risks associated with the translation of Novuspharma's euro-denominated financial results and balance sheet into U.S. dollars. The reporting currency of CTI will remain as the U.S. dollar, however, a portion of our consolidated financial obligations will arise in euros. In addition, the carrying value of some of our assets and liabilities will be affected by fluctuations in the value of the U.S. dollar as compared to the euro. Changes in the value of the U.S. dollar as compared to the euro might have an adverse effect on our reported results of operations and financial condition.

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**Our combined company may take longer to complete our clinical trials than we project, or we may not be able to complete them at all.**

Before regulatory approval for any potential product can be obtained, we must undertake extensive clinical testing on humans to demonstrate the tolerability and efficacy of the product, both on its own terms, and as compared to the other principal drugs on the market that have the same therapeutic indication. These clinical trials of drug candidates involve the testing of potential therapeutic agents, or effective treatments, in humans to determine the safety or efficacy of the drug candidates necessary for an approved drug. Although for planning purposes we forecast the commencement and completion of clinical trials, the actual timing of these events can vary dramatically due to a number of factors.

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

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

If we fail to commence or complete, or experience delays in, any of our present or planned clinical trials, including the Phase III clinical trials of XYOTAX and the Phase II and III clinical trials of Pixantrone, our ability to conduct our business as planned could be harmed. Our development costs will increase if we experience any future delays in our clinical trials for XYOTAX and Pixantrone or our other potential products or if we need to perform more or larger clinical trials than planned. If delays or costs are significant, our financial results and our ability to commercialize our product candidates may be adversely affected.

**Even if our combined company's drug candidates are successful in clinical trials, our combined company may not be able to successfully commercialize them.**

Since CTI's inception in 1991 and since Novuspharma's beginning operations in 1999, both companies have dedicated substantially all of their resources to the research and development of their

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technologies and related compounds. With the exception of TRISENOX for patients with APL who have relapsed or failed standard therapies, all of CTI's and Novuspharma's compounds currently are in research or development, and none have been submitted for marketing approval. Our combined company may not develop any product candidates suitable for commercialization.

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

be found ineffective or cause harmful side effects during pre-clinical testing or clinical trials;

fail to receive necessary regulatory approvals;

be difficult to manufacture on a large scale;

be uneconomical to produce;

fail to achieve market acceptance; or

be precluded from commercialization by proprietary rights of third parties.

The occurrence of any of these events could adversely affect the commercialization of our combined company's products. Any products, if introduced, may not be successfully marketed nor achieve customer acceptance. If our combined company fails to commercialize products or if our combined company's future products do not achieve significant market acceptance, our combined company is not likely to generate significant revenues or become profitable.

**If the combined company fails to establish and maintain collaborations or if its partners do not perform, we may be unable to develop and commercialize our product candidates.**

CTI and Novuspharma have each entered into collaborative arrangements with third parties to develop and/or commercialize product candidates and are currently seeking additional collaborations. For example, CTI has entered into an agreement with Chugai Pharmaceutical Co., Ltd. to develop and commercialize XYOTAX in several Asian markets, and Novuspharma has entered into an agreement with Micromet AG to co-develop and market a fully human antibody called MT201. Additional collaborations might be necessary in order for our combined company to fund our research and development activities and third-party manufacturing arrangements, seek and obtain regulatory approvals and successfully commercialize our existing and future product candidates. If our combined company fails to enter into additional collaborative arrangements or fails to maintain our existing collaborative arrangements, the number of product candidates from which we could receive future revenues would decline.

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

collaborative arrangements may not be on terms favorable to our combined company;

disagreements with partners may result in delays in the development and marketing of products, termination of our collaboration agreements or time consuming and expensive legal action;

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we cannot control the amount and timing of resources partners devote to product candidates or their prioritization of product candidates and partners may not allocate sufficient funds or resources to the development, promotion or marketing of our products, or may not perform their obligations as expected;

partners may choose to develop, independently or with other companies, alternative products or treatments, including products or treatments which compete with ours;

agreements with partners may expire or be terminated without renewal, or partners may breach collaboration agreements with us;

business combinations or significant changes in a partner's business strategy might adversely affect that partner's willingness or ability to complete its obligations to our combined company; and

the terms and conditions of the relevant agreements may no longer be suitable.

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

**Because CTI and Novuspharma based several of their drug candidates on unproven novel technologies, our combined company may never develop them into commercial products.**

CTI and Novuspharma base many of their product candidates upon novel delivery technologies that they are using to discover and develop drugs for the treatment of cancer. These technologies have not been proven. Furthermore, pre-clinical results in animal studies may not predict outcomes in human clinical trials. Our combined company's product candidates may not be proven safe or effective. If these technologies do not work, our combined company's drug candidates may not develop into commercial products.

**Our combined company may face difficulties in achieving acceptance of our products in the market if we do not continue to expand our sales and marketing infrastructure.**

We currently are marketing TRISENOX with our direct sales force. Competition for these individuals is intense, and in the event we need additional sales personnel, we may not be able to hire individuals with the experience required or number of sales personnel we need. In addition, if our combined company markets and sells products other than TRISENOX, we may need to further expand our marketing and sales force with sufficient technical expertise and distribution capacity. If our combined company is unable to expand our direct sales operations and train new sales personnel as rapidly as necessary, we may not be able to increase market awareness and sales of our combined company's products, which may prevent our combined company from growing our revenues and achieving and maintaining profitability.

**If any of our combined company's license agreements for intellectual property underlying TRISENOX, XYOTAX, Pixantrone or any other products are terminated, we may lose our rights to develop or market that product.**

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CTI has licensed intellectual property, including patent applications from The Memorial Sloan-Kettering Cancer Center, Samuel Waxman Cancer Research Foundation, Beijing Medical University and others, including the intellectual property directed to arsenic drugs and TRISENOX. CTI has also in-licensed the intellectual property relating to our drug delivery technology that uses polymers that are linked to drugs, known as polymer-drug conjugates, including XYOTAX. Novuspharma has licensed



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intellectual property, including patent applications from The University of Vermont, F. Hoffman-La Roche and others, including some intellectual property related to Pixantrone. Novuspharma has also in-licensed the intellectual property relating to agents which inhibit the division of tumor cells by preventing DNA from reproducing, known as platinum complexes, from F. Hoffman-La Roche. Some of our combined company's product development programs depend on our ability to maintain rights under these licenses. Each licensor has the power to terminate its agreement with either of CTI or Novuspharma or our combined company if it fails to meet its obligations under these licenses. Our combined company may not be able to meet our obligations under these licenses. If our combined company defaults under any license agreements, we may lose our right to market and sell any products based on the licensed technology.

### **If our combined company fails to protect adequately our intellectual property, our competitive position could be harmed.**

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

obtain patent protection for our products and processes in the United States, Italy and other countries;

protect our trade secrets; and

prevent others from infringing on our proprietary rights.

In particular we believe that linking CTI's polyglutamate polymer, which is an amino acid-based polymer, to existing drugs may yield patentable subject matter. When polymers are linked, or conjugated, to drugs, the results are referred to as polymer-drug conjugates. We are developing drug delivery technology that links chemotherapy drugs to biodegradable polymers. For example, XYOTAX is paclitaxel, the active ingredient in Taxol®, one of the world's best selling cancer drugs, linked to polyglutamate. We do not believe that our polymer-drug conjugates will infringe any valid third-party patents covering the underlying drug. However, we may not receive any patents for our polymer-drug conjugates and we may be challenged by the holder of a patent covering the underlying drug.

The patent position of biopharmaceutical firms generally is highly uncertain and involves complex legal and factual questions. The U.S. Patent and Trademark Office has not established a consistent policy regarding the breadth of claims that it will allow in biotechnology patents. If it allows broad claims, the number and cost of patent interference proceedings in the U.S. and the risk of infringement litigation may increase. If it allows narrow claims, the risk of infringement may decrease, but the value of our combined company's rights under our patents, licenses and patent applications may also decrease. Patent applications in which our combined company has rights may never issue as patents and the claims of any issued patents may not afford meaningful protection for our combined company's technologies or products. In addition, patents issued to us or our combined company's licensors may be challenged and subsequently narrowed, invalidated or circumvented. Litigation, interference proceedings or other governmental proceedings that our combined company may become involved in with respect to our proprietary technologies or the proprietary technology of others could result in substantial cost to our combined company. Patent litigation is widespread in the biotechnology industry, and any patent litigation could harm our combined company's business. Costly litigation

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might be necessary to protect our combined company's orphan drug designations, which is a designation for products meeting criteria based on the size of the potential U.S. patient population which entitles the drug to seven years exclusive rights in the U.S. market, or patent position or to determine the scope and validity of third party proprietary rights, and our combined company may not have the required resources to pursue such litigation or to protect our patent rights. An adverse outcome in litigation with respect to the validity of any of our combined company's patents could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us to cease using a product or technology.

Our combined company will also rely upon trade secrets, proprietary know-how and continuing technological innovation to remain competitive. Third parties may independently develop such know-how or otherwise obtain access to our combined company's technology. While in the past CTI and Novuspharma have required, and our combined company will require, employees, consultants and corporate partners with access to proprietary information to enter into confidentiality agreements, these agreements may not be honored.

**Our combined company's products could infringe on the intellectual property rights of others, which may cause us to engage in costly litigation and, if we are not successful, could cause us to pay substantial damages and prohibit us from selling our products.**

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

**If our combined company cannot enter into new licensing arrangements, its future product portfolio and potential profitability could be harmed.**

One component of our combined company's business strategy is in-licensing drug compounds developed by other pharmaceutical and biotechnology companies or academic research laboratories. Following completion of the merger, substantially all of the combined product candidates in clinical development will be in-licensed from a third party, including TRISENOX, XYOTAX and Pixantrone. Competition for new promising compounds and commercial products can be intense. If our combined company is not able to identify future in-licensing opportunities and enter into future licensing arrangements on acceptable terms, its future product portfolio and potential profitability could be harmed.

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

Paclitaxel is derived from certain varieties of yew trees. Supply of paclitaxel is controlled by a limited number of companies. Our combined company may not be able to continue to purchase

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the materials necessary to produce XYOTAX including paclitaxel in adequate volume and quality. We purchase the majority of the paclitaxel we need from a single vendor. We also purchase the raw material polyglutamic acid from a single source on a purchase order basis. Should the paclitaxel or polyglutamic acid purchased from our sources prove to be insufficient in quantity or quality, or should this relationship terminate, we may not be able to obtain a sufficient supply from alternate sources.

### **Our combined company's dependence on third party manufacturers means that we may not have sufficient control over the manufacture of our combined company's products.**

Neither CTI nor Novuspharma currently have internal facilities for the manufacture of any of their products or product candidates for clinical evaluation or commercial production. In addition, TRISENOX, our first commercial product, is currently manufactured by a single vendor. In 2002, we began the process of qualifying an additional supplier for our finished product manufacturing for TRISENOX. This additional supplier received FDA approval to manufacture TRISENOX in June 2003, however, our suppliers may not be able to provide us with finished product if and when we need it. Our combined company will need to develop additional manufacturing resources, enter into collaborative arrangements with other parties that have established manufacturing capabilities or elect to have other third parties manufacture our products on a contract basis. Our combined company will be dependent upon these third parties to supply us in a timely manner with products manufactured in compliance with current good manufacturing practices, or cGMPs, or similar manufacturing standards imposed by foreign regulatory authorities where our combined company's products will be tested and/or marketed. Contract manufacturers may violate cGMPs and the FDA is continuing to maintain its oversight of drug manufacturers. The FDA may take action against a contract manufacturer who violates cGMPs. Such actions may include requiring the contract manufacturer to cease its manufacturing activities. Another of our products under development, XYOTAX, is complex to manufacture, which may prevent us from obtaining a sufficient supply for the increased clinical trials that are currently planned or underway.

### **Our combined company will be subject to extensive government regulation, including the requirement of approval before our products may be marketed.**

Regulatory agencies have approved only one of CTI's products, TRISENOX, for sale in the United States and the EU, to treat patients with a type of blood cell cancer called acute promyelocytic leukemia, or APL, who have relapsed or have failed standard therapies. Regulatory agencies have not approved any of Novuspharma's products for sale. Before our combined company can market TRISENOX for other indications in the U.S. or EU, we must obtain additional FDA approval and/or approval of the European agency for the Evaluation of Medical Products, or the EMEA. CTI's and Novuspharma's other products are in development, and will have to be approved by the FDA before they can be marketed in the United States and by the EMEA before they can be marketed in the EU. Obtaining FDA or other national regulatory approval requires substantial time, effort and financial resources, and we may not obtain approval on a timely basis, if at all. If the FDA or the EMEA do not approve CTI's or Novuspharma's development products and any additional indications for marketed products in a timely fashion, or does not approve them at all, our combined company's business and financial condition may be adversely affected.

In addition, our combined company and its currently marketed products and product candidates will be subject to comprehensive regulation by the FDA and the EMEA. Regulation by the FDA and EMEA begins before approval for marketing is granted and continues during the life of each product. For example, TRISENOX was approved by the FDA under its accelerated approval process and by the

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EMEA under exceptional circumstances and CTI committed to completing several post-approval requirements to both the FDA and the EMEA, including the conduct of additional clinical studies. If our combined company fails to fulfill these obligations, the FDA or EMEA may withdraw approval of TRISENOX. In addition, the FDA and other regulatory authorities regulate, for example, research and development, including pre-clinical and clinical testing, safety, effectiveness, manufacturing, labeling, advertising, promotion, export, and marketing of our combined company's products. Manufacturing processes must conform to cGMPs. The FDA and other regulatory authorities periodically inspect manufacturing facilities to assess compliance with cGMPs. Accordingly, manufacturers must continue to expend time, money, and effort to maintain compliance. Also, a drug may not be promoted for other than its approved indication, and the FDA, EMEA and other regulatory authorities may institute enforcement action against companies that do so. Our combined company's failure to comply with this or other FDA or other regulatory requirements may result in various adverse consequences, including possible delay in approval or refusal to approve a product, recalls, seizures, withdrawal of an approved product from the market, and/or the imposition of civil or criminal sanctions.

Additionally, our combined company will be subject to numerous regulations and statutes regulating the manner of selling and obtaining reimbursement for our combined company's products that receive marketing approval. For example, federal statutes generally prohibit providing certain discounts and payments to physicians to encourage them to prescribe our product. Violations of such regulations or statutes may result in treble damages, criminal or civil penalties, fines or exclusion of the combined company or its employees from participation in federal and state health care programs. Although our combined company will have policies prohibiting violations of relevant regulations and statutes, unauthorized actions of our combined company's employees or consultants, or unfavorable interpretations of such regulations or statutes may result in third parties or regulatory agencies bringing legal proceedings or enforcement actions against our combined company.

### **If the merger is completed, CTI will be required to comply with an additional national regulatory structure, which could result in administrative challenges.**

If the merger is completed, our operations will need to comply with applicable laws of and rules of the United States, including Washington law and the rules and regulations of the Securities and Exchange Commission and the Nasdaq National Market, the EU legal system and the Republic of Italy, including the rules and regulations of CONSOB and Borsa Italiana, which collectively regulate companies listed on Italy's public markets such as the Nuovo Mercato. Conducting our operations in a manner that complies with all applicable laws and rules will require us to devote additional time and resources to regulatory compliance matters. For example:

issuing each material announcement in both English and Italian might cause administrative challenges as we seek to time the simultaneous release of such announcements in both languages;

producing financial statements and quarterly and other periodic reports under two sets of standards, and approving translations of each significant document into the other language will be expensive and might distract our executives from their primary focus of managing our business, and language translations themselves might lead to inaccuracies; and

the process of seeking to understand and comply with the laws of each country, including tax, labor and regulatory laws, might require us to incur the expense of engaging additional outside counsel, accountants and other professional advisors and might result in delayed business initiatives as we seek to ensure that each new initiative will comply with both regulatory regimes.

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**If the merger is completed, we will be subject to new legal duties and additional political and economic risks related to operations in Italy.**

If the merger is completed, a portion of our business will be based in Italy. We will be subject to duties and risks arising from doing business in Italy, such as:

Italian employment law, under which our relations with our employees in Italy will be governed by collective bargaining agreements negotiated at the national level and over which we have no control;

EU data protection regulations, under which we will be unable to send private personal data, including many employment records and some clinical trial data, from our Italian offices to our U.S. offices until our U.S. offices self-certify their adherence to the safe harbor framework established by the U.S. Department of Commerce in consultation with the European Commission;

tariffs, customs, duties and other trade barriers; and

capital controls, terrorism and other political risks.

These risks related to doing business in Italy could harm the results of our combined operations.

**Uncertainty regarding third party reimbursement and health care cost containment initiatives may limit our combined company's returns.**

The ongoing efforts of governmental and third party payors to contain or reduce the cost of health care will affect our combined company's ability to commercialize our products successfully. Governmental and other third party payors are increasingly attempting to contain health care costs by:

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

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

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

refusing to provide coverage when an approved product is used for disease indications in a way that has not received FDA or EMEA marketing approval; and

denying coverage altogether.

The trend toward managed health care in the United States, the growth of organizations such as health maintenance organizations, and legislative proposals to reform healthcare and government insurance programs could significantly influence the purchase of healthcare services and products, resulting in lower prices and reducing demand for our combined company's products. In addition, in almost all European markets, pricing and choice of prescription pharmaceuticals are subject to government control. Therefore, the price of our combined company's products and their reimbursement in Europe will be determined by national regulatory authorities.

Even if we succeed in bringing any of our combined company's proposed products to the market, they may not be considered cost-effective and third party reimbursement might not be available or sufficient. If adequate third party coverage is not available, our combined company may not be able to maintain price levels sufficient to realize an appropriate return on our investment in research and product development. In addition, legislation and regulations affecting the pricing of

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pharmaceuticals may change in ways adverse to our combined company before or after any of our proposed products are approved for marketing. While we cannot predict whether any such legislative or regulatory proposals will be adopted, the adoption of such proposals could make it difficult or impossible to sell our combined company's products. TRISENOX has been reimbursed by third party payors, but there is no guarantee this reimbursement will continue.

### **Our combined company faces direct and intense competition from our competitors in the biotechnology and pharmaceutical industries and we may not compete successfully against them.**

Competition in the oncology industry is intense and is accentuated by the rapid pace of technological development. We anticipate that we will face increased competition in the future as new companies enter our markets. Our competitors in the United States and elsewhere are numerous and include, among others, major multinational pharmaceutical companies, specialized biotechnology companies and universities and other research institutions. Specifically:

If our combined company is successful in bringing XYOTAX to market, we will face direct competition from oncology-focused multinational corporations. XYOTAX will compete with other taxanes, which are drugs that inhibit cell growth by stopping cell division and are widely used as treatments for cancer. Many oncology-focused multinational corporations currently market or are developing taxanes (including, among others, Bristol-Myers Squibb Co., which markets Taxol<sup>®</sup>, one of the best-selling cancer drugs and Aventis, which markets Taxotere<sup>®</sup>) and epothilones, that inhibit cancer cells by a mechanism similar to taxanes, Novartis AG and Roche or similar products.

In the hematology market, our combined company hopes to receive approval to market TRISENOX to larger indications than currently authorized. Our combined company will face competition from a number of biopharmaceutical companies, including:

- Celgene Corporation, which currently markets thalidomide in multiple myeloma and is developing ImiDs;
- Millennium Pharmaceutical, which recently launched Velcade for treatment of multiple myeloma, a cancer of the bone marrow;
- Pharmion Corporation, which has signed an agreement with Celgene to expand internationally the marketing of thalidomide and is developing 5-Azacytidine for myelodysplastic syndromes, or MDS, also known as smoldering or preleukemia, which are a group of diseases in which the bone marrow does not function normally, and insufficient numbers of mature blood cells are in circulation; and
- SuperGen Corporation, which is developing decitabine, which is in phase III studies in MDS.

Because Pixantrone is intended to provide less toxic treatment to patients who have failed standard chemotherapy treatment, if Pixantrone is brought to market, it is not expected to compete directly with many existing chemotherapy drugs. However, Pixantrone will face competition from currently marketed anthracyclines, which are anticancer drugs that are also antibiotics, such as mitoxantrone (Novantrone<sup>®</sup>), and new anti-cancer drugs with reduced toxicity that may be developed and marketed, including VSLI, a product being developed by Inex Pharmaceuticals Corporation that is currently in late stage clinical trials.

Many of our competitors, either alone or together with their collaborators and in particular, the multinational pharmaceutical companies, have substantially greater financial resources and





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

**If our combined company loses our key personnel or we are unable to attract and retain additional personnel, our combined company may be unable to pursue collaborations or develop our own products.**

Our combined company will be highly dependent on Dr. James A. Bianco, CTI's chief executive officer, and Dr. Jack W. Singer, CTI's executive vice president, research program chairman. The loss of any one of these principal members of our combined company's scientific or management staff, or failure to attract or retain other key scientific employees, could prevent our combined company from pursuing collaborations or developing our products and core technologies. Recruiting and retaining qualified scientific personnel to perform research and development work are critical to our combined company's success. There is intense competition for qualified scientists and managerial personnel from numerous pharmaceutical and biotechnology companies, as well as from academic and government organizations, research institutions and other entities. In addition, our combined company will rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development strategy. All of our combined company's consultants and advisors will be employed by other employers or are self-employed, and will have commitments to or consulting or advisory contracts with other entities that may limit their availability to our combined company.

**CTI's and Novuspharma's limited operating experience may cause our combined company difficulty in managing our growth and could seriously harm our business.**

As a result of additional trials for TRISENOX for indications other than relapsed or refractory APL and clinical trials currently underway for XYOTAX and our other products in development, CTI has expanded our operations in various areas, including our management, regulatory, clinical, financial and information systems and other elements of our business process infrastructure. We may need to add additional key personnel in these areas. In addition, the merger with Novuspharma will expand further our operations with the addition of new product candidates, competencies and employees. As growth occurs, it may strain our combined company's operational, managerial and financial resources. Our combined company will not be able to increase revenues or control costs unless we continue to improve our operational, financial, regulatory and managerial systems and processes, and expand, train and manage our work force.

**Because there is a risk of product liability associated with our combined company's products, our combined company faces potential difficulties in obtaining insurance.**

Our combined company's business exposes our combined company to potential product liability risks inherent in the testing, manufacturing and marketing of human pharmaceutical products, and we may not be able to avoid significant product liability exposure. While each of CTI and Novuspharma have insurance covering product use in their clinical trials, and CTI currently has product liability insurance for TRISENOX, it is possible that our combined company will not be able to maintain such

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insurance on acceptable terms or that any insurance obtained will provide adequate coverage against potential liabilities. Our combined company's inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or limit the commercialization of any products our combined company develops. A successful product liability claim in excess of our combined company's insurance coverage could exceed our net worth.

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

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

**Our combined company may not be able to conduct animal testing, which could harm our combined company's research and development activities.**

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

## **Risks Related to the Securities Markets**

**Our stock price is extremely volatile, which may affect our ability to raise capital in the future.**

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 months ended June 30, 2003, our stock price ranged from a low of \$2.68 to a high of \$15.70. Fluctuations in the trading price or liquidity of our common stock may adversely affect our ability to raise capital through future equity financings.

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

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

our quarterly operating results;

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

developments or disputes concerning patent or other proprietary rights;

developments in our relationships with collaborative partners;

acquisitions;

litigation and government proceedings;

adverse legislation, including changes in governmental regulation and the status of our regulatory approvals or applications;

third-party reimbursement policies;

changes in securities analysts' recommendations;

changes in health care policies and practices;

economic and other external factors; and

general market conditions.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. If a securities class action suit is filed against us, we would incur substantial legal fees and our management's attention and resources would be diverted from operating our business in order to respond to the litigation.

**Our charter documents contain provisions that may prevent or delay removal of incumbent management or a change of control.**

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

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

elimination of cumulative voting in the election of directors;

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procedures for advance notification of shareholder nominations and proposals;

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

the ability of our board of directors to issue up to 10,000,000 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; and

a shareholder rights plan.

In addition, as a Washington corporation, we are subject to Washington law, including Chapter 23 of the Washington Business Corporations Act, which prohibits public companies from engaging in some business combinations without the approval of a majority of the votes within each voting group entitled to vote separately on the transaction.

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

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**Risks Related to the Merger**

**The issuance of shares of CTI common stock to Novuspharma shareholders in the merger will substantially reduce the percentage interests of CTI shareholders.**

The issuance of approximately 16.0 million CTI shares to current Novuspharma shareholders in the merger will cause a significant reduction in the relative percentage interests of current CTI shareholders in earnings, voting, liquidation value and book and market value. In addition, the issuance of CTI common shares at any implied premium would likely result in dilution to the market price of CTI common stock. In addition, CTI expects to issue options to purchase CTI common stock to employees of Novuspharma. If and when those options are exercised, it will cause further dilution to the holders of CTI common stock.

**Our combined company may not achieve the benefits expected from the merger.**

If our combined company is to realize the anticipated benefits of the merger, our combined company must successfully integrate CTI's technology, operations and personnel with those of Novuspharma. Some of the benefits we hope to achieve as a result of the merger include:

better positioning us to grow our commercial market potential through a combination of synergistic product portfolios;

establishing a stronger European presence to provide us with access to patients, healthcare providers and potential partners in the EU and a platform to market future products to the European market;

strengthening our balance sheet;

time and cost savings resulting from:

- using Novuspharma as a base for European clinical development, regulatory affairs and sales and marketing; and
- leveraging Novuspharma's capabilities, thereby allowing us to bring currently outsourced activities in-house; and

adding additional infrastructure, management talent and financial resources, including the addition of Novuspharma's expertise in predevelopment and early clinical development.

The integration of CTI and Novuspharma will be a challenging, complex, time-consuming and expensive process and may disrupt both companies' businesses if not completed in a timely and efficient manner. The challenges involved in this integration include the following:

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effectively pursuing the clinical development and regulatory approvals of our and Novuspharma's product candidates (including XYOTAX and Pixantrone) while effectively marketing CTI's current approved product (TRISENOX);

successfully commercializing products under development and increasing revenues from TRISENOX;

retaining existing strategic partners;

retaining and integrating management and other key employees of both CTI and Novuspharma;

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

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integrating purchasing and procurement operations in multiple locations;

maintaining an adequate level of liquidity to fund our combined company's continuing operations and expansion;

integrating the business cultures of CTI and Novuspharma and maintaining employee morale, particularly in light of an anticipated reduction in workforce;

transitioning all facilities to a common information technology system;

developing and maintaining uniform standards, controls, procedures and policies that comply with both U.S. and Italian laws and regulations;

maintaining adequate focus on the core business of the combined company while integrating operations;

maintaining relationships with employees, strategic partners, manufacturers and suppliers while integrating management and other key personnel; and

coping with unanticipated expenses related to integration of the two companies.

Our combined company may not succeed in addressing these challenges or any other problems encountered in connection with the merger, which may be exacerbated by the geographic separation of CTI and Novuspharma. Our combined company's U.S. officers will be located in Seattle, Washington, in the United States, while our combined company's Italian officers will be located in Bresso (Milan), Italy. In addition, our European headquarters will be moved from the United Kingdom to Novuspharma's offices in Bresso (Milan), Italy following the merger. If management is not able to address these challenges, our combined company may not achieve the anticipated benefits of the merger, which may have a material adverse effect on our combined company's business and could result in the loss of key personnel.

**Because the exchange ratio in the merger is fixed, CTI shareholders are exposed to the risk that the market price of CTI's common stock could increase or the market price of Novuspharma ordinary shares could decrease.**

Under the merger agreement, each Novuspharma ordinary share will convert into the right to receive 2.45 shares of CTI common stock. This exchange ratio is a fixed number and will not be adjusted if the price of CTI common stock or Novuspharma ordinary shares increases or decreases prior to the completion of the merger. The prices of CTI common stock and Novuspharma ordinary shares at the closing of the merger might vary from their prices on the date of this proxy statement/ prospectus and on the date of the special meeting of CTI shareholders. These prices might vary because of changes in the business, operations or prospects of CTI or Novuspharma, market assessments of the likelihood that the merger will be completed, the timing of the completion of the merger, the prospects of post-merger operations, regulatory considerations, general market and economic conditions and other factors. Because the date that the merger is completed will be later than the date of the special meeting of CTI shareholders, the prices of CTI common stock and Novuspharma ordinary shares on the date of the special meeting of CTI shareholders might not be indicative of their respective prices on the date the merger is completed. As a result, the market value of the shares of CTI common stock that CTI will be required to issue to former Novuspharma shareholders upon completion of the merger might be greater than the value attributed to Novuspharma's business and assets at the time the merger agreement was entered into and/or the date the merger is approved by our shareholders. We urge CTI shareholders to obtain current market quotations for CTI common stock and Novuspharma ordinary shares, and to be aware that the





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relative prices of CTI common stock and Novuspharma ordinary shares might change dramatically after the special meeting of CTI shareholders.

### **Our combined company may be required to pay \$25 million or more to Novuspharma shareholders who exercise rescission rights in connection with the merger.**

Under Italian law, Novuspharma shareholders that properly exercise their rescission rights will be entitled to receive a cash payment for their Novuspharma ordinary shares, which cash payment is determined by averaging the closing price for a Novuspharma ordinary share on the Nuovo Mercato over the six months prior to the date on which Novuspharma shareholders approve the merger. Pursuant to the merger agreement, neither CTI nor Novuspharma will be obligated to complete the merger if the aggregate amount to be paid to dissenting Novuspharma shareholders exceeds \$25 million. The payment of any amount to Novuspharma shareholders who exercise rescission rights would reduce the available cash reserves of our combined company. At June 30, 2003, CTI and Novuspharma combined had cash, cash equivalents and unrestricted investments totaling \$259.7 million (based on exchange rates then prevailing) and we expect that our combined company's pro forma cash, cash equivalents and unrestricted investments at December 31, 2003 will be \$175.0 million (based on the same exchange rates). As a closing condition, this \$25 million limit may be waived only with the consent of both CTI and Novuspharma. If the amount of claims from dissenting shareholders exceeds \$25 million and the parties agree to waive this closing condition and elect to complete the merger, the cash reserves of our combined company would be further reduced to that extent.

### **Our combined company might be required to repay some or all of the Italian research grants and loan subsidies previously received by Novuspharma as a result of the merger and might not qualify or be approved for new grants and subsidies following the merger.**

Novuspharma has historically funded a portion of its operations through research grants and loan subsidies awarded by Italian authorities. Upon completion of the merger, it is intended that the grants and subsidies will be transferred to an Italian branch of CTI and subsequently contributed to a newly-formed Italian subsidiary of CTI. Under the terms of the grants and subsidies obtained by Novuspharma, these transfers require advance written approval from the Italian bank authorized to make the disbursement on behalf of the government and from the appropriate Italian authorities. We face the risk that one or both of the transfers might not be approved by the applicable bank and/or by the Italian authorities, in which case our combined company might be required to repay some or all of the grants and subsidies received prior to the merger, in the aggregate amount of up to approximately \$6.5 million as of June 30, 2003 and may forfeit outstanding grants and subsidies not yet disbursed as of June 30, 2003 by the authorized bank, in the aggregate amount of up to approximately \$7.6 million as of June 30, 2003. Following the completion of the merger, our planned Italian subsidiary will be eligible to apply for new research grants and subsidies from the Italian and EU authorities. However, the grants and subsidies are awarded in the discretion of those authorities so the Italian subsidiary may not qualify or be approved for any grants or subsidies that may be applicable to it. For a more detailed description of the Italian and EU grant and subsidy programs, see "Conditions in Italy and the European Union Governmental Support of Medical Research and Training."

### **Our combined company's reported financial results will suffer as a result of the asset purchase accounting treatment**

In accordance with United States generally accepted accounting principles, we will account for the merger as an asset purchase, which will result in charges to earnings that could have a material

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adverse effect on the market value of our common stock following the completion of the merger. As an asset purchase, we will allocate the total estimated purchase price to Novuspharma's net tangible assets, other intangible assets and in-process research and development based on their allocated fair values as of the date of completion of the merger. Based on a preliminary third-party valuation prepared in connection with the preparation of the pro forma financial statements contained elsewhere in this proxy statement/prospectus using Novuspharma's June 30, 2003 financial information, assuming the merger had closed on June 30, 2003, these amounts would be estimated at approximately \$113.2 million, \$3.3 million and \$83.1 million, respectively, which estimates are subject to material change upon completion of a final valuation. We will expense the portion of the estimated purchase price allocated to in-process research and development in the quarter in which the merger is completed. We will incur additional depreciation and amortization expense over the useful lives of certain of the net tangible and intangible assets acquired in connection with the merger. In addition, to the extent that certain assets acquired as part of the asset purchase become impaired, we may be required to incur material charges relating to this impairment. These in-process research and development, potential impairment and other non-cash charges could have a material impact on the results of operations of our combined company (see Note 1 to the Unaudited Pro Forma Condensed Combined Financial Statements).

### **The costs associated with the merger could adversely affect our combined company's financial results.**

We and Novuspharma expect to incur combined direct transaction costs of approximately \$9.5 million in connection with the merger and substantial additional costs in connection with the integration of our and Novuspharma's businesses. If the benefits of the merger do not exceed the costs associated with the merger, including the costs of integrating the businesses of CTI and Novuspharma, our combined company's financial results could be adversely affected.

### **CTI's stock price and business may be adversely affected if the merger is not completed.**

There are many conditions to our and Novuspharma's obligations to complete the merger. Many of these conditions are beyond our and Novuspharma's control. These conditions include obtaining requisite regulatory and shareholder approval, and we may be unable to obtain these approvals on a timely basis, if at all. If the merger is not completed, the price of CTI common stock may decline to the extent that the current market price of CTI common stock reflects a market assumption that the merger will be completed. Speculation regarding the likelihood of the closing of the merger could increase volatility of the market price of CTI's common stock. If the merger is not completed, CTI would fail to derive the benefits expected to result from the merger, such as, strengthening CTI's balance sheet, the time and cost savings connected with transitioning currently outsourced activities in-house and acquiring a pivotal stage high margin product. CTI will also be required to pay significant costs incurred in connection with the merger, including legal, accounting and a portion of the financial advisory fees, whether or not the merger is completed. Moreover, under some circumstances, CTI may be required to pay Novuspharma a termination fee of \$4.75 million in connection with the termination of the merger agreement.

Although this proxy statement/prospectus may speak as though the merger will be consummated, you should realize that those statements anticipate the completion of the merger on the terms of the merger agreement. Because many of the conditions to the merger are beyond our and Novuspharma's control, the merger may not be completed.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

CTI has included in this proxy statement/prospectus and in the documents incorporated by reference into this proxy statement/prospectus forward-looking statements. The Private Litigation Securities Reform Act of 1995 provides a safe harbor for CTI from liability for forward-looking statements in private civil actions if such statements are identified and accompanied by a meaningful cautionary statement identifying factors that could cause actual results to differ materially from those in the forward-looking statements. The words believe, expect, anticipate, intend, estimate, may, might, will or could and similar expressions or the negatives of these words or phrases are intended to identify forward-looking statements. CTI has based these forward-looking statements on its and Novuspharma's current expectations and projections about the growth of their businesses, their financial performances and the development of our industry. Because these statements reflect our current views concerning future events, these forward-looking statements involve risks and uncertainties. Examples of these statements include, without limitation, statements regarding the following:

the benefits anticipated to result from the proposed merger;

the ability of our combined company to achieve operating efficiencies;

integration and other costs estimated to be incurred in connection with the proposed merger;

anticipated future performance of CTI, Novuspharma and our combined company;

the ability of our combined company to achieve the benefits of the merger;

the completion of the merger;

the financial results of CTI, Novuspharma and our combined company;

CTI's, Novuspharma's and our combined company's future operating expenses, including expenditures for research and development;

the ability of CTI, Novuspharma and our combined company to generate revenues;

the ability to complete clinical trials;

the ability of CTI, Novuspharma and our combined company to develop additional products;

the ability of CTI, Novuspharma and our combined company to successfully commercialize, sell, market and distribute products;

the ability of CTI, Novuspharma and our combined company to attract licensing partners;

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the ability of CTI, Novuspharma and our combined company to maintain and develop collaborative research, development and licensing relationships;

CTI's, Novuspharma's and our combined company's ability to protect its intellectual property;

competitive developments affecting CTI's, Novuspharma's and our combined company's products;

the availability of financing on acceptable terms or at all;

difficulties or delays in manufacturing;

the ability to produce adequate supplies of product candidates;

the ability to attract and retain key employees;

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the ability of CTI, Novuspharma and our combined company to obtain FDA and other regulatory approvals for product candidates;

the ability to comply with FDA, EMEA and Italian regulations;

exposure to product liability and other types of lawsuits and regulatory proceedings;

the availability of reimbursement from governmental and other third-party payors; and

the ability of CTI, Novuspharma and our combined company to comply with environmental laws and regulations.

Investors should note that many factors, as more fully described in Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations of Novuspharma, Business of Novuspharma and elsewhere in this proxy statement/prospectus could affect our future financial results and could cause our actual results to differ materially from those expressed in forward-looking statements contained in this proxy statement/prospectus. For additional information about factors that could cause actual results to differ materially from those described in the forward-looking statements, please see the quarterly reports on Form 10-Q and the annual reports on Form 10-K that CTI files with the Securities and Exchange Commission.

You should not place undue reliance on the forward-looking statements contained in this proxy statement/prospectus. These forward-looking statements speak only as of the date on which the statements were made. We do not undertake any obligation to update our forward-looking statements after the date of this proxy statement/prospectus for any reason, even if new information becomes available or other events occur in the future. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our reports and documents filed with the Securities and Exchange Commission.

All subsequent forward-looking statements attributable to CTI or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

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**THE SPECIAL MEETING OF CTI SHAREHOLDERS**

This proxy statement/prospectus is being furnished to you in connection with the solicitation of proxies by the CTI board of directors in connection with the proposed merger.

**Date, Time and Place of the Special Meeting**

The special meeting of the shareholders of CTI is scheduled to be held as follows:

October 23, 2003

9:30 a.m., local time

501 Elliott Avenue, West

Suite 400

Seattle, Washington

United States of America

**Purpose of the Special Meeting**

The special meeting is being held so that the shareholders of CTI may consider and vote upon a proposal to approve the merger and the transactions contemplated thereby, as set forth in the merger agreement, as well as to transact any other business that properly comes before the special meeting or any adjournment or continuation thereof.

After careful consideration, the CTI board of directors unanimously:

determined that the merger and the merger agreement (including the merger plan ( *progetto di fusione* ) in the form attached to the merger agreement), are advisable and fair to and in the best interests of CTI and our shareholders;

approved the merger, the merger plan, the merger agreement and the transactions contemplated by the merger agreement; and

recommends that you vote **FOR** the proposal to approve the merger and the transactions contemplated thereby.

**Record Date and Shares Outstanding**

We have fixed the close of business on September 12, 2003 as the record date for determination of CTI shareholders entitled to notice of and entitled to vote at the special meeting. On the record date, there were 33,928,085 shares of CTI's sole class of common stock issued and outstanding and held by approximately 258 holders of record. CTI has no outstanding voting securities other than the common stock. Every holder of CTI common stock is entitled to one vote for each share held on the record date for each proposal presented at the special meeting.

**Quorum**

A quorum is necessary for the transaction of most business at the special meeting. A quorum requires the presence, either in person or represented by proxy, of a majority of the shares of CTI common stock that both:

were outstanding on the record date; and

are entitled to vote.



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As mentioned above, at the close of business on the record date, 33,928,085 shares of our common stock were issued and outstanding, all of which are entitled to one vote per share on all matters. Accordingly, 16,964,043 shares must be present, either in person or represented by proxy, at the meeting to constitute a quorum at the special meeting.

## **Abstentions and Broker Non-Votes**

When an eligible voter attends the meeting but decides not to vote (either in person or by proxy), his or her decision not to vote is called an abstention. Properly executed proxy cards that are marked abstain on any proposal will be treated as abstentions for that proposal. We will treat abstentions as follows:

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

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

Accordingly, in the case of the merger proposal, abstentions will count toward the presence of a quorum, will not be considered votes cast and will therefore have no effect on the outcome of the merger proposal.

Many of our investors do not hold our shares directly, but instead hold the shares in street name through their brokers. Brokers holding shares for their clients generally do not have authority to vote those shares on extraordinary proposals such as our merger proposal, unless the client provides specific voting instructions to the broker. When no such instructions are received, brokers are generally required to return the proxy card (or a substitute) marked with an indication that the broker lacks voting power for the proposal. This type of response is known as a broker non-vote. Broker non-votes on any proposal at the special meeting will be treated as abstentions with respect to that matter (i.e., as entitled to vote, but opting not to vote). Accordingly, broker non-votes will count toward the presence of a quorum, will not be considered votes cast and will therefore have no effect on the outcome of the merger proposal.

## **Vote Required**

Assuming that a quorum is present, approval of the merger proposal will require the affirmative vote of a majority of the votes cast at the special meeting of CTI shareholders.

If other matters are properly brought before the special meeting, then the vote required will be determined by applicable law, Nasdaq rules, and the CTI articles of incorporation and bylaws.

## **Voting Agreements and Shares Controlled by Management**

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Our directors and executive officers, owning collectively approximately 2.2% of the shares of our common stock outstanding as of June 16, 2003 and entitled to vote at the meeting, have entered into voting agreements with Novuspharma that commit them, subject to specified exceptions, not to sell any of their shares of CTI common stock prior to the CTI shareholder approval of the merger and to vote all of their shares of CTI common stock in favor of the merger proposal. The form of the voting agreement entered into by CTI's officers and directors appears as an exhibit to the merger agreement and is included as *Appendix B* to this proxy statement/prospectus. Essex Woodlands Health Ventures

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Fund IV, L.P., one of our shareholders, owning approximately 6.1% of the shares of our common stock outstanding as of June 16, 2003 and entitled to vote at the meeting, has entered into a voting agreement with Novuspharma that commits Essex Woodlands, subject to specified exceptions, not to sell more than 25% of its shares of CTI common stock prior to the earlier of the CTI shareholder approval of the merger and December 31, 2003, and to vote all of its shares of CTI common stock in favor of the merger proposal. The voting agreement entered into by Essex Woodlands appears as an exhibit to the merger agreement and is included as *Appendix C* to this proxy statement/prospectus. Accordingly, if the parties to these voting agreements vote in accordance with the terms of the voting agreements, and assuming the parties to the voting agreements do not sell any of their shares of CTI common stock, the vote of approximately 13,869,851 additional shares of our common stock (or approximately 41.7% of the outstanding shares of our common stock as of June 16, 2003) will be required to approve the merger proposal, assuming that 100% of the shares of CTI common stock are represented at the special meeting. For a summary of material provisions of the voting agreements with Novuspharma, see The Merger Summary of Material Terms of Voting Agreements.

On June 16, 2003, our directors and executive officers beneficially owned 2,774,723 shares of our common stock (not including any shares subject to unexercised options), all of which are subject to the voting agreements referred to above. These shares held by our directors and executive officers represented approximately 8.3% of 33,279,148 shares of common stock outstanding on June 16, 2003. Each of our directors and executive officers has indicated that he or she intends to vote for approval of the merger proposal.

## **Voting of Proxies**

All shares of our common stock represented by properly executed proxies received before or at the special meeting or any adjournment thereof will, unless the proxies are revoked, be voted in accordance with the instructions indicated on them. Properly executed proxies that do not contain voting instructions will be voted FOR approval of the merger proposal. Every CTI shareholder is urged to mark the box on the proxy indicating how the shareholder wishes to vote the shareholder's shares or, if you are a holder of record of CTI common stock, by voting by telephone or electronically over the Internet in accordance with the instructions set forth on the enclosed proxy card. The deadline for voting by telephone or the Internet is 11:59 p.m., Eastern time, on October 22, 2003.

