FIRST INDUSTRIAL REALTY TRUST INC
Form S-3ASR
August 08, 2008

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As filed with the Securities and Exchange Commission on August 8, 2008
Registration No. 333-[_____]

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
FIRST INDUSTRIAL REALTY TRUST, INC.
(Exact name of registrant as specified in its charter)
Maryland
(State or other jurisdiction of incorporation or organization)
36-3935116
(I.R.S. Employer Identification Number)

311 S. Wacker Drive, Suite 4000
Chicago, Illinois 60606
(312) 344-4300
(Address, including zip code, and telephone number, including area code, of registrants principal executive offices)

Michael W. Brennan
President and Chief Executive Officer
First Industrial Realty Trust, Inc.
311 S. Wacker Drive, Suite 4000
Chicago, Illinois, 60606
(312) 344-4300
(Name of agent for service)

Copies to:
Howard A. Nagelberg
Edwin S. del Hierro
William E. Turner II
Barack Ferrazzano Kirschbaum & Nagelberg LLP
200 W. Madison St., Suite 3900
Chicago, Illinois, 60606
(312) 984-3100

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. þ

If this 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 earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) 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. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. þ

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock (par value $.01 per share)	5,000,000	$23.52(1)	$117,600,000(1)	$4,621.68(1)

(1) This fee was determined based on a proposed maximum offering price for these shares of $23.52 per share, which was estimated solely for the purpose of computing the amount of the registration fee in accordance with Rule 457(c) under the Securities Act based on the average of the high and low sales price per share of the registrant s common stock on August 5, 2008, as reported on the

New York
Stock
Exchange.

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PROSPECTUS

FIRST INDUSTRIAL REALTY TRUST, INC.
DIVIDEND REINVESTMENT AND
DIRECT STOCK PURCHASE PLAN
5,000,000 Shares
Common Stock

This prospectus relates to 5,000,000 shares of our common stock available for issuance under our Dividend Reinvestment and Direct Stock Purchase Plan, which we call the Plan. With this prospectus, we are offering you the opportunity to participate in the Plan. The Plan offers a simple and convenient way for our existing common stockholders to purchase additional shares and for new investors to make an initial investment.

Some of the significant features of the Plan are as follows:

If you are an existing stockholder, you may purchase additional shares by automatically reinvesting all or part of your cash dividends. Also, you may purchase additional shares by making optional cash purchases of $50 to $10,000 in any calendar month. Optional cash purchases in excess of this maximum may only be made with our prior written consent.

If you are a new investor, you may make an initial cash purchase of $200 to $10,000. Initial investments in excess of this maximum may only be made with our prior written consent.

Common stock purchased directly from us under the Plan may be priced at a discount from market prices at the time of the investment.

You are not required to pay brokerage commissions or other transaction expenses when you acquire shares through the Plan.

Neither we nor the Plan s administrator charges an enrollment fee for your initial participation.

Shares acquired through the Plan will be maintained in book-entry form at no cost to you.

At our direction, the Plan s administrator will purchase shares of our common stock for the accounts of Plan participants in one of the following manners:

directly from us

in the open market or

in negotiated transactions with third parties.

Participation in the Plan is entirely voluntary. Eligible persons may join the Plan at any time by following the procedures described below. Plan participants may terminate their participation in the Plan at any time by properly notifying the Plan Administrator. If you do not elect to participate in the Plan, you will continue to receive cash dividends on shares registered in your name, if and when declared by our Board of Directors.

Investing in our common stock involves risks that are described under the captions Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (or similar captions) in our most recent Annual Report on Form 10-K and under the captions Item 1A. Risk Factors and Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Quarterly Reports on Form 10-Q, and in other reports that we may file from time to time with the Securities and Exchange Commission.

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Shares of our common stock are traded on the New York Stock Exchange, or NYSE, under the symbol FR . The closing price of our common stock on August 7, 2008 was $21.94 per share.

In order to maintain our qualification as a real estate investment trust under federal income tax laws, ownership by any person of the Company s capital stock is limited, with certain exceptions, to an aggregate of 9.9% in value of the outstanding capital stock of the Company.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURES IN THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is August 8, 2008.