We do not expect that any matter other than the merger proposal will be brought before the special meeting. If other matters are properly presented to the special meeting, the persons named as proxies will vote in accordance with their judgment with respect to those matters, unless authority to do so is withheld in the proxy. If there are not enough affirmative votes initially present (or represented by proxy) at the special meeting to approve the merger proposal, the chairman of the meeting may move to adjourn or postpone the meeting to permit further solicitation of proxies by CTI and its board in hope of obtaining a sufficient number of proxies to approve the proposal. In any such vote, the persons named as proxies will vote for any such proposal to adjourn or postpone the meeting; provided, however, that no proxy which is voted against the merger proposal will be voted in favor of any such adjournment or postponement.

## **Revocability of Proxies**

A shareholder may revoke the shareholder's proxy at any time before it is voted by:

notifying in writing the Secretary of CTI, 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, United States of America;

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granting a subsequent proxy;

appearing in person and voting at the special meeting (attendance at the special meeting will not in and of itself constitute revocation of a proxy); and

if you voted by telephone or the Internet, you may revoke your vote in the same manner prior to 11:59 p.m., Eastern time on October 22, 2003.

## **Solicitation of Proxies**

We have hired Innisfree M&A Incorporated as our proxy solicitor to assist in the distribution of proxy materials and solicitation of votes at an estimated cost of \$25,000 plus customary fees for services performed and reimbursement of expenses. We also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to shareholders.

## **Novuspharma Special Meeting; Vote Required; Posting of Shareholder Approval; Voting Agreements**

Novuspharma will hold a special meeting of its shareholders to vote upon the proposed merger at about the same time as the CTI special meeting. In order for Novuspharma to complete the merger, two-thirds of the Novuspharma ordinary shares present (or represented by proxy) at the Novuspharma special meeting must be voted in favor of the merger as long as the required attendance quorum for the special meeting is satisfied.

The Novuspharma board of directors approved the merger and is informing Novuspharma shareholders of the terms of the proposed transaction by, among other means, a separate document, the *Documento Informativo*, under Italian law. In accordance with applicable Italian law, the *Documento Informativo* will be deposited at the registered office of Novuspharma in Bresso (Milan), Italy and at the offices of the Borsa Italiana in Milan, Italy at least 10 days prior to the Novuspharma special meeting, where it will be available for examination by Novuspharma shareholders.

Novuspharma will announce the special shareholders meeting by publishing a notice in the Official Gazette of the Italian Republic, which notice may indicate three different dates on which the special meeting may be validly held (i.e., the first, second and third calls). The notice must be published at least 30 days before the first call. In the event that the meeting cannot be validly held at the first call (because, for example, an insufficient number of shares are represented at the meeting), the meeting may be held at the second call, at the relevant date and time indicated in the notice. In the event that the meeting cannot be validly held at the second call, the meeting may be held at the third call, at the relevant date and time indicated in the notice. Any special shareholders meeting must also comply with (i) attendance quorum rules, and (ii) resolution quorum rules under Italian law and Novuspharma's bylaws. With regard to the attendance quorum rules, if the meeting is held at the first call, more than a majority of the outstanding Novuspharma ordinary shares must be present; if the meeting is held at the second call, more than one-third of the outstanding Novuspharma ordinary shares must be present; and if the meeting is held at the third call, more than one-fifth of the outstanding Novuspharma ordinary shares must be present. The affirmative vote of at least two-thirds of the votes present at each call are required to approve the merger.

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Provided that resolutions approving the merger are duly adopted by the Novuspharma shareholders at the special meeting, under Italian law, the resolutions must be registered with the Italian Companies Register and a two-month waiting period must be observed prior to the filing of the

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merger deed whereby the merger will be effected. During this waiting period, creditors of Novuspharma may challenge the merger before an Italian court of competent jurisdiction. In such a case, the court may still authorize the completion of the merger upon the posting of a bond sufficient to satisfy the creditors' claims.

The following directors and executive officers of Novuspharma, owning collectively approximately 13.0% of the Novuspharma ordinary shares outstanding as of June 16, 2003 and entitled to vote at the special meeting of Novuspharma shareholders, have entered into voting agreements with us that commit them, subject to specified exceptions, not to sell any of their Novuspharma ordinary shares prior to the Novuspharma shareholder approval or any postponement thereof and to vote all of their Novuspharma ordinary shares in favor of the merger: Alberto Bernareggi, Max Brauchli, Maria Gabriella Camboni, Ennio Cavalletti, Michele Garufi, Cesare Parachini, Gabriella Pezzoni, Erich Platzer and Silvano Spinelli. The form of the voting agreement entered into by Novuspharma's officers and directors appears as an exhibit to the merger agreement and is included as *Appendix D* to this proxy statement/prospectus. 3i Group plc, HBM Bio Ventures (Cayman) Ltd. and Novuspharma Invest NV, three of Novuspharma's shareholders, owning collectively approximately 47% of the Novuspharma ordinary shares outstanding as of June 16, 2003 and entitled to vote at the special meeting of Novuspharma shareholders, have entered into voting agreements with us that commit those shareholders, subject to specified exceptions, not to sell their Novuspharma ordinary shares prior to the earlier of the Novuspharma shareholder approval of the merger and December 31, 2003 and to vote all of their Novuspharma ordinary shares in favor of the merger. The form of the voting agreement entered into by 3i Group, HBM Bio Ventures and Novuspharma Invest appears as an exhibit to the merger agreement, and is included as *Appendix E* to this proxy statement/prospectus. Accordingly, if all of the parties to these voting agreements vote in favor of the merger, and assuming the parties to these voting agreements do not sell any of their Novuspharma ordinary shares, the vote of approximately 450,000 additional Novuspharma ordinary shares (or 7% of the Novuspharma ordinary shares outstanding as of June 16, 2003 and entitled to vote) will be required to approve the merger, assuming that 100% of the Novuspharma ordinary shares are represented at the special meeting. Therefore, the existence of these voting agreements does not ensure approval of the merger by the Novuspharma shareholders. For a summary of the material provisions of the voting agreements with CTI, see *The Merger Summary of Material Terms of Voting Agreements*.

On June 16, 2003, Novuspharma directors and executive officers beneficially owned 853,732 Novuspharma ordinary shares (not including any shares subject to unexercised options), all of which are subject to the voting agreements referred to above. The shares held by Novuspharma directors and executive officers represented approximately 13% of Novuspharma's ordinary shares outstanding on June 16, 2003.

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**THE MERGER**

This section of the proxy statement/prospectus describes the proposed merger. Although CTI and Novuspharma believe that the following description covers the material terms of the merger and the related transactions, this summary might not contain all of the information that is important to you. You should carefully read this entire proxy statement/prospectus for a more complete understanding of the merger.

**General**

The merger agreement provides that Novuspharma will merge with and into CTI at the effective time of the merger, with CTI continuing in existence as the surviving corporation. As the surviving corporation, CTI will succeed to and assume all of the rights and obligations as well as the assets and liabilities of both CTI and Novuspharma, in accordance with Washington and Italian law.

**Background of the Merger**

Management of each of CTI and Novuspharma regularly reviews strategic opportunities available to it as part of its ongoing evaluation of changes in the marketplace and opportunities to strengthen its business in general and its product portfolio in particular. These opportunities include, but are not limited to, potential acquisitions or dispositions, collaborations, licensing arrangements or other strategic transactions. In late 2002, CTI internally identified Pixantrone, a drug candidate being developed by Novuspharma, as a potential candidate for collaboration.

During 2002, the Novuspharma board of directors and Novuspharma management began to develop strategies to secure its future by seeking opportunities to partner with another company in an effort to strengthen the commercial prospects for its products. Consequently, in December 2002, Novuspharma retained SG Cowen to act as Novuspharma's financial advisor in connection with the exploration and evaluation of strategic alternatives available to it. From time to time from December 2002 through February 2003, Novuspharma and SG Cowen, on behalf of Novuspharma, had a number of conversations with companies other than CTI to explore opportunities to improve the competitive position of Novuspharma, including potential acquisitions or dispositions of assets, mergers, licensing transactions and other strategic transactions. All of these conversations were exploratory in nature and did not progress beyond the preliminary stage.

In December 2002, Novuspharma's financial advisor contacted James A. Bianco, CTI's president and chief executive officer, to discuss the possibility of exploring a potential business combination involving CTI and Novuspharma. Based on that conversation, on December 10, 2002, CTI and Novuspharma entered into a mutual confidentiality and standstill agreement to allow the exchange of confidential information between the two companies and their advisors.

On December 12, 2002, Dr. Bianco and Edward F. Kenney, CTI's chief operating officer, met in London with Silvano Spinelli, chief executive officer and managing director of Novuspharma, Maria Gabriella Camboni, director of development of Novuspharma, Cesare Parachini, chief financial officer of Novuspharma, and Richard Forrest, then chief operating officer of Novuspharma, at which meeting each of CTI and Novuspharma provided the other with an overview of its business and operations, and discussed the possibility of pursuing a business combination. Following that meeting, the parties determined to continue discussions regarding a possible business combination.





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On January 31, 2003, Dr. Bianco, Jack Singer, research program chairman of CTI, Mr. Kenney, Michael Mumford, then executive vice president of CTI, Peggy Hawkins, vice president, portfolio management of CTI, and Steven Lynn, director, business development of CTI, and representatives of CIBC World Markets, CTI's financial advisor, met with members of Novuspharma management, including Dr. Spinelli and Erich Platzer, chairman of the Novuspharma board of directors, and representatives of SG Cowen and began CTI's initial business diligence review of Novuspharma at Novuspharma's offices in Bresso (Milan), Italy.

On February 23, 2003, Dr. Bianco met with Dr. Spinelli, Dr. Platzer, Joel Besse and Antoine Papiernik, all of whom are directors of Novuspharma, in Seattle, Washington. During this meeting, the parties discussed issues associated with the business combination, the potential governance and management of the combined company and potential strategic synergies of the business combination.

On February 24, 2003, Dr. Spinelli, Dr. Platzer, Mr. Besse and Mr. Papiernik met with representatives of CTI and began Novuspharma's initial business diligence review of CTI at CTI's offices in Seattle.

During the second half of March and the first week of April 2003, representatives of CTI and Novuspharma and their advisors had numerous teleconferences and meetings to discuss the potential terms and conditions of a proposed merger between CTI and Novuspharma, including the structure of the transaction in light of accounting, business and legal challenges arising from a combination involving a U.S. public company and an Italian public company, the potential governance and management of the combined company and potential strategic synergies of the business combination and various other business terms.

On April 9, 2003, Dr. Spinelli met with Dr. Bianco and other members of CTI's management at CTI's offices in Seattle to discuss issues relating to the integration of the businesses of CTI and Novuspharma, potential synergies, product development and pipelines, and other terms of the proposed transaction.

On April 14, 2003, representatives of Gianni, Origoni, Grippo & Partners, Studio Legale, CTI's Italian counsel, commenced a legal due diligence review of Novuspharma at Novuspharma's offices in Bresso (Milan), Italy.

On April 16, 2003, the CTI board of directors held a special meeting. Louis Bianco, chief financial officer of CTI, and representatives of CIBC World Markets and Wilson Sonsini Goodrich & Rosati, Professional Corporation, U.S. counsel to CTI, also attended the meeting. Dr. Bianco reviewed with the CTI board of directors the potential opportunities presented by a strategic transaction with Novuspharma and the status of discussions with Novuspharma. The CTI board of directors then authorized Dr. Bianco and the other members of CTI's management and CTI's advisors to continue their discussions with, and due diligence on, Novuspharma.

On April 22 and April 23, 2003, Dr. Bianco, Mr. Bianco, Dr. Singer, Dr. Lynn and Ms. Hawkins, and representatives of CTI's advisors met with representatives of Novuspharma and its financial advisor and Italian legal counsel and conducted legal, financial, scientific and regulatory due diligence on Novuspharma at Novuspharma's offices in Bresso (Milan), Italy.

On April 24, 2003, the Novuspharma board of directors held a meeting at Novuspharma's offices in Bresso (Milan), Italy. The Novuspharma board of directors formed an M&A committee consisting



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of Dr. Platzer, Dr. Spinelli, Mr. Besse, Mr. Papiernik and David Ebsworth. The Novuspharma board of directors established the M&A committee to oversee negotiations with CTI and to report to the Novuspharma board of directors about material discussions and actions relating to the potential transaction.

From April 28 through April 30, 2003, representatives of Novuspharma, its financial advisor and U.S. counsel met with representatives of CTI and its financial advisor and U.S. counsel and conducted legal, financial, scientific and regulatory due diligence on CTI at CTI's offices in Seattle.

Beginning on May 5, 2003, representatives of CTI and Novuspharma and their advisors commenced negotiating the terms of definitive agreements in connection with the proposed transaction, including an agreement and plan of merger, the Italian-law governed merger plan, voting and shareholder agreements, and employment agreements with some of Novuspharma's executives. These negotiations continued by way of teleconferences throughout the month of May 2003. During this time, each of CTI and Novuspharma and their advisors continued their due diligence review of the other party.

On May 8, 2003, members of Novuspharma's management and the Novuspharma board of directors, representatives of SG Cowen, Chiomenti Studio Legale, Italian counsel to Novuspharma, and Skadden, Arps, Slate, Meagher & Flom LLP, Novuspharma's U.S. counsel, met to discuss the status of the negotiations with CTI, to consider the preliminary due diligence review conducted on CTI, and to discuss the terms and conditions and structure of the proposed business combination.

From May 13 through May 15, 2003, Dr. Bianco, Mr. Bianco, Ms. Hawkins, Dr. Singer and Dr. Lynn met in New York City with Dr. Spinelli, Dr. Platzer and Dr. Camboni to discuss the potential organizational structure of, and business roles in, the combined company, potential strategic synergies and plans for the business integration of CTI and Novuspharma.

On May 21, 2003, Dr. Bianco had a teleconference with Dr. Spinelli and Dr. Platzer to discuss the status of the transaction and open issues relating to the draft definitive transaction documents.

On May 21, 2003, the CTI board of directors held a special meeting. Mr. Bianco and representatives of CIBC World Markets and Wilson Sonsini Goodrich & Rosati also attended the meeting. Wilson Sonsini Goodrich & Rosati described to the CTI directors their duties and responsibilities in connection with the proposed transaction. CTI management reviewed with the CTI board of directors the status of discussions with Novuspharma, the strategic rationale for the proposed transaction, the scope and results of its legal, financial, scientific and regulatory due diligence investigation of Novuspharma and the risks and potential negative impacts of the proposed transaction and possible strategies for mitigating those risks. CIBC World Markets reviewed with the CTI board of directors a financial overview of Novuspharma and financial aspects of the proposed transaction. Following discussion about these reviews, Wilson Sonsini Goodrich & Rosati reviewed with the CTI board of directors the draft definitive agreements as they had been negotiated to date with Novuspharma and its advisors, including the merger agreement, the shareholders' agreements and the voting agreements.

From May 25 through May 28, 2003, the Novuspharma M&A Committee held several meetings, during which Novuspharma's Italian and U.S. legal counsel participated, to discuss, in particular, the remaining key open legal and business issues regarding the draft merger agreement and also to define the merger plan in light of Italian law requirements.



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From May 27 through May 30, 2003, Dr. Bianco, Mr. Bianco, and representatives of CTI's advisors, met with Dr. Spinelli, Dr. Platzer and Mr. Besse and representatives of Novuspharma's advisors at Skadden, Arps, Slate, Meagher & Flom LLP's offices in New York City to negotiate the terms of the definitive agreements.

On May 29, 2003, Novuspharma's M&A committee held a meeting, in which Novuspharma's U.S. and Italian legal counsel also participated, to receive an update on the status of the negotiations with CTI and the legal documents relating to the merger.

On May 30, 2003, the CTI board of directors held a special meeting. Mr. Bianco and representatives of CIBC World Markets and Wilson Sonsini Goodrich & Rosati also attended the meeting. Dr. Bianco updated the CTI board of directors on the status of the negotiations between CTI and Novuspharma regarding the exchange ratio in the proposed transaction. Dr. Bianco also updated the CTI board of directors on the status of negotiations regarding the definitive agreements and the plan for communicating the transaction to the market. Wilson Sonsini Goodrich & Rosati then reviewed with the CTI board of directors the terms of the proposed voting agreements to be entered into by directors, officers and major shareholders of CTI and Novuspharma in connection with the proposed transaction.

On May 31, 2003, the CTI board of directors held another special meeting. Mr. Bianco and representatives of CIBC World Markets and Wilson Sonsini Goodrich & Rosati also attended the meeting. Wilson Sonsini Goodrich & Rosati reviewed with the CTI board of directors the terms of the merger agreement, including the mechanics of the share exchange in the merger, the parties' representations and warranties, the parties' covenants (including covenants relating to solicitation of alternative transactions), conditions to the merger and the provisions for termination of the merger agreement and payment of a termination fee. Wilson Sonsini Goodrich & Rosati then reviewed with the CTI board of directors the terms of the ancillary documents to be entered into in connection with the merger agreement, including the voting agreements to be entered into by shareholders of CTI and Novuspharma, the shareholders' agreements to be entered into by the major shareholders of Novuspharma and the employment agreements to be entered into by CTI with three key employees of Novuspharma. Wilson Sonsini Goodrich & Rosati also reviewed with the CTI board of directors the proposed composition and size of the CTI board of directors following the closing of the merger, as negotiated in connection with the merger agreement, including a proposed amendment to CTI's bylaws to increase the size of the CTI board of directors. CIBC World Markets then updated the CTI board of directors regarding financial aspects of the transaction.

On June 1, 2003, the Novuspharma M&A committee informed Max Brauchli and Michele Garufi, the members of the Novuspharma board of directors not on the M&A committee, in a teleconference, of the status of the negotiations with CTI, and, with the participation of Novuspharma's legal advisors in the same teleconference, reviewed the terms of the proposed draft merger agreement. The directors also discussed the proposed terms of the draft voting agreements to be entered into by shareholders of CTI with Novuspharma. The M&A committee informed the other directors that there were still additional business and legal issues to address with CTI, and additional clinical and business due diligence to be conducted on CTI.

During the week of June 2, 2003, representatives of Novuspharma conducted additional clinical and business due diligence on CTI, both on-site at CTI's offices in Seattle and via teleconference.

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From June 2 through June 12, 2003, the Novuspharma M&A committee held frequent teleconferences to discuss developments with respect to the ongoing clinical and business due diligence on CTI, and in this regard it also discussed and analyzed, with the participation of SG Cowen, current market conditions with respect to CTI and Novuspharma shares and business prospects of the combined entity.

Between June 10 and June 16, 2003, representatives of CTI and Novuspharma and their advisors held numerous conference calls to negotiate the terms of the merger agreement and related documents.

On June 16, 2003, the Novuspharma board of directors held a special meeting. All Novuspharma directors attended this meeting as well as representatives of SG Cowen, Chiomenti Studio Legale and Skadden, Arps, Slate, Meagher & Flom LLP. Dr. Spinelli updated the Novuspharma board of directors on negotiations with CTI and, based on discussions and negotiations with Novuspharma, proposed to the Novuspharma board of directors an exchange ratio of 2.45 shares of CTI common stock for each ordinary share of Novuspharma. SG Cowen then presented its financial analyses of the transaction with a 2.45 exchange ratio to the Novuspharma board of directors and delivered its oral opinion, subsequently confirmed in writing, to the Novuspharma board of directors that, as of June 16, 2003, the exchange ratio was fair, from a financial point of view, to the shareholders of Novuspharma. Novuspharma's legal advisors then updated the Novuspharma board of directors with respect to the terms and conditions of the definitive agreements. Following discussion about the terms of the transaction, including the financial terms, the Novuspharma board of directors approved, by unanimous vote, the merger agreement (together with the merger plan required by Italian law), the voting agreements to be executed by Novuspharma and the transactions contemplated by those documents, and authorized Dr. Platzer and Dr. Spinelli to execute the necessary agreements and take any necessary actions to consummate the merger pursuant to the terms of the definitive agreements. The Novuspharma board of directors also appointed KPMG S.p.A. as the expert required by Italian law to issue a report on the fairness of the exchange ratio.

Also on June 16, 2003, the CTI board of directors held a special meeting. Mr. Bianco and representatives of CIBC World Markets and Wilson Sonsini Goodrich & Rosati also attended the meeting. Dr. Bianco updated the CTI board of directors on negotiations with Novuspharma with respect to the exchange ratio in the proposed transaction and, based on discussions and negotiations with Novuspharma, proposed to the CTI board of directors an exchange ratio of 2.45. Wilson Sonsini Goodrich & Rosati updated the CTI board of directors with respect to the terms and conditions of the definitive agreements. CIBC World Markets reviewed with the CTI board of directors its financial analysis of the 2.45 exchange ratio and delivered to the CTI board of directors an oral opinion, confirmed by delivery of a written opinion delivered the same date, as to the fairness, from a financial point of view, to CTI of the exchange ratio, as more fully described below under Opinion of CTI's Financial Advisor. Following discussion, the CTI board of directors approved by unanimous vote the merger agreement (together with the merger plan required by Italian law), the voting agreements, the shareholders' agreements, the employment agreements, the amended and restated bylaws of CTI and the transactions contemplated by those documents, and authorized execution of those agreements.

Representatives of CTI and Novuspharma, the relevant shareholders and employees of Novuspharma and the relevant shareholders of CTI, as the case may be, executed the merger agreement, the voting agreements, the shareholders' agreements and the employment agreements on June 16, 2003.

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Before the opening of trading of Novuspharma's ordinary shares and CTI's common stock on June 17, 2003, CTI and Novuspharma issued joint press releases announcing execution of the merger agreement.

On June 27, 2003, the merger plan was filed and registered with the register of enterprises in Milan, Italy as required by Italian law.

On June 27, 2003, the parties submitted a request for a favorable tax ruling to the Milan tax authorities.

### **CTI's Reasons for the Merger; Recommendation of the CTI Board of Directors**

After careful consideration, the CTI board of directors unanimously:

determined that the merger and the merger agreement (including the merger plan ( progetto di fusione ) in the form attached to the merger agreement), are advisable and fair to and in the best interests of CTI and our shareholders;

approved the merger, the merger plan, the merger agreement and the transactions contemplated by the merger agreement; and

recommends that you vote **FOR** the proposal to approve the merger and the transactions contemplated thereby.

During the course of its deliberations, the CTI board of directors considered, with the assistance of CTI's management and its legal and financial advisors, a number of factors. The following discussion of the information and factors the CTI board of directors considered in making its decision is not intended to be exhaustive but includes the material factors considered by the CTI board of directors.

In reaching its conclusion that the merger is advisable and fair to and in the best interests of CTI and our shareholders, and in deciding to approve the merger agreement, the CTI board of directors considered the following potentially positive factors:

The acquisition of Novuspharma adds a pivotal stage high margin hematology/oncology product (Pixantrone) to our pipeline that is synergistic with our current portfolio, including our current marketed product TRISENOX.

The complementary product portfolios of CTI and Novuspharma should better position us to grow our commercial market potential (and should allow us to eliminate less promising product candidates).

The acquisition of Novuspharma should give us a stronger European presence that is expected to allow us access to patients, healthcare providers and potential partners in the EU.

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The acquisition of Novuspharma is expected to strengthen our balance sheet, and will provide us access to Novuspharma's cash, cash equivalents and securities available for sale totaling approximately \$109.9 million as of June 30, 2003 (based on exchange rates then prevailing).

Significant time and cost savings are expected to result from:

using Novuspharma as a base for European clinical development, regulatory affairs and sales and marketing;



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leveraging Novuspharma's chemistry, manufacturing and controls, or CMC, capabilities, early development expertise and real time vendor oversight and management capabilities, which will allow us to bring currently outsourced activities in-house; and

the ability to manage ex-US clinical sites from Novuspharma and utilize Novuspharma's pharmaco-vigilance (its ability to monitor the safety and quality of drugs) in lieu of vendors.

The merger should provide an opportunity to effectively utilize the skills and resources of the combined companies and their respective management teams—we have strengths in oncology sales and marketing and late stage clinical development, but currently outsource much of this activity to qualified vendors, while Novuspharma's expertise has focused primarily on predevelopment activities (medicinal chemistry, analytical development and testing, pre-clinical toxicology, pharmacology) and early Phase I/II clinical development.

The merger is expected to provide us with an improved platform for future growth and enhance our oncology market presence through the acquisition of Pixantrone and Novuspharma's expertise in predevelopment and early clinical development.

The merger should provide us with an expanded European presence from which to market our future products to the European market.

The merger should provide additional infrastructure, management talent and financial resources to facilitate further initiatives to grow CTI's presence in the pharmaceutical industry.

The merger should improve CTI's ability to conduct expensive clinical trials by providing access to Novuspharma's cash reserves.

The financial presentation of CIBC World Markets, including its opinion delivered June 16, 2003 to the CTI board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to CTI of the exchange ratio, as more fully described below under "Opinion of CTI's Financial Advisor" and which opinion is included as *Appendix G* to this proxy statement/prospectus.

The CTI board of directors also considered the following potentially negative factors:

Substantial management time and effort will be required to close the transaction and integrate the businesses of CTI and Novuspharma.

The additional shares to be issued in furtherance of the merger will be dilutive to holders of our common stock.

Significant legal, financial advisor and accounting fees will be incurred in connection with negotiating and closing the transaction, which are currently estimated to total approximately \$9.5 million for the combined company.

Significant costs will be incurred in connection with the integration of the businesses of CTI and Novuspharma and the integration will be challenging, which may be exacerbated by the geographic separation of the companies.

The merger agreement restricts our ability to solicit offers from potential acquirers of 50% or more of our stock or assets and, if we were to do so, or if we were to terminate the merger agreement under certain circumstances (or if our actions were to cause Novuspharma to terminate under certain circumstances), all as described in "The Merger Agreement—Termination Fee," we might be

required to pay Novuspharma a \$4.75 million termination fee.

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The potential benefits sought in the merger might not be fully realized.

The merger might not be consummated, or consummation of the merger might be unduly delayed, and public announcement of the merger in such a case may have a negative effect on:

our business; and

our ability to attract and retain key management, marketing and scientific personnel.

Despite the efforts of the combined company, key scientific and management personnel might not remain employed by the combined company.

The merger may have a negative impact on our collaborators and employees, and a reduction in force of approximately 50-60 employees is expected in connection with the merger.

The investment community might respond negatively to the proposed transaction.

The other risks associated with the transaction described under Risk Factors.

The CTI board of directors also considered the following material information and factors in reaching its determination to approve the merger and to recommend that CTI shareholders approve the merger:

historical information concerning our and Novuspharma's respective businesses, prospects, financial performance and condition, operations, technology and management;

the financial condition and businesses of CTI and Novuspharma before and after giving effect to the merger;

current financial market conditions and historical market prices, volatility and trading information with respect to our common stock and the Novuspharma ordinary shares;

the relationship between the market value of the Novuspharma ordinary shares and the consideration to be paid to shareholders of Novuspharma in the merger;

the terms of the merger agreement, including the parties' representations, warranties and covenants;

other strategic alternatives for CTI, including the potential to enter into strategic relationships with third parties, seek financing in the public markets or acquire or combine with third parties; and

reports from management, legal and financial advisors as to the results of the due diligence investigation of Novuspharma.

The expected results, efficiencies, opportunities or other benefits described in this section may not be achieved as a result of the transaction.

The CTI board of directors did not find it necessary to, and did not quantify or otherwise assign relative weights to, the foregoing factors or determine that any factor was of particular importance. Rather, the CTI board of directors views its recommendation as being based on the totality of the information presented to, and considered by, it. The CTI board of directors considered all these factors and determined that these factors, as a whole, supported the conclusions and recommendations described above.

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### **Novuspharma's Reasons for the Merger; Recommendation of the Novuspharma Board of Directors**

After careful consideration, the Novuspharma board of directors of directors unanimously:

determined that the merger and the merger plan ( progetto di fusione ) in the form attached to the merger agreement, are advisable and fair to and in the best interests of Novuspharma and its shareholders;

approved the merger plan; and

resolved to recommend the approval of the merger and the transactions contemplated by the merger agreement.

During the course of its deliberations, the Novuspharma board of directors considered, with the assistance of Novuspharma's management and its legal and financial advisors, a number of factors. The following discussion of the information and factors the Novuspharma board of directors considered in making its decision is not intended to be exhaustive but includes the material factors considered by the Novuspharma board of directors.

In reaching its conclusion that the merger is advisable and fair to and in the best interests of Novuspharma and its shareholders, and in deciding to approve the merger and the merger plan, the Novuspharma board of directors considered the following potentially positive factors:

The merger should provide greater liquidity for Novuspharma's shareholders in the form of a public market for CTI common stock.

The merger should allow Novuspharma to commercialize its product candidates (following receipt of regulatory approvals) in the most important world markets and to gain access to U.S. capital markets.

The complementary product portfolios of CTI and Novuspharma will better position the combined company to grow its commercial market potential (and allow it to eliminate less promising product candidates).

The merger should give Novuspharma a stronger U.S. presence that will allow it access to patients, healthcare providers and potential partners in the U.S.

The merger should provide additional infrastructure, management talent and financial resources to facilitate further initiatives to grow Novuspharma's presence in the pharmaceutical industry.

The merger should improve in-licensing and out-licensing opportunities, and enable Novuspharma to offer a more attractive portfolio to potential licensees.

The merger might accelerate the discovery of new clinical candidates by integrating the companies' technological platforms.

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The combined company could benefit from the potential synergies created by combining the later stage development products of CTI with Novuspharma's clinical laboratory and personnel as well as potential cost reductions created by eliminating redundant expenses of the companies.

The financial presentation of SG Cowen, including its opinion to the effect that, as of the date of the opinion, and based upon and subject to the assumptions, qualifications and limitations set forth in its opinion, the exchange ratio provided for in the merger agreement was fair, from a financial point of view, to Novuspharma's shareholders.

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The merger agreement restricts CTI's ability to solicit offers from potential acquirers of 50% or more of CTI's stock or assets and, if CTI were to do so, or if CTI were to terminate the merger agreement without an appropriate reason (or if its actions were to cause Novuspharma to terminate for an appropriate reason), all as described under "The Merger Agreement Termination Fee," CTI might be required to pay Novuspharma a \$4.75 million termination fee.

The board of directors of Novuspharma also identified and considered the following potentially negative material factors in its deliberations concerning the merger:

Substantial management time and effort will be required to negotiate and close the transaction.

Significant legal, financial advisor and accounting fees will be incurred in connection with closing the transaction, which are currently estimated to total approximately \$9.5 million for the combined company.

The possibility that if the market price of CTI common stock declines, as a result of the fixed nature of the exchange ratio, the value of the merger consideration to be received by the Novuspharma shareholders at the time of the closing of the merger would decline.

The possibility of disruption to the operations of Novuspharma and a loss of key employees as a result of the merger.

The possibility that the benefits anticipated in connection with the merger might not be realized by the combined company.

Significant costs may be incurred in connection with the integration of the businesses of CTI and Novuspharma and the integration will be challenging, which may be exacerbated by the geographic separation of the companies.

The merger agreement restricts Novuspharma's ability to solicit offers from potential acquirers of 20% or more of its stock or assets and, if Novuspharma were to do so, or if Novuspharma were to terminate the merger agreement without an appropriate reason (or if Novuspharma's actions were to cause CTI to terminate for an appropriate reason), all as described in "The Merger Agreement Termination Fee," Novuspharma might be required to pay CTI a \$4.75 million termination fee.

The merger may have a negative impact on Novuspharma's collaborators and employees.

The investment community might respond negatively to the proposed transaction.

The other risks associated with the transaction described under "Risk Factors."

The Novuspharma board of directors did not find it necessary to, and did not quantify or otherwise assign relative weights to, the foregoing factors or determine that any factor was of particular importance. Rather, the Novuspharma board of directors views its recommendation as being based on the totality of the information presented to, and considered by, it. The Novuspharma board of directors considered all these factors and determined that these factors, as a whole, supported the conclusions and recommendations described above.

## **Opinion of CTI's Financial Advisor**

CTI engaged CIBC World Markets to act as its exclusive financial advisor in connection with the merger. In connection with this engagement, the CTI board of directors requested that CIBC World Markets evaluate the fairness, from a financial point of view, to CTI of the exchange ratio. On June 16, 2003, at a meeting of the CTI board of directors held to evaluate the proposed merger, CIBC World



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Markets rendered an oral opinion, which was confirmed by delivery of a written opinion dated the same date, to the effect that, as of that date and based on and subject to the matters described in its opinion, the exchange ratio was fair, from a financial point of view, to CTI.

The full text of CIBC World Markets' written opinion dated June 16, 2003, which describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken, is attached to this proxy statement/prospectus as *Appendix G*. CIBC World Markets' opinion is addressed to the CTI board of directors and relates only to the fairness, from a financial point of view, to CTI of the exchange ratio. The opinion does not address any other aspect of the merger and does not constitute a recommendation to any shareholder with respect to any matters relating to the merger. The summary of CIBC World Markets' opinion described below is qualified in its entirety by reference to the full text of the written opinion. You are encouraged to read the opinion carefully in its entirety.

In arriving at its opinion, CIBC World Markets:

reviewed the merger agreement;

reviewed audited financial statements of CTI and Novuspharma for the fiscal years ended December 31, 2000, December 31, 2001 and December 31, 2002;

reviewed unaudited financial statements of CTI and Novuspharma for the quarterly period ended March 31, 2003;

reviewed financial forecasts relating to CTI and Novuspharma provided to or discussed with CIBC World Markets by the managements of CTI and Novuspharma, including adjustments to the financial forecasts relating to Novuspharma prepared by the management of CTI and estimates as to the potential synergies and strategic benefits anticipated by the managements of CTI and Novuspharma to result from the merger;

reviewed historical market prices and trading volume for CTI common stock and Novuspharma ordinary shares;

held discussions with the senior managements of CTI and Novuspharma with respect to the businesses and prospects of CTI and Novuspharma;

reviewed and analyzed certain publicly available financial data for companies that CIBC World Markets deemed comparable to CTI and Novuspharma;

reviewed and analyzed certain publicly available information for transactions that CIBC World Markets deemed relevant in evaluating the merger;

reviewed the premiums paid, based on publicly available information, in transactions that CIBC World Markets deemed relevant in evaluating the merger;

analyzed the estimated present value of the future trading price of CTI and Novuspharma using financial forecasts, including assumptions of future performance contained in those forecasts, provided to or discussed with CIBC World Markets by the managements of CTI and Novuspharma;

reviewed potential pro forma financial effects of the merger on CTI based on financial forecasts provided to or discussed with CIBC World Markets by the managements of CTI and Novuspharma;

reviewed public information concerning CTI and Novuspharma; and

performed such other analyses and reviewed such other information as CIBC World Markets deemed appropriate.

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In rendering its opinion, CIBC World Markets relied on and assumed, without independent verification or investigation, the accuracy and completeness of all of the financial and other information provided to or discussed with it by CTI, Novuspharma and their employees, representatives and affiliates. With respect to the financial forecasts relating to CTI and Novuspharma, CIBC World Markets assumed at the direction of the managements of CTI and Novuspharma, without independent verification or investigation, that such forecasts, including adjustments to the financial forecasts relating to Novuspharma prepared by the management of CTI and estimates as to the potential synergies and strategic benefits anticipated by the managements of CTI and Novuspharma to result from the merger, were reasonably prepared on bases reflecting the best available information, estimates and judgments of the managements of CTI and Novuspharma as to the future financial condition and operating results of CTI and Novuspharma and the potential synergies and strategic benefits, including the amount, timing and achievability of those synergies and benefits, anticipated to result from the merger.

CIBC World Markets relied at the direction of the managements of CTI and Novuspharma, without independent verification or investigation, on the assessments of the managements of CTI and Novuspharma as to the existing and future technology and product candidates of CTI and Novuspharma and risks associated with such technology and product candidates as well as on the assessments of the managements of CTI and Novuspharma and, with CTI's consent, on published statistics of the Food and Drug Administration regarding the likelihood of approval for product candidates in various stages of development. CIBC World Markets assumed, with CTI's consent, that the merger would not be a taxable transaction to CTI for U.S. federal income tax purposes. CIBC World Markets also assumed, with CTI's consent, that the merger would be consummated in accordance with its terms without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary regulatory or third party consents and approvals for the merger, no limitations, restrictions or conditions would be imposed that would have an adverse effect on CTI, Novuspharma or the contemplated benefits of the merger.

CIBC World Markets neither made nor obtained any independent evaluations or appraisals of the assets or liabilities, contingent or otherwise, of CTI or Novuspharma. CIBC World Markets expressed no opinion as to the underlying valuation, future performance or long-term viability of CTI or Novuspharma, or the price at which CTI common stock would trade at any time. CIBC World Markets expressed no view as to, and its opinion does not address, the underlying business decision of CTI to effect the merger and its opinion also does not address the relative merits of the merger as compared to any alternative business strategies that might exist for CTI or the effect of any other transaction in which CTI might engage. CIBC World Markets' opinion was necessarily based on the information available to CIBC World Markets and general economic, financial and stock market conditions and circumstances as they existed and could be evaluated by CIBC World Markets on the date of its opinion. Although subsequent developments may affect its opinion, CIBC World Markets does not have any obligation to update, revise or reaffirm its opinion.

This summary is not a complete description of CIBC World Markets' opinion to the CTI board of directors or the financial analyses performed and factors considered by CIBC World Markets in connection with its opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to summary description. CIBC World Markets believes that its analyses and this summary must be considered as a whole and that selecting portions of its analyses and factors or

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focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying CIBC World Markets' analyses and opinion.

In performing its analyses, CIBC World Markets considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its opinion, many of which are beyond the control of CTI and Novuspharma. No company, transaction or business used in the analyses as a comparison is identical to CTI, Novuspharma or the merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed.

The estimates contained in CIBC World Markets' analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, CIBC World Markets' analyses and estimates are inherently subject to substantial uncertainty.

The type and amount of consideration payable in the merger was determined through arm's length negotiations between CTI and Novuspharma and the decision to enter into the merger was solely that of the CTI board of directors. CIBC World Markets' opinion and financial analyses were only one of many factors considered by the CTI board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the CTI board of directors or management with respect to the merger or the exchange ratio.

The following is a summary of the material financial analyses underlying CIBC World Markets' opinion dated June 16, 2003 to the CTI board of directors with respect to the merger. The financial analyses summarized below include information presented in tabular format. In order to fully understand CIBC World Markets' financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of CIBC World Markets' financial analyses.

### **Novuspharma Analyses**

*Selected Companies Analysis.* CIBC World Markets compared financial and stock market information for Novuspharma and the following five selected publicly held development stage companies in the biotechnology industry:

Atrix Laboratories, Inc.  
Genta Incorporated  
ILEX Oncology, Inc.  
Inex Pharmaceuticals Corporation  
MGI Pharma Inc.

CIBC World Markets reviewed firm values, calculated as equity market value plus debt, minority interests, preferred stock and out-of-the-money convertible securities, less cash and investments in



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unconsolidated affiliates, of the selected companies as a multiple of, among other things, calendar year 2005 estimated revenue. All multiples were based on closing stock prices on June 16, 2003. Estimated financial data for the selected companies were based on publicly available research analysts' estimates. Estimated financial data for Novuspharma were based on internal estimates of Novuspharma's management as adjusted by CTI's management. Given the stage of development for product candidates of the selected companies relative to Novuspharma's product candidate, Pixantrone, CIBC World Markets applied a range of selected multiples of calendar year 2005 estimated revenue derived from the selected companies to Novuspharma's calendar year 2007 estimated revenue discounted back two years by applying a discount rate of 40%. This analysis indicated the following approximate implied per share equity reference range for Novuspharma, as compared to the per share equity value implied for Novuspharma based on the exchange ratio and the closing price of CTI common stock on June 16, 2003:

<b>Implied Per Share</b>	<b>Per Share Value Implied for</b>
<b>Equity Reference Range for Novuspharma</b>	<b>Novuspharma by Merger Exchange Ratio</b>
\$38.92 \$44.08	\$36.14

*Precedent Transactions Analysis.* CIBC World Markets reviewed the firm values and implied transaction multiples in the following three selected transactions in the biotechnology industry:

<b>Acquiror</b>	<b>Target</b>
OSI Pharmaceuticals, Inc. Cephalon, Inc. Baxter International Inc.	Cell Pathways, Inc. Anesta Corp. North American Vaccine, Inc.

CIBC World Markets reviewed firm values as a multiple of, among other things, two-years forward estimated revenue. All multiples for the selected transactions were based on publicly available information. CIBC World Markets applied a range of selected multiples of two-years forward estimated revenue derived from the selected transactions to Novuspharma's calendar year 2007 estimated revenue discounted back three years by applying a discount rate of 40%. This analysis indicated the following approximate implied per share equity reference range for Novuspharma, as compared to the per share equity value implied for Novuspharma based on the exchange ratio and the closing price of CTI common stock on June 16, 2003:

<b>Implied Per Share</b>	<b>Per Share Value Implied for</b>
<b>Equity Reference Range for Novuspharma</b>	<b>Novuspharma by Merger Exchange Ratio</b>
\$35.81 \$40.29	\$36.14

*Premiums Paid Analysis.* CIBC World Markets reviewed the premiums paid in eight selected merger and acquisition transactions in the biotechnology industry, and five selected merger and acquisition transactions involving Italian companies, announced since January 2001 having transaction values between \$50 million and \$250 million. CIBC World Markets applied a range of selected premiums derived from these transactions based on the closing stock price of the target company one day prior to public announcement of the transaction to the closing price of Novuspharma ordinary shares on June 16, 2003. This analysis indicated the following approximate implied per share equity reference range for Novuspharma, as compared to the per share equity value implied for Novuspharma based on the exchange ratio and the closing price of CTI common stock on June 16, 2003:

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Implied Per Share

Per Share Value Implied for

Equity Reference Range for Novuspharma

Novuspharma by Merger Exchange Ratio

\$33.48 \$40.17

\$36.14

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*Discounted Earnings Per Share Analysis.* CIBC World Markets performed a discounted earnings per share analysis of Novuspharma to calculate the estimated present value of hypothetical prices at which Novuspharma ordinary shares could trade in calendar year 2008. Estimated financial data for Novuspharma were based on internal estimates prepared by Novuspharma's management as adjusted by CTI's management taking into account, among other things, the assessments of the managements of CTI and Novuspharma as to the probability that particular product candidates being developed by Novuspharma would be commercialized, published statistics of the Food and Drug Administration regarding the likelihood of approval for product candidates in various stages of development, and the net income margins of selected commercial stage companies in the biotechnology industry. CIBC World Markets calculated a range of implied hypothetical future trading prices for Novuspharma ordinary shares by applying earnings per share, commonly referred to as EPS, multiples of 35.0x to 40.0x to Novuspharma's calendar year 2008 estimated EPS. The present value of the implied hypothetical future trading prices was calculated using a discount rate of 15%. This analysis indicated the following approximate implied per share equity reference range for Novuspharma, as compared to the per share equity value implied for Novuspharma based on the exchange ratio and the closing price of CTI common stock on June 16, 2003:

Implied Per Share	Per Share Value Implied for
Equity Reference Range for Novuspharma	Novuspharma by Merger Exchange Ratio
\$31.30 \$35.77	\$36.14

**CTI Analyses**

*Selected Companies Analysis.* CIBC World Markets compared financial and stock market information for CTI and the following five selected publicly held development stage companies in the biotechnology industry:

Atrix Laboratories, Inc.  
 Genta Incorporated  
 ILEX Oncology, Inc.  
 Inex Pharmaceuticals Corporation  
 MGI Pharma Inc.

CIBC World Markets reviewed firm values of the selected companies as a multiple of, among other things, calendar year 2005 estimated revenue. All multiples were based on closing stock prices on June 16, 2003. Estimated financial data for the selected companies were based on publicly available research analysts' estimates. Estimated financial data for CTI were based on internal estimates of CTI's management. CIBC World Markets applied a range of selected multiples of calendar year 2005 estimated revenue derived from the selected companies to CTI's calendar year 2005 estimated commercial sales of XYOTAX. This analysis indicated the following approximate implied per share equity reference range for CTI, as compared to the per share closing price of CTI common stock on June 16, 2003:

Implied Per Share	Per Share Closing Price of
Equity Reference Range for CTI	CTI Common Stock on June 16, 2003
\$16.41 \$19.17	\$14.75



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*Discounted Earnings Per Share Analysis.* CIBC World Markets performed a discounted earnings per share analysis of CTI to calculate the estimated present value of hypothetical prices at which CTI common stock could trade in calendar year 2006. Estimated financial data for CTI were based on internal estimates prepared by CTI's management taking into account, among other things, the assessments of the management of CTI as to the probability that particular product candidates being developed by CTI would be commercialized, published statistics of the Food and Drug Administration regarding the likelihood of approval for product candidates in various stages of development, and the net income margins of selected commercial stage companies in the biotechnology industry. CIBC World Markets calculated a range of implied hypothetical future trading prices for CTI common stock by applying earnings per share multiples of 35.0x to 40.0x to CTI's calendar year 2006 estimated EPS. The present value of the implied hypothetical future trading prices was calculated using a discount rate of 15%. This analysis indicated the following approximate implied per share equity reference range for CTI, as compared to the per share closing price of CTI common stock on June 16, 2003:

<b>Implied Per Share</b>	<b>Per Share Closing Price of</b>
<b>Equity Reference Range for CTI</b>	<b>CTI Common Stock on June 16, 2003</b>
\$13.52 \$15.45	\$14.75

**Implied Exchange Ratio Analysis**

Using the implied per share equity reference ranges derived for Novuspharma from the Selected Companies Analysis, Precedent Transactions Analysis, Premiums Paid Analysis and Discounted Earnings Per Share Analysis described above under Novuspharma Analyses and the implied per share equity reference ranges derived for CTI from the Selected Companies Analysis and Discounted Earnings Per Share Analysis described above under CTI Analyses, as well as the per share closing price of CTI common stock on June 16, 2003, CIBC World Markets calculated implied exchange ratio reference ranges for CTI common stock and Novuspharma ordinary shares. This analysis indicated the following approximate implied exchange ratio reference ranges, as compared to the exchange ratio provided for in the merger:

	<b>Implied Exchange</b>
	<b>Ratio Reference Range</b>
Novuspharma Selected Companies Analysis/CTI Selected Companies Analysis	2.03 2.69
Novuspharma Precedent Transactions Analysis/CTI Selected Companies Analysis	1.87 2.46
Novuspharma Premiums Paid Analysis/CTI Per Share Common Stock Price	2.27 2.72
Novuspharma Discounted Earnings Per Share Analysis/CTI Discounted Earnings Per Share Analysis	2.03 2.65
Median Implied Exchange Ratio Reference Range	2.03 2.67
Merger Exchange Ratio	2.45

**Contribution Analysis**

CIBC World Markets compared the relative contributions of CTI and Novuspharma to the combined company's estimated revenue for fiscal years 2003 through 2007. Estimated financial data were based on, in the case of CTI, internal estimates of CTI's management and, in the case of Novuspharma, internal estimates of Novuspharma's management as adjusted by CTI's management. Based on these relative contributions, CIBC World Markets calculated the pro forma enterprise value contributions of CTI and Novuspharma to the combined company. This analysis indicated that, as of



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June 16, 2003, CTI would constitute approximately 83.2% of the pro forma enterprise value of the combined company, as compared to the mean and median estimated revenue contributions of CTI to the combined company for fiscal years 2003 through 2007 of approximately 88.0% and 91.4%, respectively.

## **Pro Forma Merger Analysis**

CIBC World Markets analyzed the potential pro forma effect of the merger on CTI's estimated EPS in calendar years 2003 through 2007 after giving effect to potential synergies anticipated by the managements of CTI and Novuspharma to result from the merger. Estimated financial data were based on, in the case of CTI, internal estimates of CTI's management and, in the case of Novuspharma, internal estimates of Novuspharma's management as adjusted by CTI's management. This analysis did not result in meaningful results for calendar years 2003 through 2005 due to estimated losses for both companies in those years and indicated that the merger could be dilutive to CTI's estimated EPS in calendar years 2006 and 2007. The actual results achieved by the combined company may vary from projected results and the variations may be material.

## **Other Factors**

In rendering its opinion, CIBC World Markets also reviewed and considered other factors, including:

historical trading prices and trading volumes of CTI common stock and Novuspharma ordinary shares during the 52-week period ended June 16, 2003;

the relationship between movements in CTI common stock, movements in Novuspharma ordinary shares, and movements in the NASDAQ Biotech Index during the 52-week period ended June 16, 2003;

trading volumes of CTI common stock and Novuspharma ordinary shares at various historical price ranges as a percentage of the public float;

the ratio of the per share closing prices of Novuspharma ordinary shares and CTI common stock calculated daily for the one-year period ended June 16, 2003 and the average of this ratio calculated over various periods ended June 16, 2003; and

selected research analysts' reports for CTI, including stock price and EPS estimates reflected in those reports.

## **Miscellaneous**

CTI selected CIBC World Markets as its exclusive financial advisor in connection with the merger based on CIBC World Markets' reputation, experience and familiarity with CTI and its business. CIBC World Markets is an internationally recognized investment banking firm and, as a customary part of its investment banking business, is regularly engaged in valuations of businesses and securities in connection with acquisitions and mergers, underwritings, secondary distributions of securities, private placements and valuations for other purposes. CIBC World Markets and its affiliates in the past have provided, and currently are providing, services to CTI unrelated to the merger, for which services CIBC World Markets and its affiliates have received and expect to receive compensation. In the ordinary course of business, CIBC World Markets and its

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affiliates may actively trade the securities of CTI and Novuspharma for their own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in those securities.

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CTI has agreed to pay CIBC World Markets an aggregate fee for its financial advisory services in connection with the merger based on the transaction value of the merger. The aggregate fee payable by CTI to CIBC World Markets is currently estimated to be approximately \$1.8 million. In addition, CTI has agreed to reimburse CIBC World Markets for its reasonable out-of-pocket expenses, including reasonable fees and expenses of its legal counsel, and to indemnify CIBC World Markets and related parties against liabilities, including liabilities under federal securities laws, relating to or arising out of its engagement.

## **Summary of Material Terms of Voting Agreements**

Approximately 8.3% of CTI's common shares outstanding as of June 16, 2003 and 60% of Novuspharma's ordinary shares outstanding as of June 16, 2003 are subject to voting agreements in which the holders of the shares agree to vote their shares in favor of the merger, as described below.

## **CTI Shareholder Voting Agreements**

In connection with the execution and delivery of the merger agreement, Novuspharma entered into voting agreements with each of the following CTI officers and directors: James A. Bianco, Louis A. Bianco, Jack L. Bowman, James Canfield, John M. Fluke, Jr., Vartan Gregorian, Edward F. Kenney, Max E. Link, Mary O. Munding, Phillip M. Nudelman, Jack W. Singer and Martin P. Sutter. The following summary describes certain material provisions of the CTI shareholder voting agreements. A complete copy of the form of CTI shareholder voting agreement entered into by officers and directors of CTI is attached as an exhibit to the merger agreement, and is attached to this proxy statement/prospectus as *Appendix B*.

*Transfer and Voting of Shares.* Under the CTI shareholder voting agreements, the CTI shareholders agreed that, except as otherwise agreed to by Novuspharma or as specifically permitted by the CTI shareholder voting agreements as set forth below, they will not transfer, enter into any agreement or understanding to transfer, or deposit into a voting trust or similar arrangement any of the shares of CTI common stock owned by them and subject to the CTI shareholder voting agreements (totaling 735,726 shares of CTI common stock). However:

the CTI shareholders are permitted to transfer the shares of CTI common stock owned by them and subject to the CTI shareholder voting agreements pursuant to and in accordance with the terms of the CTI shareholder's 10b-5 plan or arrangement with CTI, if any;

the CTI shareholders are permitted to sell the shares of CTI common stock owned by them and subject to the CTI shareholder voting agreements for cash to the extent necessary to pay taxes incurred as a direct result of the exercise of options to purchase CTI common stock; and

the CTI shareholders are permitted to sell the shares of CTI common stock owned by them and subject to the CTI shareholder voting agreements to any person who executes a counterpart of the CTI shareholder voting agreement and agrees in writing to hold the purchased shares subject to the terms and provisions of the CTI shareholder voting agreement.

The foregoing restrictions on transfer terminate upon CTI shareholder approval of the merger proposal.

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*Agreement to Vote Shares; Grant of Irrevocable Proxy.* Under the CTI shareholder voting agreements, the CTI shareholders agreed to vote all of the shares of CTI common stock owned by them and subject to the CTI shareholder voting agreements, as follows:

in favor of the merger and, upon the request of Novuspharma, in favor of any actions required to further the merger, including, without limitation, any proposal to permit CTI to adjourn any shareholder meeting; and

in favor of any other matter requiring the consent of the CTI shareholders and directly relating to the consummation of the transactions contemplated by the merger agreement.

Furthermore, each CTI shareholder agreed to grant Novuspharma an irrevocable proxy to vote the CTI shareholder's shares of CTI common stock accordingly.

*Termination.* The CTI shareholder voting agreements will terminate upon the earlier to occur of the termination of the merger agreement and the consummation of the merger.

In connection with the execution and delivery of the merger agreement, Novuspharma also entered into a CTI shareholder voting agreement with Essex Woodlands Health Ventures Fund IV, L.P., a shareholder of CTI, which owns 2,033,997 shares of CTI common stock. A complete copy of the CTI shareholder voting agreement entered into by Essex Woodlands is attached as an exhibit to the merger agreement, and is attached to this proxy statement/prospectus as *Appendix C*. The material provisions of this agreement are comparable to those of the CTI shareholder voting agreements, except for the following enumerated differences:

Essex Woodlands Health Ventures Fund IV, L.P. is permitted to sell the shares of CTI common stock owned by it and subject to the CTI shareholder voting agreement only in the following circumstances:

to any person who executes a counterpart of the CTI shareholder voting agreement and agrees in writing to hold the purchased shares subject to the terms and provisions of the CTI shareholder voting agreement; or

up to 25% of the shares of CTI common stock owned by it and subject to the CTI shareholder voting agreement; and

the restrictions on transfer terminate as to Essex Woodlands Health Ventures Fund IV, L.P. upon the earlier to occur of the CTI shareholder approval of the merger proposal and December 31, 2003.

## **Novuspharma Shareholder Voting Agreements**

In connection with the execution and delivery of the merger agreement, CTI entered into a Novuspharma shareholder voting agreement with each of the following Novuspharma executive officers and directors: Alberto Bernareggi, Max Brauchli, Maria Gabriella Camboni, Ennio Cavalletti, Michele Garufi, Cesare Parachini, Gabriella Pezzoni, Erich Platzer and Silvano Spinelli. The following summary describes certain material provisions of the Novuspharma shareholder voting agreements. A complete copy of the form of Novuspharma shareholder voting agreement entered into by the directors and executive officers of Novuspharma is attached as an exhibit to the merger agreement, and is attached to this proxy statement/prospectus as *Appendix D*.



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*Transfer and Voting of Shares.* Under the Novuspharma shareholder voting agreements, the Novuspharma shareholders agreed that, except as otherwise agreed to by CTI or as specifically permitted by the Novuspharma shareholder voting agreements as set forth below, they will not transfer, enter into any agreement or understanding to transfer, or deposit into a voting trust or similar arrangement any of the Novuspharma ordinary shares owned by them and subject to the Novuspharma shareholder voting agreements (totaling 853,732 Novuspharma ordinary shares). However:

the Novuspharma shareholders are permitted to sell the Novuspharma ordinary shares owned by them and subject to the Novuspharma shareholder voting agreements for cash to the extent necessary to pay taxes incurred as a direct result of the exercise of options to purchase Novuspharma ordinary shares; and

the Novuspharma shareholders are permitted to sell the Novuspharma ordinary shares owned by them and subject to the Novuspharma shareholder voting agreements to any person who executes a counterpart of the Novuspharma shareholder voting agreement and agrees in writing to hold the purchased shares subject to the terms and provisions of the Novuspharma shareholder voting agreement.

These restrictions on transfer terminate upon the Novuspharma shareholder approval of the merger.

*Agreement to Vote Shares; Grant of Irrevocable Proxy.* Under the Novuspharma shareholder voting agreements, the Novuspharma shareholders agreed to vote all of the Novuspharma ordinary shares owned by them and subject to the Novuspharma shareholder voting agreements, as follows:

in favor of the merger and, upon the request of CTI, in favor of any actions required to further the merger, including, without limitation, any proposal to permit Novuspharma to adjourn any shareholder meeting; and

in favor of any other matter requiring the consent of the Novuspharma shareholders and directly relating to the consummation of the transactions contemplated by the merger agreement.

Furthermore, each Novuspharma shareholder agreed to grant CTI an irrevocable proxy to vote the Novuspharma shareholder's Novuspharma ordinary shares accordingly.

*Restrictions on Shares.* If CTI determines that any Novuspharma shareholder is an affiliate (as that term is used in Rule 145 under the United States Securities Act of 1933, as amended) of CTI following the effective time of the merger, CTI will give stop transfer instructions to its transfer agent with respect to any shares of CTI common stock that are issued to any such affiliated Novuspharma shareholder and a legend will be placed on the certificates representing the shares owned by such affiliated Novuspharma shareholder stating that the shares may only be transferred pursuant to Rule 145, pursuant to an effective registration statement under the Securities Act of 1933, as amended, or pursuant to an exemption from registration.

*Termination.* The Novuspharma shareholder voting agreements will terminate upon the earlier to occur of the termination of the merger agreement and the consummation of the merger.



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In connection with the execution and delivery of the merger agreement, CTI also entered into Novuspharma shareholder voting agreements with 3i Group PLC, HBM Bio Ventures (Cayman) Ltd. and Novuspharma Invest NV, shareholders of Novuspharma, who own in the aggregate 3,114,816

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Novuspharma ordinary shares. A complete copy of the form of Novuspharma shareholder voting agreement for entered into by 3i Group, HBM Bio Ventures and Novuspharma Invest is attached as an exhibit to the merger agreement, and is attached to this proxy statement/prospectus as *Appendix E*. The material provisions of these agreements are comparable to those of the Novuspharma shareholder voting agreements, except for the following enumerated differences:

these Novuspharma shareholders are permitted to sell the Novuspharma ordinary shares owned by them and subject to the Novuspharma shareholder voting agreement only to any person who executes a counterpart of the Novuspharma shareholder voting agreement and agrees in writing to hold the purchased shares subject to the terms and provisions of the Novuspharma shareholder voting agreement;

the restrictions on transfer terminate as to these Novuspharma shareholders upon the earlier to occur of the Novuspharma shareholder approval of the merger and December 31, 2003; and

no proxy was granted to CTI by the 3i Group in connection with its voting agreement.

## **Interests of Certain Persons in the Merger**

Dr. Silvano Spinelli and Dr. Erich Platzer each serve on the Novuspharma board of directors, and will each be appointed to the CTI board of directors at the effective time of the merger pursuant to the merger agreement. See *Management of Our Combined Company After the Merger*. CTI expects to issue options to Dr. Spinelli and Dr. Platzer following completion of the merger in amounts to be determined by CTI, including 15,000 options to Dr. Platzer pursuant to CTI's Automatic Option Grant Program in effect for our directors under our 2003 Equity Incentive Plan.

CTI will issue options to employees of Novuspharma, including executive officers of Novuspharma, following completion of the merger in amounts to be determined by CTI. Option grants to Novuspharma directors and executives by CTI will have an exercise price equal to the greater of (i) the average of the closing prices for a share of CTI common stock on the Nasdaq National Market for each trading day during the one-month period immediately preceding the effective time of the merger or the closing price on the relevant date of grant, and (ii) the average of the closing prices for a share of CTI common stock on the Nuovo Mercato Telematico Azionario (if applicable) for each trading day during the one-month period immediately preceding the effective time of the merger or the closing price on the relevant date of grant.

In addition, pursuant to the merger agreement, all options to acquire Novuspharma ordinary shares will be accelerated and, to the extent not exercised before the effective time of the merger, will be cancelled. Depending on the market price of Novuspharma ordinary shares at the time of such acceleration, Cesare Parachini, Novuspharma's chief financial officer, who holds 23,000 options, may have options with an exercise price less than the market value of Novuspharma ordinary shares at the time of such acceleration and thus may exercise those options and receive the benefit of such acceleration. See *The Merger Agreement Treatment of Novuspharma Options in the Merger*.

In connection with the merger, we entered into employment agreements with each of Dr. Spinelli, Novuspharma's chief executive officer and managing director, Maria Gabriella Camboni, Novuspharma's director of development, and Mr. Parachini providing for annual salaries, severance and other benefits, as described in *Management of Our Combined Company after the Merger Employment Arrangements Employment Agreements*. These agreements also provide for grants of restricted stock to each employee. These agreements are filed with the Securities and Exchange



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Commission as exhibits to our registration statement on Form S-4 of which this proxy statement/prospectus forms a part.

Pursuant to the collective bargaining agreement governing executives of Novuspharma, executives of Novuspharma are entitled to resign without notice within six months from the date of the merger, whether or not any detrimental change in their working position occurs. If a former Novuspharma executive asserts this right, which cannot be waived by the executive before the merger, we will be required to pay the executive, in addition to required severance (referred to in Italy as T.F.R. ), an indemnity equal to one-third of the indemnity in lieu of the notice period to which the employee would have been entitled in case of dismissal. See Management of Our Combined Company after the Merger Employment Arrangements Italian Law and National Collective Bargaining Agreements.

In the merger agreement, we have agreed to maintain directors and officers liability insurance covering those persons who were covered by Novuspharma's directors and officers liability insurance policies prior to the effective time of the merger, for a period of three years on terms no less favorable than the terms of the previous insurance coverage. See The Merger Agreement Indemnification and Insurance.

An expectation of receiving the above benefits might have influenced the above directors and officers of Novuspharma to support the merger.

## **Accounting Treatment**

CTI will account for the merger as an asset purchase. Accordingly, CTI will reflect Novuspharma's results of operations in CTI's consolidated results for periods from the date that the merger is completed. In addition, CTI will allocate the aggregate purchase price of the acquisition (including the value of the CTI common stock issued, as well as direct costs of the acquisition) based upon the allocated fair values of the assets acquired and liabilities assumed.

## **Regulatory Matters**

### *U.S. Antitrust Regulatory Approvals*

Prior to completion of the merger, CTI, Novuspharma and any shareholder of Novuspharma acquiring more than 10% of our outstanding stock may be required to give notification of the merger and furnish information to the U.S. Federal Trade Commission and the Antitrust Division of the United States Department of Justice and observe a statutory waiting period requirement. Although we do not currently anticipate that any such notification will be required, if such a notification is required, at any time before or after the effective time of the merger, and notwithstanding that the waiting period has terminated or the merger may have been completed, the U.S. Federal Trade Commission, the Antitrust Division or any state within the United States could take any action under the applicable antitrust or competition laws as it deems necessary or desirable. This action could include seeking to enjoin the completion of the merger. Private parties may also institute legal actions under the antitrust laws under some circumstances.

### *Italian or European Union Antitrust Regulatory Approvals*

CTI and Novuspharma may be required to provide notice of the merger to either the European Commission, which we call the Commission, or the Italian Antitrust Authority, which we call the IAA, depending on their net revenues worldwide, within the EU and within Italy.

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Although we do not currently anticipate that any such notification of the merger is required, if such a notification is required under the EU rules, notice of the merger must be provided to the Commission within seven days after the party's board of directors approves the merger. Within one month after providing the notice, the Commission must make a formal determination whether to (i) approve the merger, or (ii) investigate further, in which case the Commission has four additional months to complete its investigation and issue a final decision. If notification of the merger is required under the EU rules, the merger may not be implemented prior to providing the notice and receiving approval from the Commission (unless, in certain instances, an exception is granted).

If notification of the merger is not required under the EU rules, notification may be required under Italian law. If so, notice of the merger must be provided to the IAA before the completion of the merger by the parties. Within thirty days after providing the notice, the IAA must make a formal determination whether to (i) approve the merger, or (ii) investigate further, in which case the IAA has generally an additional 45 days to complete its investigation and issue a final decision. Pending IAA approval, implementation of the merger need not be suspended. However, if the IAA finds that the merger raises serious competition concerns, then the IAA may require the parties to undertake any action that it considers appropriate in order to restore conditions of effective competition.

### *Other Regulatory Matters*

In order for the merger to be valid under Italian law, Italian law requires delivery to the shareholders of Novuspharma, by deposit at the corporate headquarters of Novuspharma and with copies to the Italian securities regulator and CONSOB of certain documents, including a report that indicates that, among other things, the valuation methods adopted by the Novuspharma board of directors are, under the circumstances, reasonable and not arbitrary and have been correctly applied by the directors in their determination of the exchange ratio contained in the merger agreement.

Under Novuspharma's grants and subsidies from the Italian government, consent to any merger of Novuspharma must be received in advance of the merger from the authorized bank in order to seek to avoid the forfeiture of any sums already received by Novuspharma, plus the payment of interest on those sums. See *Conditions in Italy and the European Union Governmental Support of Medical Research and Training*.

### **Rescission Rights; Dissenters' Rights**

Italian law provides Novuspharma shareholders with specified rescission rights. Under Italian law, shareholders of Italian joint stock companies are entitled to exercise rescission rights whenever a resolution is adopted at a special meeting of shareholders with respect to:

a change in the business purpose of the company;

a change in the legal form of the company;

a transfer of the headquarters of the company outside of Italy; or

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a merger in which the shareholders of a listed company receives shares which are not listed on a national regulated stock market in Italy.

Because the headquarters of the combined company will be located in the United States, Novuspharma shareholders that do not vote in favor of the merger are entitled to exercise rescission rights in connection with the merger by giving notice to Novuspharma within a specified time period

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after the Novuspharma shareholders are asked to approve the merger. For Novuspharma shareholders that attend the Novuspharma special meeting and do not vote in favor of the merger, this time period ends three days after the Novuspharma special meeting at which shareholders are asked to approve the transaction. For Novuspharma shareholders that do not attend the Novuspharma special meeting, this time period ends 15 days after the resolution by the Novuspharma shareholders approving the merger is filed with the Register of Enterprises in Milan, Italy.

At the effective time of the merger, those Novuspharma shareholders that have exercised their rescission rights are entitled to receive a cash payment for their Novuspharma ordinary shares. The amount of this cash payment is determined by averaging the closing price for a Novuspharma ordinary share on the Nuovo Mercato over the six months prior to the date of the Novuspharma shareholders' approval of the merger. However, the merger agreement provides that neither CTI nor Novuspharma shall be obligated to consummate the merger if the aggregate amount to be paid to dissenting Novuspharma shareholders exceeds \$25 million. As a closing condition, this requirement may be waived with the consent of both CTI and Novuspharma.

CTI shareholders will not have dissenters' rights in connection with the merger.

## **Listing on Nuovo Mercato**

As a condition to the completion of the merger, CTI common stock must be approved for listing on Italy's Nuovo Mercato stock exchange. As a closing condition, this requirement may be waived with the consent of both CTI and Novuspharma.

## **U.S. Federal Securities Law Consequences; Resale Restrictions**

The shares of CTI common stock to be issued in the merger will be registered under the United States Securities Act of 1933, as amended. These shares will be freely transferable under the United States Securities Act of 1933, as amended, except for CTI common stock issued to any person who is deemed to be an affiliate of Novuspharma or CTI. Persons who may be deemed to be affiliates include individuals or entities that control, are controlled by, or are under common control with Novuspharma and include Novuspharma's officers and directors, as well as its principal shareholders. Novuspharma's affiliates may not sell their CTI common stock acquired in the merger, except pursuant to:

an effective registration statement under the United States Securities Act of 1933, as amended, covering the resale of those shares;

an exemption under paragraph (d) of Rule 145 under the United States Securities Act of 1933, as amended; or

any other applicable exemption under (or in a transaction not subject to) the United States Securities Act of 1933, as amended.

## **Summary of Material Provisions of Shareholders Agreements**



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In connection with the execution and delivery of the merger agreement, three current shareholders of Novuspharma who will become shareholders of CTI in connection with the merger entered into a shareholders agreement dated as of June 16, 2003, the date of the merger agreement. These shareholders are 3i Group plc, Novuspharma Invest NV and HBM Bio Ventures (Cayman) Ltd. The

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following summary describes material provisions of the shareholders agreement. A copy of the shareholders agreement is attached to this proxy statement/prospectus as *Appendix F*.

*Standstill Provisions.* Under the shareholders agreements, each shareholder agreed that it will not, without the prior written consent of the CTI board of directors:

acquire, offer or propose to acquire or agree to acquire, directly or indirectly, whether through market purchases, tender or exchange offer, acquisition of control (including by way of merger or consolidation) or otherwise, record or beneficial ownership of, or the right to vote, any shares of our common stock or any other shares of our capital stock, subject to the following exceptions:

the prior written consent of the CTI board of directors will not be required for the acquisition by a shareholder of any of our securities resulting from a stock split, stock dividend or similar recapitalization by us;

the shareholders may acquire record or beneficial ownership of our securities pursuant to our rights plan; and

if the shareholder holds less than 4.9% of the total outstanding shares of our common stock, it may purchase up to a number of shares of our common stock such that the shareholder will hold no greater than 4.9% of the then-outstanding shares of our common stock immediately following that acquisition;

propose or seek to effect a merger, consolidation, recapitalization, reorganization, restructuring, sale, lease, exchange or other disposition of substantially all of the assets of or other business combination involving, or a tender or exchange offer for securities of, us or any of our subsidiaries or any material portion of our or any of our subsidiary's business or assets or any other type of transaction that would result in a change in control of CTI, which we refer to as a CTI transaction proposal;

present to CTI, our shareholders or any third party any proposal constituting, or that can reasonably be expected to result in, a CTI transaction proposal;

publicly suggest or announce its willingness or desire to engage in a transaction or group of transactions or have another person engage in a transaction or group of transactions that constitute or could reasonably be expected to result in a CTI transaction proposal, take any action that might require us to make a public announcement regarding any CTI transaction proposal, or disclose an intent, purpose, plan or proposal with respect to us or any of our securities inconsistent with the provisions of the shareholders agreement;

initiate, request, induce, encourage or attempt to induce or give encouragement to any other person to initiate, or otherwise provide assistance to any person who has made or is contemplating making, or enter into discussions or negotiations with respect to, any proposal constituting or that can reasonably be expected to result in a CTI transaction proposal;

initiate, propose, submit, encourage or otherwise solicit our shareholders for the approval of one or more shareholder proposals or induce or attempt to induce any other person to initiate any shareholder proposal, or to seek election to or seek to place a representative or other affiliate or nominee on the CTI board of directors or seek removal of any member of the CTI board of directors;

except as contemplated in the shareholders agreement, form, join in or in any other way (including by deposit of our capital securities) participate in a group (within the meaning of



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Section 13(d)(3) of the United States Securities Exchange Act of 1934, as amended) with unaffiliated entities, or in a partnership, pooling agreement, syndicate or voting trust, with respect to any of our capital securities, or enter into any agreement or arrangement or otherwise act in concert with any other person, for the purpose of acquiring, holding, voting or disposing of any of our capital securities;

join with or assist any person, directly or indirectly, in opposing, or make any public statement in opposition to, any proposal or director nomination submitted by the CTI board of directors to a vote of our shareholders;

join with or assist any person or entity, directly or indirectly, in supporting or publicly endorsing (including supporting, requesting or joining in any request for a meeting of shareholders in connection with), or make any public statement in favor of, any proposal submitted to a vote of our shareholders that is opposed by the CTI board of directors;

call, or participate in calling, any special meeting of our shareholders;

make any public statement, whether by press release, comment to any news media or otherwise, regarding our affairs or that reflects negatively against us or any of our subsidiaries or the CTI board of directors or any of our subsidiaries or any of our or our subsidiaries' directors or officers;

advise, assist, encourage or finance (or arrange, assist or facilitate financing to or for) any other person in connection with any of the matters restricted by, or otherwise seek to circumvent the limitations of, the shareholders agreement;

directly or indirectly deposit any shares of our common stock beneficially owned by the shareholder in a voting trust or, except pursuant to the shareholders agreement, in any other manner subject any of those shares to any arrangement or agreement with respect to the voting of those shares; or

directly or indirectly solicit proxies or become a participant in a solicitation in opposition to the recommendation of the CTI board of directors with respect to any matter or in any election contest relating to the election of directors of CTI (as such terms are defined in Regulation 14A under the United States Securities Exchange Act of 1934).

*Termination.* The shareholders agreement will terminate upon the earlier of:

the date of termination of the merger agreement; or

two years from the effective time of the merger.

## **Material U.S. Federal Income Tax Considerations**

The following discussion summarizes the material U.S. federal income tax consequences of the merger. This discussion is based on currently existing provisions of the Internal Revenue Code of 1986, as amended (the Code), existing Treasury regulations and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may be retroactive, could alter the tax consequences to CTI, Novuspharma or the Novuspharma shareholders.

The following discussion does not address the tax consequences of the merger under foreign, state or local tax laws, tax consequences of transactions effectuated before, after or concurrently with the merger (whether or not any such transactions are undertaken in connection with the merger), or tax

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consequences to holders of options, warrants or similar rights to acquire Novuspharma capital stock. In addition, this discussion does not address all U.S. federal income tax considerations that may be relevant to particular Novuspharma shareholders that are subject to special rules or that may be important in light of such shareholders' individual circumstances, such as shareholders who:

are dealers in securities or foreign currency;

are subject to the alternative minimum tax provisions of the Code;

are Foreign persons, as defined below;

are financial institutions or insurance companies;

are tax-exempt organizations;

do not hold their Novuspharma ordinary shares as capital assets;

acquired their shares in connection with any stock option or stock purchase plans or in other compensatory transactions; or

hold Novuspharma ordinary shares as part of an integrated investment, including a straddle or conversion transaction, a pledge against currency risk, or a constructive sale, comprised of shares of Novuspharma ordinary shares and one or more other positions.

Novuspharma shareholders are strongly urged to consult their own tax advisors as to the specific tax consequences of the merger, including the applicable U.S. federal, state, local and foreign tax consequences of the merger.

For purposes of this summary, "U.S. person" means (a) a citizen or resident of the United States, (b) a corporation, partnership, or other entity created or organized in or under the laws of the U.S., or any political subdivision thereof, (c) an estate, the income of which is subject to U.S. income taxation regardless of its source, and (d) a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons has the authority to control all substantial decisions of the trust, and "Foreign person" means any person not a U.S. person as defined herein.

Wilson Sonsini Goodrich & Rosati has provided a tax opinion to CTI, which has been filed with the SEC as an exhibit to CTI's registration statement on Form S-4. The opinion to CTI provides that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code. As a result of such treatment, CTI should not recognize any gain or loss solely as a result of the merger.

In the opinion of Wilson Sonsini Goodrich & Rosati, the U.S. federal income tax consequences to the Novuspharma shareholders are as follows:

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(1) A Novuspharma shareholder who is a U.S. person and who holds Novuspharma ordinary shares with a fair market value of less than \$50,000 on the date of the merger will generally experience the following material U.S. federal income tax consequences:

these Novuspharma shareholders will not recognize any gain or loss solely upon receipt in the merger of CTI common stock in exchange for Novuspharma ordinary shares, except to the extent of cash received in lieu of fractional shares of CTI common stock;

the aggregate tax basis of CTI common stock received by a Novuspharma shareholder in the merger, including any fractional shares of CTI common stock not actually received, will be the same as the aggregate tax basis of the surrendered Novuspharma ordinary shares;

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the holding period for CTI common stock received by a Novuspharma shareholder in the merger will include the period for which the surrendered Novuspharma ordinary shares was considered to be held;

cash payments received by a Novuspharma shareholder in lieu of fractional shares of CTI common stock will be treated as if fractional shares of CTI common stock had been issued in the merger and then redeemed by CTI; a Novuspharma shareholder receiving cash in lieu of a fractional share will recognize gain or loss with respect to such payment measured by the difference, if any, between the amount of cash received and the tax basis in the fractional share; and

a Novuspharma shareholder who exercises dissenters' rights will generally recognize gain or loss for U.S. federal income tax purposes, measured by the difference between the amount of cash received and the holder's aggregate tax basis in such shares.

(2) Novuspharma shareholders who are U.S. persons and who hold Novuspharma stock with a fair market value of \$50,000 or more on the date of the merger will generally experience the following material U.S. federal income tax consequences:

these Novuspharma shareholders will recognize gain, but not loss, upon receipt in the merger of CTI common stock in exchange for Novuspharma ordinary shares in an amount equal to the excess of the fair market value of the consideration received by each shareholder and each shareholder's aggregate tax basis in the Novuspharma ordinary shares surrendered;

the aggregate tax basis in the CTI common stock received by a Novuspharma shareholder who recognizes gain will equal its fair market value as of the date the merger is completed and each shareholder's holding period for his or her CTI common stock will begin the day after the merger.

The U.S. federal income tax consequences of the merger to a Novuspharma shareholder whose Novuspharma ordinary shares are worth \$50,000 or more are complicated and the above description does not purport to address all the potential U.S. federal income tax consequences of the merger, and such shareholders are strongly urged to consult their tax advisors as to their specific tax consequences resulting of the merger.

A recipient of shares of CTI common stock could recognize gain to the extent that those shares were considered to be received in exchange for services or property other than solely Novuspharma ordinary shares. All or a portion of the gain may be taxable as ordinary income. A Novuspharma shareholder could be required to recognize gain to the extent that the shareholder was treated as receiving, directly or indirectly, consideration other than CTI common stock in exchange for Novuspharma ordinary shares.

CTI and Novuspharma will not request a ruling from the U.S. Internal Revenue Service ( IRS ) in connection with the merger, and the tax opinion from Wilson Sonsini Goodrich & Rosati, Professional Corporation, will not be binding upon the IRS. The IRS is therefore not precluded from successfully asserting a contrary position. A successful IRS challenge to the reorganization status of the merger as a result of a failure to meet any of the requirements of a reorganization would result in all of the Novuspharma shareholders who are U.S. persons recognizing taxable gain or loss with respect to each Novuspharma ordinary share surrendered equal to the difference between their bases in such shares and the fair market value, as of the date the merger is completed, of the CTI common stock received in



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the merger. In such event, a shareholder's aggregate tax basis in the CTI common stock so received would equal its fair market value as of the date the merger is completed and the shareholder's holding period for such stock would begin the day after the merger.

Specified non-corporate Novuspharma shareholders may be subject to backup withholding on cash payments received in connection with the merger. Backup withholding will not apply, however, to a Novuspharma shareholder who:

furnishes a correct taxpayer identification number and certifies that he, she or it is not subject to backup withholding on the substitute Form W-9 or successor form;

provides a certification of foreign status on Form W-8BEN or successor form; or

provides evidence that such shareholder is otherwise exempt from backup withholding.

Novuspharma shareholders will be required to attach a statement containing specified information required by the IRS concerning their participation as a shareholder in the merger to their U.S. federal income tax returns for the taxable year in which the merger occurs. Novuspharma shareholders are strongly urged to consult their own tax advisors regarding any information reporting and backup withholding requirements.

## **Material Italian Tax Considerations**

The following is a general summary that does not discuss every aspect of Italian taxation that may be relevant to you in connection with the merger. This summary also assumes that CTI and Novuspharma would be considered residents for tax purposes of the United States and of the Republic of Italy and that they are organized and that their business will be conducted in the manner outlined in this proxy statement/prospectus. Changes in the tax residence or organizational structure of CTI or Novuspharma or the manner in which they conduct their business may invalidate this summary.

Completion of the merger is conditioned upon receipt by CTI of a tax opinion from its counsel, Gianni, Origoni, Grippo & Partners, and upon the receipt by Novuspharma of a tax opinion from its counsel, Chiomenti Studio Legale. The tax opinions will be subject to certain assumptions, limitations and qualifications, and will be based upon representations received from CTI and Novuspharma to support the opinions, and in other documents related to CTI and Novuspharma.

The statements below regarding Italian taxation are based on the laws in force in the Republic of Italy as of the date of this proxy statement/prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. We will not update this summary to reflect changes in law and if such a change occurs the information in this summary could become invalid.

Shareholders of CTI and shareholders of Novuspharma are strongly advised to consult their own tax advisors concerning the overall tax consequences of the merger.

**The Merger**

In connection with the merger, a tax ruling was requested from the Italian tax authorities regarding the tax-neutrality for Novuspharma of the merger for Italian income tax purposes. A favorable tax ruling was issued by the Italian tax authorities on August 8, 2003.

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### **Tax Consequences for Novuspharma and CTI**

Based on general principles and in part on the favorable tax ruling issued on August 8, 2003, the merger of Novuspharma with and into CTI will not trigger any taxable event for Novuspharma for Italian income tax purposes, such that no capital gains and/or capital losses will be deemed to have resulted from the transaction by Novuspharma.

Following completion of the merger, Novuspharma will cease to exist and all the assets of Novuspharma will become assets belonging to an existing branch of CTI located in Italy, which branch will qualify as a permanent establishment of CTI in Italy under the Italian Income Tax Code, or ITC, and the double tax treaty of the United States and Italy. The assets of the Italian branch of CTI will be deemed to have the same tax basis as when they belonged to Novuspharma prior to the merger; any gains or losses resulting from the disposal of such assets would be taxable to the branch. It is expected that shortly after the completion of the merger, certain assets belonging to the Italian branch of CTI will be contributed to a newly-formed subsidiary of CTI in the form of an Italian limited liability company, in exchange for the entire equity capital of such Italian subsidiary. All of those equity securities are expected to be held by the Italian branch of CTI.

### **Tax Consequences for the Shareholders of Novuspharma**

Based on general principles and the favorable tax ruling issued on August 8, 2003, the merger of Novuspharma with and into CTI will not trigger any taxable event for Italian income tax purposes for the shareholders of Novuspharma who are resident in Italy for tax purposes. The CTI common stock received by each of such Novuspharma shareholders at the effective time of the merger would be deemed as having the same aggregate tax basis as the Novuspharma ordinary shares held by such shareholders prior to the merger.

The merger of Novuspharma with and into CTI may, however, trigger a taxable event for Italian income tax purposes for the shareholders of Novuspharma who are resident outside of Italy for tax purposes. In particular, non-resident shareholders may be subject to tax in Italy on any deemed capital gain, equal to the difference between the fair market value of the CTI common stock received by any such shareholder at the effective time of the merger and the tax basis of the shareholder's Novuspharma ordinary shares cancelled by operation of the merger. This capital gain would not, however, be taxable in the following cases:

if the non-resident shareholder (i) never owned Novuspharma ordinary shares representing more than 2% of the voting rights in the Novuspharma ordinary shareholders' meeting or more than 5% of the Novuspharma stated capital, and (ii) did not and will not dispose of Novuspharma ordinary shares representing in the aggregate (i.e., including the Novuspharma ordinary shares cancelled by operation of the merger) more than either of the above thresholds in any twelve-month period prior to or after the effective time of the merger; or

if the non-resident shareholder is entitled to the benefits of a reciprocal tax treaty entered into by Italy and his/her/its country of residence providing for the taxation of capital gains on stock exclusively in the shareholder's country of residence, and all of the requirements and procedures established by the applicable double tax treaty are complied with.

Since no fractional shares will be issued by CTI to Novuspharma shareholders in connection with the merger, the parties will appoint an authorized intermediary to trade fractional share interests to allow Novuspharma shareholders to receive whole shares of CTI common stock. Details of the relevant



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procedure will be provided in a notice published in a national daily newspaper in Italy. Any capital gain realized by Novuspharma shareholders upon the sale of these shares would in principle be subject to tax in Italy. The relevant capital gain would be represented by the difference between the sale price and tax basis of the Novuspharma ordinary shares sold. The applicable tax regime would depend upon the residency for tax purposes and the status of the Novuspharma shareholder.

Under Italian law, Novuspharma shareholders who abstain from the vote or dissent to the merger are entitled to exercise a withdrawal right. In such case, the redemption price of each of their Novuspharma ordinary shares, to be paid at the effective time of the merger, shall be equal to the average closing sales price of one Novuspharma ordinary share listed on the Nuovo Mercato during the six-month period prior to the date of the special shareholders meeting at which the merger is approved by the Novuspharma shareholders. Novuspharma shareholders redeeming shares will in principle be subject to tax in Italy on any profits derived from the redemption, which profits will be deemed equal to the difference between the redemption price and the tax basis of their Novuspharma ordinary shares. The applicable tax regime would depend upon the residency for tax purposes and the status of the Novuspharma shareholder. In particular, withholding taxes may apply, depending on the methods of payment.

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### **THE MERGER AGREEMENT**

In this proxy statement/prospectus, we refer to the agreement and plan of merger as the merger agreement. The material provisions of the merger agreement are described below. We have attached a copy of the merger agreement as *Appendix A* to this proxy statement/prospectus and we hereby incorporate the merger agreement into this proxy statement/prospectus by reference. The summary of the merger agreement we provide below is qualified in its entirety by reference to the merger agreement. We encourage you to read carefully the merger agreement in its entirety for a more complete understanding of the merger agreement.

#### **Structure of the Merger**

The parties have agreed that at the effective time of the merger, Novuspharma will merge with and into CTI. Following the merger, Novuspharma's separate corporate existence will cease and CTI will continue as the surviving corporation and will assume all of the rights and obligations as well as the assets and liabilities of Novuspharma while retaining those of CTI. Shortly after the completion of the merger, all assets belonging to the Italian branch of CTI will be contributed to a subsidiary of CTI, newly formed as an Italian limited liability company, and CTI will own the entire equity capital of such Italian subsidiary.

#### **Effective Time of the Merger**

The merger will close at a date and time to be specified by the parties, not later than the fifth business day after the satisfaction or waiver of the last of the conditions to the merger. The merger will become effective when the parties file articles of merger with the Secretary of State of the State of Washington and a deed of merger with the Companies Register in Milan, Italy, or alternatively, at any later time as the parties specify in the certificate of merger, the deed of merger or other appropriate documents.

#### **Conversion of Novuspharma Shares in the Merger**

Each Novuspharma ordinary share issued and outstanding as of the effective time of the merger, other than those Novuspharma ordinary shares held by CTI or Novuspharma and other than rescission shares (see *The Merger Agreement Rescission Shares* ), will be converted into the right to receive 2.45 shares of CTI common stock (including, with respect to each whole share of CTI common stock, the associated preferred stock rights described in the section entitled *Comparison of Rights of CTI Shareholders and Novuspharma Shareholders Rights Plan* ). Any Novuspharma ordinary shares held by CTI or Novuspharma and any CTI common shares held by Novuspharma will be canceled at the effective time and no CTI common stock or other consideration will be delivered in exchange for the canceled shares.

No fractional shares of CTI common stock will be issued in the merger. The parties will appoint an authorized financial intermediary that participates in Monte Titoli S.p.A. (the central securities depository of Italy), or a bank designated by the parties, to act as exchange agent. CTI, Novuspharma and the exchange agent will determine suitable procedures for the treatment of fractional shares of CTI common stock in accordance with market practice in Italy and the rules and practice of Monte Titoli.