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We have not authorized any dealer, salesperson or other person to give you written information other than this prospectus or any prospectus supplement or to make representations as to matters not stated in this prospectus or any prospectus supplement. You must not rely on unauthorized information. This prospectus and any prospectus supplement are not an offer to sell these securities or our solicitation of your offer to buy these securities in any jurisdiction where that would not be permitted or legal. The delivery of this prospectus or any prospectus supplement at any time does not create an implication that the information contained herein or therein is correct as of any time subsequent to their respective dates.

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ABOUT THIS PROSPECTUS

This prospectus is part of an automatic shelf registration statement that we filed with the Securities and Exchange Commission, or SEC, as a well-known seasoned issuer, as defined in Rule 405 under the Securities Act of 1933, using a shelf registration process. This prospectus provides you with a general description of our common stock that we may sell pursuant to the Plan. As permitted by the rules and regulations of the SEC, this prospectus omits various information, exhibits, schedules and undertakings included in the registration statement. Any prospectus supplement may add, supplement or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the additional information described below under the heading Where You Can Find More Information.

As used in this prospectus, the Company, we, us and our refer to First Industrial Realty Trust, Inc. and its subsidiaries, including First Industrial, L.P., unless the context otherwise requires.

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THE COMPANY

We are a real estate investment trust, or REIT, subject to Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. Together with our consolidated partnerships, corporations and limited liability companies, we are a self-administered and fully integrated real estate company which owns, manages, acquires, sells and develops industrial real estate. As of March 31, 2008, we owned 856 industrial properties (inclusive of developments in progress) located in 28 states in the United States and one province in Canada, containing an aggregate of approximately 74.3 million square feet of gross leasable area.

Our interests in our properties and land parcels are held through partnerships, corporations and limited liability companies that we control, including First Industrial, L.P., which we refer to as the Operating Partnership, of which the Company is the sole general partner. As of March 31, 2008, we also owned minority equity interests in, and provide various services to, seven joint ventures which invest in industrial properties.

We use an operating approach that combines the effectiveness of decentralized, locally based property management, acquisition, sales and development functions with the cost efficiencies of centralized acquisition, sales and development support, capital markets expertise, asset management and fiscal control systems.

We have grown and will seek to continue to grow through the acquisition and development of industrial properties.

We are a Maryland corporation, organized on August 10, 1993, and completed our initial public offering in June 1994. The Operating Partnership is a Delaware limited partnership organized in November 1993. Our principal executive offices are located at 311 S. Wacker Drive, Suite 4000, Chicago, Illinois 60606, telephone number (312) 344-4300. Our website is *www.firstindustrial.com*. The information on or linked to our website is not a part of, and is not incorporated by reference into, this prospectus.

USE OF PROCEEDS

We will only receive proceeds from the sale of shares of common stock purchased from us pursuant to the Plan. Any net proceeds we receive will be used for working capital and other general corporate purposes. We have no basis for estimating either the number of shares that may be purchased from us under the Plan or the prices that we will receive for such shares.

RISK FACTORS

Investment in our common stock involves risk. Before choosing to participate in the Plan and acquiring any shares of our common stock offered pursuant to this prospectus, you should carefully consider the risks of an investment in the Company set forth under the captions Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (or similar captions) in our most recent Annual Report on Form 10-K and under the captions Item 1A. Risk Factors and Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Quarterly Reports on Form 10-Q, which reports are incorporated herein by reference, and as described in

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our other filings with the SEC. Please also refer to the section below entitled Forward-Looking Statements.

DESCRIPTION OF THE PLAN

The following questions and answers constitute our Dividend Reinvestment and Direct Stock Purchase Plan. If you do not wish to participate in the Plan, you will receive cash dividends on your shares of our common stock, if and when declared by our Board of Directors. The payment of dividends on our common stock is at the discretion of our Board of Directors. The timing and amount of future dividends, if any, will depend on our earnings, our cash requirements, our financial condition, applicable government regulations and other factors deemed relevant by our Board of Directors. Please also refer to the section below entitled Distributions.

In the Plan, we refer to our current common stockholders and new investors who participate in the Plan as participants.

General

1. What is the purpose of the Plan?

The purpose of the Plan is to offer a simple and convenient way for our existing common stockholders to increase their investment by reinvesting dividends and/or purchasing more shares, and for new investors to make an initial purchase of our common stock. The Plan is primarily intended for the benefit of long-term investors, and is not for the benefit of individuals or institutions that engage in short-term trading activities that could cause aberrations in the overall trading volume of our common stock. From time to time, financial intermediaries may engage in short-term positioning transactions in order to benefit from any discount. These transactions may cause fluctuations in the trading volume of our common stock. We reserve the right to modify, suspend or terminate participation in the Plan by otherwise eligible common stockholders in order to eliminate practices that are not consistent with the purpose of the Plan.

2. What are the benefits of the Plan?

You have the opportunity to reinvest all or a portion of your cash dividends in additional shares, which may be available at a discount from the market price when the shares are issued and sold directly by us. Please see the answers to Questions 18, 19, 20 and 21 for a discussion of the discounts that may be available.

You may make an initial or optional cash investment in our common stock, which may be available at a discount from the market price when the shares are issued and sold directly by us.

You are not required to pay brokerage commissions or other expenses for enrollment in the Plan or your purchases under the Plan, including reinvested dividends and optional cash investments.

The Plan permits whole and fractional shares to be purchased with dividends.

By participating in the Plan, you avoid the necessity of safekeeping certificates, and therefore have increased protection against loss, theft or destruction of your certificates.

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You will be provided with a regular statement for each account, which will include a record of each transaction.

At any time, you may direct the Plan s administrator to sell or transfer all or a portion of the shares held in your account.

3. What are the disadvantages of the Plan?

You may not know the actual number of shares purchased until after the Investment Date for optional cash investments or the Dividend Payment Date for shares purchased with reinvested dividends. Please see the answers to Questions 8 and 9 for a discussion of the terms Investment Date and Dividend Payment Date.

You will not control the prices at which shares are purchased or sold for your account. If you make an optional payment but later change your mind and want it returned to you, we will do so only if we receive your written request at least two trading days prior to the applicable Investment Date.

You will not receive a purchase price discount on shares acquired for your Plan account through open market or privately negotiated transactions. You will be treated as receiving as distributions in addition to the amounts described below your proportionate amount of any brokerage commissions we pay for any open market or privately negotiated purchases by the agent in addition to the amounts described below.

With respect to cash dividends reinvested and applied to the purchase of shares directly from us, you will be treated, for federal income tax purposes, as having received a distribution equal to the fair market value (and not the purchase price, as discounted) of the shares on the date of acquisition of the shares. If you are provided a discount from the market price for our common stock when you acquire shares directly from us with reinvested cash dividends, the fair market value of the common shares received likely will exceed the amount of cash dividends that otherwise would be paid to you in such instance. As a result, you likely will pay more taxes by acquiring discounted shares directly from us with reinvested cash dividends than you otherwise would have to pay if you received cash dividends. Each year, the Plan Administrator will send you income tax information (including the appropriate income tax forms) for reporting dividends.

We presently intend to take the position that a holder who makes an optional cash purchase of common shares under the Plan will be treated as having received a distribution equal to the excess, if any, of the Trading Price of the common shares on the Investment Date or the Waiver Investment Date, as applicable, less any discount, over the amount of the optional cash payment made by the participant.

Your reinvested distributions, as well as any deemed distributions arising from an optional cash purchase of common shares at a discount, will be taxable as dividends to the extent of our earnings and profits, and may give rise to a liability for the payment of income tax without providing you with the immediate cash to pay the tax when it becomes due.

You cannot pledge the shares in your Plan account.

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We will not pay interest on optional payments while we hold them pending investment.

A fee is charged upon the termination of your Plan account, as more fully explained in the answer to Question 5.

Sales of shares from your Plan account will involve a fee per transaction to be deducted from the proceeds of the sale by our Plan s administrator (if you request our Plan s administrator to make such sale), plus a per-share processing fee and any applicable stock transfer taxes on the sales, as more fully explained in the answer to Question 5.