**Treatment of Novuspharma Options in the Merger**

The merger agreement provides that CTI will assume the Novuspharma stock option plans at the effective time of the merger. Novuspharma will take action to cause the vesting of each outstanding

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Novuspharma stock option to accelerate and become fully vested and exercisable. To the extent Novuspharma stock options are not exercised prior to the effective time of the merger, they will terminate and be cancelled prior to the merger and will not be assumed by CTI. On or after the effective time of the merger, CTI will issue options to acquire shares of its common stock to those employees of Novuspharma as CTI determines in its discretion. The number of CTI shares subject to each new option and the vesting schedule of each new option will be determined by CTI, and the per share exercise price of each new CTI option will be equal to the greater of:

the average of the closing prices for a share of CTI common stock on the Nasdaq National Market for each trading day during the one-month period immediately preceding the effective time of the merger or the closing price on the relevant date of grant; and

the average of the closing prices for a share of CTI common stock on the Nuovo Mercato Telematico Azionario (if applicable) for each trading day during the one-month period immediately preceding the effective time of the merger or the closing price on the relevant date of grant.

Each new option will be granted under and subject to the terms and conditions of the assumed Novuspharma stock option plans and written stock option agreements to be entered into between CTI and each optionee.

## **Rescission Shares**

The merger agreement provides that if the merger is completed, Novuspharma ordinary shares outstanding immediately prior to the effective time and held by a holder who has exercised and perfected his rescission rights in accordance with Italian law and who does not subsequently withdraw such exercise or abandon such right will not be converted into or exchanged for the right to receive CTI common stock, but instead, effective as of the effective time of the merger or at any other time determined by Novuspharma and CTI in accordance with applicable laws, the holders of rescission shares will be entitled to receive an amount of cash per Novuspharma ordinary share equal to the average closing sales price of one Novuspharma ordinary share on the Nuovo Mercato during the six-month period prior to the date of the special shareholders meeting at which the merger is approved by the Novuspharma shareholders. Novuspharma is required to set aside cash amounts to be potentially paid in respect of rescission shares in a bank account established for this purpose. However, neither CTI nor Novuspharma will be required to consummate the merger if the aggregate amount to be paid to holders of Novuspharma ordinary shares exercising rescission rights exceeds \$25 million (see The Merger Agreement Conditions ). The procedures that Novuspharma shareholders must follow to perfect their rescission rights under Italian law are described in The Merger Rescission Rights; Dissenters Rights.

## **Exchange Procedures**

The exchange of Novuspharma shares for shares of CTI common stock will be carried out through the centralized depository system managed by Monte Titoli and in accordance with applicable provisions of Italian law. As soon as reasonably practicable after the effective time of the merger CTI will take all necessary steps in order to issue and deliver to Monte Titoli the shares of CTI common stock issuable pursuant to the merger agreement and cash or shares of CTI common stock, as the case may be, sufficient to pay cash in lieu of fractional shares.

## **Corporate Organization and Governance**



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At the effective time of the merger, CTI will be the surviving corporation and will continue to be governed by the laws of the State of Washington, and the articles of incorporation and bylaws of CTI.

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The bylaws of CTI will be amended and restated at the completion of the merger to increase the number of directors who will sit on the CTI board of directors. See Management of Our Combined Company after the Merger Bylaw Amendment and Merger Agreement Provisions Affecting Board Composition.

The merger agreement sets forth (as of the effective time):

in the case of the surviving corporation, the board of directors until the earlier resignation or removal of any named individual or until a successor is duly elected or qualified;

in the case of the Italian branch of the surviving corporation, the Italian branch manager, until the earlier resignation or removal of the named individual or until a successor is duly elected or qualified; and

upon the contribution of the assets from CTI's Italian branch to CTI's Italian subsidiary, the board of directors and the managing director of the Italian subsidiary, until the earlier resignation or removal of any named individual or until a successor is duly elected or qualified.

## **CTI's Shareholder Meeting and Novuspharma's Shareholder Meeting**

CTI and Novuspharma will each convene separate special meetings of their shareholders, in accordance with applicable law, to consider and vote upon approval of the merger.

The special meeting of CTI shareholders is scheduled to be held on October 23, 2003, and the special meeting of Novuspharma shareholders is scheduled to be held at the first call on October 23, 2003, at the second call on October 24, 2003 and at the third call on October 28, 2003. See The Special Meeting of CTI Shareholders.

## **Representations and Warranties**

The merger agreement contains generally reciprocal representations and warranties made by CTI and Novuspharma regarding aspects of their respective businesses, financial condition and structure, as well as other facts pertinent to the merger. The complete text of the representations and warranties can be found in the merger agreement attached to this proxy statement/prospectus as *Appendix A*. These representations and warranties relate to, among other matters, the following:

each party represents that it is duly organized, is validly existing, is in good standing, and has the requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted;

each party represents as to the amount of its authorized capital stock and describes its capital structure;

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each party represents that it has duly authorized, executed and delivered the merger agreement, subject to required shareholder approvals, and that the merger agreement and the transactions contemplated by the merger agreement are enforceable against the party;

each party represents that there is an absence of any conflict or violation of, or default under, any of such party's material contracts, such party's corporate charter and bylaws, any license, permit or other instrument or contract granted by or entered into with a regulatory agency, any grant or subsidized loan received by such party from a governmental entity or any judgments, injunctions, decrees or other requirements or any statutes, laws, ordinances, rules or

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regulations, as a result of such party entering into and carrying out the transactions contemplated by the merger agreement;

each party represents as to the governmental and regulatory approvals that are required by it to complete the merger;

each party represents that, except as otherwise disclosed, since March 31, 2003, it has not taken certain actions and there has not been any event that would be reasonably likely to have a material adverse effect on it;

each party represents, among other tax-related matters, that it has timely filed all tax returns and reports required to be filed by it and that it has timely paid and discharged any and all taxes to be due on such returns;

each party represents that there is an absence of undisclosed material pending or threatened suits, actions, investigations, audits, or proceedings against that party that would be reasonably likely to have a material adverse effect on it or have a material adverse effect on its ability to perform its obligations under the merger agreement;

each party describes its stock option, stock appreciation rights, restricted stock, stock purchase and other equity-based plans, if any;

each party represents, among other matters relating to employee benefits, that it has delivered to the other party true, correct and complete copies of all employee benefit plans;

each party represents that it has all material governmental approvals, authorizations, certificates, filings, franchises, licenses, notices, permits and rights necessary, under applicable laws, to own, lease or operate its properties and assets and to carry on its business as now conducted, except where the failure to have such permit would not be reasonably likely to have material adverse effect on it;

each party represents that it is in compliance with all applicable environmental laws, except where the failure to be in compliance would not be reasonably likely to have material adverse effect on it;

each party represents that it is in material compliance with the rules and regulations of the NASD or the Borsa Italiana, as the case may be;

each party represents, among other matters relating to regulatory approvals and status, that it is in material compliance with all applicable laws relating to the evaluation, testing, research, experimentation, marketing and sale of drug products;

each party describes its intellectual property and represents, among other matters relating to intellectual property, that, to such party's knowledge and except as otherwise disclosed, it owns or has a valid right to use its intellectual property necessary for the conduct of its business;

each party represents, among other labor-related matters, that there are no labor disputes or claims pending or threatened that would be reasonably likely to have a material adverse effect on such party;

each party describes its material contracts and makes a representation about the effect that entering into and carrying out the transactions contemplated by the merger agreement will have on its material contracts;



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each party represents that it has received an opinion from its financial advisor;

each party describes its current real property leases and represents that all such leases are in full force and effect; and

each party makes a representation about the shareholder approval requirements in connection with the merger agreement and the transactions contemplated by the merger agreement.

The merger agreement also contains representations and warranties by Novuspharma to CTI to the effect that:

the reports and other documents filed with the Italian securities regulatory commission, known as CONSOB, and the Italian stock market administration, known as Borsa Italiana, are accurate; applicable disclosure rules were complied with in compiling the financial and other information contained in those reports and documents; and the information supplied for inclusion or incorporation by reference into this proxy statement/prospectus, the related registration statement and the information document prepared by Novuspharma in connection with the merger is accurate;

Novuspharma is in compliance in all material respects with all requirements in respect of the grants and subsidized loans received by it from any Italian, EU or other governmental entity;

with respect to Novuspharma's officers, directors and, to Novuspharma's knowledge, shareholders holding more than 10% of the Novuspharma ordinary shares, there are no interests in assets or property of Novuspharma, or indebtedness owing to Novuspharma, or undisclosed interests in the biotechnology sector or in companies that do business with Novuspharma; and

Novuspharma is insured by insurers against all risks normally insured against by companies in similar lines of business and all of the insurance policies maintained by it are in full force and effect.

The merger agreement also contains the representations and warranties by CTI to Novuspharma to the effect that:

the reports and other documents filed with the SEC are accurate; CTI complied with applicable disclosure rules regarding the financial and other information contained in these reports and documents; and the information supplied for inclusion or incorporation by reference into this proxy statement/prospectus, the related registration statement and the information document prepared by Novuspharma in connection with the merger is accurate;

CTI is in material compliance with third party reimbursement policies in connection with pharmaceutical products;

no takeover statute or similar statute or regulation applies to CTI in connection with the merger, the merger agreement or any of the transactions contemplated by the merger agreement; and

CTI has taken all action necessary such that the merger will not trigger the rights under CTI's rights plan.

All representations and warranties of CTI and Novuspharma will expire at the effective time of the merger.



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For purposes of the merger agreement, a material adverse effect on a party means any change or effect that is, or is reasonably likely to be, materially adverse to the business, assets, financial condition or results of operations of a party and its subsidiaries taken as a whole, provided that the following will not be deemed by themselves, either alone or in combination, to constitute a material adverse effect:

a change in the market price or trading value or trading volume of Novuspharma or CTI securities;

changes in conditions affecting any of the industries in which a party operates generally or the economies of the United States or Italy, as applicable;

any change or effect resulting from compliance with the terms of the merger agreement; or

any change or effect resulting from the announcement or pendency of the merger.

## **Novuspharma's Covenants Relating to Conduct of Business**

Novuspharma has agreed that from the date of the merger agreement until the effective time of the merger, except as consented to by CTI in writing, it will carry on its business in the ordinary course consistent with past practice and in compliance in all material respects with all applicable laws and regulations, and use commercially reasonable efforts consistent with past practice to:

preserve intact its current business organization; and

keep available the services of its current officers and employees.

Novuspharma has also agreed, except as contemplated by the merger agreement or as consented to by CTI in writing, from the date of the merger agreement until the effective time of the merger, it will not:

declare, set aside or pay (whether in cash, stock, property or otherwise) any dividends on, or make any other distributions in respect of, any of its capital stock;

purchase, redeem or otherwise acquire any shares of capital stock of Novuspharma or any other securities of Novuspharma or any rights, warrants or options to acquire any of these shares or other securities;

other than the issuance of Novuspharma ordinary shares upon the exercise of Novuspharma stock options outstanding on June 16, 2003, the date of the merger agreement, in accordance with their terms, in accordance with the terms of any employment agreements existing on June 16, 2003, or as set forth in merger agreement:

issue, deliver, sell, award, pledge, dispose of or otherwise encumber or authorize or propose the issuance, delivery, grant, sale, award, pledge or other encumbrance (including limitations on voting rights) or authorization of, any shares of its capital stock,



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any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any of these shares, voting securities or convertible securities;

amend or otherwise modify the terms of any of these rights, warrants or options; or

accelerate the vesting of any outstanding Novuspharma stock options;

acquire or agree to acquire:

by merging or consolidating with, or by purchasing any assets of, or by purchasing any equity or voting interest in or by any other manner, any business or any corporation,

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partnership, limited liability company, joint venture, association or other business organization or division or any of these entities; or

any assets other than in connection with purchases of inventory, fixtures, furniture and equipment in the ordinary course of business consistent with past practice;

enter into or commit to enter into any undisclosed lease or sublease of real property or amend or otherwise modify the terms of any existing undisclosed real property lease or exercise any right to renew or similar option under any real property lease;

repurchase, repay or incur any undisclosed indebtedness for borrowed money or guarantee any of the indebtedness of another person, issue or sell any debt securities or warrants or other rights to acquire any debt securities of Novuspharma, guarantee any debt securities of another person, enter into any keep well or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing except in connection with the financing of ordinary course trade payables consistent with past practice;

make or agree to make any new capital expenditures which individually exceed \$500,000 or which in the aggregate exceed \$3,000,000, except for leasehold improvements, furniture and fixtures in the ordinary course of business consistent with past practice;

make or rescind any express or deemed material election relating to taxes, settle or compromise any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to taxes, change any of its methods of reporting income or deductions for tax purposes from those employed in the preparation of its income tax returns for any taxable year, except as may be required by applicable laws, consent to any extension or waiver of the limitation period applicable to any tax claim or assessment related to taxes, or surrender any right to claim a refund of taxes;

settle, pay, discharge or satisfy any material claims, liabilities or obligations, other than in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the consolidated financial statements of Novuspharma dated as of March 31, 2003 or incurred in the ordinary course of business consistent with past practice;

except as required by applicable laws or by the terms of any Novuspharma benefit plan:

increase the rate or terms of compensation payable or to become payable generally to any of Novuspharma's directors, officers or employees other than previously agreed to increases to non-management employees and except as required by employment agreements in existence on June 16, 2003;

pay or agree to pay any pension, retirement allowance, severance, continuation or termination benefit or other employee benefit not provided for by any existing pension plan, benefit plan or employment agreement; or

establish, adopt, amend or commit itself to any additional pension, profit sharing, bonus, incentive, deferred compensation, stock purchase, stock option, stock appreciation right, group insurance, severance pay, continuation pay, termination pay, retirement or other employee benefit plan, agreement or arrangement, or increase the rate or terms of any employee plan or benefit arrangement, or amend or modify or increase the rate or benefits under or take any action to accelerate the rights or benefits under any collective bargaining

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agreement or any employee benefit plan, agreement or arrangement, including any stock option plan or any other benefit plan;

except as required by applicable law, adopt or enter into any undisclosed collective bargaining agreement or other labor or union contract applicable to the employees of Novuspharma or terminate the employment of any employee of Novuspharma;

enter into any contract the effect of which would be to subject CTI or any of CTI's subsidiaries to any non-compete or other material restrictions on their business following the effective time;

enter into any material contract if consummation of the transactions contemplated by the merger agreement or compliance by Novuspharma with the provisions of the merger agreement would conflict with, or result in any material violation or breach of, or material default (with or without notice or lapse of time or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to a loss of a material benefit under, or result in the creation of any lien in or upon any of the properties or assets of Novuspharma or CTI or any of their respective subsidiaries under, any provision of such a contract; or

enter into any material written contract, prohibiting Novuspharma from assigning all or any material portion of its rights, interests or obligations thereunder, unless such prohibition expressly excludes any assignment to CTI or any of its subsidiaries in connection with or following the consummation of the merger and the other transactions contemplated by the merger agreement.

**CTI's Covenants Relating to Conduct of Business**

CTI has agreed that from the date of the merger agreement until the effective time of the merger, it and its subsidiaries will carry on their business in the ordinary course consistent with past practice and in compliance in all material respects with all applicable laws and regulations, and use all commercially reasonable efforts, consistent with past practice to:

preserve intact their current business organizations; and

keep available the services of their current officers and employees.

CTI has also agreed that it, and has agreed that its subsidiary, except as permitted or contemplated by the merger agreement, or as consented to by Novuspharma in writing, from the date of the merger agreement until the effective time of the merger, will not:

declare, set aside or pay (whether in cash, stock, property or otherwise) any dividends on, or make any other distributions in respect of, any of its capital stock, other than dividends and distributions by any direct or indirect wholly-owned subsidiary of CTI;

except for redemption of outstanding convertible notes of CTI or the repurchase of restricted stock, in each case pursuant to the terms thereof, purchase, redeem or otherwise acquire any shares of its capital stock or the capital stock of its subsidiary or any other of its securities or any rights, warrants or options to acquire any of these shares or other securities;

other than (1) the issuance of CTI common stock upon the exercise of options or warrants to purchase common stock outstanding on the date of the merger agreement in accordance with their present terms or in accordance with the terms of any employment agreements existing on



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the date of the merger agreement or entered into in the ordinary course of business consistent with past practice, (2) the issuance of options to purchase CTI common stock under any stock option plan currently in effect in the ordinary course of business consistent with past practice, (3) pursuant to the merger agreement or a CTI permitted acquisition, (4) the issuance of CTI common stock upon conversion of outstanding convertible notes, or (5) sales of securities of CTI sold to investors not affiliated with CTI in arms-length financing transactions which neither require approval of the CTI shareholders nor present a material risk of delaying the merger:

issue, deliver, sell, award, pledge, dispose of or otherwise encumber or authorize or propose the issuance, delivery, grant, sale, award, pledge or other encumbrance (including limitations on voting rights) or authorization of, any shares of its capital stock, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any of these shares, voting securities or convertible securities;

amend or otherwise modify the terms of any of these rights, warrants or options; or

accelerate the vesting of any of the outstanding CTI stock options;

other than pursuant to a CTI permitted acquisition (which is a transaction which does not present a material risk of delaying the merger or making it more difficult to obtain any necessary consent, or which are internal reorganizations solely involving existing wholly-owned subsidiaries of CTI), acquire or agree to acquire:

by merging or consolidating with, or by purchasing any assets of, or by purchasing any equity or voting interest in or by any other manner, any business or any corporation, partnership, limited liability company, joint venture, association or other business organization or division or any of these entities; or

any assets other than in connection with purchases of inventory, fixtures, furniture and equipment in the ordinary course of business consistent with past practice;

repurchase, repay or incur any indebtedness for borrowed money or guarantee any of the indebtedness of another person, issue or sell any debt securities or warrants or other rights to acquire any debt securities of CTI or any of its subsidiaries, guarantee any debt securities of another person, enter into any keep well or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing other:

in connection with the financing of ordinary course trade payables consistent with past practice;

pursuant to existing credit facilities as in effect on June 16, 2003;

any incurrences in the ordinary course of business which are not, individually or in the aggregate, material to CTI; or

except as required by applicable law, adopt or enter into any collective bargaining agreement or other labor or union contract applicable to the employees of CTI.

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### **Mutual Covenants Relating to Conduct of Business**

Both CTI and Novuspharma have agreed, except as permitted or contemplated by the merger agreement, or as consented to by the other party in writing, from the date of the merger agreement until the effective time of the merger, it will not, will not authorize and, in the case of CTI, will cause any of its subsidiaries not to:

split, combine or reclassify any of its capital stock or other securities or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or other securities;

amend its organizational documents;

mortgage or otherwise encumber or subject to any lien, or sell, lease, exchange or otherwise dispose of any of its material rights, properties or assets, except in the ordinary course of business consistent with past practice;

modify or amend in a manner adverse in any material respect, or terminate any material contract or waive, release or assign any material rights or claims in an adverse manner, except in the ordinary course of business consistent with past practice;

enter into a new line of business that is material to it;

change its fiscal year, or except as required by United States or Italian generally accepted accounting principles, revalue any of its material assets or make any changes in financial or tax accounting methods, principles or practices; or

authorize any of, or commit, resolve or agree to take any of the actions otherwise prohibited by the covenants relating to the conduct of business prior to the effective time of the merger.

### **No Solicitation of Transactions**

In the merger agreement, subject to certain exceptions described below, Novuspharma has agreed that it will not, nor will it authorize or permit any of its officers, directors or employees or any representatives retained by it to, directly or indirectly:

solicit, initiate or encourage, knowingly facilitate or induce any inquiries, or the making of any proposal, the consummation of which would result in:

a transaction or series of transactions pursuant to which a third party acquires or would acquire, directly or indirectly, beneficial ownership of 20% or more of the outstanding shares of Novuspharma, whether from Novuspharma or pursuant to a tender offer or exchange offer or otherwise,

any acquisition or proposed acquisition of Novuspharma by a third party by a merger or other business combination (including any so called merger of equals and whether or not Novuspharma is the entity surviving any such merger or business

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combination), pursuant to which the shareholders of Novuspharma immediately preceding such transaction hold less than 80% of the equity interests in the surviving or resulting entity of such transaction,

any other transaction pursuant to which any third party acquires or would acquire, directly or indirectly, control of assets of Novuspharma for consideration equal to 20% or more of the fair market value of all of the outstanding Novuspharma ordinary shares on the date prior to the date hereof, or

any liquidation or dissolution of Novuspharma (we refer to any of the transactions described in these four sub-bullets as a Novuspharma alternative transaction ); or

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participate in any discussions or negotiations regarding, or furnish any person any non-public information with respect to, or take any other action to facilitate any inquiries or the making of any proposal that constitutes or may be reasonably likely to lead to a Novuspharma alternative transaction.

In the merger agreement, subject to certain exceptions described below, CTI has agreed that it will not and it will not permit any of its subsidiaries, (nor will it authorize or permit officers, directors or employees of CTI or any of its subsidiaries or any representatives retained by CTI or its subsidiaries) to directly or indirectly:

solicit, initiate or encourage, knowingly facilitate or induce any inquiries or the making of any proposal the consummation of which would result in:

a transaction or series of transactions pursuant to which any third party acquires or would acquire, directly or indirectly, beneficial ownership of 50% or more of the outstanding shares of CTI, whether from CTI or pursuant to a tender offer or exchange offer or otherwise,

any acquisition or proposed acquisition of CTI or any of its significant subsidiaries by a third party by a merger or other business combination (including any so called merger of equals and whether or not CTI or any of its significant subsidiaries is the entity surviving any such merger or business combination), pursuant to which the shareholders of CTI or its significant subsidiary, as the case may be, immediately preceding such transaction hold less than 50% of the equity interests in the surviving or resulting entity of such transaction,

any other transaction pursuant to which any third party acquires or would acquire, directly or indirectly, control of assets (including for this purpose the outstanding equity securities of subsidiaries of CTI and any entity surviving any merger or combination, including CTI or any of its subsidiaries) of CTI or any of its significant subsidiaries, as the case may be, for consideration equal to 50% or more of the fair market value of all of the outstanding shares of CTI common stock on the date prior to the date hereof, or

any liquidation or dissolution of CTI (we refer to any of the transactions described in these four sub-bullets as a CTI alternative transaction ); or

participate in any discussions or negotiations regarding, or furnish any person any non-public information with respect to, or take any other action to facilitate any inquiries or the making of any proposal that constitutes or may be reasonably likely to lead to a CTI alternative transaction.

Notwithstanding the foregoing prohibitions with respect to solicitation of Novuspharma and CTI alternative transaction proposals, if either CTI or Novuspharma receives an unsolicited bona fide written offer or proposal with respect to an alternative transaction with respect to which its board of directors determines in good faith, after consultation with outside legal counsel, that the failure to provide information or participate in the negotiations or discussions would result in a reasonable likelihood that its board of directors would breach its fiduciary duties to its shareholders, and its shareholders have not yet approved the merger, then it may:

furnish information with respect to itself pursuant to a customary confidentiality agreement containing terms no less restrictive than the one between CTI and Novuspharma; and

participate in negotiations regarding the unsolicited proposal.





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In addition to the prohibitions on solicitation of other offers, the merger agreement provides that neither Novuspharma nor CTI will withdraw, qualify or modify, or propose publicly to withdraw, qualify or modify, in a manner adverse to CTI or Novuspharma, as the case may be, the approval or recommendation by its board of the merger or the merger agreement, unless:

in the case of CTI, if its board determines in good faith, after consultation with outside legal counsel, that the failure to take such action would result in a reasonable likelihood that its board would breach its fiduciary duties to CTI's shareholders under applicable laws, then the CTI board of directors may withdraw, qualify or modify its approval or recommendation; and

in the case of Novuspharma, if Novuspharma receives a superior proposal as described below, and after receipt of advice from outside counsel its board determines in good faith, after consultation with outside legal counsel, that the failure to take such action would result in a reasonable likelihood that its board would breach its fiduciary duties to Novuspharma's shareholders under applicable laws, then the Novuspharma board of directors may withdraw, qualify or modify, or propose publicly to withdraw, qualify or modify its approval or recommendation, but only:

after the seventh business day following CTI's receipt of written notice from Novuspharma advising CTI that Novuspharma has received a superior proposal, specifying the terms of the superior proposal and stating that it intends to change, withdraw, qualify or modify its recommendation;

if after providing required notice to CTI, Novuspharma gives CTI a reasonable opportunity to make adjustments to the terms and conditions of the merger agreement that would enable Novuspharma to proceed with the merger with CTI without changing, withdrawing, qualifying or modifying its recommendation.

A superior proposal means any proposal made by a third party to enter into a Novuspharma alternative transaction involving the sale of a majority or more of the Novuspharma ordinary shares or sale of all or substantially all of Novuspharma's assets or a similar transaction, which the board of directors of Novuspharma determines in its good faith judgment, based on advice of an independent financial advisor of internationally recognized reputation, to be more favorable to Novuspharma's shareholders than the merger taking into account all relevant factors.

Each of CTI and Novuspharma must submit the merger to its shareholders for a vote even if its board changes, withdraws, qualifies or modifies its recommendation relating to the merger, including if its board determines that the merger is longer advisable.

Each of CTI and Novuspharma is obligated to promptly advise the other of any request for information or of any proposal in connection with an alternative transaction, the material terms and conditions of the request or proposal and the identity of the person making the request or proposal and keep the other party reasonably informed of the status and details of any request or proposal.

The merger agreement provides that the restrictions with respect to alternative transactions will not prohibit CTI or Novuspharma from making any disclosure to its shareholders, in the good faith judgment of its board of directors, after receipt of advice from outside counsel, the failure to disclose would be inconsistent with its board of directors' fiduciary duties to its shareholders, provided, however, that each of CTI and Novuspharma will provide the other with a copy of such disclosure prior to making the disclosure. Additionally, the merger agreement provides that such restrictions will not prohibit CTI from complying with Rule 14e-2(a) and Rule 14d-9 under the Securities Exchange Act of 1934.

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### **Indemnification and Insurance**

For a period of six years from the effective time of the merger, CTI, as the surviving corporation, has agreed not to amend, repeal or otherwise modify the provisions of its articles of incorporation or bylaws which relate to indemnification and exculpation from liability, in any manner that would adversely affect the indemnification and insurance rights under such provisions of individuals who were directors, officers, employees or agents of Novuspharma on or prior to the effective time of the merger, unless a modification is required by law.

CTI will maintain directors' and officers' liability insurance, covering those persons who were covered by Novuspharma's directors' and officers' liability insurance policies prior to the effective time of the merger, for a period of three years on terms no less favorable than the terms of the previous insurance coverage. In lieu of obtaining coverage as described above, CTI, with Novuspharma's written consent, may purchase a three-year extended reporting period endorsement under its existing directors' and officers' liability insurance coverage. However, in no event will CTI be required to pay annualized aggregate premiums for insurance in excess of 150% of the amount of the aggregate premiums paid by Novuspharma for insurance coverage for the year ended December 31, 2002.

In the event that CTI, as the surviving corporation, or any of its successors or assigns:

consolidates with or merges into any other person and will not be the continuing or surviving corporation or entity of the consolidation or merger; or

transfers all or substantially all of its properties and assets to any person,

then and in each case, CTI will make proper provisions so that its successors and assigns assume CTI's obligations relating to indemnification and insurance matters set forth in the merger agreement.

### **European Headquarters**

The merger agreement provides that, as soon as practicable after the effective time, CTI will take all actions reasonably necessary to transfer the headquarters of its European operations to Novuspharma's offices in Italy.

### **Tax Ruling**

The parties prepared and filed a request for a tax ruling from the competent Italian tax authorities as to the tax neutrality of the merger for Novuspharma and its shareholders resident in Italy. A favorable tax ruling was issued by the Italian tax authorities on August 8, 2003.

### **Conditions**

The respective obligations of CTI and Novuspharma to effect the merger and the other transactions contemplated by the merger agreement are subject to the satisfaction of various conditions that include the following:

the required approval of CTI shareholders and Novuspharma shareholders must have been received;

the Nasdaq National Market must have approved the listing, subject to official notice of issuance, of the shares of CTI common stock issuable in connection with the merger;

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the listing of CTI common stock on the Nuovo Mercato must be approved by the Borsa Italiana;

there must be no pending or threatened litigation by a governmental entity seeking to enjoin or prohibit the completion of the merger, and there must be no legal restraint or prohibition preventing the completion of the merger;

CTI's registration statement on Form S-4 of which this proxy statement/prospectus forms a part must have been declared effective by the SEC and no stop order suspending its effectiveness may be in effect nor have been initiated, or to the knowledge of CTI or Novuspharma, threatened;

the waiting period under any applicable antitrust laws (and any extensions thereof) must have expired or been terminated and all material antitrust approvals, if any, must have been obtained;

CTI must have received a written opinion from its Italian tax counsel;

Novuspharma must have received a written opinion from its Italian tax counsel;

the amount of cash to be paid to the holders of rescission shares must not exceed \$25 million; and

Novuspharma must have received a report from KPMG S.p.A. as to the valuation methods adopted by the Novuspharma board of directors in determining the exchange ratio.

In the event that any or all of the conditions to both companies' obligations are not satisfied prior to completion of the proposed merger, both companies together may waive any or all of the unsatisfied conditions. However, as a legal matter, the parties may not waive conditions imposed by law, such as receipt of necessary shareholder approvals.

CTI's obligation to effect the merger is further subject to satisfaction of the following additional conditions:

the representations and warranties of Novuspharma described in the merger agreement must be true and correct as of the closing date of the merger as though made on the closing date, or if representations and warranties expressly related to an earlier date, then as of that date, except, in each case or in the aggregate, as does not constitute a material adverse effect on Novuspharma, and CTI must have received an officer's certificate from Novuspharma to that effect;

Novuspharma must have performed or complied in all material respects with all agreements and covenants required by the merger agreement to be performed or complied with by it on or prior to the closing date of the merger, and CTI must have received an officer's certificate from Novuspharma to that effect;

CTI must have received all certificates and other deliveries required under the merger agreement;

from and including the date of the merger agreement, there must not have occurred any material adverse effect on Novuspharma;

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after the Novuspharma shareholders approve the merger and the minutes of their meeting are recorded with the Companies Register in Milan, expiration or satisfaction of the two-month period in which Novuspharma's creditors may challenge the merger.

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In the event that any or all of these conditions to CTI's obligations are not satisfied prior to completion of the proposed merger, CTI may waive any or all of the unsatisfied conditions.

Novuspharma's obligation to effect the merger is further subject to satisfaction of the following additional conditions:

the representations and warranties of CTI described in the merger agreement must be true and correct as of the closing date of the merger as though made on the closing date, or if representations and warranties expressly related to an earlier date, then as of that date, except, in each case or in the aggregate, as does not constitute a material adverse effect on CTI, and Novuspharma must have received an officer's certificate from CTI to that effect;

CTI must have performed or complied in all material respects with all of its agreements and covenants which the merger agreement requires to be performed or complied with on or prior to the closing date of the merger and Novuspharma must have received an officer's certificate from CTI to that effect;

Novuspharma must have received all certificates and other deliveries required under the merger agreement;

from and including the date of the merger agreement, there must not have occurred any material adverse effect on CTI;

CTI must have appointed the persons named in the merger agreement as members of the CTI board of directors.

In the event that any or all of these conditions to Novuspharma's obligations are not satisfied prior to completion of the proposed merger, Novuspharma may waive any or all of the unsatisfied conditions.

## **Termination**

Either CTI or Novuspharma may terminate the merger agreement prior to receiving their respective shareholders' approval of the merger by mutual written consent, if a majority of the members of each board of directors votes to do so.

The merger agreement may also be terminated by either CTI or Novuspharma at any time prior to the effective time of the merger in the following circumstances:

provided that the terminating party is not in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement, (1) upon a breach of any representation, warranty, covenant or agreement on the part of the other party contained in the merger agreement or (2) if any representation or warranty of the other party has become untrue or incorrect, in each case such that the conditions to the terminating party's obligation to consummate the merger relating to the truth and accuracy of the other party's representations and warranties and compliance by the other party with its covenants under the merger agreement would not be satisfied (but if the breach is curable by April 15, 2004 through the exercise of commercially reasonable efforts, the breaching party will have 30 days after receipt of notice from the non-breaching party to cure the breach before the non-breaching party can

terminate the merger agreement);



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if the merger is not consummated by April 15, 2004, and the terminating party's action or failure to act in breach of the merger agreement was not the principal cause of, and did not result in, the failure of the merger to occur;

if any required approval of the Novuspharma shareholders is not obtained;

if any required approval of the CTI shareholders is not obtained;

at any time prior to the terminating party's shareholders' meeting, by the board of directors of the terminating party if the other party's board of directors has:

failed to recommend without modification or qualification that its shareholders approve the merger and the transactions contemplated by the merger agreement;

subsequently withdrawn its recommendation;

modified or qualified its recommendation in a manner adverse to the terminating party's interests; or

failed to reconfirm its recommendation within ten business days following a written request from the terminating party to do so.

**Termination Fee**

Novuspharma is entitled to receive a termination fee of \$4.75 million dollars from CTI in the event that the merger agreement is terminated under any of the following circumstances:

by either Novuspharma or CTI if:

(1) the merger is not consummated by April 15, 2004 and (2) following June 16, 2003 and prior to the termination of the merger agreement, there has been an offer or proposal for a CTI alternative transaction and within twelve months following the termination of the merger agreement CTI or its subsidiaries enters into an agreement providing for an acquisition of CTI or an acquisition of CTI is consummated; or

(1) the CTI shareholder approval of the merger is not obtained by reason of the failure to obtain the required vote at a duly held meeting of CTI's shareholders or at any adjournment or postponement thereof and (2) following June 16, 2003 and prior to the termination of the merger agreement, there has been an offer or proposal for a CTI alternative transaction and within twelve months following the termination of the merger agreement CTI or its subsidiaries enters into an agreement providing for an acquisition of CTI or an acquisition of CTI is consummated;

by Novuspharma if the CTI board of directors has:

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failed to include in this proxy statement/prospectus its recommendation without modification or qualification that the CTI shareholders approve the merger and the transactions contemplated by the merger agreement;

subsequently withdrawn its recommendation;

modified or qualified its recommendation in a manner adverse to the interests of Novuspharma; or

failed to reconfirm its recommendation within ten business days following a written request from Novuspharma to do so; or

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by Novuspharma if CTI commits a material breach of the provisions of the merger agreement relating to no solicitation by CTI.

CTI is entitled to receive a termination fee of \$4.75 million dollars from Novuspharma, in the event that the merger agreement is terminated under any of the following circumstances:

by either Novuspharma or CTI if:

(1) the merger is not consummated by April 15, 2004 and (2) following June 16, 2003 and prior to the termination of the merger agreement, there has been an offer or proposal for a Novuspharma alternative transaction and within twelve months following the termination of the merger agreement Novuspharma enters into an agreement providing for an acquisition of Novuspharma or an acquisition of Novuspharma is consummated; or

(1) the Novuspharma shareholder approval of the merger is not obtained by reason of the failure to obtain the required vote at a duly held meeting of Novuspharma's shareholders or at any adjournment or postponement thereof and (2) following June 16, 2003 and prior to the termination of the merger agreement, there has been an offer or proposal for a Novuspharma alternative transaction and within twelve months following the termination of the merger agreement Novuspharma enters into an agreement providing for an acquisition of Novuspharma or an acquisition of Novuspharma is consummated;

by CTI if the Novuspharma board of directors has:

failed to recommend without modification or qualification that the Novuspharma shareholders approve the merger and the transactions contemplated by the merger agreement;

subsequently withdrawn its recommendation;

modified or qualified its recommendation in a manner adverse to the interests of CTI; or

failed to reconfirm its recommendation within ten business days following a written request from CTI to do so; or

by CTI if Novuspharma commits a material breach of the provisions of the merger agreement relating to no solicitation by Novuspharma.

For purposes of the termination fee provisions described above, an acquisition means a merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving the party pursuant to which the shareholders of the party immediately preceding the transaction hold less than 60% of the aggregate voting securities in the surviving or resulting entity of the transaction, or any direct or indirect parent thereof, a sale or other disposition by the party of assets representing in excess of 40% of the aggregate fair market value of the party's business immediately prior to such sale, or the acquisition by any person or group, directly or indirectly, of beneficial ownership or a right to acquire beneficial ownership of securities representing in excess of 40% of the voting power of the then outstanding voting securities of the party.

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The termination fees described above are payable in immediately available funds and are to be paid free and clear of all deductions or withholdings. In the event a deduction or withholding is required by law, the party owing the termination fee must pay any additional amount to ensure that the net amount received by the party entitled to the termination fee is equal to \$4.75 million.

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**Expenses**

Whether or not the merger is completed, we will each pay our own costs and expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement, except expenses for the filing, printing and mailing of the registration statement on Form S-4, the information document and listing particulars, and this proxy statement/prospectus, including related SEC filing fees will be paid two-thirds by CTI and one-third by Novuspharma.

**Amendment; Extension and Waiver**

CTI and Novuspharma may amend the merger agreement by mutual written consent at any time before or after their respective shareholders have approved the matters contemplated by the merger agreement. After receiving any required shareholder approval has been obtained, the parties may not make any amendment that, by law, requires further approval by their respective shareholders without first obtaining such approvals.

At any time prior to the effective time of the merger agreement, either party may agree in writing to do the following in connection with the merger agreement:

extend the time for the performance of any of the obligations or other acts of the other party;

waive any inaccuracies in the representations and warranties made by the other party contained in the merger agreement or in any document delivered pursuant to the merger agreement; or

subject to specified terms, waive compliance with any of the agreements or conditions of the other party contained in the merger agreement.

**Table of Contents****COMPARATIVE STOCK PRICES AND DIVIDENDS****CTI**

CTI common stock is traded on the Nasdaq National Market under the trading symbol CTIC. The following table presents the range of high and low (intra-day) sales prices of CTI common stock as reported on the Nasdaq National Market for the periods indicated:

	<u>High</u>	<u>Low</u>
<b>2001</b>		
First Quarter	\$ 49.00	\$ 12.50
Second Quarter	34.81	14.50
Third Quarter	32.63	20.18
Fourth Quarter	34.70	22.50
<b>2002</b>		
First Quarter	27.45	19.31
Second Quarter	25.50	4.57
Third Quarter	5.89	2.68
Fourth Quarter	9.85	3.85
<b>2003</b>		
First Quarter	8.89	5.18
Second Quarter	15.70	7.76
Third Quarter (through September 12, 2003)	12.15	9.35

As of September 12, 2003, there were 258 shareholders of record of CTI common stock and 33,928,085 shares of common stock outstanding. We have not paid any cash dividends since our inception and do not anticipate paying any cash dividends in the foreseeable future.

**Novuspharma**

Novuspharma ordinary shares are traded on the Nuovo Mercato under the trading symbol NOV.MI. The following table presents the range of high and low (intra-day) sales prices of Novuspharma ordinary shares, as reported on the Nuovo Mercato, in euros and converted to dollars at the exchange rate then prevailing, for the periods indicated:

	<u>Euros</u>		<u>Dollars</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
<b>2001</b>				
First Quarter	59.23	36.37	\$ 55.13	\$ 32.03
Second Quarter	48.84	31.22	41.70	28.02
Third Quarter	43.16	28.45	37.76	25.97
Fourth Quarter	38.11	32.24	34.70	29.32

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**2002**

First Quarter	35.00	30.60	30.49	26.65
Second Quarter	35.41	23.00	31.08	22.74
Third Quarter	23.80	18.91	23.43	19.04
Fourth Quarter	22.68	18.62	22.66	18.81

**2003**

First Quarter	20.13	12.92	20.97	13.71
Second Quarter	28.10	15.37	33.19	16.76
Third Quarter (through September 12, 2003)	24.36	20.40	27.55	23.07

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As of September 12, 2003, there were 18,600 shareholders of record of Novuspharma ordinary shares and 6,566,200 Novuspharma ordinary shares outstanding. Novuspharma has not paid any cash dividends since its inception and does not anticipate paying any cash dividends in the foreseeable future.

**Additional Comparative Information**

The following table sets forth the high, low and last reported sales prices per share of CTI common stock and Novuspharma ordinary shares and the implied value of the merger consideration (based on the exchange ratio), in each case on June 16, 2003, the last full trading day prior to the public announcement of the proposed merger, and on September 12, 2003, a recent trading day before the date of this proxy statement/prospectus.

	CTI Common Stock			Novuspharma Ordinary Shares				Implied Value of Merger Considerations per Novuspharma Ordinary Share (\$)*
	High	Low	Close	High	Low	Close ( )	Close (\$)*	
June 16, 2003	\$ 15.70	\$ 14.17	\$ 14.75	22.95	21.55	22.59	\$ 26.76	\$ 36.14
September 12, 2003	\$ 11.00	\$ 10.42	\$ 10.76	22.69	22.69	22.69	\$ 25.66	\$ 26.36

\* Based on the exchange rate then prevailing.

The data in the Implied Value of Merger Considerations per Novuspharma Ordinary Share (\$) column was calculated by multiplying the last reported sale price of one share of CTI common stock on the specified dates by 2.45, the merger exchange ratio.

The market prices of the shares of CTI common stock and Novuspharma ordinary shares fluctuate. You should obtain current market quotations.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF NOVUSPHARMA**

The following discussion of Novuspharma's financial condition and results of operations should be read in conjunction with the financial statements of Novuspharma and the notes to those statements included elsewhere in this document. This discussion may contain forward-looking statements that involve risks and uncertainties. The words believe, expect, anticipate, estimate, may, might, will, or could and similar expressions or the negatives of these words or phrases are intended to identify forward-looking statements. As a result of many factors, such as those set forth under Risk Factors and elsewhere in this document, Novuspharma's actual results might differ materially from those anticipated in these forward-looking statements.

**Overview**

Novuspharma is an Italian biopharmaceutical company with a development strategy focused on the treatment of cancer, both by modifying existing chemotherapies to make them more effective and less toxic and by developing completely novel therapeutics for treatment of the disease. Novuspharma, with headquarters and a research facility in Bresso (Milan), Italy, began operations in 1999 following the spin-off of the oncology research and development department of Boehringer Mannheim Italia S.p.A. from F. Hoffman-La Roche.

Novuspharma's pipeline includes one investigational medicinal product currently in Phase III and Phase II clinical trials and two other medicinal products in Phase II clinical trials. As of August 13, 2003, Novuspharma has three investigational advanced stage cytotoxics in the DNA intercalator family of molecules in clinical development:

Pixantrone is in Phase III clinical trials in indolent NHL, Phase II clinical trials in aggressive NHL and is expected to enter clinical trials in MS during the second half of 2003;

BBR 3576 is in Phase II clinical trials in HRPC; and

BBR 3438 is in Phase II clinical trials in ovarian cancer.

In addition to the above advanced stage cytotoxic agents, Novuspharma is also using its experience in cancer to build an early stage pipeline of antibodies and small molecules designed to attack tumors through novel mechanisms of action, which includes the following:

MT201, a fully human antibody targeting the Ep-CAM molecule, is in Phase I clinical trials, in collaboration with Micromet AG;

platinum compounds are in late pre-clinical development;

proteasome inhibitors are believed to be approximately two years from Phase I clinical trials, in collaboration with Cephalon, Inc.; and

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HIF-1 inhibitors are believed to be approximately three years from Phase I clinical trials, in collaboration with the National Cancer Institute.

On June 16, 2003, Novuspharma entered into an agreement and plan of merger with CTI, a public company listed on the NASDAQ National Market, which contemplates that Novuspharma will merge with and into CTI in a stock-for-stock exchange. The merger agreement, which has been approved by the boards of directors of both companies, provides that Novuspharma shareholders will receive 2.45 shares of newly issued CTI common stock in exchange for each Novuspharma ordinary share.

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Completion of the proposed merger is subject to the satisfaction or waiver of the conditions set forth in the merger agreement, including the requisite approvals by the holders of CTI common stock and Novuspharma ordinary shares.

Novuspharma expenses have consisted primarily of costs incurred for development of its product candidates and in connection with collaboration agreements, and from general and administrative costs associated with operations.