The availability of a discount for one purchase will not ensure the availability of a discount or the same discount for future purchases. We may lower or eliminate discounts at any time. Any discount to investors making optional cash purchases in excess of the $10,000 maximum may be different than any discount available to other investors.

4. Who administers the Plan?

Computershare Trust Company, N.A., which we refer to as the Plan Administrator, administers the Plan. As agent for the participants, the Plan Administrator keeps records, sends statements of account to participants and performs other duties relating to the Plan. We pay all costs of administering the Plan. Shares of our common stock purchased under the Plan are issued in the name of the Plan Administrator or its nominee, as agent for the participants in the Plan. As record holder of the shares held in participants accounts under the Plan, the Plan Administrator will receive dividends on all shares held by it on the dividend record date, will credit such dividends to the participants accounts on the basis of whole and fractional shares held in these accounts, and will reinvest certain dividends in additional shares as directed by each participant. The Plan Administrator makes all purchases of shares under the Plan.

The Plan Administrator may be reached at the following address and telephone number to obtain information about the Plan:

Computershare Trust Company, N.A.
Attention: First Industrial Realty Trust, Inc. s
Dividend Reinvestment and Direct Stock Purchase Plan
P.O. Box 43078
Providence, RI 02940-3078
800-446-2617
www.computershare.com

Plan participants should include their account number(s) and include a reference to First Industrial Realty Trust, Inc. in any correspondence.

You can obtain information about your account over the Internet through Investor Centre on the Plan Administrator s website, *www.computershare.com/investor*. You may also contact the Plan Administrator through its website, *www.computershare.com.* The information

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on or linked to the Plan Administrator s website is not a part of and is not incorporated by reference into this prospectus and any prospectus supplement.

5. What are the fees associated with participation?

You will incur no brokerage commissions, service charges or other expenses for establishing a Plan account or for purchases made under the Plan for your account. You will be charged service and brokerage commission fees for sales made under the Plan, and certain other fees associated with returned checks or settlement of fractional shares in connection with the termination of your Plan account. Any other costs of administration of the Plan will be borne by the Company.

Creation of Plan Account	
Service Charge	Company paid
Dividend Reinvestment	
Transaction fee	Company paid
Brokerage commission	Company paid
Optional Cash Investments	
Transaction fee	Company paid
Brokerage commission	Company paid
Returned check fee	$25
ACH rejection fee	$25
Batch Order Sales	
Service Charge	$15 per order
Processing fee	$0.12 per share sold
Market Order Sales	
Service Charge	$25 per order
Processing fee	$0.12 per share sold
Termination of Plan Account	
Service Charge (Settlement of Fractional Shares)	$15, plus any processing fee
Duplicate Account Statements	
Copies of account statements for prior years	$10 per year requested

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Eligibility

6. Who is eligible to become a participant?

Subject to the following limitations, any person who has reached the age of majority in his or her state of residence, whether he, she or it (in the case of an entity) is currently a stockholder of the Company, is eligible to participate in the Plan.

Foreign Law Restrictions

If you are a citizen or resident of a country or jurisdiction in which your participation in the Plan would be unlawful, you will not be eligible to participate in the Plan.

REIT Qualification Restrictions

In order to maintain our qualification as a REIT, not more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities). Our Articles of Amendment and Restatement, which we refer to as our charter, restricts beneficial and constructive ownership of more than 9.9% in value of our issued and outstanding equity securities by any single stockholder. A majority of our Independent Directors (as defined in our charter) may waive the ownership limit for a stockholder based upon receipt of a ruling from the Internal Revenue Service, or IRS, an opinion of tax counsel or other evidence satisfactory to the Independent Directors, that ownership in excess of this limit will not jeopardize our status as a REIT. Please see Restrictions on Transfer of Capital Stock for a more detailed discussion of our ownership limit. We may terminate, by written notice at any time, any participant s individual participation in the Plan if such participation could violate the restrictions contained in our charter. We reserve the right to invalidate any purchases made under the Plan that we determine, in our sole discretion, may violate the 9.9% ownership limit.

Exclusion from Plan for Short-Term Trading or Other Practices

You should not use the Plan to engage in short-term trading activities that could change the normal trading volume of our common stock. If you do engage in short-term trading activities, we may prevent you from participating in the Plan. We reserve the right to modify, suspend or terminate participation in the Plan by otherwise eligible participants in order to eliminate practices which we determine, in our sole discretion, are not consistent with the purposes or operation of the Plan or which may adversely affect the market price of our common stock.

Exclusion from Plan at Our Discretion

In addition to the restrictions described above, we reserve the right to exclude you from, or terminate your participation in, the Plan in our sole discretion.

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Participating in the Plan

7. How and when may I enroll in the Plan and become a participant?

If you are a record holder of our common stock and you wish to enroll in the Plan you may complete and return the enclosed Direct Stock Purchase Plan Enrollment Form, or enroll online at *www.computershare.com/investor*.

If you are a beneficial owner of our common stock (*i.e.* your shares are registered in a name other than your own, such as that of a broker, bank nominee or trustee), you may be able to arrange for that entity to participate in the dividend reinvestment portion of the Plan on your behalf. You should consult directly with the entity holding your shares to determine if you can enroll in the Plan. If not, you will need to request that your bank, broker or trustee transfer some or all of your shares into your own name in order to participate in the Plan. Persons who participate in the Plan through a third party may only participate in the dividend reinvestment portion of the Plan. You may not make optional cash investments until the Plan Administrator has established an account in your name.

If you are not yet a record holder of our common stock, you may enroll in the Plan by either of the following methods:

You may complete and return the enclosed Initial Enrollment Form to the Plan Administrator, together with payment in an amount not less than $200 nor more than $10,000. Initial investments in an amount over $10,000 can only be made with our prior consent pursuant to a Request for Waiver, as discussed in the answer to Question 13. Payment should be made by check payable to Computershare - First Industrial Realty Trust, Inc. All checks must be in U.S. funds and drawn on a U.S. bank. Cash, money orders, traveler s checks and third-party checks will not be accepted.

You may enroll online at *www.computershare.com/investor* by following the instructions provided for opening a First Industrial Realty Trust, Inc. stockholder account. You will be asked to complete an online enrollment form and to submit an amount for your initial investment. To make your initial investment, you may authorize a one-time deduction from your U.S. bank account.

Subject to our right to restrict participation in the Plan as described in the answer to Question 6, by signing a Direct Stock Purchase Plan Enrollment Form or an Initial Enrollment Form (either of which we sometimes refer to as an Enrollment Form), a common stockholder or non-stockholder may become a participant, and, by checking the appropriate boxes on the Enrollment Form, may choose among the investment options described in the answer to Question 8. The Enrollment Forms are enclosed with this prospectus. Additional Enrollment Forms may be obtained at any time by writing or calling the Plan Administrator at the address or telephone number set forth under the answer to Question 4. The Enrollment Forms are also available through our website, *www.firstindustrial.com*, in the Investor Relations section under Dividend Reinvestment and Direct Stock Purchase Plan. The information on or linked to our website does not constitute a part of this prospectus or any prospectus supplement.

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8. What options are available under the Plan?

Dividend Reinvestment Options

The Enrollment Forms allow you to choose one of the three options listed below regarding your dividends. If you do not specify otherwise on the Enrollment Form, your account will be set up for full dividend reinvestment. You can change your reinvestment option at any time by notifying the Plan Administrator. Dividend reinvestment options under the Plan include:

Full Dividend Reinvestment: The cash dividends, minus any withholding tax, paid on all shares that you own of record will automatically be fully reinvested in additional shares of our common stock.

Partial Dividend Reinvestment: You will receive a check or electronic deposit of cash dividends paid on the number of whole shares that you own of record that you specify, minus any withholding tax. The cash dividends paid on all other shares credited to your Plan account, minus any withholding tax, will be reinvested under the Plan in additional shares of common stock.

No Dividend Reinvestment: None of your cash dividends will be reinvested. You will receive a check or electronic deposit for the full amount of cash dividends, minus any withholding tax, paid on the shares held in your Plan account.