To date, Novuspharma's research and development costs have consisted of, and for the near future are expected to consist of:

the cost of services provided by third-party research and manufacturing organizations that Novuspharma employs to conduct clinical and non-clinical research and development activities on its behalf;

salaries and other related costs of Novuspharma's staff who are engaged directly in research and development activities;

the cost of consumables that Novuspharma uses in its research laboratories;

amounts Novuspharma pays to third parties, including other biotechnology companies and various academic and governmental institutions, under the terms of the collaboration agreements to which it is a party; and

an appropriate allocation from Novuspharma's general and administrative expenses that are indirectly related to research and development.

The historical expenditures for Novuspharma's most advanced research and development projects are summarized below:

**Pixantrone (BBR 2778)** Research and development in connection with Pixantrone is in Phase III and Phase II clinical development. The research and development costs incurred by Novuspharma for Pixantrone were 2.1 million in 2001, 13.6 million in 2002 and 3.4 million during the six months ended June 30, 2003. Novuspharma expects that a new drug application to the FDA for Pixantrone will be filed in 2005 at the earliest.

**BBR 3438/3576** Research and development in connection with BBR 3438/3576 is in Phase II clinical development. The research and development costs incurred by Novuspharma for BBR 3438/3576 were 4.2 million in 2001, 4.8 million in 2002 and 2.2 million during the six months ended June 30, 2003.

**MT201** Research and development in connection with MT201 is in Phase I clinical development and is being carried out pursuant to a collaboration agreement between Novuspharma and Micromet AG. The research and development costs incurred by Novuspharma for MT201 was 5.6 million in 2002 and 3.9 million during the six months ended June 30, 2003. Novuspharma expects to enter Phase II clinical trials on MT201 for early stage HRPC in late 2003.

**Proteasome Inhibitors** Research and development in connection with the proteasome inhibitors project is in late pre-clinical development. The research and development costs incurred by Novuspharma for the proteasome inhibitors project were 941,000 in 2002 and 945,000 during the six months ended June 30, 2003. Novuspharma expects to enter Phase I clinical trials on proteasome

inhibitors in early 2005.

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Anti-angiogenetics Research and development in connection with the anti-angiogenetics project is in the lead discovery phase. The research and development costs incurred by Novuspharma for the anti-angiogenetics project were 1.5 million in 2001, 2.9 million in 2002 and 646,000 during the six months ended June 30, 2003.

The expenditures that will be necessary to complete Novuspharma's projects are subject to numerous uncertainties, which may harm its financial position and liquidity. Completion of clinical trials may take several years or more, and the length of time generally varies substantially according to the type, complexity, novelty and intended use of the product candidate. The duration and cost of clinical trials may vary significantly over the life of a project as a result of differences arising during the clinical trial protocol, including, among others, the following:

the number of patients that ultimately participate in the trial;

the duration of patient follow-up that seems appropriate in view of the results;

the number of clinical sites included in the trials; and

the length of time required to enroll suitable patient subjects.

Novuspharma's product candidates have not yet received FDA or EMEA regulatory approval, which is required before Novuspharma can market them. In order to proceed to subsequent clinical trial stages and to ultimately achieve regulatory approval, the FDA and EMEA must conclude that Novuspharma's clinical data establish safety and efficacy. Novuspharma or regulatory agencies may suspend clinical trials at any time on the basis that participants are being exposed to unacceptable health risks. Historically, the results from pre-clinical testing and early clinical trials have often not been predictive of results obtained in later clinical trials. A number of new drugs have shown promising results in early clinical trials, but subsequently failed to establish sufficient safety and efficacy data to obtain necessary regulatory approvals. Novuspharma faces many risks that could prevent or delay completion of projects including those listed under the caption "Risk Factors - Risks Related to the Business of our Combined Company."

Furthermore, Novuspharma's business strategy includes the option of entering into collaborative arrangements with third parties to complete the development and commercialization of product candidates. In the event that third parties take over the clinical trial process for one of Novuspharma's product candidates, the estimated completion date would largely be under the control of that third party rather than Novuspharma. Novuspharma cannot forecast with any degree of certainty which products or indications, if any, will be subject to future collaborative arrangements, in whole or in part, and how such arrangements would affect Novuspharma's development plan or capital requirements.

As a result of the uncertainties discussed above, among others, Novuspharma is unable to estimate the duration and completion costs of its research and development projects or when, if ever, and to what extent it will receive cash inflows from the commercialization and sale of a product. Novuspharma's inability to complete its research and development projects in a timely manner or its failure to enter into collaborative arrangements, when appropriate, could significantly increase its capital requirements and could adversely impact its liquidity. These uncertainties could force Novuspharma to seek additional, external sources of financing from time to time in order to continue with its business strategy. Novuspharma's inability to raise additional capital, or to do so on terms reasonably acceptable to it, would jeopardize the future success of its business.

Novuspharma's aggregate cost relating to other research and development activities, inclusive of amortization and other expenses, was 2.9 million in 2001, 4.1 million in 2002 and 1.6 million



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during the six months ended June 30, 2003. These costs are not attributable to any specific research and development projects, but instead are connected to Novuspharma's generic research and development activities.

To date, Novuspharma's revenues have consisted of, and for the near future are expected to consist of:

license fees for products candidates in various stages of development;

government grants for research and development in accordance with certain provisions of Italian law; and

revenues from pharmaceutical companies under specific collaboration agreements.

Some of these payments are dependent on the achievement of certain milestones. Research funding and milestone payments are, for the most part, inherently unpredictable. In the future, if Novuspharma's development efforts result in clinical success, regulatory approval and successful commercialization of any products, Novuspharma expects that it would also generate revenues from sales of those future products and from receipt of royalties on sales of licensed products.

From February 2001 through July 2003, Novuspharma granted options, net of cancellations, to purchase up to 360,270 ordinary shares to employees and non-employee directors of Novuspharma. Exercise prices for these options range from 14.29 to 35.67.

In November 2000, ordinary shares of Novuspharma were listed on the Italian Stock Market (Italian Nuovo Mercato). Novuspharma received proceeds from its initial public offering of 164.0 million before deducting related expenses. The offering consisted of 2.5 million ordinary shares of Novuspharma, of which 2,050,000 primary shares were offered by the company and 450,000 secondary shares were offered by selling shareholders. The offering consisted of a maximum 1,969,418 shares to institutions, a minimum 530,582 shares to the public. The initial public offering price of each share was 80.0.

## **Critical Accounting Policies**

The discussion and analysis of Novuspharma's results of operation and capital and financial resources are based on Novuspharma's financial statements, which have been prepared in accordance with U.S. GAAP. In the preparation of the financial statements Novuspharma makes estimates and assumptions that affect the reported amounts and disclosures. A critical accounting policy is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. While Novuspharma's significant accounting policies are more fully described in Note 1 to Novuspharma's financial statements included elsewhere in this proxy statement/prospectus, Novuspharma believes the following accounting policies to be critical:

## **Valuation Allowance**

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Novuspharma has recorded a valuation allowance against the deferred tax asset balance to the extent that the recognition criteria for realization have not been met. Novuspharma considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the



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valuation allowance. Should Novuspharma determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made.

## **Revenue Recognition**

Revenue from research and development services to third parties is non refundable and is recognized upon completion of the services and acceptance by the customer. Qualifying costs for certain research and development projects are partially reimbursed through research and development grants from the MIUR and certain other governmental entities. Such amounts are recorded as revenue in the period the related costs are incurred, upon the formal approval of the grantor. Qualifying costs for which Novuspharma has requested reimbursement but has not yet received payment are included in other current assets and advance payments received are included in deferred revenue.

## **Research and Development Expenses**

Research and development expenses include related salaries and benefits, clinical trial costs, contract and other outside service fees, and facilities and overhead costs. Research and development expenses also consist of costs incurred for proprietary and collaboration research and development and also include activities such as product registries and investigator sponsored trials. Research and development costs are expensed as incurred. In instances where Novuspharma enters into agreements with third parties for research and/or clinical trial activities, costs are expensed upon the earlier of when amounts are due or when services are performed.

## **Securities Available-for-Sale**

Novuspharma determines the appropriate classification of debt securities at the time of purchase. Novuspharma's investment portfolio is classified as available-for-sale and carried at fair value based on quoted market prices with unrealized gains and losses included in accumulated other comprehensive income and loss. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in investment income. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in investment income. The cost of securities sold is based on the specific identification method.

## **Results of Operations**

### **Six Months Ended June 30, 2003 Compared to the Six Months Ended June 30, 2002**

#### *Revenues*

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*Research grants and research services provided to third parties.* Revenues from grants and services provided to third parties were 1.7 million and 2.7 million for the six months ended June 30, 2003 and June 30, 2002, respectively. Revenues from grants and services provided to third parties for the six-month period ended June 30, 2003 mainly refer to research grants from the Italian Ministry for Research. The decrease in revenues is due to the lower research grants accrued at the end of June 2003, taking into account that in the first half of 2002, Novuspharma gained an extraordinary grant of 1.1 million relating to the purchase from a UK based company of reagents and other laboratory materials. Revenues from research activities carried out on behalf of third parties are not of a significant amount and mainly refer to the agreement entered with Micromet AG to co-develop MT201.

**Table of Contents***Expenses*

*Research and development expenses.* Research and development expenses were 12.8 million and 12.3 million for the six months ended June 30, 2003 and June 30, 2002, respectively.

Research and development expenses for compounds under development and discovery research were as follows:

	Six months ended June 30,	
	2003	2002
	(in thousands)	
Compounds under development:		
Pixantrone (BBR 2778)	3,446	4,509
BBR 3438/3576	2,208	2,482
BBR 3464	106	1,223
MT201	3,922	
<b>Total compounds under development</b>	<b>9,682</b>	<b>8,214</b>
Research projects:		
Proteasome	945	263
Anti-angiogenetics	646	2,029
Other	867	1,176
<b>Total research projects</b>	<b>2,458</b>	<b>3,468</b>
Amortization	331	185
Other expenses	301	442
<b>Total research and development expenses</b>	<b>12,772</b>	<b>12,309</b>

Costs for compounds under development include external direct expenses such as principal investigator fees, clinical research organization charges and contract manufacturing fees incurred for preclinical, clinical, manufacturing and regulatory activities associated with preparing the compounds for submissions of new drug applications to the FDA or similar regulatory filings with agencies outside the U.S. Research costs include primarily personnel, occupancy, and laboratory expenses associated with the discovery and identification of new drug targets and lead compounds. Operating costs include personnel, amortization and occupancy expenses related to the research and development activity. Novuspharma does not allocate amortization and other expenses to the individual compounds under development.

The increase in research and development expenses related to the compounds under development from the six months ended June 30, 2003 and June 30, 2002 is mainly related to non-clinical development costs for MT201 set-up and initiation of Phase II clinical trials. The decrease in research and development expenses related to the research projects is mainly due to the purchase from Prolifix Ltd, made in 2002, of reagents and other materials, totaling 1.4 million needed to transfer the HIF-1 inhibitor research programme to Novuspharma's Italian facility.

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*General and administrative expenses.* General and administrative expenses were 6.1 million and 3.5 million for the six months ended June 30, 2003 and June 30, 2002, respectively. General and administrative expenses consist of depreciation, rent expense, salaries and related costs for executive and other administrative personnel, as well as the costs of insurance, legal fees and administrative services fees. The increase in general and administrative expenses was mainly due to the external costs related to the proposed merger between Novuspharma and CTI.

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*Investment income.* Investment income was 880,000 and 988,000 for the six months ended June 30, 2003 and June 30, 2002, respectively. The decrease in investment income was mainly due to the decrease in the investment in securities available-for-sale at June 30, 2003 as compared to June 30, 2002.

*Interest income.* Interest income was 796,000 and 1.4 million for the six months ended June 30, 2003 and June 30, 2002, respectively. The interest income decrease was attributable to the decrease both in market interest rates and in the average cash and cash equivalents due to the losses of the period.

**Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001***Revenues*

*Research grants and research services provided to third parties.* Revenues from grants and services provided to third parties were 5.6 million and 1.5 million for the years ended December 31, 2002 and December 31, 2001, respectively. Revenues from grants include grants related to research costs, which were 5.5 million and 1.4 million for the years ended December 31, 2002 and 2001 respectively, and research activities in the field of pre-clinical oncology carried out on behalf of third parties amounted to 65,000 and 90,000 for the years ended December 31, 2002 and 2001, respectively. The increase in revenues of 4.1 million was mainly due to the increased public grants recognized during 2002 for the increased research costs related to the granted projects.

*Expenses*

*Research and development expenses.* Research and development expenses were 33.9 million and 14.4 million for the years ended December 31, 2002 and December 31, 2001, respectively.

Research and development expenses for compounds under development and discovery research were as follows:

	Year ended December 31,	
	(in thousands)	
	2002	2001
Compounds under development:		
Pixantrone (BBR 2778)	13,560	2,135
BBR 3438/3576	4,842	4,233
BBR 3464	1,880	3,614
MT201	5,630	
<b>Total compounds under development</b>	<b>25,912</b>	<b>9,982</b>

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Research projects:		
Proteasome	941	
Anti-angiogenetics	2,882	1,514
Other	2,499	2,132
	<u>        </u>	<u>        </u>
Total research projects	6,322	3,646
Amortization	575	262
Other expenses	1,052	550
	<u>        </u>	<u>        </u>
Total research and development expenses	33,861	14,440
	<u>        </u>	<u>        </u>

Costs for compounds under development include external direct expenses such as principal investigator fees, clinical research organization charges and contract manufacturing fees incurred for

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preclinical, clinical, manufacturing and regulatory activities associated with preparing the compounds for submissions of new drug applications to the FDA or similar regulatory filings with agencies outside the U.S. Research costs include primarily personnel, occupancy, and laboratory expenses associated with the discovery and identification of new drug targets and lead compounds. Operating costs include personnel, amortization and occupancy expenses related to the research and development activity. Novuspharma does not allocate amortization and other expenses to the individual compounds under development.

The increase in research and development expenses is related to cost items in 2002, the acquisition of the full rights to the research program anti-angiogenesis for an amount of 1.4 million, the use of Rituximab for the Phase III clinical trial of Pixantrone for an amount of 1.7 million, the up-front payment of 4.0 million under the agreement with Micromet AG to co-develop MT201 and the related development costs for an amount of 1.6 million, and the increased costs incurred in 2002 for the production of clinical batches.

*General and administrative expenses.* General and administrative expenses were 6.5 million and 5.4 million for the years ended December 31, 2002 and December 31, 2001, respectively. General and administrative expenses consist of depreciation, rent expense, salaries and related costs for executive and other administrative personnel, as well as the costs of insurance, legal fees and administrative services fees. The increase in general and administrative expenses was mainly due to the growth in Novuspharma's workforce and to the move of Novuspharma's operational headquarters.

*Amortization of purchased intangible assets.* Amortization of purchased intangible assets was 2,000 and 183,000 for the years ended December 31, 2002 and December 31, 2001, respectively. The decrease in amortization of acquisition-related intangibles is due to the adoption of SFAS 142, *Goodwill and Other Intangible Assets*, effective January 1, 2002. In accordance with this statement, goodwill is no longer amortized but is annually tested for impairment.

*Investment income.* Investment income was 1.9 million and 15,000 for the years ended December 31, 2002 and December 31, 2001, respectively. This increase was attributed primarily to the interest income due on securities for an amount of 1.6 million. Novuspharma invested a portion of cash in securities during the last quarter of 2001 and accordingly at December 31, 2001 investment income was earned only in such quarter.

*Interest income.* Interest income was 2.5 million and 6.5 million for the years ended December 31, 2002 and December 31, 2001, respectively. This decrease was due to the decrease in the cash and cash equivalents mainly due to the investments in securities in the last quarter of 2001.

## **Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000**

### *Revenues*

*Research grants and research services provided to third parties.* Revenues from grants and services provided to third parties were 1.5 million and 1.1 million for the years ended December 31, 2001 and December 31, 2000, respectively. Grant revenues related to research costs were 1.4 million and 0.1 million for the years ended December 31, 2001 and December 31, 2000, respectively. Services provided to third parties include research activities in the field of pre-clinical oncology carried out on behalf of third parties, which were 0.1 million and 1.0 million for the years ended December 31, 2001 and December 31, 2000, respectively. The decrease in revenues in 2001 in





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research activities to third parties was due to the interruption, in January 2001, of research activities previously provided to the Roche Group.

*Expenses*

*Research and development expenses.* Research and development expenses were 14.4 million and 8.2 million for the years ended December 31, 2001 and December 31, 2000, respectively.

Research and development expenses for compounds under development and discovery research were as follows:

	<b>Year ended December 31,</b>	
	<b>(in thousands)</b>	
	<b>2001</b>	<b>2000</b>
<b>Compounds under development:</b>		
Pixantrone (BBR 2778)	2,135	831
BBR 3438/3576	4,233	1,124
BBR 3464	3,614	3,237
<b>Total compounds under development</b>	<b>9,982</b>	<b>5,192</b>
<b>Research projects:</b>		
Anti-angiogenetics	1,514	661
Other	2,132	2,047
<b>Total research projects</b>	<b>3,646</b>	<b>2,708</b>
Amortization	262	154
Other expenses	550	125
<b>Total research and development expenses</b>	<b>14,440</b>	<b>8,179</b>

As a result of the intensification and progress made in these activities, the cost of research and development in 2001 was higher than the cost recorded during the previous year. Costs for compounds under development include external direct expenses such as principal investigator fees, clinical research organization charges and contract manufacturing fees incurred for preclinical, clinical, manufacturing and regulatory activities associated with preparing the compounds for submissions of new drug applications to the FDA or similar regulatory filings with agencies outside the U.S. Research costs include primarily personnel, occupancy, and laboratory expenses associated with the discovery and identification of new drug targets and lead compounds. Operating costs include personnel, amortization and occupancy expenses related to the research and development activity. Novuspharma does not allocate amortization and other expenses to the individual compounds under development. The increase in research and development expenses was mainly due to the clinical costs related to the Phase I and Phase II trials of BBR 3438 and BBR 3576.

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*General and administrative expenses.* General and administrative expenses were 5.4 million and 3.0 million for the years ended December 31, 2001 and December 31, 2000, respectively. General and administrative expenses consist of depreciation, rent expense, salaries and related costs for executive and other administrative personnel, as well as the costs of insurance, legal fees and administrative services fees. This increase was primarily attributed to double rent paid to Roche and Zambon Group S.p.A. following the transfer of Novuspharma's operational headquarters in November 2001. Furthermore, Novuspharma experienced an increase in personnel expenses due to the increase in the work-force, primarily in administration and finance.

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*Interest income.* Interest income was 6.5 million and 1.2 million for the years ended December 31, 2001 and December 31, 2000, respectively. As Novuspharma received significant cash flow from its initial public offering in November 2000, the interest income for the year ended December 31, 2001 was positively affected by the impact of the cash flow present throughout the entire financial year.

## **Liquidity and Capital Resources**

Prior to its initial public offering in November 2000, Novuspharma funded its activities primarily from equity and debt provided by venture capital and grants for research projects from the MIUR. During this time period, Novuspharma obtained 15.0 million (through capital investments in 1998, 1999 and 2000) through various private equity investments.

On November 9, 2000, Novuspharma was listed on the Nuovo Mercato. Novuspharma received total gross proceeds from its initial public offering of 164.0 million, before related issuance costs.

## **Six Months Ended June 30, 2003 Compared to the Six Months Ended June 30, 2002**

As of June 30, 2003, Novuspharma had approximately 95.6 million in cash, cash equivalents and securities available-for-sale. Net cash used in operating activities increased by 2.0 million, from 12.2 million during the first six months of 2002 to 14.2 million for the same period during 2003. The increase in net cash used in operating activities during the six months ended June 30, 2003, as compared to the same period in 2002, was primarily due to the increase in the net loss and changes in accounts payable, accrued expenses and prepaid expenses and other current assets.

Novuspharma expects an increase in the amount of net cash used in operating activities during 2003 compared with the amount of net cash used in 2002. Such increase is due to the expected increase in the research and development costs mainly related to the intensification and increase of clinical studies for Pixantrone and MT201. Payroll costs will also increase in accordance with the expected growth of the internal research and development structure. The extent of cash flow used in operating activities will be significantly affected by the expanded development plans for Pixantrone, MT201 and BBR 3576 and the ability to offset the related development expenses by licensing the rights to Pixantrone in some geographic areas to one or more biopharmaceutical companies.

Net cash provided by investing activities increased to approximately 35.1 million during the six months ended June 30, 2003, compared to approximately 5.6 million of net cash used in investing activities during the same period of 2002. The increase in net cash provided by investing activities during the six months ended June 30, 2003, as compared to the same period in 2002, was primarily due to the fact that the investing activities of 2002 included the purchase of securities available-for-sale of 12.0 million while the first six months of 2003 included 34.2 million of proceeds from sales of securities available-for-sale. In addition, the increase in net cash provided was mainly due to a decrease in purchases of treasury stock and to an increase in net proceeds from sales of treasury stock. Finally, the purchasing of property plant and equipment during the six months ended June 30, 2003 decreased by 1.3 million compared to the same period of 2002.

Net cash provided by financing activities during the six months ended June 30, 2003 do not show significant variation compared to the same period of 2002.



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Novuspharma expects to generate losses from operations for several years due to substantial additional research and development costs. Novuspharma expects that the existing capital resources will enable it to maintain the current and planned operations through 2005. However, future capital requirements will depend on many factors, including:

success in licensing the rights to Pixantrone in some geographic areas to one or more biopharmaceutical companies,

progress in and scope of the research and development activities,

competitive market developments, and

success in acquiring complementary products, technologies or businesses.

Future capital requirements will also depend on the extent to which Novuspharma acquires or invests in businesses, products and technologies. If Novuspharma should require additional financing due to unanticipated developments, additional financing may not be available when needed or, if available, Novuspharma may not be able to obtain this financing on terms favorable to Novuspharma or to its shareholders. Insufficient funds may require Novuspharma to delay, scale back or eliminate some or all of the research and development programs, or may adversely affect the ability to operate as a going concern. If additional funds are raised by issuing equity securities, substantial dilution to existing shareholders may result.

## **Year Ended December 31, 2002 Compared to the Years Ended December 31, 2001 and December 31, 2000**

As of December 31, 2002, Novuspharma had 108.3 million in cash, cash equivalents and securities available-for-sale. Net cash used in operating activities increased to 28.2 million in 2002, compared to 11.9 million in 2001 and 5.7 million in 2000. The increase in net cash used in operating activities in 2002 as compared to 2001 and 2002 was primarily due to the increase in the operating expenses.

Novuspharma expects an increase in the amount of net cash used in operating activities during 2003 compared with the amount of net cash used in 2002. Such increase is due to the expected increase in the research and development costs mainly related to the intensification and increase of clinical studies for Pixantrone, BBR 3576 and MT201. Payroll costs will also increase in accordance with the expected growth of the internal research and development structure. The extent of cash flow used in operating activities will be significantly affected by the expanded development plans for Pixantrone, MT201 and BBR 3576 and the ability to offset the related development expenses by licensing the rights to Pixantrone in some geographic areas to one or more biopharmaceutical companies.

Net cash used in investing activities totaled 11.4 million in 2002, compared to 46.7 million in 2001 and 0.9 million in 2000. The decrease in net cash used in investing activities in 2002, as compared to 2001, and the increase in net cash used in investing activities in 2001, as compared to 2000, was primarily due to the fact that, during 2001, Novuspharma invested approximately 43.7 million of cash in securities available-for-sale. During 2002, Novuspharma purchased 22.0 million and sold 15.2 million of securities available-for-sale, with a net cash absorption of 6.8 million. The investments in securities available-for-sale were approved by the Novuspharma board of directors in the fourth quarter 2001 in order to obtain a higher interest yield associated with a reasonably low financial risk. Cash used for these investments represented part of Novuspharma's net financial position which was not expected to be used, according to forecasts, in the medium term.



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Net cash provided by financing activities amounted to approximately 0.1 million in 2002, compared to net cash used of approximately 0.09 million in 2001 and to net cash provided by financing activities of 160.2 million in 2000. The net cash provided by financing activities during 2002 and used in financing activity during 2001 was mainly related to the proceeds and repayment of long term obligations. The net cash provided by financing activities during 2000 was due to the net proceeds from the initial public offering of 2,050,000 shares of Novuspharma common stock on the Nuovo Mercato, representing 153.1 million, and to a shareholders contribution made before the initial public offering, representing 8.7 million, net of a repayment of a long term debt obligation of 1.6 million.

The following table presents Novuspharma's contractual obligations as of December 31, 2002:

	Payments Due by Period				After 5 Years
	(in thousands)				
	Total	1 Year	2-3 Years	4-5 Years	
<b>Contractual Obligations</b>					
Capital lease obligations:					
Contractual obligations	225	61	122	42	
Interest	(20)	(9)	(10)	(1)	
Total capital lease obligations	205	52	112	41	
Operating lease obligations (facility and cars)	5,325	1,131	2,132	2,062	
Total obligations	5,530	1,183	2,244	2,103	

Novuspharma's long-term liability at December 31, 2002 included 1.0 million related to required indemnities for termination of employees. These obligations are payable to employees upon the termination of employment for any reason and, although, in practice, a part of this liability may become due within 12 months, this portion is not quantifiable, and is conventionally treated as long term.

The remaining amount of milestone payments Novuspharma may be required to pay pursuant to the agreement with Micromet A.G. is 15 million over the next four years contingent upon the achievement of certain development results.

**Recent Accounting Pronouncements**

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards, or SFAS, 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which addresses accounting for restructuring, discontinued operations, plant closing, or other exit or disposal activity. SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Novuspharma does not expect the adoption of SFAS 146 to have a material impact on its financial position and results of operations.

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In November 2002, the FASB issued interpretation (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34*. FIN 45 clarifies the requirements of SFAS 5, *Accounting for Contingencies*, relating to the guarantor's



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accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of FIN 45 are effective for financial statements of periods ending after December 15, 2002. However, the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. Novuspharma has no guarantees falling under FIN 45 and therefore no disclosure is needed.

In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. SFAS 148 amends SFAS 123, *Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002 and have been incorporated into Novuspharma's financial statements and accompanying footnotes. Novuspharma has elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion (APB) 25, *Accounting for Stock Issued to Employees*, to account for employee stock options.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities*. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. FIN 46 applies to public enterprises as of the beginning of the applicable interim or annual period. Novuspharma does not expect the adoption of FIN 46 to have a material impact on its financial position and results of operations.

On April 30, 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, to address (1) decisions reached by the Derivatives Implementation Group, (2) developments in other FASB projects that address financial instruments, and (3) implementation issues related to the definition of a derivative. SFAS 149 has multiple effective date provisions depending on the nature of the amendment to SFAS 133. Novuspharma does not expect the adoption of SFAS 149 to have a material impact on its financial position and results of operations.

On May 15, 2003, the FASB issued SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS 150 and still existing at the beginning of the interim period of

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adoption. Restatement is not permitted. For nonpublic entities, mandatorily redeemable financial instruments are subject to the provisions of SFAS 150 for the first fiscal period beginning after December 15, 2003. Novuspharma does not expect the adoption of SFAS 150 to have a material impact on its financial position and results of operations.

## **Quantitative and Qualitative Disclosure About Market Risk**

### **Interest Rate Market Risk**

Novuspharma is exposed to market risk related to changes in interest rates that could adversely affect the value of its investments. Novuspharma maintains an investment portfolio consisting of interest bearing securities with maturity dates between 2003 and 2011. These securities, classified as available-for-sale, are interest bearing and thus are subject to interest rate risk and the risk that fixed interest securities will fall in value if market interest rates increase. Because Novuspharma has the ability to hold its investments until maturity, Novuspharma does not expect its operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates related to its securities portfolio. The fair value of Novuspharma's securities available-for-sale at December 31, 2002 and 2001 was 50.5 million and 43.5 million, respectively.

### **Foreign Exchange Market Risk**

Novuspharma's revenues to date have been primarily in Euro while it has incurred expenses in foreign currencies such as U.S. dollars and Swiss francs (CHF). At December 31, 2002 and 2001, Novuspharma's liabilities denominated in foreign currency were composed mainly of 1.4 million U.S. dollars and 2.9 million Swiss francs and 0.2 million U.S. dollars and 0.9 million Swiss francs, respectively. Novuspharma has not entered into any foreign exchange contracts to hedge any exposure to foreign currency rate fluctuations.

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**BUSINESS OF NOVUSPHARMA**

**Overview**

Novuspharma is an Italian biopharmaceutical company with a development strategy focused on the treatment of cancer, both by modifying existing chemotherapies to make them more effective and less toxic and by developing completely novel therapeutics for treatment of the disease. Novuspharma, with headquarters and a research facility in Bresso (Milan), Italy, began operations in 1999 following the spin-off of the oncology research and development department of Boehringer Mannheim Italia S.p.A. from F. Hoffman-La Roche.

Novuspharma's pipeline includes one investigational medicinal product currently in Phase III and Phase II clinical trials and two other medicinal products in Phase II clinical trials. As of September 17, 2003, Novuspharma has three investigational advanced stage cytotoxics in the DNA intercalator family of molecules in clinical development:

Pixantrone is in Phase III clinical trials in indolent NHL, Phase II clinical trials in aggressive NHL and is expected to enter clinical trials in MS during the second half of 2003;

BBR 3576 is in Phase II clinical trials in HRPC; and

BBR 3438 is in Phase II clinical trials in ovarian cancer.

In addition to the advanced stage cytotoxics, Pixantrone and BBR 3576, Novuspharma is also using its experience in cancer to build an early stage pipeline of antibodies and small molecules designed to attack tumors through novel mechanisms of action, which includes the following:

MT201, a fully human antibody targeting the Ep-CAM molecule, is in Phase I clinical trials, in collaboration with Micromet AG;

platinum compounds are in late pre-clinical development;

proteasome inhibitors are believed to be approximately two years from Phase I clinical trials, in collaboration with Cephalon, Inc.; and

HIF-1 inhibitors are believed to be approximately three years from Phase I clinical trials, in collaboration with the National Cancer Institute.

In November 2000, ordinary shares of Novuspharma were listed on the Italian Stock Market (Italian Nuovo Mercato).

**Strategy**

Cancer is a disease resulting from a series of genetic alterations, which cause cancerous cells to reproduce uncontrollably, invading surrounding tissue and forming new tumors even in remote organs and tissue, a process known as metastasis. The genetic alterations that result in cancer may be caused by various factors, including heredity, chemical agents, viruses and ionising radiation. Current cancer treatments include surgery, radiation and pharmacology. Oncology, the study and treatment of cancer, is an area of high unmet medical need which offers significant commercial opportunities for novel therapies that demonstrate increased efficacy and safety over current therapies.

Novuspharma believes that continued innovations in cancer therapy may progressively transform the treatment of cancer from an acute illness with a high mortality rate to a chronic disease with

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increased life expectancy and quality of life for patients. This may become possible as the result of improved diagnostic techniques able to detect genetic alterations associated with tumors at an earlier stage, and novel pharmacological treatments based on a combination of drugs, each aimed at a specific molecular target, together with innovative cytotoxic agents which can eliminate tumorous cells.

In order to advance, as well as to exploit the opportunities offered by this trend, Novuspharma's goals include:

to develop and make available for therapeutic use a series of innovative cytotoxic agents, taking advantage of the growing market for cytotoxic cancer drugs;

to invest in highly innovative biological compounds, such as monoclonal antibodies, considering the fast growing market for innovative therapies; and

to continue to invest in research relating to specific cancer agents aimed at a selective therapy and the control of metastasis.

## **Research and Development of New Anti-cancer Drugs**

Novuspharma is involved in all stages of the research and development process, from the initial evaluation of potential products up to the final verification of clinical efficacy (Phase III). Novuspharma's strengths are concentrated in its capacity and experience in the identification of new active molecules characterized by anti-cancer activity, in developing their pre-clinical profile and in addressing their initial clinical experimentation through stages of exploring tolerability in humans (Phase I) and validation of a product's clinical efficacy in patients (Phase II). Novuspharma is especially well-versed in the supervision of the central crucial phases of the research and development process, also referred to as research development interface, in which a potential drug is recognized and studied before starting studies in patients.

Novuspharma also engages in outsourcing of research and development activities to qualified external agencies when outsourcing leads to more effective conduct of the research and development efforts. These outsourced research and development activities remain under the supervision and decision-making of Novuspharma's personnel. Typical agencies with whom Novuspharma engages in outsourcing research and development include academic or industrial institutions, co-operative groups and clinical testing centers.

## **Research**

Novuspharma has concentrated resources and accumulated significant experience in the following stages of the research process:

*Identifying Potential Products.* This stage includes the evaluation of potential products, or hits, and the development of results in the identification of favorite compounds, or lead development. This stage, which requires the use of integrated selection criteria combining activity and tolerability tests, permits the obtaining of compounds with relatively well-defined characteristics evidencing efficacy and selectivity and which are precisely identified from a chemical-analytical standpoint.

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*Evaluation of hits.* Novuspharma evaluates hits selected by external partners active in basic research and in target validation. Such compounds are selected on the basis of their anti-proliferative effect, selectivity, biological activity in *in vitro* systems, synthetic

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feasibility and patentability. The selected compounds become leads and each generates a family of structurally related compounds. In this phase, the so-called rational drug design, which is the computerized design of the product, supported by test results, is normally used to chemically synthesize these families of compounds.

*Lead development.* Novuspharma explores and optimizes series of leads through synthetic processes so as to identify compounds possessing superior chemical and biological characteristics and, where possible, generates the data required to support the selection of the compound for clinical testing. The selection of the compound is based on the following factors:

a preliminary evaluation of its selectivity of action, its activity on the selected target, through *in vitro* and *in vivo* testing, and its preliminary tolerability;

a preliminary evaluation and optimization of pharmacokinetics *in vitro*, metabolism, and chemico-physical properties of the leads which together may maximize the probability of success; and

a verification of the feasibility of synthesizing and formulating the compound.

At the end of this phase, some compounds are selected, ideally belonging to different chemical classes, which are called favorites.

*Intermediate Research.* During this stage, Novuspharma develops the favorites so as to:

identify the clinical candidate, which is the most suitable compound to clinically test in the subsequent phase, considering its activity, toxicity, ability to be absorbed in the body (pharmacokinetics), and chemical-analytical and pharmaceutical characteristics; and

determine an accurate pharmaco-toxicological profile and the expected clinical profile of the selected clinical candidate, through the identification of a clear development strategy and realistic clinical goals related to the characteristics of the compound.

In developing favorites, Novuspharma first gains deep knowledge of the chemical and pharmaco-toxicological profile of the favorites, which are generally not more than five or six compounds, by studying the activity and toxicity of the compound to generate the necessary data to be able to select one or two compounds to enter the subsequent phase. The criteria listed below are considered in making the selection:

maximizing the potency and selectivity of the compound in relation to the relevant target;

evaluating the general toxicity of the compound and its toxicity with respect to the target organs;

optimizing the *in vitro* and *in vivo* pharmacokinetics, metabolism, and physico-chemical properties of the favorites, in order to maximize the likelihood of human patients receiving a suitable dose; and

refining the technical methodologies required to synthesize and manufacture the drug.

At the end of the research phase, it is possible to select from the most suitable compounds the clinical candidate which will undergo the next phase of development.



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### **Development**

Novuspharma concentrates resources on, and has accumulated significant experience in, clinical development, which consists of the development of a products through Phases I, II and III.

#### *Preparation for Clinical Testing on Humans*

During this initial development stage, drug substances and the final formulation are produced, preliminary tests are carried out and necessary documentation is prepared in order to gain authorization for tests on the first human subject.

During this stage, a plan is drawn up setting out the issues and requirements for the project, including for future studies regarding:

combination with other cancer formulations,

toxicology,

drug substance characterization,

final formulation, and

the commercial production of the drug substance.

#### *Preliminary Verification of Clinical Tolerability (Phase I)*

The primary objective of Phase I trials is to identify the maximum tolerated dose of a product and therefore recommend a dose that should be taken forward into subsequent trials. Phase I trials also commonly examine a number of additional parameters, such as the product's pharmacokinetics (or how the product is absorbed, distributed and eliminated from the body) and the product's safety and tolerability. While Phase I trials are not designed to assess the efficacy of products, any indication of biological activities, such as tumor responses, are described.

#### *Preliminary Verification of Clinical Efficacy (Phase IIa)*

The primary objective of Phase IIa trials is to obtain the first efficacy data for the product so as to determine whether the compound has the potential to treat the identified therapeutic indication. In this stage of clinical trials, the primary efficacy parameter is normally patient response

rate, based on either tumor shrinkage or reduction in levels of a tumor marker. Sometimes other efficacy parameters, like time progression and survival, are also followed. These trials are also used to collect more data on the product's safety and tolerability profile and further studies are carried out in relation to the development of the final formulation and pharmacokinetics.

*Definitive Verification of Clinical Efficacy (Phase II)*

The primary objective of Phase II trials is to determine the clinical efficacy and the relationship between the active dose and toxic dose, or the therapeutic index, of the new product, to decide whether further testing with a view to obtaining regulatory approval is worthwhile. The studies require a group of patients of variable numbers, generally limited to between 15 and 50 patients, and which are appropriate in terms of characteristics of tumors and expected pharmacological effect.

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Novuspharma carries out Phase II tests on anti-tumor products similar to those already used in clinics if the new product candidate offers advantages in comparison to existing products for at least one of the following reasons:

a superior therapeutic efficacy in tumors already sensitive to the existing product;

therapeutic efficacy in relapsed tumors or tumors resistant to the existing product; and/or

a lower degree of toxicity.

### *Broad Clinical Testing Phase (Phase III)*

The final phase of development before an application for regulatory approval, such as an NDA, is filed is the so-called broad clinical testing phase, or Phase III. At present Novuspharma is conducting a phase III clinical trial with Pixantrone (BBR 2778) in patients affected by indolent NHL. This trial is aimed at comparing the efficacy and safety of Pixantrone both alone and in combination with the current drug used as the standard treatment for indolent NHL.

## **Principal Product Candidates**

Novuspharma is currently developing a pipeline of products candidates, including several in various phases of development. Novuspharma has expertise in developing cytotoxic agents, or DNA intercalating agents, as well as monoclonal antibodies. Novuspharma is developing three DNA intercalators that have demonstrated improved efficacy and safety: Pixantrone (BBR 2778), BBR 3576, and BBR 3438. Novuspharma is developing one monoclonal antibody, MT201.

### **DNA intercalating agents**

The two most advanced products in Novuspharma's clinical development pipeline belong to the DNA intercalator family of molecules, which includes anthracyclines. The currently marketed drugs from this class, such as doxorubicin, epirubicin and mitoxantrone, form one of the keystones of modern chemotherapy, along with platinum based compounds and taxanes. For example, DNA intercalators have become standard-of-care treatment for blood-borne tumors, such as lymphoma, and in breast cancer, where they are used following surgery. Outside of oncology, mitoxantrone is the only treatment option for many patients with advanced forms of multiple sclerosis.

The DNA intercalator drugs currently on the market suffer from the major drawback that they can cause irreversible damage to the myocardium (heart muscle), which limits their use to a maximum cumulative dose within a patient's life-time, otherwise patients risk cardiac complications, such as potentially fatal congestive heart failure.

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Novuspharma's DNA intercalators were designed using Novuspharma expertise in medicinal chemistry to alter the structure of currently marketed DNA intercalators. Novuspharma's research has been focused on removing the portions of these molecules responsible for producing the free radicals that damage heart muscle, while at the same time retaining features critical for anti-tumor activity. Novuspharma believes that there is a strong unmet clinical need for effective DNA intercalators in second-line therapy after patients have failed to respond to initial therapies or have relapsed, and that current DNA intercalators could be replaced by newly developed DNA intercalators that offer safer treatment in initial first-line therapies after diagnosis of an illness.

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### *Pixantrone (BBR 2778)*

The most advanced product in Novuspharma's product development pipeline is Pixantrone, which is being developed for indolent and aggressive NHL. NHL is caused by the abnormal proliferation of immune system cells, or lymphocytes. According to studies conducted by Datamonitor, 500,000 patients are estimated to be suffering from the disease in the western world and Japan, and the number of patients is expected to grow to over 680,000 by 2010. This makes NHL the fifth most common form of cancer after breast, prostate, lung and colon cancer. The exact reasons for the increase is unknown but a major factor is thought to be the aging of the population.

Pixantrone produced positive results in terms of efficacy and safety in preclinical trials and in Phase I and II trials. In preclinical studies, Pixantrone has shown notable activity in animal models of cancer, particularly in models of blood-borne tumors such as lymphoma. It has also been shown in preclinical tests to have a significantly reduced propensity to cause cardiac damage, with a particularly favorable comparison versus the currently used DNA intercalators, such as doxorubicin and mitoxantrone. These results were supported by Phase I studies, where Pixantrone again demonstrated its highest level of activity in blood-borne tumors, together with a promising safety profile.

In Phase II trials in patients with aggressive NHL, Pixantrone achieved five complete responses and four partial responses out of 33 evaluable patients, suggesting a response rate of around 30%. Although this trial was not designed to give a statistical proof of efficacy, Novuspharma believes these results are very encouraging, given the advanced stage of the patients' disease and that responses were maintained for up to 18 months. Cardiac safety was encouraging in view of the level of pre-treatment that patients had received with current cardiotoxic DNA intercalator drugs.

Due to the positive results seen in earlier trials, Novuspharma is conducting a pivotal Phase III trial for Pixantrone in the relapsed indolent NHL indication. This trial will compare the efficacy and safety of Pixantrone, in combination with rituximab (Rituxan<sup>®</sup>, the current standard of care treatment in indolent NHL, which is marketed by Genentech Inc. and Hoffmann La Roche A.G.), to rituximab used alone. This trial is expected to recruit around 800 patients in the US and Europe. Novuspharma has obtained a bilateral binding agreement from the FDA concerning the design of this pivotal trial under the FDA's special protocol assessment procedure.

Novuspharma is also conducting other clinical trials for Pixantrone:

Phase I trial with open enrollment for relapsed or refractory indolent NHL in combination with rituximab, fludarabine and dexamethasone (a variant of the FND-R regimen, commonly used on the treatment of indolent NHL, where Pixantrone replaces mitoxantrone);

Phase I trial with enrollment completed for relapsed aggressive NHL in combination with cytarabine, methylprednisolone and cisplatin (a variant of the ESHAP regimen, commonly used in the treatment of relapsed aggressive NHL, where Pixantrone replaces etoposide), and clinical trial reports are in progress;

Phase II trial open to enrollment in the third quarter of 2003 for relapsed aggressive NHL in combination with cytarabine, methylprednisolone and cisplatin (ESHAP variant);

Phase I and II trials with open enrollment for relapsed aggressive NHL in combination with cyclophosphamide, vincristine and prednisone (a variant of the CHOP regimen, commonly used in the treatment of first line aggressive NHL, where Pixantrone replaces

doxorubicin); and

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Phase I trial open to enrollment in the third quarter of 2003 for relapsing-remitting and relapsing-progressive multiple sclerosis.

### *BBR 3576*

BBR 3576 is a DNA intercalator which Novuspharma is developing for hormone refractory prostate cancer, or HRPC. An estimated 2 million patients suffer from prostate cancer in the US, Europe and Japan, making it the most common form of cancer affecting men in these parts of the world. HRPC is currently an incurable disease and treatment is focused on controlling patients' symptoms. Chemotherapy is widely used in the treatment of HRPC, although the exact combination regimens vary widely between different parts of the world and even between different doctors. However, the majority of HRPC patients are elderly and have bone metastasis (invasion of the bone marrow by the tumor) which reduces their ability to tolerate the side effects of chemotherapy. Therefore, there is a clear unmet medical need for chemotherapies which provide a good palliation of symptoms, particularly the patients' pain, while having an acceptable tolerability profile.

Novuspharma recently announced the results of a Phase II study for BBR 3576 in patients with advanced HRPC at the 2003 annual meeting of the American Society of Clinical Oncology. These results revealed a promising prostate-specific antigen, or PSA, response rate of 25% and evidence of BBR 3576's ability to control the pain suffered by patients, together with an acceptable tolerability profile. In view of these encouraging results obtained as a single agent, Novuspharma is planning to open a second Phase II trial for BBR 3576 in HRPC in late 2003. This study will use BBR 3576 in combination with the corticosteroid prednisone, in order to explore the possible synergy of this combination. This trial will enroll patients that have not previously received chemotherapy for the treatment of HRPC (with the exception of estramustine) and recruitment will proceed through a two-step design, with 23 patients recruited to the first step and recruitment expanded to 48 patients if four or more responses are seen. Possible pivotal trials for BBR 3576 in advanced HRPC may focus on determining whether BBR 3576 could provide a safer and more effective replacement for mitoxantrone, or whether combining BBR 3576 with taxanes produces superior results to a taxane used alone.

In pre-clinical and Phase I studies, BBR 3576 showed its highest activity in solid tumors and demonstrated a much reduced propensity to cause cardiotoxicity compared to the currently marketed DNA intercalators. Novuspharma also plans to initiate a Phase II trial for BBR 3576 in ovarian cancer during the second half of this year.

### *BBR 3438*

BBR 3438 showed in pre-clinical studies its highest activity in solid tumors and demonstrated reduced cardiotoxicity compared to currently marketed DNA intercalators. Phase I results indicated good tolerability, warranting further development. A Phase II clinical study is currently ongoing for BBR 3438 in patients with ovarian cancer.

## **Monoclonal Antibodies**

When antibodies are produced by the body in response to infection, a large number of different antibodies are produced which each recognize different antigens, or proteins, or different parts of the same antigen. These are called polyclonal antibodies. When antibodies are being used as a therapeutics





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for a disease such as cancer, it is best to pick the most effective from among these polyclonal antibodies (a single monoclonal antibody). Monoclonal antibodies generally make better therapeutics than polyclonal antibodies because they are more selective and are likely to have better safety and tolerability profiles.

### *MT201*

In September 2002, Novuspharma entered into an agreement with Micromet AG to co-develop MT201, a fully human antibody targeting the Ep-CAM molecule. The Ep-CAM molecule has been well validated as a clinical target and is known to be present on the surface of the majority of carcinoma cells. Furthermore, increased expression of Ep-CAM has been shown to correlate with tumor progression in breast cancer patients and decreased overall survival. In addition, the human nature of MT201 means it is likely to have low immunogenicity and should be well tolerated when administered by repeat dosing. Pre-clinical studies suggest MT201 is able to engage cells of the human immune system far more effectively than previous mouse-derived antibodies, leading to elimination of tumor cells by cellular mediated cytotoxicity.

Under the terms of the agreement with Micromet, Novuspharma will make total milestone payments of up to \$15 million over the next four years. Development costs of up to \$10 million will be shared equally between the two companies and Novuspharma will pay 40% of development costs in excess of \$10 million. In return, Novuspharma will receive 40% of the revenues from MT201, if any. Safety data from the Phase I study in HRPC suggest the drug is well tolerated at concentrations which gave maximal tumor cell killing in *in vitro* studies.

Preparations are underway for a program of Phase II trials for MT201 in a number of major solid tumor indications. The first trial will be conducted in patients with early stage prostate cancer and is due to open for recruitment in the third quarter of 2003. MT201 has recently concluded Phase I clinical studies in HRPC and has the potential to be used in the treatment of a wide range of solid tumors.

## **Principal Research Programs**

Novuspharma is leveraging its experience in cancer treatment to build a pipeline of early stage antibodies and small molecules to attack tumors through novel mechanisms of action.

### **Proteasome Inhibitors**

Novuspharma is collaborating with the US biopharmaceutical company Cephalon, Inc. in the discovery and development of novel cancer therapies based on proteasome inhibition. The proteasome is known to play a critical role in the expression and activity of proteins involved in cell cycle progression, cell survival and tumor growth. Lead optimization to date has led to a several-fold increase in the potency and selectivity of Cephalon's compounds on tumor cell lines and recent *in vivo* studies have shown a sustained, high level of proteasome inhibition.

Clinical candidates will be initially developed by Novuspharma until proof of concept is achieved in patients. Subsequent development will be jointly supported by the two companies. Subject to licensing and co-promotion rights granted to Cephalon, Cephalon will retain marketing rights in the Americas and Japan, whereas Novuspharma will retain rights in Europe and the rest of the world.



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### **HIF-1 Inhibitors**

Novuspharma is developing inhibitors to HIF-1, a transcription factor known to play a role in regulating tumor cell survival, tumor proliferation and the growth of new blood vessels into tumors. A number of lead compounds have been identified and Novuspharma is collaborating with the United States National Cancer Institute to conduct mechanism of action studies on these compounds. Novuspharma is also using the National Cancer Institute's Open Chemical Repository to identify completely new leads and laboratories have been established in Bresso (Milan), Italy where this second program of high-throughput screening will take place, allowing a relatively large number of compounds to be tested for potential therapeutic activity in a relatively short period of time.

### **Tyrosine Kinase Inhibitors**

Novuspharma is working to develop potential anti-cancer agents which act through inhibiting tyrosine kinases, a family of genes that are implicated in tumor development. Specifically the research is focused on two tyrosine kinases, c-kit and RET. The project focused on RET is being conducted in collaboration with the Istituto Nazionale dei Tumori, in Milan. A number of inhibitors of both c-kit and RET with anti-tumor activity have been identified and lead optimization is currently ongoing.

### **Novel Platinum Compounds**

Novuspharma has developed a range of platinum-based compounds which have shown promise as cytotoxic agents with a completely different mechanism of action to cisplatin (a chemotherapy drug). These are currently undergoing formulation studies, with the aim of improving their efficacy before possible clinical studies.

### **Competition**

#### **Product Specific Competition**

Novuspharma's clinical products display similar mechanisms of action or indications to certain cancer drugs which are already on the market. Novuspharma believes that such cancer drugs will potentially either compete with, or be used in combination with, its product candidates.

*Pixantrone.* Novuspharma expects potential competition from mitoxantrone, anthracycline drugs and drugs with different effects used in haematology and solid tumors (including etoposide, estramustine, vinblastine, vinorelbine, 5-FU, taxanes and topo-I inhibitors) and monoclonal antibodies such as Rituxan<sup>®</sup>, which is marketed by Genentech Inc. and Hoffmann La Roche A.G. Novuspharma believes that the main benefits of Pixantrone in comparison to its potential competitors lies in its superior efficacy and its reduced cardiac toxicity.

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*BBR 3576.* Novuspharma foresees potential competition from existing products derived from anthracycline, including epirubicin and mitoxantrone, and new compounds for which an improved therapeutic index is reported. New formulations and release systems aimed at reducing or protecting against the cardiotoxicity of anthracycline will also compete with BBR 3576. The standard currently approved by the FDA for palliative cures of hormone-refractory prostate tumors, the primary indication for BBR 3576, is mitoxantrone (in combination with steroids). Novuspharma believes that the main benefits of BBR 3576 in comparison to its potential competitors lies in its efficacy and tolerability, and its reduced cardiotoxicity.

*BBR 3438.* Novuspharma expects potential competition from existing anthracycline derivatives, such as epirubicin and mitoxantrone, and new anthracycline derivatives developed with the

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objective of obtaining a better therapeutic index than doxorubicin. These include new formulations and release systems aimed at raising the cardiotoxicity protection of anthracyclines. Novuspharma also expects potential competition from platinum-based compounds. Novuspharma believes that the main benefits of BBR 3438 in comparison to its potential competitors lies in its sufficiently good efficacy and tolerability associated with a reduced cardiotoxicity.

*MT201.* Novuspharma expects potential competition from existing monoclonal antibodies used on solid tumors, such as Herceptin<sup>®</sup> marketed by Hoffmann La Roche A.G. Novuspharma believes that the main benefits of MT201 in comparison to its potential competitors lie in its relatively low immunogenicity and a better tolerability when administered by repeat dosing. However, MT201 is yet to be tested on a sufficiently wide sample of patients.

## **Competition in the Bio-Pharmaceutical Industry**

The bio-pharmaceutical industry is growing rapidly and is highly competitive. Novuspharma competes with public and private pharmaceutical and biotechnology companies engaged in the research, development and marketing of oncological products. Many of these companies are specialized in the oncology field and have significant financial, marketing, and research and development resources and greater experience in the sector than Novuspharma.

Due to the limited choice of existing cancer drugs and the high incidence of cancer, a number of companies have made substantial investments aimed at the development and the introduction of new cancer drugs onto the market. Large pharmaceutical companies have vast experience in clinical trials and in obtaining regulatory approval. There is therefore a risk that competitors could obtain the necessary regulatory approvals and market their oncological products more rapidly than Novuspharma.

Furthermore, Novuspharma is competing with other pharmaceutical and biotechnology companies for the recruitment of researchers, technicians and other qualified personnel, and to sign license and collaboration agreements. While Novuspharma has a collaboration network with academic and industrial partners which permits the use of highly qualified researchers and strategic technologies in the research and development of Novuspharma products, there can be no assurance that current agreements will continue or be renewed, or that Novuspharma will in the future be successful in obtaining further agreements of this sort on acceptable terms.

## **Intellectual Property**

Novuspharma uses 17 families of patents which are either owned or in relation to which exclusive exploitation rights have been granted. In addition to patent rights, Novuspharma has trade secrets regarding the industrial preparation processes of its DNA intercalating agents.

The commercial success of Novuspharma also depends on its ability to obtain patent protection for its product candidates in Europe, the United States and other countries, and to protect the confidentiality of the know-how of Novuspharma and its collaborators. No assurance can be given that Novuspharma will develop additional inventions which are patentable, that patent applications filed by Novuspharma will result in the issue of patents or that patents issued or licensed to Novuspharma will not be challenged and found invalid.

In general, patent applications are not published until 18 months after the date of filing. For this reason, there is no guarantee that the contents of a patent application filed by Novuspharma has not



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been previously submitted by other parties who would thus enjoy priority rights with respect to such patent. Novuspharma could receive office actions or other notices from U.S. or foreign patent authorities seeking to limit or otherwise qualify some of Novuspharma's patent claims. Novuspharma intends to defend such claims when the disputes relate to key proprietary rights that are important to Novuspharma's current or future business. In addition, substantial costs could be incurred if Novuspharma is required to defend its key proprietary rights against third parties.

Novuspharma provides information, materials and substances to research collaborators in the context of both academic and commercial collaboration agreements pursuant to which collaborators are requested to conduct tests on the substances, pursuant to confidentiality agreements. Novuspharma also relies upon unpatented proprietary technologies, processes, know-how and data which it regards as trade secrets and which are protected in part by confidentiality agreements with its employees, certain consultants and sub-contractors, including manufacturing sub-contractors. There can be no assurance that these agreements or other trade secret protection will provide meaningful protection or will not be breached, that Novuspharma will have adequate remedies for any breach, or that its trade secrets will not otherwise become known or be independently developed by competitors.

## **Environmental Regulation**

In connection with Novuspharma's research and development activities, Novuspharma is subject to laws, rules, regulations and policies governing safety and hygiene in the workplace, the use of genetically modified microorganisms, ionized radiation, the handling and disposal of waste materials, and accidents and work-related illnesses. Although Novuspharma believes that it has complied with these laws, regulations and policies in all material respects and has not been required to take any significant action to correct any noncompliance, Novuspharma may be required to incur significant costs to comply with environmental and health and safety regulations in the future. Novuspharma research and development involves the controlled use of hazardous materials, including, but not limited to, certain hazardous chemicals and radioactive materials. Although Novuspharma believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by applicable regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. In the event of such an accident, Novuspharma could be held liable for any damages that result and any such liability could exceed its resources.

## **Manufacturing**

Novuspharma currently uses, and expects to continue to be dependent upon, contract manufacturers to manufacture each of its product candidates. Novuspharma has established a quality control and quality assurance program, including a set of standard operating procedures and specifications, designed to ensure that its products are manufactured in accordance with cGMPs and other applicable regulations. However, these manufacturers may not meet Novuspharma's requirements for quality, quantity or timeliness. Novuspharma will need to develop additional manufacturing resources, and may seek to enter into additional collaborative arrangements with other parties that have established manufacturing capabilities or may elect to have a third party manufacture Novuspharma products on a contract basis.

Novuspharma has agreements with third party vendors to furnish drug supply for clinical studies. Novuspharma will be dependent upon these third parties to supply us in a timely manner with products manufactured in compliance with cGMPs or similar standards imposed by foreign regulatory

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authorities where its products are tested. Contract manufacturers may violate cGMPs. Applicable regulatory authorities may take action against a contract manufacturer who violates cGMPs. Such actions may include requiring the contract manufacturer to cease its manufacturing activities.

**Facilities**

Novuspharma does not own any real estate. Novuspharma leases offices and laboratory facilities consisting of approximately 75,000 square feet located in Bresso (Milan), Italy.

**Employees**

As of June 30, 2003, Novuspharma has 88 employees, 74 of whom are dedicated to research and development programs.

**Litigation**

As of the date hereof, Novuspharma is not party to any legal or arbitration proceedings which in Novuspharma's management's view may have, or have recently had, a material effect on Novuspharma's economic and financial position.



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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS  
AND MANAGEMENT OF NOVUSPHARMA**

The following table sets forth, as of August 13, 2003, the names and addresses for (1) each person who is known by Novuspharma to own beneficially more than 5% of its outstanding ordinary shares, (2) each director of Novuspharma, (3) each executive officer of Novuspharma, and (4) all directors and executive officers of Novuspharma as a group.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned and Nature of Beneficial Ownership(2)	Shares Subject to Options	Percent Beneficially Owned
3i Group plc 91, Waterloo Road SE1 8XP London, UK	637,678		9.71%
HBM Bio Ventures (Cayman) Ltd. Eucalyptus Building Crewe Road Grand Cayman Cayman Islands	596,805		9.09%
Novuspharma Invest NV Ween 336 Rotterdam Netherlands	1,880,333		28.63%
Alberto Bernareggi	111,457		1.70%
Joel Besse**(3)	1,880,333		28.63%
Max Brauchli**	31,310		*
Maria Gabriella Camboni	114,057		1.74%
Ennio Cavalletti	100,000		1.52%
David Ebsworth**			*
Michele Garuffi**	6,974		*
Antoine B. Papiernik**(4)	1,880,333		28.63%
Cesare Parachini	7,474	23,000	*
Gabriella Pezzoni	108,946		1.66%
Erich Platzer**	134,615		2.05%
Silvano Spinelli**	238,899		3.64%
Directors and executive officers as a group (12 persons)	853,732	23,000	13.00%

\* Less than 1%.

\*\* Denotes director of Novuspharma.

(1) The address of the individuals listed is c/o Novuspharma, via Ariosto 23, 20091 Bresso (Milan) Italy, unless otherwise indicated.

(2) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission ( SEC ) and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of August 13, 2003, are deemed outstanding for computing the percentage of the person holding the option or warrant but are not deemed outstanding for computing the percentage of any other person. Except as indicated in the footnotes to this table, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned.

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- (3) Due to the fact that he is a Senior Principal of Atlas Ventures, which beneficially owns 50% of the outstanding securities of Novuspharma Invest NV, Mr. Besse may be deemed to have beneficial ownership of 1,880,333 Novuspharma ordinary shares, all of which shares are owned by Novuspharma Invest NV and none of which are owned individually by Mr. Besse. Mr. Besse disclaims beneficial ownership of the shares owned by Novuspharma Invest NV except to the extent of his pecuniary interest therein.
- (4) Due to the fact that he is a General Partner of Sofinnova, which beneficially owns 50% of the outstanding securities of Novuspharma Invest NV, Antoine B. Papiernik may be deemed to have beneficial ownership of 1,880,333 Novuspharma ordinary shares, all of which shares are owned by Novuspharma Invest NV and none of which are owned individually by Mr. Papiernik. Mr. Papiernik disclaims beneficial ownership of the shares owned by Novuspharma Invest NV except to the extent of his pecuniary interest therein.

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS  
AND MANAGEMENT OF CTI**

The following table sets forth certain information regarding beneficial ownership of common stock, as of August 15, 2003, by (1) each shareholder known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock, (2) each of our directors and nominees for director, (3) each of the executive officers named in CTI's Summary Compensation Table incorporated by reference in this proxy statement/prospectus, and (4) all directors and executive officers as a group:

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned(2)	Shares Subject to Options	Percentage Ownership(2)
Lindsay A. Rosenwald, M.D. and The Aries Master Funds(3) c/o Paramount Capital Asset Management, Inc. 787 Seventh Avenue, 48th Floor New York, NY 10019	3,160,921		9.4%
Essex Woodlands Health Ventures Fund IV, L.P.(4) 15001 Walden Road, Suite 101 Montgomery, TX 77356	2,033,997		6.1%
Barclays Global Investors, N.A.(5) 45 Fremont Street San Francisco, CA 94105	2,010,749		6.0%
Wells Fargo & Company(6) 420 Montgomery Street San Francisco, CA 94104	1,949,980		5.8%
Shaker Investments, Inc.(7) 2000 Auburn Drive, Suite 300 Cleveland, OH 44122	1,747,216		5.2%
James A. Bianco, M.D.**	829,319	498,865	2.4%
Louis A. Bianco	280,781	213,160	*
Jack L. Bowman**	37,383	37,383	*
John M. Fluke, Jr.**	20,000	15,000	*
Vartan Gregorian, Ph.D.**	25,000	20,000	*
Edward F. Kenney	261,321	245,947	*
Max E. Link, Ph.D.**	63,572	25,000	*
Michael B. Mumford (resigned in April 2003)	5,000		*
Mary O. Munding, DrPH**	31,650	30,000	*
Phillip M. Nudelman, Ph.D.**	74,811	46,811	*

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Carolyn M. Paradise (resigned in October 2002)			*
Jack W. Singer, M.D.**	454,568	211,528	1.3%
Martin P. Sutter**(4)	2,068,322	15,000	6.2%
All directors and executive officers as a group (14 persons)	4,198,186	1,403,653	12.0%

\* Less than 1%.

\*\* Denotes director of CTI.

- (1) The address of the individuals listed is 501 Elliott Avenue West, Suite 400, Seattle, Washington 98119, unless otherwise indicated.
- (2) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission ( SEC ) and generally includes voting or investment power with respect to securities. This table is based upon information supplied by officers, directors, Schedules 13D, 13F and 13G and Forms 3 filed with the SEC. Shares of common stock subject to options or warrants currently exercisable or

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convertible, or exercisable or convertible within 60 days of August 15, 2003, are deemed outstanding for computing the percentage of the person holding the option or warrant but are not deemed outstanding for computing the percentage of any other person.

Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned.

- (3) The ownership information set forth in this table is based on information contained in a joint statement on Schedule 13G/A, dated February 14, 2003 filed with the SEC by Paramount Capital Asset Management, Inc., Aries Domestic Fund, L.P., Aries Master Fund II, Aries Domestic Fund II, L.P. and Lindsay A. Rosenwald, M.D. with respect to ownership of shares of common stock. The filing indicated that, as of December 31, 2002, Paramount Capital Asset Management, Inc. has shared voting and dispositive power with respect to 1,546,411 shares; Aries Master Fund II, has shared voting and dispositive power with respect to 843,394 shares; Aries Domestic Fund L.P., has shared voting and dispositive power with respect to 583,645 shares; Aries Domestic Fund II, L.P. has shared voting and dispositive power with respect to 119,372 shares; and Lindsay A. Rosenwald, M.D., a citizen of the United States, has sole voting and dispositive power with respect to 1,579,510 shares, shared voting and dispositive power with respect to 1,546,411 shares and warrants to purchase 35,000 shares of common stock received in connection with private placements of stock. Paramount Capital Asset Management, Inc. is the general partner of each of the Aries Domestic Funds and the investment manager of Aries Master Fund II. Dr. Rosenwald is the chairman and sole shareholder of Paramount Capital Asset Management and disclaims beneficial ownership of the securities owned by Paramount Capital Asset Management except to the extent of his pecuniary interest therein.
- (4) The ownership information set forth in the table is based on information contained in a Form 3, dated November 14, 2002, filed with the SEC by Martin P. Sutter with respect to ownership of shares of common stock. The filing indicated that, as of November 13, 2002, Martin P. Sutter had beneficial ownership of 2,068,322 shares, of which 2,033,997 is owned by Essex Woodlands Health Ventures Fund, IV, L.P. Mr. Sutter disclaims beneficial ownership of the shares except to the extent of his pecuniary interest therein. Mr. Sutter is the managing director of Essex Woodlands Health Ventures Fund IV, L.P.
- (5) The ownership information set forth in the table is based on information contained in a Schedule 13F, as of June 30, 2003, filed with the SEC by Barclays Global Investors, N.A. with respect to ownership of shares of common stock.
- (6) The ownership information set forth in the table is based on information contained in a Schedule 13G, dated February 13, 2003, filed with the SEC by Wells Fargo & Company with respect to ownership of shares of common stock. The filing indicated that, as of December 31, 2002, Wells Fargo & Company had sole power to vote 1,901,255 shares and dispose of 1,894,280 shares.
- (7) The ownership information set forth in the table is based on information contained in a Schedule 13F, as of June 30, 2003, filed with the SEC by Shaker Investments, Inc. with respect to ownership of shares of common stock.

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**CONDITIONS IN ITALY AND THE EUROPEAN UNION**

**Exchange Rates; European Economic and Monetary Union**

Pursuant to the Treaty on European Union, signed at Maastricht on February 7, 1992, the third stage of European Economic and Monetary Union, or EMU, commenced on January 1, 1999. On that date, a single currency, the euro, was introduced and became legal tender in the participating member states of the EU (including Italy), and those participating member states transferred authority for conducting monetary policy to the European Central Bank. From the start of the third stage of EMU, the value of the euro as against the currencies of each of the participating member states was irrevocably fixed. The conversion rate between the euro and the Italian lira was fixed at Lit. 1,936.27 per euro.

The following 12 member states are participating in the EMU: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. During the transition period from January 1, 1999, through December 31, 2001, the euro was available only in paperless form, pending the production and release of euro banknotes and coins, while the participating members states' national currencies were maintained. During that transition period, the value of the national currency of a participating member state in the national currency of another country (whether a participating member state or not) was by law determinable only through the bilateral conversion method, i.e., by converting the first currency into euros and then converting this euro equivalent into the second currency. Euro banknotes and coins debuted on January 1, 2002 and, since then, the national currency of each member state, including the Italian lira, has been withdrawn from circulation, and both financial and consumer transactions in participating member states of the EMU are denominated in euros.

Novuspharma's revenues and expenses have historically been denominated in Italian lire. Starting from January 1, 2002, when its reporting currency switched to the euro, Novuspharma has also prepared and published its financial statements in the euro.

The euro floats freely against the dollar. Accordingly, after the merger we will face exchange rate risk relating to the value of the euro relative to the dollar. Furthermore, a portion of Novuspharma's revenues and expenses and some liabilities are denominated in foreign currencies outside the euro zone and, therefore, fluctuations in the exchange rates of such currencies in relation to the euro may affect our combined company's results of operations. See Risk Factors Risks Related to International Expansion.

The table below sets forth, for the dates indicated, the average, high, low and period-end median 4 p.m. Greenwich Mean Time, or GMT, spot rate as per a number of snapshots taken from Reuters for the euro expressed in U.S. dollars per euro. The average rates set forth in the table below are the average of the median 4 p.m. GMT spot rates on the last business day of each month during the relevant period. For any time or period before January 1, 1999, the median 4 p.m. GMT spot rates have been derived from the median 4 p.m. GMT spot rates for the Italian lira converted into euros at the irrevocable conversion rate between the Italian lira and the euro. These rates are provided solely for the convenience of the reader and are not necessarily the rates we used in the preparation of our financial statements. We make no representation that Italian lire or euros could have been converted into U.S. dollars at the rates shown or at any other rate for such periods or at such dates.

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The following table sets forth the median 4 p.m. GMT spot rate for the euro for each of the previous five years, the three months ended March 31, 2003, the six months ended June 30, 2003 and for each of the last two calendar months (expressed in U.S. dollars per one euro).

<b>Calendar Year</b>	<b>U.S. dollars per Euro</b>			
	<b>Average</b>	<b>High</b>	<b>Low</b>	<b>Period End</b>
1998	\$ 1.12	\$ 1.23	\$ 1.07	\$ 1.17
1999	1.07	1.19	1.00	1.01
2000	0.92	1.03	0.83	0.94
2001	0.90	0.95	0.84	0.89
2002	0.94	1.05	0.86	1.05
<b>Period Ended</b>				
March 31, 2003	\$ 1.07	\$ 1.11	\$ 1.04	\$ 1.09
June 30, 2003	1.11	1.19	1.04	1.15
<b>Calendar Month 2003</b>				
July	\$ 1.14	\$ 1.15	\$ 1.12	\$ 1.12
August	\$ 1.11	\$ 1.14	\$ 1.09	\$ 1.10

The median 4 p.m. GMT spot rate on September 17, 2003 was approximately \$1.12 = 1.00.

**Exchange Controls**

Italy does not impose exchange controls on transfers of currency abroad. Residents and non-residents of Italy may invest in Italian securities without restriction and may transfer to and from Italy cash, instruments of credit and securities, in both foreign currency and the euro, representing interest, dividends, other asset distributions and the proceeds of dispositions.

Certain reporting and record-keeping requirements, however, are imposed under Italian and EU laws regarding the free movement of capital. Such laws require transfers into or out of Italy of cash or securities in excess of 12,500.00 euros be reported in writing to the Italian Exchange Office by residents or non-residents who effect such transfers directly, or by credit institutions or other intermediaries that effect such transactions on their behalf. In addition, credit institutions and other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for five years, which may be inspected at any time by Italian tax and judicial authorities. Non-compliance with these reporting and record-keeping requirements may result in administrative fines or, in the case of false reporting and in certain cases of incomplete reporting, criminal penalties. The Italian Exchange Office is required to maintain reports for a period of ten years and may use them, directly or through other government offices, to police money laundering, tax evasion and any other crime or violation.

**Regulatory Framework**

*Laws and regulations governing the research, experimentation, production and marketing of new pharmaceutical products*

Novuspharma's research activities, facilities and equipment and the production and marketing of its products are subject to several laws and regulations issued by authorities in Italy, the EU, the United States and other foreign countries where such products are sold.



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Italy and the EU have adopted high standards of review for new pharmaceutical products. Such products are typically reviewed at each of the following stages:

underlying research;

pre-clinical studies;

clinical trials;

registration of the product;

production of the product; and

marketing of the product.

Consequently, the entire approval process for new pharmaceutical and/or medicinal products is typically lengthy. At the Italian level, the authorizations necessary for manufacturing and marketing medicinal products are granted by the Italian Ministry of Health and, upon certain circumstances, may be limited or revoked. At the EU level, the regulatory authority is the EMEA, or EMEA. Based in London, EMEA is responsible for coordinating scientific resources in EU countries and evaluates and supervises the manufacturing and marketing of medicinal products for use across the EU. On the basis of EMEA's recommendation, the European Commission may authorize the marketing of new products.

### *Laws and regulations governing intellectual property rights*

Italian laws enforce the agreements on Trade Related Aspects of Intellectual Property Rights, reached in the context of the Uruguay Round negotiations of the General Agreement on Tariffs and Trade, known as GATT. Italian laws also address the protection of trademark use in Italy. As far as patents are concerned, at the EU level, the European Patent Convention of October 1973 applies and at the Italian level, Royal Decree no. 1127 of June 29, 1939 (as amended and integrated) applies. The EU laws are enforced by the Administrative Council of the European Patent Organization.

### *Laws and regulations governing reimbursement for the purchase of pharmaceutical products*

Italian laws regulate the amount by which pharmaceutical companies are reimbursed for products covered by the public health system. If this reimbursement amount does not cover the entire cost of the product, then the difference must be paid by the consumer.

### *Italian laws and regulations governing safety and hygiene in the workplace and environmental protections*

Italian laws specifically address and regulate the following matters, among others:

safety and hygiene in the workplace;

the use of genetically modified micro-organisms;

the use of ionized radiation; and

waste management.

*Italian laws and regulations governing the granting of research incentives, the hiring of personnel and productive investments*

In addition to the laws and regulations encouraging medical investment, research and training discussed below, certain Italian laws and regulations relate to subsidies for investments made in southern Italy and tax benefits to support technological innovation.

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### **Governmental Support of Medical Research and Training**

In order to encourage scientific and medical research and training, both Italy and the EU have instituted targeted investment programs.

#### *Italian Investment Programs*

Italian law provides that companies carrying out certain research and/or training projects may qualify for receiving government grants and/or subsidized loans. Italian grants and subsidized loans are awarded by the *Ministero dell Istruzione, dell Università e della Ricerca Scientifica*, or MIUR, and/or the *Ministero delle Attività Produttive*, or MAP, and disbursed by an authorized bank, as instructed by MIUR and/or MAP, as the case may be.

In order to be awarded grants or subsidies, eligible companies must submit a detailed request to MIUR and/or MAP, as the case may be, describing their business and specifying the proposed project. MIUR and/or MAP, as the case may be, will then evaluate the request and decide whether to make an award. Each awarded grant and subsidy will be paid, depending on the evidenced progress of the project (a portion of the grants may, however, be disbursed in advance by the authorized bank if instructed by MIUR and/or MAP, as the case may be). The companies receiving the grants must comply with certain conditions relating to, among other things, the geographical, technical and timeline development of the projects and the characteristics and location of the companies receiving the grants. MIUR and/or MAP, as the case may be, are entitled to discontinue or revoke the grants and subsidies.

Due to the nature of its medical research activities, several of Novuspharma's projects and programs have qualified for and received grants and subsidized loans from those sources. From the Italian authorities, Novuspharma has received government grants and subsidized loans relating to Novuspharma's research projects.

The grant and subsidy agreements entered into between Novuspharma and the authorized bank, San Paolo IMI S.p.A., provide that:

notice of any structural and organizational changes affecting Novuspharma (including the change of its directors) and/or its business (including the award of further grants or subsidies) must be provided in advance to the authorized bank;

consent to any merger, de-merger or transformation of Novuspharma must be received in advance from the authorized bank; and

any default by Novuspharma under any of the agreements can cause the termination of all the agreements concerning the payment of grants and subsidies with the additional consequence that Novuspharma must repay the relevant sums with interest.

Based on the above, in order to seek to avoid the forfeiture of any sums already received by Novuspharma, plus the payment of interest on those sums, CTI and Novuspharma informally contacted the authorized bank in order to start the procedure aimed at receiving its consent to the merger. Shortly after the merger occurs, we intend to contribute Novuspharma's assets into an Italian subsidiary. Since this subsidiary will be an Italian company, we expect it will be eligible to receive new grants and subsidies as its programs qualify from time to time. However, we cannot assure you that the Italian subsidiary will qualify or be approved for any grants or subsidies that may be applicable to it.



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**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS OF CTI AND NOVUSPHARMA**

The following unaudited pro forma combined balance sheet as of June 30, 2003 and the unaudited pro forma combined statement of operations data for the six months ended June 30, 2003 and the year ended December 31, 2002 are based on the historical consolidated financial statements of CTI and Novuspharma after giving effect to the proposed merger, which is being accounted for as an asset purchase, and applying the estimates, assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The financial information of Novuspharma has been reclassified to conform Novuspharma's presentation format to that of CTI. The unaudited pro forma combined financial data is based on estimates and assumptions which are preliminary. The unaudited pro forma combined financial statements do not purport to represent what CTI's financial position or results of operations would actually have been if the proposed merger had in fact occurred on the dates indicated or to project CTI's financial position or results of operations as of any future date or for any future period.

For pro forma purposes:

CTI's balance sheet as of June 30, 2003 has been combined with Novuspharma's balance sheet as of June 30, 2003 as if the proposed merger had occurred on June 30, 2003;

CTI's unaudited statement of operations for the six months ended June 30, 2003 has been combined with Novuspharma's unaudited statement of operations for the six months ended June 30, 2003 as if the proposed merger had occurred on January 1, 2003; and

CTI's statement of operations for the year ended December 31, 2002 has been combined with Novuspharma's statement of operations for the year ended December 31, 2002 as if the proposed merger had occurred on January 1, 2002.

The Novuspharma amounts combined in the pro forma combined financial statements referred to above were translated to U.S. dollars using a spot rate of 1.1503 as of June 30, 2003 and an average rate of 1.1052 and .94525 for the six months ended June 30, 2003 and the year ended December 31, 2002, respectively.

As an asset purchase, the total estimated purchase price of \$199.6 million, calculated as described in Note 1 to these unaudited pro forma condensed combined financial statements, is allocated to the net tangible and intangible assets acquired in connection with the merger, based initially on management's estimates of fair values as of June 30, 2003. A preliminary valuation of the intangible assets was performed by an independent third party, as the basis for the estimates of fair values of the intangible assets reflected in these unaudited pro forma condensed combined financial statements. A final determination of these fair values, which cannot be made prior to the completion of the proposed merger, will be based on management's consideration of the final valuation. This final valuation will be based on the actual net tangible and intangible assets of Novuspharma that exist as of the date of completion of the proposed merger. The purchase price in excess of the estimated fair values was then allocated on a pro rata basis to in-process research and development and nonmonetary long-lived assets. In addition to the effect of the final valuation, the timing of completion of the proposed merger, and other changes in Novuspharma's net assets which occur prior to completion of the proposed merger, could cause material differences from the information presented.

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These unaudited pro forma condensed combined financial statements and accompanying notes should be read in conjunction with the historical financial statements and the related notes thereto of Novuspharma and Management's Discussion and Analysis of Financial Condition and Results of Operations of Novuspharma, included in this proxy statement/prospectus. This data should also be read in conjunction with CTI's historical consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations, which are incorporated herein by reference to CTI's Annual Report on Form 10-K/A for the year ended December 31, 2002 and Quarterly Report on Form 10-Q for the six months ended June 30, 2003.

**Table of Contents****Unaudited Pro Forma Condensed Consolidated Balance Sheet****June 30, 2003****(in thousands)**

	<u>Cell Therapeutics, Inc.</u>	<u>Novuspharma</u>	<u>Pro Forma Adjustments</u>	<u>Note 2</u>	<u>Pro Forma Combined</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 66,981	\$ 90,841	\$		\$ 157,822
Securities available-for-sale	82,769	19,104			101,873
Interest receivable	1,192	296			1,488
Accounts receivable, net	1,561	78			1,639
Inventory	808				808
Note receivable from officer	3,500				3,500
Prepaid expenses and other current assets	5,986	2,293			8,279
	<u>162,797</u>	<u>112,612</u>			<u>275,409</u>
Property and equipment, net	11,707	5,472	2,664	(A)	19,843
Goodwill, net	12,064	202	(202)	(B)	12,064
Other intangibles, net	2,002	12	(12)	(C)	5,319
			3,317	(D)	
Other assets and deferred charges	8,263	5,532	(1,870)	(E)	11,925
	<u>196,833</u>	<u>123,830</u>	<u>3,897</u>		<u>\$ 324,560</u>
<b>LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIT)</b>					
Current liabilities:					
Accounts payable	\$ 923	\$ 4,953	\$		\$ 5,876
Accrued expenses	14,276	5,799	3,130	(E)	23,205
Accrued liability related to PolaRx acquisition	49				49
Current portion of deferred revenue	1,003	623			1,626
Current portion of long-term obligations	2,297	61			2,358
	<u>18,548</u>	<u>11,436</u>	<u>3,130</u>		<u>33,114</u>
Convertible senior subordinated notes(1)	160,459				160,459
Convertible subordinated notes	29,640				29,640
Deferred revenue, less current portion	1,585				1,585
Other long-term obligations, less current portion	3,879	1,658			5,537
Commitments					
Shareholders' equity (deficit):					
Common Stock	385,774	194,189	(194,189)	(F)	580,985
			194,587	(G)	
			624	(H)	
Deferred stock compensation			(624)	(H)	(624)
Accumulated other comprehensive income (loss)	(1,352)	48	(48)	(F)	(1,352)
Accumulated deficit	(401,700)	(83,501)	83,501	(F)	(484,784)
			(83,084)	(I)	

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Total shareholders' equity (deficit)	(17,278)	110,736	767	94,225
Total liabilities and shareholders' equity (deficit)	\$ 196,833	\$ 123,830	\$ 3,897	\$ 324,560

(1) On June 23, 2003, CTI issued 4% convertible senior subordinated notes resulting in gross proceeds of \$75 million.

See accompanying notes.



**Table of Contents****Unaudited Pro Forma Condensed Consolidated Statement of Operations****Six Months Ended June 30, 2003****(in thousands, except per share amounts)**

	<u>Cell Therapeutics, Inc.</u>	<u>Novuspharma</u>	<u>Pro Forma Adjustments</u>	<u>Note 2</u>	<u>Pro Forma Combined</u>
<b>Revenues:</b>					
Product sales	\$ 9,591	\$ 1,890	\$		\$ 9,591
License and contract revenue	1,419	1,890			3,309
<b>Total revenues</b>	<b>11,010</b>	<b>1,890</b>			<b>12,900</b>
<b>Operating expenses:</b>					
Cost of product sold	398				398
Research and development	42,652	14,116	107	(J)	56,875
Selling, general and administrative	25,817	6,716	49	(K)	32,848
Amortization of purchased intangibles	667	1	266	(L)	
			332	(M)	1,000
<b>Total operating expenses</b>	<b>69,534</b>	<b>20,833</b>	<b>754</b>		<b>91,121</b>
Loss from operations	(58,524)	(18,943)	(754)		(78,221)
<b>Other income (expense):</b>					
Investment and other income	1,105	1,912			3,017
Interest expense	(3,826)				(3,826)
<b>Other income (expense), net</b>	<b>(2,721)</b>	<b>1,912</b>			<b>(809)</b>
<b>Net loss</b>	<b>\$ (61,245)</b>	<b>\$ (17,031)</b>	<b>\$ (754)</b>		<b>\$ (79,030)</b>
<b>Basic and diluted net loss per common share</b>					
	\$ (1.85)	\$ (2.62)			\$ (1.61)
<b>Shares used in calculation of basic and diluted net loss per common share</b>					
	33,141	6,512		Note 3	49,168

See accompanying notes.



**Table of Contents****Unaudited Pro Forma Condensed Consolidated Statement of Operations****Year Ended December 31, 2002****(in thousands, except per share amounts)**

	<u>Cell Therapeutics, Inc.</u>	<u>Novuspharma</u>	<u>Pro Forma Adjustments</u>	<u>Note 2</u>	<u>Pro Forma Combined</u>
<b>Revenues:</b>					
Product sales	\$ 11,393	\$ 5,254	\$		\$ 11,393
License and contract revenue	5,503	5,254			10,757
<b>Total revenues</b>	<b>16,896</b>	<b>5,254</b>			<b>22,150</b>
<b>Operating expenses:</b>					
Cost of product sold	423				423
Research and development	58,759	32,007	215	(J)	90,981
Selling, general and administrative	49,800	6,123	97	(K)	56,553
Amortization of purchased intangibles	6,701	2	663	(L) (M)	7,366
<b>Total operating expenses</b>	<b>115,683</b>	<b>38,132</b>	<b>1,508</b>		<b>155,323</b>
Loss from operations	(98,787)	(32,878)	(1,508)		(133,173)
<b>Other income (expense):</b>					
Investment and other income	4,819	4,345			9,164
Interest expense	(11,240)				(11,240)
Gain on exchange of convertible subordinated notes	55,305				55,305
<b>Other income (expense), net</b>	<b>48,884</b>	<b>4,345</b>			<b>53,229</b>
<b>Net loss</b>	<b>\$ (49,903)</b>	<b>\$ (28,533)</b>	<b>\$ (1,508)</b>		<b>\$ (79,944)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (1.48)</b>	<b>\$ (4.40)</b>			<b>\$ (1.61)</b>
Shares used in calculation of basic and diluted net loss per common share	33,763	6,492		<i>Note 3</i>	49,790

See accompanying notes.

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**Notes to Unaudited Pro Forma  
Condensed Combined Financial Statements**

**Note 1. Description of Merger and Purchase Price**

The unaudited pro forma condensed combined financial statements reflect the conversion of all the outstanding Novuspharma ordinary shares into approximately 16,027,000 shares of CTI common stock pursuant to the proposed merger. The calculation of the number of shares is based on outstanding Novuspharma ordinary shares of approximately 6,542,000 as of June 30, 2003, multiplied by the fixed exchange ratio of 2.45. The actual number of shares of CTI common stock to be issued will be determined based on the actual number of Novuspharma ordinary shares outstanding on the effective date of the merger. The total cost of the proposed merger is estimated to be approximately \$199,587,000, based on a fair value of CTI common stock of \$12.14, the average price of CTI common stock during a seven-day period beginning three trading days before and ending three trading days after the public announcement of the proposed merger (June 12, 13, 16, 17, 18, 19 and 20, 2003).

The estimated total purchase price of the proposed merger is as follows (in thousands):

Total value of CTI common stock	\$ 194,587
Estimated direct transaction costs	5,000
	<hr/>
Total estimated purchase price	\$ 199,587
	<hr/>

As an asset purchase, the total estimated purchase price as shown in the table above will be allocated to Novuspharma's net tangible and intangible assets based initially on their estimated fair values as of the date of the completion of the proposed merger. The estimated purchase price in excess of these estimated fair values was then allocated on a pro rata basis to in-process research and development and to non-monetary long-lived assets. Based on the preliminary valuation, performed by an independent third party, and subject to material changes upon completion of a final valuation and other factors as described in the introduction to these unaudited pro forma condensed combined financial statements of this proxy statement/prospectus, the allocation of the preliminary estimated purchase price is as follows (in thousands):

	<b>Fair Value of Net Assets Acquired</b>
	<hr/>
Cash and cash equivalents	\$ 90,841
Securities available-for-sale	19,104
Interest receivable	296
Accounts receivable	78
Prepaid expenses and other current assets	2,293
Property and equipment	8,136
Other intangible assets	3,317
Other assets and deferred charges	5,532
Accounts payable and accrued expenses	(10,752)
Current portion of deferred revenue	(623)
Current portion of long-term obligations	(61)
Other long-term obligations, less current portion	(1,658)

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Acquired in-process research and development	83,084
Total	\$ 199,587

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The number of shares used to estimate the total purchase price does not include shares that may be issued in connection with the exercise of stock options between June 30, 2003 and the effective date of the merger. In connection with the merger, all Novuspharma stock options will become fully vested and will, to the extent not exercised, be cancelled immediately prior to the effective time of the merger. At June 30, 2003, Novuspharma had outstanding options for the purchase of 360,270 ordinary shares with a weighted average exercise price of 26.51. If all of these options were exercised prior to the merger, it would result in the issuance by CTI of an additional 882,662 shares of CTI common stock (using the fixed exchange ratio of 2.45). Accordingly, to the extent that options are exercised prior to the effective date of the merger, the estimated purchase price would increase, resulting in additional cash and an adjustment to in-process research and development and to nonmonetary long-lived assets on a pro forma basis.

Acquired in-process research and development, or IPRD, for the merger was evaluated utilizing the present value of the estimated after-tax cash flows expected to be generated by purchased technology, which, at the effective time of the merger, had not reached technological feasibility. The cash flow projections for revenues are based on estimates of growth rates and the aggregate size of the respective market for each product, probability of technical success given the stage of development at the time of acquisition, royalty rates based on an assessment of industry market rates, product sales cycles, and the estimated life of a product's underlying technology. The projections for revenues include assumptions that significant cash flows from product revenue would commence in 2006. Estimated operating expenses and income taxes are deducted from estimated revenue projections to arrive at estimated after-tax cash flows. Projected operating expenses include cost of goods sold, general and administrative expenses, and research and development costs. The rate utilized to discount projected cash flows was 30%, and was based on the relative risk of each in-process technology and was based primarily on risk adjusted rates of return for research and development and the weighted average cost of capital for CTI at the time of the merger.