Optional Cash Investments

You can purchase shares of our common stock by using the Plan s optional cash investment feature. To purchase shares using this feature, you must invest at least $50 at any one time (at least $200 for an initial investment if you are not yet a record holder of common stock), but you cannot invest more than $10,000 monthly. We may, in our discretion, grant a waiver permitting larger investments (see the answer to Question 13). Any optional cash investment of less than $50 (or less than $200 for an initial investment if you are not yet a common stockholder) and the portion of any optional cash investment or investments totaling more than $10,000 monthly, except for optional cash investments made pursuant to a Request for Waiver approved by us, will be returned to you without interest. You have no obligation to make any optional cash investments under the Plan unless you elect to make such investments, and until you elect to cease such investments.

You may make an optional cash investment when joining the Plan by enclosing with the Enrollment Form a check made payable to Computershare First Industrial Realty Trust, Inc. Thereafter you may use the Automatic Monthly Electronic Deduction feature (as described in the answer to Question 15) or send a check together with the form provided with your statement of account or a written request with your account number (which is on your dividend check or available from the Plan Administrator) together with your check. All checks must be in U.S. funds and drawn on a U.S. bank. Cash, money orders, traveler s checks and third-party checks will not be accepted.

You may also make initial and optional cash investments online through Investor Centre on the Plan Administrator s website, *www.computershare.com/investor*. In order to purchase shares online, you must authorize the withdrawal of funds from your bank account. You do not need to invest the same amount, or any amount, each month.

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Purchases of our common stock made with initial cash investments and with optional cash investments from current common stockholders will be made on the first Investment Date following timely delivery of your investment funds to the Plan Administrator. The Investment Date will be the first day of the calendar month (or the first trading day following the first calendar day of that month if the first calendar day is not a trading day).

The Plan Administrator must receive optional cash payments no later than two trading days before the Investment Date in order for those investments to be invested in our common stock beginning on the Investment Date. Otherwise, the Plan Administrator may hold those funds and invest them beginning on the next Investment Date unless you request a refund from the Plan Administrator. No interest will be paid on funds held by the Plan Administrator pending investment. Accordingly, you may wish to transmit any optional cash investments so that they reach the Plan Administrator shortly but not less than two trading days before the Investment Date. This will minimize the time period during which your funds are not invested. Participants have an unconditional right to obtain the return of any cash payment up to two trading days prior to the Investment Date by sending a written request to the Plan Administrator.

9. When will my participation in the Plan begin?

You may enroll in the Plan at any time.

If you elect on your Enrollment Form to have dividends reinvested under the Plan, your participation in that portion of the Plan will begin on the next Dividend Payment Date, which is the date we next pay dividends on our common stock as declared by our Board of Directors, provided the Plan Administrator receives your Enrollment Form on or before the record date for the payment of the dividend. We have historically paid dividends between the 15th and the 25th calendar day of each January, April, July and October, with the record date typically occurring on the last trading day of the fiscal quarter to which the Dividend Payment Date relates. For example, if the record date were June 30 for the July 21 dividend payment, the Plan Administrator would have to receive your Enrollment Form on or before June 30 in order for dividends paid on your shares to be used for dividend reinvestment on July 21. If the Plan Administrator received the Enrollment Form after June 30, the July 21 dividend would be paid to you in cash and your reinvestment of cash dividends would commence with the next Dividend Payment Date on or around October 20. We cannot assure you that we will pay dividends according to this schedule in the future or at all, and nothing contained in the Plan obligates us to do so. The Plan does not represent a guarantee of dividends.

If you provide us with cash with which to make an optional cash investment, your participation in that portion of the Plan will commence on the next Investment Date if your Enrollment Form and sufficient funds to be invested are received on or before two trading days prior to the next Investment Date. Should the funds to be invested arrive on or after that date, those funds will be held without interest until they can be invested on the next Investment Date unless you request a refund from the Plan Administrator.

Once enrolled, you will remain enrolled until you discontinue participation or until we terminate the Plan. See the answers to Questions 28 and 29 regarding withdrawal from the Plan and the answer to Question 38 regarding termination of the Plan.

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10. How and when can I change the amount of dividends to be reinvested?

You may change the dividend reinvestment option online at *www.computershare.com/investor* or by submitting a newly executed Direct Stock Purchase Plan Enrollment Form to the Plan Administrator (see the answer to Question 7). The Plan Administrator must receive any change in the number of shares with respect to which the Plan Administrator is authorized to reinvest cash dividends prior to the record date for a Dividend Payment Date to permit the new amount to apply to that payment.