The unaudited pro forma condensed consolidated balance sheet reflects acquired IPRD of approximately \$83.1 million, representing the values determined by CTI's management to be attributable to the IPRD assets associated with the technology acquired in the merger as follows (in thousands):

BBR 2778 (NHL)	\$ 70,856
BBR 2778 (MS)	6,030
MT-201	6,198
	<hr/>
	\$ 83,084
	<hr/>

Due to its non-recurring nature, the in-process research and development expense has been excluded from the unaudited pro forma condensed combined consolidated statement of operations.

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The most clinically advanced product in Novuspharma's product development pipeline is Pixantrone, also known as BBR 2778. Pixantrone is in Phase III clinical trials in indolent NHL, in Phase II clinical trials in aggressive NHL, and is expected to enter clinical trials in MS during the second half of 2003. Pixantrone produced positive results in terms of efficacy and safety in preclinical trials and in Phase I and II trials. In preclinical studies, Pixantrone has shown notable activity in animal models of cancer, particularly in models of blood-borne tumors such as lymphoma. For purposes of the valuation, Novuspharma has estimated that its future research and development costs for Pixantrone will be approximately \$18.0 million through the launch year. Novuspharma expects that the new drug application to the FDA for Pixantrone will be filed in 2005 at the earliest. For purposes of the valuation, the estimated launch of Pixantrone for indolent NHL is 2006 with revenues for aggressive NHL and MS being generated through off label usage. However, significant risk remains relative to the uncertainties inherent in clinical trials and in ultimately obtaining regulatory approval.

MT201, a fully human antibody targeting the Ep-CAM molecule, is in Phase I clinical trials, and is being carried out pursuant to a collaboration agreement between Novuspharma and Micromet AG. Under the terms of the agreement with Micromet, Novuspharma will make total milestone payments of up to \$15 million over the next four years if the required milestones are achieved. Development costs of up to \$10 million will be shared equally between the two companies and Novuspharma will pay 40% of development costs in excess of \$10 million. In return, Novuspharma will receive 40% of the anticipated revenues from MT201, if any. Preparations are underway for a program of Phase II trials for MT201 in a number of major solid tumor indications. The first trial is expected to be conducted in patients with early stage prostate cancer and is planned to open for recruitment in the third quarter of 2003. MT201 has recently concluded Phase I clinical studies in HRPC. For purposes of the valuation, Novuspharma has estimated that its future research and development costs for MT201, including related royalties, will be approximately \$21.0 million through the launch year. For purposes of the valuation, the launch time for MT201 is estimated to be 2008. This time estimate is speculative given the early stage of MT201's development.

The values associated with these programs represent values ascribed by CTI's management, based on the discounted cash flows currently expected from the technologies acquired and a pro rata allocation of the purchase price in excess of the estimated fair values of non-monetary assets acquired. The estimated cash flows include the estimated development costs and estimated product launch dates referred to above with estimated lives of these products ranging from 12 to 14 years after approval. If these projects are not successfully developed, the business, results of operations and financial condition of CTI may be adversely affected. As of the date the merger agreement was signed, CTI concluded that once completed, the technologies under development can only be economically used for their specific and intended purposes and that the in-process technology has no alternative future use after taking into consideration the overall objectives of the project, progress toward the objectives, and uniqueness of developments to these objectives.

## **Note 2. Pro Forma Adjustments**

Pro forma adjustments are necessary to reflect the estimated purchase price, to reflect CTI's deferred stock based compensation and transaction costs, to eliminate Novuspharma's goodwill, other intangibles, and equity accounts, and to reflect changes in amortization charges resulting from these pro forma adjustments. The amounts presented to reflect the historical accounts of Novuspharma reflect the historical accounts reported in Euros in accordance with accounting standards generally accepted in the United States which were then translated to U.S. dollars using a spot rate of 1.1503 as

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of June 30, 2003 and average rates of 1.1052 and .94525 for the six months ended June 30, 2003 and the year ended December 31, 2002, respectively.

The unaudited pro forma condensed combined financial statements do not include any adjustments for liabilities relating to Emerging Issues Task Force (EITF) No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. CTI is in the process of making these assessments and estimates of these costs are not currently known. Liabilities will be adjusted to reflect actual severance costs or relocation costs related to Novuspharma employees, or other costs associated with exiting activities of Novuspharma that would affect amounts in the unaudited pro forma condensed combined financial statements. The expected result of recording liabilities relating to EITF No. 95-3 will be primarily related to accrued liabilities (severance and facilities costs) with an offsetting adjustment to in-process research and development and to nonmonetary long-lived assets.

CTI has not identified any pre-acquisition contingencies where the related asset, liability or impairment is probable and the amount of the asset, liability or impairment can be reasonably estimated. Prior to the end of the purchase price allocation period, if information becomes available which would indicate it is probable that such events have occurred and the amounts can be reasonably estimated, such items will be included in the purchase price allocation.

The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

- (A) Adjustment to record the allocated value to property and equipment of \$2,664,000 based on pro rata allocation of excess purchase price.
- (B) Adjustment to eliminate Novuspharma's net goodwill of \$202,000.
- (C) Adjustment to eliminate Novuspharma's net other intangibles of \$12,000.
- (D) Adjustment to record Novuspharma's net other intangibles representing assembled workforce of \$3,317,000 based on estimated fair values and a pro rata allocation of excess purchase price.
- (E) To reflect CTI's transaction costs, consisting primarily of financial advisory, legal and accounting fees totaling \$5,000,000, including \$1,870,000 that has been accrued or paid as of June 30, 2003 and is included in other assets and deferred charges. The estimated transaction costs of Novuspharma of \$4,500,000 are not included in the pro forma adjustments.
- (F) Adjustment to eliminate Novuspharma's historical shareholders' equity accounts.
- (G) To reflect the issuance of approximately 16,027,000 shares of CTI common stock valued at \$12.14 per share, or \$194,587,000.
- (H) Adjustment to record deferred stock-based compensation of \$624,000 related to restricted CTI stock to be issued to certain Novuspharma employees upon consummation of the merger with restrictions that lapse after two years. Deferred stock-based compensation on restricted CTI stock was calculated based on the intrinsic value (fair value less the exercise price) at June 30, 2003. The intrinsic value was determined at June 30, 2003 as an estimate of the intrinsic value that will exist at the date of grant.



- (I) To reflect the write off of in-process research and development acquired by CTI of \$83,084,000.

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- (J) Adjustment to record additional research and development expenses for the amortization expense for deferred compensation of \$107,000 and \$215,000 for the six months ended June 30, 2003 and for the year ended December 31, 2002, respectively, related to restricted CTI stock to be issued to certain Novuspharma employees.
  
- (K) Adjustment to record additional selling, general and administrative expenses for the amortization expense for deferred compensation of \$49,000 and \$97,000 for the six months ended June 30, 2003 and for the year ended December 31, 2002, respectively, related to restricted CTI stock to be issued to certain Novuspharma employees.
  
- (L) Adjustment to record additional selling, general and administrative expenses of \$266,000 and \$533,000 for the six months ended June 30, 2003 and for the year ended December 31, 2002, respectively, related to depreciation expense attributable to additional value allocated to property and equipment using an estimated useful life of five years.
  
- (M) Adjustment to record additional amortization of purchased intangibles of \$332,000 and \$663,000 for the six months ended June 30, 2003 and for the year ended December 31, 2002, respectively, attributable to the value allocated to assembled workforce using an estimated useful life of five years.

**Note 3. Pro Forma Loss Per Share**

The pro forma combined share and net loss per share data was prepared using the fixed exchange ratio of 2.45 shares of CTI common stock for each Novuspharma ordinary share and the assumed issuance of up to approximately 16,027,000 shares of CTI common stock on January 1, 2002 for the year ended December 31, 2002 and January 1, 2003 for the six months ended June 30, 2003. The impact of outstanding stock options and convertible debt has been excluded from the calculation of diluted net loss per share as the effect would be anti-dilutive.

**Table of Contents****MANAGEMENT OF OUR COMBINED COMPANY AFTER THE MERGER****Board of Directors**

Set forth below is the name, age, prior association and position on our board of directors of the persons who will serve as our directors upon completion of the merger:

<b>Name</b>	<b>Age</b>	<b>Prior Association</b>	<b>Class</b>
James A. Bianco, M.D.	46	CTI	II
Jack L. Bowman(2)(3)(4)	70	CTI	I
John M. Fluke, Jr.(2)	60	CTI	I
Vartan Gregorian, Ph.D.	69	CTI	II
Max E. Link, Ph.D.(1)(3)	62	CTI	II
Mary O. Mundinger, DrPH(2)(4)	65	CTI	III
Phillip M. Nudelman, Ph.D.(3)(4)	67	CTI	I
Erich Platzer, M.D.	52	Novuspharma	III
Jack W. Singer, M.D.	60	CTI	III
Silvano Spinelli, Ph.D.	51	Novuspharma	I
Martin P. Sutter	48	CTI	III
To Be Determined(5)		Novuspharma	II

- (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.
- (5) A twelfth director to be selected by Novuspharma and agreed to by CTI will be appointed to Class II of the CTI board of directors upon completion of the merger.

**Executive Officers**

Set forth below is the name, age, prior association and position of the person who will become an executive officer of CTI upon completion of the merger:

<b>Name</b>	<b>Age</b>	<b>Prior Association</b>	<b>Title following the Merger</b>
Silvano Spinelli, Ph.D.	51	Novuspharma	Executive Vice President of Development of CTI and Managing Director of European Operations

Other than the addition of Dr. Spinelli, our current executive officers are not expected to change as a result of the merger.

**Business Experience**

Set forth below is a brief account of the business experience and education of the persons named above who will serve as our directors following the merger, including Mr. Spinelli, who will also serve as an executive officer of CTI following the merger:

*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 joining us, 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, the

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world's largest bone marrow transplant 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 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.

**Mr. Bowman** has been one of our directors since April 1995. From 1987 until January 1994, Mr. Bowman was a company group chairman at Johnson & Johnson, having primary responsibility for a group of companies in the diagnostic, blood glucose monitoring and pharmaceutical businesses. From 1980 to 1987, Mr. Bowman held various positions at American Cyanamid Company, most recently as executive vice president. Mr. Bowman was a member of the board of trustees of The Johns Hopkins University and serves on the board of directors of NeoRx Corporation, Cellegy Pharmaceuticals, Inc., Targeted Genetics Corporation, Celgene Corporation, and Reliant Pharmaceuticals.

**Mr. Fluke** has been one of our directors since November 2002. Since 1990, Mr. Fluke has been the chairman of Fluke Capital Management, L.P., a venture capital company. From 1966 to 1990, he held various positions at Fluke Corporation, most recently as chairman and chief executive. Mr. Fluke currently serves on the board of directors of PACCAR Inc., Fluke Capital Management, L.P., and American Seafoods Group, LLC. Mr. Fluke received his B.S. degree in electrical engineering from the University of Washington and his M.S. degree in electrical engineering from Stanford University. Mr. Fluke is a member of the University of Washington's Business School Advisory Board and also serves as a trustee of the Swedish Hospital Foundation.

**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. He serves on the boards of Mc-Graw Hill and Providence Journal.

**Dr. Link** joined the board of directors in July 1995 as vice chairman and has served as chairman of the board of directors since January 1996. In addition, Dr. Link has held a number of executive positions with pharmaceutical and healthcare companies. Since July 2002, he has been the chief executive officer of Centerpulse Ltd., formerly Sulzer Medica, Ltd., and has served as chairman of the board since March 2001. He has also served as chief executive officer of Corange, Limited from May 1993 until June 1994. Prior to joining Corange, Dr. Link served in a number of positions within Sandoz Pharma Ltd., including chief executive officer from 1987 until April 1992, and chairman from April 1992 until May 1993. Dr. Link currently serves on the board of directors of Alexion Pharmaceuticals, Inc., Access Pharmaceuticals, CytRx Corporation, Discovery Labs, Human Genome Sciences, Inc., Protein Design Labs, Inc., and Celsion Corporation. Dr. Link received his Ph.D. in economics from the University of St. Gallen.

**Dr. Munding** 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. Munding currently serves on the board of directors of United Health Group, Gentiva Health Services and Welch Allyn. Dr. Munding received her doctorate of public health from Columbia's School of Public Health.

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**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 serves on the board of directors of SpaceLabs Medical, Inc., Personal Path Systems, and Cytran Ltd. Dr. Nudelman received his B.S. degree in microbiology, zoology and pharmacy from the University of Washington, and holds an M.B.A. and a Ph.D. in health systems management from Pacific Western University.

**Dr. Platzer** has been president of the Novuspharma board of directors since November 1999. From 1991 to 1999, Dr. Platzer worked for Hoffman-La Roche A.G., where he became the director of global strategic oncology marketing in 1997, chairing the interdisciplinary team that determined the strategic direction of Roche oncology and guiding the licensing strategy. From 1998 to 1991, Dr. Platzer was an attending physician and associate professor of medicine at the University of Erlangen, Germany. In the 1980 s, Dr. Platzer worked as an experimental scientist in academia, including at Memorial Sloan-Kettering Cancer Center in New York. Dr. Platzer received his degree in medicine in 1979 from the University of Erlangen.

**Dr. Singer** is one of our founders and directors and currently serves as our executive vice president, research program chairman. Dr. Singer has been one of our directors since our inception in September 1991. From April 1992 to July 1995, Dr. Singer was 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.

**Dr. Spinelli** is a founder of Novuspharma and has been Novuspharma s chief executive officer and managing director since January 1, 1999. He joined Novuspharma in 1999 after having worked for Boehringer Mannheim Italia S.p.A. since 1980, holding a number of positions, which culminated in his appointment as R&D director in 1995. Prior to joining Boehringer Mannheim, Mr. Spinelli was assistant to the professor of quantitative analysis at the University of Pisa and responsible for the Chemical Synthesis Laboratory at Unibos Company. Dr. Spinelli received his degree in chemistry in 1976 from the University of Pisa.

**Mr. Sutter** has been one of our directors since November 2002. Since 1994, he has been the general partner and managing director of Essex Woodlands Health Ventures, LLC, and since 1988, he has been the founder and managing director of The Woodlands Venture Partners, LP. Mr. Sutter serves on the board of directors of Confluent Surgical, Elusys Therapeutics, MicroMed Technology, Rinat Neuroscience, Sontra Medical, and Zonagen, Inc. Mr. Sutter received his B.S. degree in engineering and business administration from Louisiana State University, and holds an M.B.A. in Finance from the University of Houston. He is also on the board of the Texas Business Hall of Fame and a member of the Biomedical Advisory Board of the Houston Advanced Research Center. Mr. Sutter was appointed to the board of directors pursuant to a contractual arrangement with Essex Woodlands Health Ventures Fund IV, L.P. which entitles Essex Woodlands to designate a member of the board of directors until such time as it holds less than 5% of our outstanding voting securities.

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### **Bylaw Amendment and Merger Agreement Provisions Affecting Board Composition**

Upon completion of the merger, our bylaws will be amended to provide that we will have a twelve member board of directors. As of the effective time of the merger, the CTI board of directors will be composed of the nine persons currently on the CTI board of directors and three persons previously associated with Novuspharma Dr. Spinelli, Dr. Platzer and a third director to be identified by Novuspharma and agreed to by CTI whom we refer to as the Novuspharma directors. The board will remain classified in three classes with staggered terms. Under the terms of the merger agreement, we have committed, subject to applicable law and the charter of the nominating committee of the CTI board of directors, to nominate Dr. Spinelli to Class I, Dr. Platzer to Class III and the third Novuspharma director to Class II, in each case for the remainder of the term of their respective classes at our 2004 annual meeting of shareholders. If, for any reason other than removal for cause by the CTI shareholders, any of the Novuspharma directors is unable or unwilling to serve as a CTI director, the remaining Novuspharma directors will select a replacement candidate mutually agreeable to the CTI board of directors who will be nominated to fill the remaining term of the replaced Novuspharma director. As a result of these commitments, we expect that for at least three years following the merger, our board of directors will continue to have members previously associated with Novuspharma.

The form of our amended and restated bylaws appears as an exhibit to the merger agreement, and is attached to this proxy statement/prospectus as *Appendix H*.

### **Compensation of Directors**

We plan to continue our current director compensation practices following the merger, except that option grants to directors will now be governed by the terms of our 2003 Equity Incentive Plan approved by our shareholders at our 2003 annual meeting.

Currently, directors who are also our employees are not paid an annual retainer, nor are they compensated for serving on the board. Non-employee directors are paid \$2,000 per meeting of the board, up to a maximum of \$10,000 per director each calendar year, and \$1,000 per meeting of a board committee, up to a maximum of \$5,000 per committee per director each calendar year. The chairman of the board of directors is paid \$40,000 annually for service to the board of directors. All directors are reimbursed for their expenses incurred in attending board meetings. Pursuant to our 2003 Equity Incentive Plan, each non-employee director will receive a fully-vested option grant for 15,000 shares upon appointment to the board for directors and 20,000 shares upon appointment of the chairman of the board of directors, a fully-vested option grant for 10,000 shares annually after the commencement of his or her service as a director, and a fully-vested option grant for 15,000 shares annually after the commencement of his or her service as chairman of the board of directors. Each of these options has an exercise price equal to 100% of the fair market value on the grant date and a term of ten years measured from the grant date, subject to early termination if the optionee ceases serving as a director.

### **Employment Arrangements**

Under Italian law, all employees of Novuspharma immediately before the merger will continue as employees of the combined company immediately after the merger, entitled to essentially unchanged employment terms and conditions. In Italy, employment terms and conditions are governed:

by individual employment agreements;

by law; and

by collective bargaining agreements.



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The general manner in which each of these three authorities will affect our employment relationship with our Italian executives following the merger is described below.

### *Employment Agreements*

Novuspharma has entered into employment agreements with the following executive officers of Novuspharma: Alberto Bernareggi, Maria Gabriella Camboni, Ennio Cavalletti, Cesare Parachini, Gabriella Pezzoni and Silvano Spinelli. These agreements will remain in effect following the merger.

On June 16, 2003, concurrently with our entry into the merger agreement, we entered into an employment agreement with Dr. Spinelli, currently Novuspharma's chief executive officer and managing director. Dr. Spinelli will become executive vice president of development and managing director of European operations, and thus an executive officer, of our combined company after the merger.

On June 16, 2003, concurrently with our entry into the merger agreement, we entered into employment agreements with Dr. Camboni, Novuspharma's director of development, who will become vice president clinical development Europe after the merger, and Mr. Parachini, Novuspharma's chief financial officer, who will become director of finance/accounting and controller European operations after the merger. Both of Dr. Camboni and Mr. Parachini will be employees of our Italian subsidiary after the merger, and neither of them will be executive officers of our combined company after the merger.

*Compensation.* Our agreements with Drs. Spinelli and Camboni and Mr. Parachini will become effective at the effective time of the merger. These agreements are filed as exhibits to the registration statement of which this proxy statement/prospectus forms a part. Under the agreements, we will pay a base salary to Dr. Spinelli of 200,000 per year, to Dr. Camboni of 162,000 per year, and to Mr. Parachini of 115,000 per year. In addition, each of these officers will be eligible to receive an annual bonus, with Dr. Spinelli eligible to receive a bonus comparable to the bonus eligibility for other similarly-situated employees of CTI and Mr. Parachini and Dr. Camboni eligible to receive bonuses up to 30% of his or her salary, contingent upon completion of performance objectives established by CTI. Each of these officers will also be eligible to receive vacation pay in accordance with Italian law and CTI's vacation policy and the use of a company car.

Each of Drs. Spinelli and Camboni and Mr. Parachini will also be eligible for any stock option awards in accordance with CTI's general compensation policies and, following the effective time of the merger, will have the right to purchase a number of shares of CTI's common stock (25,000 shares in the case of Dr. Spinelli, 19,000 shares in the case of Dr. Camboni and 20,000 shares in the case of Mr. Parachini), at a per share purchase price of \$0.01, on the second anniversary of the effective time of the merger. If, during the term of employment and prior to the second anniversary of the effective time of the merger, the employment of any of these employees is terminated by CTI without cause (as defined in the employment agreements) or by any of these employees due to a change in his or her duties involving a reduction of responsibilities, he or she will be entitled to purchase the shares of common stock of CTI immediately on the date of the termination of employment, provided that the employee complies with the provisions of the inventions and proprietary information agreement signed by such employee and the employee executes and does not revoke a full release of CTI.

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*Severance.* In their employment agreements, each of Drs. Spinelli and Camboni and Mr. Parachini is entitled to receive, upon a termination for any reason, except for voluntary termination of employment or in case of dismissal for just cause, on or before December 31, 2005, in addition to statutory severance indemnity and any other statutory amounts accrued under Italian law, the greater of (1) the severance payment provided by Italian law and the collective bargaining agreements governing such employee or (2) an amount equal to, in the case of Dr. Camboni and Mr. Parachini, 18 months of his or her salary, and in the case of Dr. Spinelli, 24 months of his salary.

### *Italian Law and National Collective Bargaining Agreements*

A number of the material terms of our Italian executives' employment are provided by Italian statutory law and national collective bargaining agreements. These agreements are much more prevalent than in the United States and are negotiated at a national level from time to time between the unions of a particular business sector (mechanical, commerce, banks, chemical, etc.) on one side and the employers' association of the same sector on the other side.

These agreements often provide for better conditions than statutory rules or, in other cases, they specify general rules provided by statutes (as in the case of disciplinary sanctions and grievance procedures). With respect to the dismissal of executive employees, while statutory law does not provide that there must be just cause for dismissal, the relevant collective agreements grant executives additional protection, including requirements as to reasonable grounds for dismissal.

In principle, Italian national collective agreements will be legally binding on our employment relationships after the merger only if the employer and the employees in question, have actually joined the national associations or if our individual employment agreements expressly or implicitly accept that the employment relationship is to be regulated by a specified national collective agreement. However, in practice, despite the fact that they do not formally have the force of law, national collective agreements are generally applied, and deemed binding upon all employers.

The employer may freely choose which collective agreement should be applied, but generally, the agreement relating to the sector of industry or trade to which the company belongs is applied. Executive-level employees (known as *Dirigenti* in Italy) have a different agreement from non-executive level employees. In particular, our employment relationships with our Italian executives (a group comprised of all current Novuspharma executives) will be regulated by Italy's National Collective Agreement for Executives of the Industrial Sector of April 27, 1995, as amended, which provides, among other things:

executives are entitled to minimum gross monthly salary and salary increases connected to length of service;

executives' yearly salaries are paid in 13 installments, two of which are paid in December;

executives are not subject to working time schedules or overtime rules;

executives are entitled to 35 days of holiday per year;

for justified reasons, executives are entitled to an unpaid leave period;

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in case of illness the executives are entitled to maintain their job position for a period up to 12 months during which they will receive their full salary (with the cost of this illness indemnity being fully borne by the employer);

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executives are entitled to mandatory paid maternity leave;

executives are entitled to be enrolled in supplementary pension and health insurance plans;

executives are entitled to insurance coverage for on- and off-duty accidents; and

executives are entitled to indemnification for any civil and criminal liabilities incurred by the executives in the performance of their employment activities.

In addition, the National Collective Agreement provides that in case of sale of a business (including the proposed merger between CTI and Novuspharma), executives are entitled to resign without notice within six months from the date of the merger, whether or not any detrimental change in their working position occurs. If one of our executives asserts this right, which cannot be waived by the executive before the merger, we will be required to pay the executive an indemnity equal to one-third of the indemnity in lieu of the notice period to which the executive would have been entitled in case of dismissal. Accordingly, even though we have entered into signed employment agreements with Dr. Spinelli, Dr. Camboni and Mr. Parachini, as described above, we face the risk that they might resign following the merger.

Finally, the National Collective Agreement regulates the termination payments to which an executive is entitled upon termination of employment except, in the case of dismissal for just cause, which is governed by the Italian Civil Code and applies to all employees. According to law No. 604 of 1966, termination of the employment relationship of non-executive employees can take place exclusively for a justified reason. Despite the fact that executive-level employees are not covered by this law, additional protections provided by the collective agreements require dismissal of executives for reasonable justifications, such as poor performance, financial crisis, negative profits, bankruptcy of the employer, reorganization or shutdown of the department where the employee works or the termination of a business activity of the employer.

Just cause and justified reason are characterized as:

*Terminations for Just Cause.* Just cause for dismissal is grounded on such a grave and irreparable breach of the employee's duties that (1) any other sanction may not be sufficient to protect the interests of the employer and (2) the continuation of the employment relationship is no longer possible even on a temporary basis. Italian courts have also considered just cause as the grave misconduct of the executive employee outside the employment relationship, to the extent that such misconduct has caused the breach of the trust-relationship between the parties and/or a prejudice to the employee's capability and qualification as to the performance of his or her professional duties. Events such as theft, riots and serious insubordination are generally considered to be cause for termination in Italy. In case of dismissal for just cause, an employee is not entitled to any notice period or indemnity in lieu of notice period, but he or she is entitled to receive the T.F.R. and the other termination payments mentioned below.

*Terminations for Justified Reasons.* Objective justified reason for dismissal is determined by facts and events which are independent from the employee's conduct and which affect the employer's business, such as bankruptcy of the employer, shutting down of the department where the employee works, the termination of the employer's business activities or a grave crisis of the employer. Subjective justified reason for dismissal is grounded on a breach of the contractual employment obligations that is not as grave as just cause (for instance, continuous delays in starting work). In case of termination for justified reason, the employee would be entitled to a notice period (and to the other termination payments described below). According

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to the National Collective Agreement for Executives of the Industrial Sector, the notice period is equal to eight months for executives having a seniority of up to two years, and it is increased in proportion to seniority up to a maximum of 12 months for executives having more than 10 years of seniority. If the employer elects not to have the employee working during the notice period but, instead, to terminate the employment relationship immediately, an indemnity in lieu of notice must be paid to the employee. The amount of the indemnity is equal to the monthly salary multiplied for the number of months of the notice period set forth in the collective agreements. In order to calculate the indemnity in lieu of notice, the employer must consider the average monthly salary received by the employee in the last three years (or in the shorter period of service supplied by the employee), including all benefits comprised in the employment package. Furthermore, since such indemnity is considered as salary, the amount must be taken into account for the purpose of the calculation of the T.F.R.

*Unlawful Terminations.* If we were to terminate an executive's employment without just cause or justified reasons or in case the dismissed executive-level employee considers the dismissal not justified, the executive might challenge the dismissal in court or arbitration.

If the termination of the employment relationship is deemed unlawful by the court or the arbitration panel, the executive may be awarded damages in the form of a supplementary indemnity, to be paid in addition to the indemnity in lieu of the notice period, the T.F.R. and the other termination payments. The amount of the indemnity established by the Collective Agreements can vary, at discretion of the arbitration panel or the court, taking also into consideration the justification of the dismissal and the conduct of the parties, ranging from a minimum amount equal to the indemnity in lieu of notice due to the executive plus two months' salary up to a maximum equal to 22 months' salary.

Executives are not entitled to reinstatement of employment, except for dismissal for discriminatory reasons.

The indemnities due to the executive upon termination of employment are the following:

T.F.R., in an amount which is proportional to seniority and to the aggregate payments made throughout the executive's tenure at the company;

indemnity in lieu of notice, but only in case the company prefers to terminate employment immediately, excluded in cases of dismissals for just cause; and

accrued wages, such as untaken vacation and installments of 13<sup>th</sup> month salary.

Under the terms of the employment agreements we entered into with Drs. Spinelli and Camboni and Mr. Parachini, to the extent those employees are entitled to severance pursuant to their employment agreements, they will be entitled to receive the severance provided by the National Collective Agreement only if it exceeds the amount of severance otherwise provided in those agreements (see "Management of our Combined Company After the Merger - Employment Arrangements" above). However, they will be entitled in any case to receive T.F.R. severance payments provided by Italian law.

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**Certain Relationships and Related Party Transactions**

*Novuspharma Relationships*

Novuspharma has entered into a collaboration agreement with Micromet AG, dated August 29, 2002, to co-develop MT201, a fully human antibody targeting the Ep-CAM molecule which is present on the surface of carcinoma cells. Under the terms of the agreement, upon the achievement of certain milestones by Micromet, Novuspharma will make total milestone payments of up to \$15 million over the next four years. Development costs relating to the development of MT201 of up to \$10 million will be shared equally by Novuspharma and Micromet, and Novuspharma will pay 40% of development costs in excess of \$10 million. In exchange, Novuspharma is granted certain rights to a percentage of the profits and certain marketing and co-promotion rights if the drug candidate is approved and commercialized. As of June 30, 2003, Novuspharma made payments totaling \$7.8 million to Micromet under this agreement. Atlas Venture, which holds Novuspharma ordinary shares through Novuspharma Invest NV (Novuspharma's largest shareholder that holds 1,880,333 Novuspharma ordinary shares as of June 16, 2003), is also a shareholder of Micromet. In addition, Dr. Platzer, who is the chairman of the Novuspharma board of directors, is also the chairman of Micromet's board and will become a director of CTI at the effective time of the merger.

In April 2002, Novuspharma acquired the full rights to a research program focused around the discovery of inhibitors of Hypoxia Inducible Factor, or HIF1 $\alpha$ , from Prolifix Ltd. pursuant to a sale and purchase agreement between Novuspharma and Prolifix dated April 29, 2002. The total purchase price paid by Novuspharma for these rights was \$1,400,000. Pursuant to the agreement, Prolifix granted Novuspharma an irrevocable, royalty free, non-exclusive, non-transferable license to use certain intellectual property and know-how related to the HIF1 $\alpha$  project. Two of the principal shareholders of Novuspharma, 3i Group and Atlas Venture (through Novuspharma Invest) at the time of the acquisition were also shareholders of Prolifix.

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**COMPARISON OF RIGHTS  
OF CTI SHAREHOLDERS AND NOVUSPHARMA SHAREHOLDERS**

CTI is a Washington corporation subject to the provisions of the Washington Business Corporation Act, which we refer to as Washington law. Novuspharma is an Italian joint stock company subject to the provisions of Italian law, including the Italian civil code and legislative decree number 58, dated February 24, 1998, and, as a listed company, to the relevant authorities' regulation, all of which we refer to as Italian law. Novuspharma's shareholders, whose rights are currently governed by the Novuspharma bylaws and Italian law, will, upon completion of the merger, become shareholders of CTI and their rights will be governed by the CTI articles of incorporation, the CTI bylaws and Washington law.

The following description summarizes the material differences that may affect the rights of CTI shareholders and Novuspharma shareholders but does not purport to be a complete statement of all those differences or a complete description of the specific provisions referred to in this summary. The identification of specific differences is not intended to indicate that other equally or more significant differences do not exist. Shareholders should read carefully the relevant provisions of Italian law, Washington law, the CTI articles of incorporation, the CTI bylaws and the Novuspharma bylaws. Additionally, shareholders should read carefully the sections in this proxy statement/prospectus entitled "Management of Our Combined Company After the Merger - Bylaw Amendment and Merger Agreement Provisions Affecting Board Composition," and "The Merger - Summary of Material Provisions of Shareholders Agreements," together with the form of amended bylaws that appears as an exhibit to the merger agreement and is attached to this proxy statement/prospectus as *Appendix H*, for a more complete understanding of the bylaw provisions that will govern CTI upon completion of the merger.

**Capitalization**

**CTI**

The total authorized shares of capital stock of CTI consist of 100,000,000 shares of common stock, no par value, and 10,000,000 shares of preferred stock, no par value. On the close of business on September 12, 2003, there were 33,928,085 shares of CTI common stock issued and outstanding, and there were no shares of CTI preferred stock issued and outstanding.

The CTI articles of incorporation authorize the CTI board of directors to designate and issue shares of preferred stock in one or more series, and to fix for each series the powers, preferences and rights, if any, and qualifications, limitations or other restrictions thereof, including, without limitation, the dividend rate (and whether dividends are cumulative), conversion rights, if any, voting rights, rights and terms of redemption (including sinking fund provisions, if any), redemption price and liquidation preferences as provided in a resolution or resolutions adopted by the board. The CTI board of directors may by resolution or resolutions increase or decrease the number of shares of any series subsequent to the issuance of shares of that series, provided that the number of shares may not be decreased below the number of shares then outstanding.

**Novuspharma**

The total authorized shares of capital stock of Novuspharma consist of 6,566,200 ordinary shares, par value 1.00 per share. On the close of business on September 12, 2003, 6,566,200 Novuspharma ordinary shares were issued and outstanding.





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The Novuspharma bylaws authorize the Novuspharma board of directors to issue 517,770 ordinary shares in one or more series, par value 1.00 per share, to be reserved to the employees, directors and consultants of Novuspharma and its subsidiaries.

### **Number, Election, Vacancy and Removal of Directors**

#### **CTI**

Under Washington law, a corporation must have a board of directors consisting of at least one person, with the number of directors specified or fixed in accordance with the articles of incorporation or bylaws. A corporation may have a classified board of directors where one or more directors is elected by the holders of one or more specified classes or series of shares. Washington law also permits staggered terms for directors, up to a maximum of three separate groups. Under Washington law, a vacancy on a corporation's board of directors, including a vacancy resulting from an increase in the number of directors, may be filled by a majority of the remaining directors, even if less than a quorum, or by the affirmative vote of a majority of the outstanding voting shares, unless otherwise provided in the articles of incorporation. Under Washington law, the affirmative vote of a majority of the shareholders, at a special meeting called expressly for the purpose, may remove one or more directors with or without cause, unless the corporation's articles of incorporation provide that directors may be removed only for cause.

The current CTI bylaws provide that the total number of directors shall be nine and that the directors shall be divided into three approximately equal classes with staggered terms of one, two and three years, respectively, for each class. Upon completion of the merger, CTI's bylaws will be amended and restated to increase the size of the board to twelve. The nine persons currently on the CTI board of directors will remain on the board and three persons previously associated with Novuspharma will be appointed to the CTI board of directors and will be nominated at the 2004 annual shareholders meeting to serve out the remainder of their respective terms (see Management of Our Combined Company After the Merger Bylaw Amendment and Merger Agreement Provisions Affecting Board Composition). The board will remain classified in three classes with staggered terms. The number of directors may at any time be increased or decreased by resolution of either the shareholders or directors at any annual, special or regular meeting. Vacancies on the board of directors shall be filled by a majority vote of the remaining directors in office though less than a quorum of the board of directors. A director elected to fill a vacancy or increase in the number of directors shall hold office until the next shareholders meeting at which directors are elected and until his successor is elected and qualified. The CTI articles of incorporation provide that directors may be removed only for cause by the affirmative vote of a majority of the votes cast for such election.

#### **Novuspharma**

Under Italian law, a joint stock company must have at least one director. The Novuspharma bylaws provide that the total number of directors shall be between 5 and 9 as determined by a resolution adopted by the shareholders at a shareholders meeting. Novuspharma currently has 7 directors. Vacancies on the board of directors shall be filled by a majority vote of the remaining directors and confirmed by a resolution adopted by the shareholders at a shareholders meeting. In the event that a majority or more of the directors leave office for whatever reason, the then current board of directors will be dissolved and an entire new board of directors must be nominated at the next shareholders meeting. The Novuspharma bylaws also provide that directors are elected by the shareholders at a shareholders meeting based on nominees proposed by the then current board of

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directors or the shareholders. Italian law and the Novuspharma bylaws also provide that directors may be removed at any time by the affirmative vote of a majority of the votes entitled to be cast at a duly held shareholders meeting provided that the required quorum is satisfied.

## **Amendments to Charter Documents**

### **CTI**

Under Washington law, a corporation's board of directors may make various changes of an administrative nature to the corporation's articles of incorporation without shareholder action including a change to the corporate name, changes to the number of authorized shares solely to effectuate a stock split or stock dividend in the corporation's own shares and changes to the par value of its shares. Other amendments to a corporation's articles of incorporation must be recommended to the shareholders by the board of directors, unless the board determines that because of a conflict of interest or other special circumstances it should make no recommendation and communicates the basis for its determination to the shareholders with the amendment. For the amendment to be adopted in the case of a public company, it must be approved by a majority of all votes entitled to be cast by each voting group that has a right to vote on the amendment.

The CTI articles of incorporation provide that the articles of incorporation may be amended, altered or changed by the shareholders and directors in a manner prescribed by law.

### **Novuspharma**

Under Italian law, the articles of association of a joint stock company, such as Novuspharma, may be amended at any time by the shareholders at a special shareholders meeting at which the required quorum has been achieved. The quorum required decreases with each successive attempt to call the meeting. At the first call, the attendance of at least a majority of the shares then outstanding is required; at the second call, the attendance of at least one-third of the shares then outstanding is required; and at the third call, the attendance of at least one-fifth of the shares then outstanding is required. According to Italian law and the Novuspharma bylaws, approval of a resolution to amend the articles of incorporation requires the vote of at least two-thirds of the shares represented at the special shareholders meeting.

## **Amendments to Bylaws**

### **CTI**

As permitted under Washington law, the CTI bylaws provide that either the shareholders or the board of directors may amend the bylaws. The shareholders may amend or repeal the bylaws at any regular or special meeting. The directors also may amend or repeal the bylaws, or adopt new bylaws, provided that such alteration may be subsequently changed or repealed by the majority vote of the shareholders entitled to vote at any shareholders meeting.

**Novuspharma**

Under Italian law, an amendment to Novuspharma's bylaws requires shareholder approval at a special shareholders meeting at which the required quorum has been achieved (as described above). Approval of any amendment to the bylaws requires the vote of at least two-thirds of the shares represented at the special shareholders meeting.

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### **Action by Written Consent**

#### **CTI**

Under Washington law and CTI's bylaws, CTI shareholders may take action by the unanimous written consent of all the shareholders entitled to vote with respect to such action.

#### **Novuspharma**

Under Italian law, the shareholders of a joint stock company, such as Novuspharma, do not have the ability to take action by written consent; any action by Novuspharma shareholders must be taken at a shareholders meeting.

### **Notice of Shareholder Actions**

#### **CTI**

The CTI bylaws provide that, for every annual or special meeting of CTI shareholders, a written notice of the time, place and business to be acted upon must be mailed to each shareholder entitled to vote at the meeting not less than 10 days and not more than 60 days before the meeting. For any meeting at which the shareholders are called to act on an amendment to the articles of incorporation or consider a merger or sale of assets, written notice shall be provided to each shareholder not less than 20 days before and not more than 60 days before such meeting.

The CTI bylaws provide that a shareholder may make any proposal at an annual meeting of shareholders only if written notice of such shareholder's intent is delivered to the principal executive offices of CTI not less than 90 days prior to the anniversary date of the immediately preceding annual meeting of shareholders. A shareholder's notice must set forth as to each matter the shareholder proposes to bring before the meeting:

the name and record address of the shareholder who intends to make each proposal;

a representation that the shareholder is a holder of record of stock of CTI entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to vote for each proposal; and

such other information regarding each proposal as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC.

#### **Novuspharma**

Under Italian law, for each meeting of Novuspharma shareholders, a written notice of the time, place and business to be acted upon must be published in the Official Gazette of the Italian Republic and in at least one national Italian newspaper not less than thirty days before the first date scheduled for the meeting. The notice may indicate different dates on which the meeting may be validly held (i.e., the first and second calls; and for a special shareholders meeting, a third call may also be provided). In the event that the meeting cannot be validly held at the first call (because, for example, an insufficient number of shares are represented at the meeting), the meeting may be held at the second call, at the relevant date and time indicated in the notice. In the event that the meeting cannot be validly held at the second call, the meeting may be held at the third call at the relevant date and time indicated in the notice.

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### **Special Shareholder Meetings**

#### **CTI**

As permitted under Washington law, the CTI bylaws provide that special meetings of shareholders for any purpose may be called by CTI's president, board of directors or the holders of at least ten percent of all the votes entitled to be cast on any issue proposed to be considered at such special meeting.

#### **Novuspharma**

As permitted under Italian law, the Novuspharma bylaws provide that special shareholders meetings may be held upon the provision of notice by or at the direction of the Novuspharma board of directors and the timely publication of the notice in the Official Gazette of the Italian Republic and in at least one national Italian newspaper.

### **Shareholder Inspection Rights; Shareholder Lists**

#### **CTI**

Under Washington law, any shareholder has an absolute right, upon written demand, to inspect and copy, in person or by a legal representative, at any reasonable time, the corporation's share register. Pursuant to the CTI bylaws, the shareholder list shall be arranged by voting group in alphabetical order and show the address and the number of shares held by each shareholder and kept on file at CTI's registered office for inspection by any shareholder or any shareholder's agent or attorney.

#### **Novuspharma**

Under Italian law, any shareholder, in person or by attorney or other agent, may inspect at any time Novuspharma's stock ledger and the shareholder meetings book and may request a copy of the same to be provided at the shareholder's expense.

### **Limitation of Personal Liability and Indemnification of Directors and Officers**

#### **CTI**

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Under Washington law, a corporation may indemnify directors against reasonable expenses for liability incurred in the defense of any proceeding to which such individuals were a party because of their position with the corporation. The director must have acted in good faith and reasonably believed that the conduct in the individual's official capacity was in the best interests of the corporation and in all other cases that the conduct at least was not opposed to the corporation's best interests. Indemnity is available for criminal proceedings if the individual had no reasonable cause to believe the conduct was unlawful. Washington law prohibits indemnification, however, in connection with any proceeding by or in the right of the corporation in which the individual is adjudged liable to the corporation or in connection with any other proceeding in which the individual was charged with and found liable for receiving an improper personal benefit. Unless otherwise provided in its articles of incorporation, a corporation may indemnify an officer, employee or agent of the corporation who is not a director to the same extent as a director. As permitted under Washington law, CTI's articles of incorporation provide that no director of the corporation shall be personally liable to the corporation or its shareholders for monetary damages for his conduct as a director, except that under no circumstances may any director or officer be indemnified for (1) acts or omissions involving intentional misconduct or a knowing

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violation of law, (2) approval of certain distributions contrary to law or (3) any transaction from which the director personally receives a benefit in money, property or services to which the director is not legally entitled.

The CTI bylaws provide that any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal by reason of the fact that he is or was a director, officer, employee or agent of CTI will be indemnified by CTI against all expenses actually and reasonably incurred by the person in connection with such proceeding and any appeal therefrom, if the person acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of CTI, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful. If the action, suit or proceeding, however, was made by or in the right of the corporation in which the person was adjudged liable to the corporation, then no indemnification will be made in respect of any claim, issue or matter unless and only to the extent that the court in which such action or suit was brought shall determine that the person is fairly and reasonably entitled to indemnification.

The CTI bylaws also provide that these indemnification provisions will not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any statute, provision of the articles of incorporation, bylaws, other agreement, vote of shareholders or disinterested directors, insurance policy, principles of common law or equity or otherwise.

## **Novuspharma**

Under Italian law, Novuspharma is liable for damages to third parties caused by an employee of Novuspharma during the performance of his duties in the course of such employment. Italian law and national collective bargaining agreements further provide that Novuspharma will reimburse its executives for legal expenses incurred in the defense of such executive in any criminal legal proceeding, provided that such proceeding is related to actions taken by such executive in the performance of his duties to Novuspharma, excluding cases of intentional misconduct or gross negligence.

## **Dividends**

## **CTI**

As permitted under Washington law, CTI's bylaws provide that the corporation may make a distribution in cash or in property to its shareholders upon the authorization of its board of directors and subject to its articles of incorporation unless, after giving effect to that distribution, (1) the corporation would be unable to pay its debts as they become due in the usual course of business or (2) the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights of shareholders whose preferential rights are superior to those receiving the distribution.

## **Novuspharma**



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Italian law provides that Novuspharma may pay dividends out of its net profits or, if there are no net profits, out of its net profits accrued in preceding fiscal years, if any. The Novuspharma bylaws

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provide that dividends may be paid on Novuspharma's ordinary shares, out of funds legally available, as and when the distribution is approved in accordance with the applicable Italian law by the Novuspharma shareholders at a shareholders meeting duly held and properly convened. Furthermore, Italian law requires five percent of the net profits of each fiscal year be allocated as legal reserve until such reserve is equal to one-fifth the value of Novuspharma's corporate capital.

### **Conversion**

#### **CTI**

Holders of CTI common stock have no rights to convert their shares into any other securities.

#### **Novuspharma**

Holders of Novuspharma ordinary shares have no right to convert their shares into any other securities.

### **Rights Plan**

#### **CTI**

On November 11, 1996, the CTI board of directors adopted a shareholder rights agreement and declared a distribution of one preferred stock purchase right for each outstanding share of CTI common stock. One CTI purchase right has also been issued with respect to each share of CTI common stock issued since the date of that distribution pursuant to the rights agreement.

Each CTI purchase right entitles the holder to purchase from CTI one one-thousandth of a share of CTI's Series C Preferred Stock, no par value, at a price of \$50.00, subject to adjustment, or, under the circumstances described below, shares of CTI common stock or common stock of a third party. The CTI purchase rights will be exercisable after the earlier of:

ten business days following public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of CTI common stock, other than as a result of repurchases by CTI or certain inadvertent actions; or

ten business days following the commencement of a tender offer or exchange offer that would result in a person or group of affiliated or associated persons beneficially owning 15% or more of the outstanding shares of CTI common stock.

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If a person or group beneficially owns 15% or more of the outstanding shares of CTI common stock (unless such group has been approved by our board of directors) and any transaction increases the holding of that person or group of more than 1% of the outstanding shares of CTI common stock, each holder of a CTI purchase right may receive, in lieu of each share of Series C Preferred Stock, upon exercise of each purchase right then held, value equal to approximately two times the current market price per share of CTI common stock as defined by the rights agreement, except that purchase rights owned by such acquiring person or group will be null and void.

At any time prior to the tenth business day following any person or group becoming a beneficial owner of 15% or more of the outstanding shares of CTI common stock, CTI may redeem all but not less than all of the then outstanding purchase rights at a price of \$0.001 per right. Unless earlier redeemed or exchanged by CTI, the purchase rights will expire on November 11, 2006.

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### **Novuspharma**

Novuspharma does not have a shareholders rights plan.

### **Voting Rights; Required Vote for Authorization of Certain Actions**

#### **CTI**

Each holder of CTI common stock is entitled to one vote for each share held on all matters to be voted upon by the shareholders and there are no cumulative voting rights.

*Merger or Consolidation.* Washington law generally provides that a merger or share exchange, or sale of substantially all of a corporation's assets, other than in the regular course of business, must be approved by the board of directors and by two-thirds of all votes entitled to be cast by each voting group entitled to vote as a separate group, unless another percentage is specified in the articles of incorporation (a majority of the outstanding shares in the case of CTI's articles of incorporation), but not less than a majority of all votes entitled to be cast. Washington law also specifies some exceptions in which shareholder approval of a merger is not required, including the merger with Novuspharma. For example, approval of the merger is not required when each shareholder of the surviving corporation of the merger whose shares were outstanding immediately before the merger will hold the same number of shares, with identical rights and preferences, immediately after the merger.

*Business Combinations.* Chapter 23B.19 of the Washington Business Corporation Act, which applies to Washington corporations that have a class of voting stock registered with the SEC under the Exchange Act, prohibits a target corporation, with certain exceptions, from engaging in certain significant business transactions with an acquirer that beneficially owns 10% or more of the voting securities of the target corporation for a period of five years after the acquisition, unless the transaction or acquisition of shares is approved by a majority of the members of the target corporation's board of directors prior to the time of acquisition. These prohibited transactions include, among other things, a merger, share exchange or consolidation with, disposition of assets to, or issuance or redemption of stock to or from the acquirer, termination of 5% or more of the employees of the target corporation employed in Washington as a result of the acquirer's acquisition of 10% or more of the shares or allowing the acquirer to receive any disproportionate benefit as a shareholder. After the five-year period, a significant business transaction may take place if it complies with certain provisions of the statute.

### **Novuspharma**

Each holder of Novuspharma ordinary shares is entitled to one vote for each share held of record.

*Merger or Consolidation.* Under Italian law, mergers require the prior affirmative vote of the board of directors. In addition, an affirmative resolution adopted by shareholders at a special shareholders meeting is also required, as well as other procedures required under Italian law.



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**OTHER PROPOSALS**

Our board of directors does not know of any matters to be presented at the special meeting other than those described in this proxy statement. If any other matters are properly brought before the special meeting, the proxies will be voted in accordance with the best judgment of the person or persons voting such proxies. These matters may include an adjournment or postponement of the special meeting from time to time if the chair of the meeting so determines.

A shareholder of CTI who intends to nominate a candidate for election to the board of directors or to present a proposal of business at our 2004 annual meeting of shareholders and desires that information regarding the proposal be included in the 2004 proxy statement and proxy materials must ensure that such information is received in writing by our secretary at our principal executive offices not later than January 14, 2004. In addition, our bylaws provide that a proposal for action to be presented by any shareholder at an annual meeting, including the nomination of a candidate for election to the board of directors, will be considered out of order and will not be acted upon unless the proposal is received in writing by our secretary at our principal executive offices by May 22, 2004 (which is at least 90 days before the first anniversary of the previous year's annual meeting). The notice must also provide certain other information as described in the bylaws. Copies of the bylaws are available to shareholders free of charge upon request to our secretary.

**LEGAL MATTERS**

The validity of the shares of common stock offered hereby will be passed upon for CTI by Wilson Sonsini Goodrich & Rosati, Professional Corporation, San Francisco, California. Certain Italian tax matters will be passed upon for CTI by Gianni, Origoni, Grippo & Partners, Studio Legale, Milan and Rome, Italy; and for Novuspharma by Chiomenti Studio Legale, Milan, Italy.

**EXPERTS**

The consolidated financial statements and schedule of Cell Therapeutics, Inc. as of December 31, 2001 and 2002, and for each of the three years in the period ended December 31, 2002 appearing in the Cell Therapeutics, Inc. Annual Report (Form 10-K/A) for the year ended December 31, 2002 and incorporated by reference in this proxy statement which is referred to and made a part of this prospectus and Registration Statement have been audited by Ernst & Young LLP independent auditors, as set forth in their report thereon, included therein and incorporated herein by reference. Such consolidated financial statements and schedule are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in auditing and accounting.

The financial statements of Novuspharma S.p.A. as of December 31, 2001 and 2002 and for each of the years in the three-year period ended December 31, 2002 and for the period from January 1, 1999 (inception) to December 31, 2002 have been included in this proxy statement/prospectus in reliance upon the report of KPMG S.p.A., independent accountants, appearing elsewhere herein and upon the authority of such firm as experts in auditing and accounting.

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**WHERE YOU CAN FIND MORE INFORMATION**

CTI is subject to the informational requirements of the United States Securities Exchange Act of 1934, as amended, which means CTI is required to file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. These reports, proxy statements and other information filed by CTI can be inspected and copied at the Securities and Exchange Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by submitting a request in writing to the Securities and Exchange Commission. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. CTI's SEC filings are also available to you on the Security and Exchange Commission's web site (<http://www.sec.gov>). In addition, CTI's common stock is listed on the Nasdaq National Market and similar information concerning CTI can be inspected and copied at the offices of the National Association of Securities Dealers, Inc., 9513 Key West Avenue, Rockville, Maryland 20850.

In addition, CTI has filed with the Securities and Exchange Commission a registration statement on Form S-4 (of which this proxy statement/prospectus is a part) under the Securities Act with respect to the shares of CTI common stock to be offered in connection with the merger. This proxy statement/prospectus does not contain all the information set forth in the registration statement, some portions of which have been incorporated by reference as permitted by the rules and regulations of the Securities and Exchange Commission.

**INCORPORATION OF DOCUMENTS BY REFERENCE**

The Securities and Exchange Commission allows CTI to incorporate by reference information it has filed previously with the SEC, which means CTI can disclose information to you by referring you to those documents. Accordingly, we incorporate by reference:

our annual report on Form 10-K/A for the year ended December 31, 2002 (filing date, April 30, 2003);

our 2003 proxy statement on Schedule 14A (filing date, May 14, 2003);

our quarterly reports on Form 10-Q for the periods ended March 31, 2003 (filing date, May 12, 2003) and June 30, 2003 (filing date, August 6, 2003);

our current reports on Form 8-K dated April 22, 2003 (filing date, April 22, 2003), June 16, 2003 (filing date, June 17, 2003), June 17, 2003 (filing date, June 19, 2003) and July 24, 2003 (filing date, July 24, 2003);

the description of our common stock contained in our registration statement on Form 10 filed with the Securities and Exchange Commission on April 29, 1996 including any amendment or report filed with the Securities and Exchange Commission updating this description; and

the description of our preferred stock purchase rights contained in our registration statement on Form 8-A filed with the Securities and Exchange Commission on November 11, 1996, including any amendment or report filed with the Securities and Exchange Commission updating this description.





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CTI also incorporates by reference all documents subsequently filed with the Securities and Exchange Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the United States Exchange Act of 1934, as amended, between the date of this proxy statement/prospectus and the date of the completion of the merger. These include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements. Any statements contained in this proxy statement/prospectus or in a document incorporated or deemed to be incorporated by reference will be deemed to be modified or superseded for the purposes of this proxy statement/prospectus to the extent that a statement contained in this proxy statement/prospectus or in any subsequently filed document incorporated or deemed to be incorporated by reference modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified and superseded, to constitute a part of this proxy statement/prospectus.

These documents are or will be available for inspection or copying at the locations identified above under the caption **Where You Can Find More Information**.

In addition, we will provide without charge to each person, including any beneficial owner of CTI common stock or Novuspharma ordinary shares, to whom this proxy statement/prospectus is delivered, upon written or oral request, a copy of any and all of the documents that have been incorporated by reference in this prospectus (without exhibits, unless the exhibits are specifically incorporated by reference but not delivered with this proxy statement/prospectus). Requests should be directed to the name and address appearing on the inside front cover.

You should rely only on the information contained or incorporated by reference in this proxy statement/prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement/prospectus. The date of this proxy statement/prospectus appears on its cover. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than that date. Neither the mailing of this proxy statement/prospectus to you nor the issuance of CTI common stock in the merger creates any implication to the contrary.

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**Independent Auditors Report**

The Board of Directors and Shareholders

Novuspharma S.p.A.:

We have audited the accompanying balance sheets of Novuspharma S.p.A. (a development stage company) as of December 31, 2002 and 2001, and the related statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2002 and for the period from January 1, 1999 (inception) to December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Novuspharma S.p.A. (a development stage company) as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002 and for the period from January 1, 1999 (inception) to December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG S.p.A.

Milan

August 6, 2003

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**Table of Contents****NOVUSPHARMA S.p.A.****(A DEVELOPMENT STAGE COMPANY)****BALANCE SHEETS****(In thousands of Euro, except share amounts)**

	<b>December 31, 2002</b>	<b>December 31, 2001</b>	<b>June 30, 2003</b>
	<u>          </u>	<u>          </u>	<u>          </u>
			<b>(unaudited)</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (note 1)	57,860	97,342	78,972
Securities available-for-sale (notes 1 and 3)	50,483	43,494	16,608
Interest receivable	984	1,070	257
Accounts receivable, net	155	76	68
Prepaid expenses and other current assets	2,966	1,324	1,993
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total current assets</b>	<b>112,448</b>	<b>143,306</b>	<b>97,898</b>
Property and equipment, net (notes 1 and 4)	5,046	3,500	4,757
Goodwill, net (notes 1 and 2)	176	176	176
Other intangible assets, net (note 1)	10	12	10
Other long-term assets (note 1)	3,978	2,727	4,809
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b>121,658</b>	<b>149,721</b>	<b>107,650</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable (note 5)	5,506	3,637	4,306
Accrued expenses (note 5)	4,041	1,694	5,041
Current portion of deferred revenues (note 6)	668	966	542
Current portion of other long-term obligations	52		53
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total current liabilities</b>	<b>10,267</b>	<b>6,297</b>	<b>9,942</b>
Deferred revenues, less current portion (note 6)		668	
Long-term obligations, less current portion (note 8)	1,155	825	1,441
	<u>          </u>	<u>          </u>	<u>          </u>
Shareholders' equity: (note 9)			
Ordinary shares, par value ( 1):			
Authorized and issued shares 6,566,200			
Outstanding shares (6,478,959 at December 31, 2002, 6,541,929 at December 31, 2001 and 6,541,505 at June 30, 2003 (unaudited))	6,566	6,566	6,566
Additional paid in capital	162,894	162,478	162,894
Accumulated other comprehensive income (loss)	(165)	(175)	42
Deficit accumulated during the development stage	(56,580)	(26,026)	(72,591)
Treasury stock (87,241 at December 31, 2002, 24,271 at December 31, 2001 and 24,695 at June 30, 2003 (unaudited))	(2,479)	(912)	(644)
	<u>          </u>	<u>          </u>	<u>          </u>
	<b>110,236</b>	<b>141,931</b>	<b>96,267</b>

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Total liabilities and shareholders equity	<u>121,658</u>	<u>149,721</u>	<u>107,650</u>
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See accompanying notes to the financial statements.

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**Table of Contents****NOVUSPHARMA S.p.A.****(A DEVELOPMENT STAGE COMPANY)****STATEMENTS OF OPERATIONS****(In thousands of Euro, except per share and share amounts)**

	Year ended December 31,			Amounts accumulated during the development stage at December 31, 2002	Period ended June 30,		Amounts accumulated during the development stage at June 30, 2003
	2002	2001	2000		2003	2002	
					(unaudited)	(unaudited)	(unaudited)
<b>Revenues:</b>							
Research grants	5,493	1,396	78	6,967	1,535	2,659	8,502
Research services provided to third parties	65	90	1,045	3,111	175	1	3,286
<b>Total revenues</b>	<b>5,558</b>	<b>1,486</b>	<b>1,123</b>	<b>10,078</b>	<b>1,710</b>	<b>2,660</b>	<b>11,788</b>
<b>Operating expenses:</b>							
Research and development	33,861	14,440	8,179	60,656	12,772	12,309	73,428
Selling, general and administrative	6,478	5,388	2,998	17,405	6,077	3,489	23,482
Amortization of purchased intangible assets	2	183	183	550	1	1	551
<b>Total operating expenses</b>	<b>40,341</b>	<b>20,011</b>	<b>11,360</b>	<b>78,611</b>	<b>18,850</b>	<b>15,799</b>	<b>97,461</b>
<b>Loss from operations</b>	<b>(34,783)</b>	<b>(18,525)</b>	<b>(10,237)</b>	<b>(68,533)</b>	<b>(17,140)</b>	<b>(13,139)</b>	<b>(85,673)</b>
<b>Other income, net</b>							
Investment income	1,921	15	2	1,938	880	988	2,818
Interest income	2,502	6,506	1,158	10,129	796	1,443	10,925
Gains on foreign currency, net	174	39	41	254	54	99	308
<b>Other income, net</b>	<b>4,597</b>	<b>6,560</b>	<b>1,201</b>	<b>12,321</b>	<b>1,730</b>	<b>2,530</b>	<b>14,051</b>
<b>Net loss</b>	<b>(30,186)</b>	<b>(11,965)</b>	<b>(9,036)</b>	<b>(56,212)</b>	<b>(15,410)</b>	<b>(10,609)</b>	<b>(71,622)</b>
<b>Basic and diluted net loss per ordinary share</b>							
	(4.65)	(1.83)	(1.95)		(2.37)	(1.63)	
Shares used in calculation of basic and	6,491,771	6,553,551	4,640,242		6,511,882	6,494,520	

diluted ordinary net loss  
per share



See accompanying notes to the financial statements

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**Table of Contents****NOVUSPHARMA S.p.A.****(A DEVELOPMENT STAGE COMPANY)****STATEMENT OF SHAREHOLDERS EQUITY****(In thousands)**

	<u>Ordinary Shares</u>			<b>Deficit accumulated during the development stage</b>	<u>Treasury Stock</u>		<b>Accumulated</b>	<b>Total</b>
	<u>Shares</u>	<u>Amount</u>	<u>Additional paid-in capital(1)</u>		<u>Shares</u>	<u>Amount</u>	<b>other comprehensive income/(loss)</b>	
Balance at January 1, 2000	3,646	188	6,994	(5,025)				2,157
Ordinary shares ( 0.052) issued in March(2)	870	45						45
Shareholders contribution by Novuspharma Invest N.V.			8,723					8,723
Ordinary shares ( 0.052) issued on November 11 (IPO)(2)	2,050	106	152,971					153,077
Net loss for the year ended December 31, 2000				(9,036)				(9,036)
Comprehensive loss								(9,036)
Balance at December 31, 2000	6,566	339	168,688	(14,061)				154,966
Increase in share capital and conversion of the same into Euro, as per shareholders resolution of 9 April 2001		6,227	(6,227)					
Purchases of treasury stock					40	(1,546)		(1,546)
Sales of treasury stock					(16)	634		634
Gain on sales of treasury stock			2					2
Stock-based compensation			15					15
Unrealized losses on securities available-for-sale							(175)	(175)
Net loss for the year ended December 31, 2001				(11,965)				(11,965)
Comprehensive loss								(12,140)
Balance at December 31, 2001	6,566	6,566	162,478	(26,026)	24	(912)	(175)	141,931
Purchases of treasury stock					112	(3,045)		(3,045)
Sales of treasury stock					(49)	1,478		1,478
Loss on sales of treasury stock			(2)	(368)				(370)
Stock-based compensation			418					418
Unrealized gains on securities available-for-sale							10	10
Net loss for the year ended December 31, 2002				(30,186)				(30,186)
Comprehensive loss								(30,176)



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Balance at December 31, 2002	6,566	6,566	162,894	(56,580)	87	(2,479)	(165)	110,236
Purchases of treasury stock (unaudited)					17	(259)		(259)
Sales of treasury stock (unaudited)					(80)	2,094		2,094
Loss on sales of treasury stock (unaudited)				(601)				(601)
Unrealized gains on securities available-for-sale (unaudited)							207	207
Net loss for six-month period ended June 30, 2003 (unaudited)				(15,410)				(15,410)
Comprehensive loss (unaudited)								(15,203)
Balance at June 30, 2003 (unaudited)	6,566	6,566	162,894	(72,591)	24	(644)	42	96,267

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**Table of Contents****Amounts accumulated during the development stage****(in thousands)**

	<u>Ordinary Shares</u>			Deficit accumulated during the development stage	<u>Treasury Stock</u>		Accumulated	Total
	Shares	Amount	Additional paid-in capital (1)		Shares	Amount	other comprehensive income/(loss)	Shareholders Equity
Balance at January 1, 1999 (date of inception)	2,000	103	(43)					60
Ordinary shares issued ( 0.052)(2)	4,566	236	153,689					153,925
Increase in share capital and conversion of the same into Euro, as per shareholders' resolution of 9 April 2001		6,227	(6,227)					
Shareholders' contributions			15,042					15,042
Purchase of treasury stock					87	(2,479)		(2,479)
Loss on sales of treasury stock				(368)				(368)
Stock-based compensation			433					433
Unrealized losses on securities							(165)	(165)
Net loss				(56,212)				(56,212)
Amounts accumulated during the development stage at December 31, 2002	6,566	6,566	162,894	(56,580)	87	(2,479)	(165)	110,236
Sales of treasury stock (unaudited)					(63)	1,835		1,835
Loss on sales of treasury stock (unaudited)				(601)				(601)
Unrealized gains on securities available-for-sale (unaudited)							207	207
Net loss (unaudited)				(15,410)				(15,410)
Amounts accumulated during the development stage at June 30, 2003 (unaudited)	6,566	6,566	162,894	(72,591)	24	(644)	42	96,267
Balance at June 30, 2003 (unaudited)	6,566	6,566	162,894	(72,591)	24	(644)	42	96,267

(1) Net of issuing costs

(2) Due to the conversion of share capital from Lira to Euro, par value increased from 0.052 to 1.00 (see note 9)

See accompanying notes to the financial statements.

**Table of Contents****NOVUSPHARMA S.p.A.****(A DEVELOPMENT STAGE COMPANY)****STATEMENT OF CASH FLOWS****(In thousands)**

	<u>Year ended December 31,</u>			<u>Amounts accumulated during the development stage at December 31, 2002</u>	<u>Period ended June 30,</u>		<u>Amounts accumulated during the development stage at June 30, 2003</u>
	<u>2002</u>	<u>2001</u>	<u>2000</u>		<u>2003</u>	<u>2002</u>	
					<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
<b>Operating activities</b>							
Net loss	(30,186)	(11,965)	(9,036)	(56,212)	(15,410)	(10,610)	(71,622)
Adjustments to reconcile net loss to net cash used in operating activities:							
Depreciation and amortization	1,115	880	440	2,789	604	455	3,393
Employees leaving indemnity accrual	275	195	158	748	139	117	887
Bad debt provision accrual	42	82		144			144
Amortization of investment premium	76	15		91	44	23	135
Equity-based compensation expense	176	2		178	100	60	278
Loss (gain) on sale of investment securities	(255)			(255)	(165)	(149)	(420)
Changes in operating assets and liabilities:							
Interest receivable	86	(367)	(702)	(983)	727	359	(256)
Accounts receivable, net	(121)	40	399	(300)	87	20	(213)
Prepaid expenses and other current assets	(1,642)	(1,205)	1,030	(2,903)	973	(2,119)	(1,930)
Other assets and deferred charges	(1,009)	(1,293)	(754)	(3,723)	(931)	(734)	(4,654)
Accounts payable	1,869	770	1,005	5,430	(1,200)	(252)	4,230
Accrued expenses	2,348	(721)	1,800	3,766	1,000	1,176	4,766
Deferred revenue	(966)	1,634		668	(126)	(532)	542
Total adjustments	1,994	32	3,376	5,650	1,252	(1,576)	6,902
Net cash used in operating activities	(28,192)	(11,933)	(5,660)	(50,562)	(14,158)	(12,186)	(64,720)
<b>Investing activities</b>							
Purchases of securities available-for-sale	(22,057)	(43,685)		(65,742)		(12,008)	(65,742)
Proceeds from sales of securities	15,256			15,256	34,203	10,139	49,459
Purchases of property and equipment	(2,658)	(2,081)	(911)	(6,313)	(314)	(1,656)	(6,627)
Purchase of treasury stock	(3,045)	(1,546)		(4,591)	(259)	(2,308)	(4,850)
Sales of treasury stock	1,108	636		1,744	1,492	192	3,236
Purchase of business from Boehringer Mannheim S.p.A.				(898)			(898)
Net cash provided by (used in) investing activities	(11,396)	(46,676)	(911)	(60,544)	35,122	(5,641)	(25,422)
<b>Financing activities</b>							
Proceeds from initial public offering, net of offering costs			153,077	153,077			153,077
Proceeds from increase in common stock			45	848			848

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Shareholders' contribution			8,723	15,043			15,043
Repayment of long-term obligations	(158)	(85)	(1,610)	(1,915)	(157)	(46)	(2,072)
Proceeds from long-term obligations	264			1,814	305		2,119
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) financing activities	106	(85)	160,235	168,867	148	(46)	169,015
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net increase (decrease) in cash and cash equivalents	(39,482)	(58,694)	153,664	57,761	21,112	(17,873)	78,873
Cash and cash equivalents at beginning of period	97,342	156,036	2,372	99	57,860	97,342	99
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	57,860	97,342	156,036	57,860	78,972	79,469	78,972
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

See accompanying notes to the financial statements.

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**NOVUSPHARMA S.p.A.**

**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO NOVUSPHARMA FINANCIAL STATEMENTS**

**December 31, 2002**

**1. Description of Business and Summary of Significant Accounting Policies**

*Description of business, history and principal shareholders*

Novuspharma S.p.A. (Novuspharma or the Company) is a development stage biopharmaceutical company focused on the treatment of cancer, both by modifying existing chemotherapies to make them more effective and less toxic and by developing completely novel therapeutics for treatment of the disease. The Company, with headquarters and a research facility in Bresso (Milan), Italy, began operations in 1999 following the spin-off of the oncology research and development department of Boehringer Mannheim Italia S.p.A. from F. Hoffman-La Roche.

The Company, originally formed on September 21, 1983, was dormant until December 31, 1998. Novuspharma S.p.A. began an operational structure on January 1, 1999, following the purchase of a business unit (made up of the assets and liabilities of the Boehringer Mannheim Italia S.p.A research centre).

In November 2000, ordinary shares of the Company were listed on the Italian Stock Market (Italian Nuovo Mercato).

The Company's pipeline includes one investigational medicinal product currently in Phase III and Phase II clinical trials and two other medicinal products in Phase II clinical trials. As of August 13, 2003, the Company has three investigational advanced stage cytotoxics in the DNA intercalator family of molecules in clinical development:

Pixantrone is in Phase III clinical trials in indolent NHL, Phase II clinical trials in aggressive NHL and is expected to enter clinical trials in MS during the second half of 2003;

BBR 3576 is in Phase II clinical trials in HRPC; and

BBR 3438 is in Phase II clinical trials in ovarian cancer.

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In addition to the advanced stage cytotoxics, Pixantrone and BBR 3576, the Company is also using its experience in cancer to build an early stage pipeline of antibodies and small molecules designed to attack tumors through novel mechanisms of action, which includes the following:

MT201, a fully human antibody targeting the Ep-CAM molecule, is in Phase I clinical trials, in collaboration with Micromet AG;

platinum compounds are in late pre-clinical development;

proteasome inhibitors are believed to be approximately two years from Phase I clinical trials, in collaboration with Cephalon, Inc.; and

HIF-1 inhibitors are believed to be approximately three years from Phase I clinical trials, in collaboration with the National Cancer Institute.

On December 31, 2002, the company's investors with shareholdings of more than 2% were Novuspharma Invest N.V., owned by three venture capital companies Atlas Venture, Sofinnova and

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3i Group (with a stake of between 25 and 30%), 3i Group Plc (with a stake of between 7.5 and 10%), HBM Bioventures Ltd. (with a stake of between 7.5 and 10%), Silvano Spinelli (with a stake of 3.7%) and Erich Platzer (with a stake of 2.1%).

### *Collaborative research*

During 2002, the Company formed collaborations with leading academic institutions and biopharmaceutical companies for products in the research phase. In May 2002, Novuspharma signed an agreement with the U.S. biopharmaceutical company Cephalon, for the development of novel cancer therapeutics based on proteasome inhibition. This was followed by an agreement with the US National Cancer Institute in September 2002, focused on HIF-1a, a transcription factor known to be involved in a number of tumour processes and angiogenesis.

### *Significant accounting policies*

#### *Cash and Cash Equivalents*

The Company considers all highly liquid debt instruments with maturities of three months or less at the time acquired to be cash equivalents. Cash equivalents represent short-term investments consisting of repurchase agreements, carried at cost, which approximates market value.

#### *Securities Available-for-Sale*

The classification of debt securities available-for-sale is determined at the time of purchase. The Company's investment portfolio is classified as available-for-sale and carried at fair value based on quoted market prices with unrealized gains and losses included in accumulated other comprehensive income and loss. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in investment income. Realized gains and losses interests and declines in value judged to be other than temporary on available-for-sale securities are included in investment income. The cost of securities sold is based on the specific identification method.

#### *Portfolio risk*

Novuspharma is subject to concentration of risk primarily from cash and cash equivalents that are placed with two major financial institutions. Under Novuspharma's investment guidelines, credit risk is managed by diversification of the investment portfolio and by the purchase of investment-grade securities.

#### *Revenue recognition*

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Qualifying costs for certain research and development projects are partially reimbursed through research and development grants from the Ministero Istruzione Università Ricerca ( MIUR ), a department of the Italian government, and certain other governmental entities. Such amounts are recorded as revenue in the period the related costs are incurred, upon the formal approval of the respective grantor. Qualifying costs for which the Company has requested reimbursement but has not yet received payment are included in other current assets and advance payments received are included in deferred revenue. The Company recognized revenue related to research and development grants of 5,493 thousand, 1,396 thousand and 78 thousand for the years ended December 31, 2002, 2001

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and 2000, respectively, and 1,535 thousand and 2,659 thousand (unaudited) for the six-month period ended June 30, 2003 and 2002.

Revenue from research and development services provided to third parties is nonrefundable and is recognized upon completion of the services and acceptance by the customer. The Company recognized revenue of 65 thousand, 90 thousand and 1,045 thousand for the years ended December 31, 2002, 2001 and 2000, respectively, and 175 thousand and 1 thousand (unaudited) for the six-month period ended June 30, 2003, relating to research and development services provided to third parties.

Nonrefundable and noncreditable up-front payments received under license and collaboration agreements are recognized ratably over the period of the respective arrangement. Where the Company is obligated to provide specified future deliverables under a licensing agreement, a portion of the up-front payment equal to the fair value of the future deliverable is deferred until delivery occurs. Nonrefundable and noncreditable milestone payments received are recognized upon the completion of substantive milestones, as specified in the related agreements. License and collaboration agreements provide for royalties to be paid to the Company for future sales of product. To date, no up-front payments, milestones or royalties have been earned. Deferred revenue is comprised of cash received in advance of the related revenue being recognized.

### *Research and Development Expenses*

Research and development expenses include related salaries and benefits, clinical trial costs, contract and other outside service fees, and facilities and overhead costs. Research and development expenses consist of costs incurred for proprietary and collaboration research and development and also include activities such as product registries and investigator sponsored trials. Research and development costs are expensed as incurred. In instances where the Company enters into agreements with third parties for research and/or clinical trial activities, costs are expensed upon the earlier of when amounts are due or when services are performed.

The agreements with third parties for research and/or clinical trial activities are typically fixed price contracts for material research and development expenditures, whereas the Company enters into fee-for-service contracts for other research and development expenditures. The Company is usually billed in these arrangements based on a combination of different methods: (a) upon entering into the relevant contract, (b) upon the occurrence of certain performance and/or temporal milestones specified in the contract and/or (c) in monthly installments. With respect to material research and development expenditures, the majority of the fixed price contracts are billed upon the occurrence of certain milestones.

In general, third party research and development service contracts are terminable solely by the Company. There are no specific termination provisions that could impact the Company's accounting. Amounts paid by the Company to third parties under these arrangements are not refundable and therefore do not have any impact on the Company's accounting since costs are recorded when incurred or when the non refundable amounts are paid and thereafter the Company cannot request refunds of such costs.

The Company monitors the provision of research and development services through a project management system electronically integrated with the Company's accounting and through continuous monitoring of third party research and development activities by the Company's scientific employees overseeing the relevant project. Expenses are recorded on an accrual basis each month based upon the earlier of when amounts are due or when services are performed.

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### *Employees leaving indemnity*

The Company's employees are eligible for severance pay pursuant to Italian Law. The Company accrues a reserve for such employee termination liabilities, net of applicable advances, over the employees' service periods. Amounts are based on compensation and on years of service.

The EITF reached a consensus in Issue No. 88-1 that entities may determine the vested benefit obligation either as the actuarial present value of the vested benefits to which the employee is entitled if he separates immediately (approach 1), or the actuarial present value of the vested benefits to which the employee is currently entitled, but based on the employee's expected date of separation or retirement (approach 2). The Company has adopted approach 1.

### *Property and Equipment*

Property and equipment are carried at cost, less accumulated depreciation. Leasehold improvements are depreciated over the lesser of the useful life or the term of the applicable lease using the straight-line method. Depreciation commences at the date past and current assets are placed in service and is calculated using the straight-line method over the estimated useful lives of the respective assets, determined to be between three and ten years.

The Company performs reviews of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable.

### *Goodwill*

On January 1, 2002, the Company adopted fully SFAS, 142, *Goodwill and Other Intangible Assets*. SFAS 142 requires that goodwill and indefinite life intangible assets no longer be amortized, but rather be tested for impairment annually, written down when impaired, and requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. The Company performed an impairment test of goodwill upon transition to SFAS 142 on January 1, 2002, and an annual impairment test in the fourth quarter of 2002, and found no impairment. The Company will continue to evaluate goodwill for impairment on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may be impaired. Net loss and net loss per share adjusted to exclude amortization expense are reported in note 2.

### *Other Intangible Assets*

Other intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the respective assets, determined to be three to five years.

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The caption refers to industrial patents and similar rights related exclusively to the purchase of patent rights through the purchase on January 1, 1999 of the business consisting of all the assets and liabilities that make-up the Research Centre of Boehringer Mannheim Italia S.p.A.

The amortization expense of other intangible assets for the years ended December 31, 2002, 2001 and 2000 amounts to 2 thousand, 95 thousand and 95 thousand, respectively.

For the periods ended June 30, 2003 and 2002 (unaudited) the amortization expense of other intangible assets amounts to 1 thousand and 1 thousand respectively.

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**Table of Contents***Stock-based Compensation*

In accordance with SFAS 123, *Accounting for Stock-Based Compensation*, the Company elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion (APB 25), *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the market price of common stock at the date of grant over the stock option exercise price. Any deferred compensation is recognized on a graded vesting method. Under the Company's plans, stock options are generally granted at fair market value.

In accordance with the provisions of SFAS 123, the Company applies APB 25 and related interpretations in accounting for its stock option plans and, accordingly, does not recognize compensation cost for options granted with exercise prices equal to or greater than fair value. If the Company elected to recognize compensation cost based on the fair value of the options granted at the date of grant as prescribed by SFAS 123, net loss applicable to common shareholders and basic and diluted net loss per share would have been adjusted, or increased, as follows (in thousands, except per share amounts):

	Year ended December 31,			Period ended June 30,	
	2002	2001	2000	2003	2002
				(unaudited)	(unaudited)
<b>Net loss:</b>					
As reported	(30,186)	(11,965)	(9,036)	(15,410)	(10,609)
Compensation cost recognized under APB 25	4	2		2	2
Compensation cost under SFAS 123	(385)	(161)		(360)	(174)
As adjusted	(30,567)	(12,124)	(9,036)	(15,768)	(10,781)
<b>Basic and diluted net loss per share:</b>					
As reported	(4.65)	(1.83)	(1.95)	(2.37)	(1.63)
As adjusted	(4.71)	(1.85)	(1.95)	(2.42)	(1.66)

Stock compensation expense for options granted to non-employees has been determined in accordance with SFAS 123 and the EITF consensus in Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. The fair value of options granted to non-employees is periodically remeasured as the underlying options vest.

*Treasury stock*

The shareholders, at meetings held on April, 9 2001, and April 24, 2002, resolved to authorize the Board of Directors to purchase the Company's own shares equivalent to no more than 10% of the Company's share capital, and dispose of them at a time deemed suitable, for the purposes of:

making business agreements (new licences for compounds);

carrying out any extraordinary financial operations whenever needed;

establishing a stock option plan;

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ensuring a certain trading volume and supporting the price within a strategy to stabilise the share price performance.

The cost of acquired stock is shown separately as a deduction from capital stock, additional paid-in capital, and accumulated deficit. Gains on sales of treasury stock are credited to additional paid-in capital and losses are charged to additional paid-in capital to the extent that previous net gains from sales or retirements of the same class of stock are included therein, otherwise to accumulated deficit.

During the year ended December 31, 2001, the Company acquired and sold treasury stock for a net amount of 912 thousand and realized net gains on sales of treasury stock of 2 thousand. During the year ended December 31, 2002, the Company acquired and sold treasury stock for an amount of 1,567 thousand leading to a total amount of treasury stock at December 31, 2002 of 2,479 thousand. Moreover during 2002 the Company realized net loss on sales of treasury stock of 370 thousand. During the unaudited six-month period ended June 30, 2003 the Company acquired and sold treasury stock for an amount of 1,835 thousand leading to a total amount of treasury stock at June 30, 2003 of 644 thousand. Moreover during the unaudited first six months of 2003 the Company realized a net loss on sales of treasury stock of 601 thousand.

### *Income taxes*

In accordance with SFAS 109, *Accounting for Income Taxes*, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Liabilities are provided in full; assets are recognized to the extent that they are more likely than not to be recovered. The Company recognized a valuation allowance against the deferred tax assets to the extent that the recognition criteria have not been met.

### *Net Loss per Share*

Basic net loss per share is calculated based on the net loss applicable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding for the period. Diluted net loss per share does not differ from basic net loss per share since the potential ordinary shares are antidilutive for all periods presented and, accordingly are excluded from the calculation of diluted net loss per share.

### *Other Financial Instruments*

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued liabilities approximate fair value due to their short maturities. Other assets and deferred charges include income tax credits and VAT receivables that do not have any fixed due date. Income tax credits will be used to off-set future income tax liabilities, and VAT receivables are used to off-set tax payables of the Company on behalf of its employees. Interest receivable includes accrued interest on cash and cash equivalents and on securities.

### *Transaction in foreign currency*

Transactions in foreign currency are originally converted into Euro using the exchange rate ruling at the date of the transaction.

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Exchange rate differences, which arise upon the receipt or payment of the amounts in foreign currency, are recognised in the statement of operations as Gains/losses on foreign currency. Outstanding receivables and payables in foreign currency at the period end are realigned to exchange rates ruling at the period end. Any exchange rate gains or losses arising from such realignment are stated in the profit and loss account under financial income and charges.

### *Segment information*

The Company operates as a single business segment in Italy as defined in SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### *New Accounting Pronouncements*

In June 2002, the Financial Accounting Standard Board (FASB) issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which addresses accounting for restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 is not expected to have a material impact on the Company's financial position and results of operations.

In November 2002, the FASB issued interpretations (FIN) 45, *Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34*. FIN 45 clarifies the requirements of SFAS 5, *Accounting for Contingencies*, relating to the guarantors accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of FIN 45 are effective for financial statements of periods ending after December 15, 2002. However, the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The Company has no guarantees falling under the requirement and therefore no disclosure is needed.

In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. This Statement amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of this Standard are effective for fiscal years ending after December 15, 2002 and have been incorporated into these financial statements and accompanying footnotes. The Company has elected to continue to follow the intrinsic value method of accounting as prescribed by APB 25, *Accounting for Stock Issued to Employees*, to account for employee stock options.



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In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities*. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. FIN 46 applies to public enterprises as of the beginning of the applicable interim or annual period. The adoption of FIN 46 is not expected to have a material impact on our financial position and results of operations.

On April 30, 2003, the FASB issued FASB Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, to address (1) decisions reached by the Derivatives Implementation Group, (2) developments in other Board projects that address financial instruments, and (3) implementation issues related to the definition of a derivative. Statement 149 has multiple effective date provisions depending on the nature of the amendment to Statement 133. The adoption of FASB 149 is not expected to have a material impact on our financial position and results of operations.

On May 15, 2003, the FASB issued FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. For nonpublic entities, mandatorily redeemable financial instruments are subject to the provisions of this Statement for the first fiscal period beginning after December 15, 2003. The adoption of FASB 150 is not expected to have a material impact on our financial position and results of operations.

*Other Comprehensive Income (Loss)*

SFAS 130, *Reporting Comprehensive Income*, requires unrealized gains and losses on securities available-for-sale to be included in other comprehensive income or loss.

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

	Year ended December 31,			Period ended June 30,	
	2002	2001	2000	2003	2002
Net unrealized gains (losses) on securities available for sale	(165)	(175)		(unaudited) 42	(unaudited) (1,061)

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**2. Goodwill**

Goodwill refers entirely to the excess of the price paid for the business over the fair value of its net assets upon its acquisition. Management believes this value will be recovered in the medium term on the basis of expected earnings.

Changes in the net carrying amount of goodwill from January 1, 2000 until June 30, 2003 are as follows (in thousands):

Gross value (arising in 1999)	439
Accumulated amortization as of December 31, 2001	(263)
<b>Balance as of December 31, 2001</b>	<b>176</b>
<b>Balance as of December 31, 2002 and June 30, 2003 (unaudited)</b>	<b>176</b>

Amortization expense of goodwill is as follows (in thousands):

	Year ended December 31,		
	2002	2001	2000
Goodwill	—	88	88
	—	88	88

For both the unaudited six-month periods ended June 30, 2002 and 2003 no goodwill amortization was recorded.

A reconciliation of previously reported net loss and net loss per share to the amounts adjusted for the exclusion of goodwill amortization follows (in thousands, except per share amounts):

	Year ended December 31,			Period ended June 30,	
	2002	2001	2000	2003	2002
Net loss	(30,186)	(11,965)	(9,036)	(15,410)	(10,609)
Add back: Goodwill amortization		88	88		

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Adjusted net loss	<u>(30,186)</u>	<u>(11,877)</u>	<u>(8,948)</u>	<u>(15,410)</u>	<u>(10,609)</u>
<b>Basic and diluted net loss per share</b>					
Net loss	(4.65)	(1.83)	(1.95)	(2.37)	(1.63)
Goodwill amortization		0.02	0.02		
Adjusted net loss	<u>(4.65)</u>	<u>(1.81)</u>	<u>(1.93)</u>	<u>(2.37)</u>	<u>(1.63)</u>

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**Table of Contents****3. Securities available-for-sale**

Securities available-for-sale consist of the following as of December 31, 2002 (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>Corporate bonds</b>				
Corporate bonds with a fixed interest rate	20,124	202	(162)	20,164
Corporate bonds with a floating interest rate	9,492	1	(52)	9,441
Corporate bonds with a step up interest rate	1,000		(150)	850
Corporate bonds with equity portfolio linked	10,000			10,000
	40,616	203	(364)	40,455
<b>Treasury bonds</b>				
CCT	10,032		(4)	10,028
	50,648	203	(368)	50,483

As of December 31, 2002, 27,454 thousand of securities available-for-sale had contractual maturities of less than one year, while 23,029 thousand had contractual maturities more than one year. Gross gains realized during 2002 were 255 thousand. The corporate bonds with equity portfolio linked have not resulted in unrealized gains or losses as such bonds have guaranteed repayable principal amounts and Novuspharma has consistently recorded this asset based solely on its fair value, which is equal to the guaranteed repayable principal amount.

Securities available-for-sale consist of the following as of December 31, 2001 (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>Monetary funds</b>				
Monetary funds	9,990	50		10,040
<b>Corporate bonds</b>				
Corporate bonds with a fixed interest rate	24,802	8	(184)	24,626
Corporate bonds with a floating interest rate	7,877	12	(17)	7,872
Corporate bonds with a step up interest rate	1,000		(44)	956
	33,679	20	(245)	33,454
	43,669	70	(245)	43,494



As of December 31, 2001 all securities available-for-sale had contractual maturities more than one year.

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Securities available-for-sale consist of the following as of the unaudited period ended June 30, 2003 (in thousands):

<b>Corporate bonds</b>	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Corporate bonds with a fixed interest rate	8,555	119		8,674
Corporate bonds with a floating interest rate	2,005		(2)	2,003
Corporate bonds with a step up interest rate	1,000		(75)	925
	11,560	119	(77)	11,602
<b>Treasury bonds</b>				
CCT	5,006			5,006
	16,566	119	(77)	16,608

As of the unaudited period ended June 30, 2003, 11,112 thousand of securities available-for-sale had contractual maturities of less than one year, while 5,496 thousand had contractual maturities more than one year. Gross losses realized during the second quarter of 2003 were 42 thousand (unaudited).

**4. Property and Equipment**

Property and equipment consist of the following (in thousands):

	<b>December 31, 2002</b>	<b>December 31, 2001</b>	<b>June 30, 2003</b>
Leasehold improvements(1)	858	148	955
Software(2)	668	505	754
Plant and machinery(3)	4,108	2,763	4,194
Furniture and equipment(4)	1,221	1,094	1,262
Equipment acquired under capital leases (note 8)(5)	264		264
			-