11. Am I assured of receiving a dividend?

The payment of dividends is at the discretion of our Board of Directors and will depend upon future earnings, our financial condition and other factors. There can be no assurance as to the declaration or payment of any dividend on our common stock. We cannot assure you of a profit or protect you against a loss on our shares of our common stock that you purchase or sell under the Plan.

12. How are payments with insufficient funds handled?

In the event that any check or other deposit or fund transfer is returned unpaid for any reason or your predesignated bank account does not have sufficient funds for an automatic electronic deduction, your request for investment for that purchase will be null and void. The Plan Administrator will immediately remove from your account any shares already purchased in anticipation of receiving those funds and will sell such shares. If the net proceeds from the sale of those shares are insufficient to satisfy the balance of the uncollected amounts, the Plan Administrator may sell additional shares from your account as necessary to satisfy the uncollected balance. There is a $25 charge for any check or other deposit or fund transfer that is returned unpaid by your bank. This fee may be collected by the Plan Administrator through the sale of the number of shares from your Plan account necessary to satisfy the fee.

13. How do I request a waiver to make an optional cash investment over the maximum monthly amount?

Optional cash investments in excess of $10,000 per month (including any initial investments in excess of $10,000) may be made only by investors that submit Requests for Waiver that we approve. We may choose not to accept Requests for Waiver during any period, or made by any individual or entity. In our sole discretion, investors who wish to make optional investments in excess of $10,000 per month should email us at *waiverrequest@firstindustrial.com* to determine if we are accepting Requests for Waiver. If we respond that we are then accepting Requests for Waiver, you may then submit a Request for Waiver (which can be found on our website, *www.firstindustrial.com*, in the Investor Relations section under Dividend Reinvestment and Direct Stock Purchase Plan) to us at *waiverrequest@firstindustrial.com*. We will contact any investor whose Request for Waiver is being considered.

We have sole discretion to grant or to refuse to grant any Request for Waiver. In deciding whether to grant a Request for Waiver, we will consider relevant factors, including:

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whether the Plan is then purchasing newly issued shares of common stock;

our need for additional funds;

the attractiveness of obtaining those funds through the sale of our shares under the Plan in comparison to other sources of funds;

the purchase price that may apply to any sale of our shares under the Plan;

the party submitting the request, including the extent and nature of that party s prior participation in the Plan and the number of our shares that party already holds; and

the aggregate amount of optional investments in excess of $10,000 for the month for which Requests for Waiver have been submitted.

If Requests for Waiver are submitted in any month for a total amount greater than the amount we are then willing to accept, we may honor those requests on any basis that we, in our sole discretion, consider appropriate.

14. How do I get a refund of an optional cash purchase if I change my mind?

You may obtain a refund of any optional cash purchase payment not yet invested by requesting, in writing, the Plan Administrator to refund your payment. The Plan Administrator must receive your request not later than two trading days prior to the next Investment Date. If the Plan Administrator receives your request later than the specified date, your cash purchase payment will be applied to the purchase of shares of our common stock under the Plan.

15. What is the Automatic Monthly Electronic Deduction feature of the Plan and how does it work?

The Automatic Monthly Electronic Deduction feature will enable you to make optional cash investments in any amounts permitted under the Plan from a predesignated U.S. account.

To begin Automatic Monthly Electronic Deductions, you must complete and sign a Direct Debit Authorization Form designating the amount to be withdrawn each month and the account from which funds are to be withdrawn, and return the form to the Plan Administrator. The Direct Debit Authorization Form is available on the Plan Administrator s website at *www.computershare.com/investor*. You may also enroll online at *www.computershare.com/investor*. Your election of the Automatic Monthly Electronic Deduction feature will become effective as soon as practicable after the Direct Debit Authorization Form is processed. However, you should allow four to six weeks for the first investment to be initiated using this Automatic Monthly Electronic Deduction feature.

Once you begin Automatic Monthly Electronic Deductions, the Plan Administrator will withdraw funds from your designated account on the 25th day of each month, or the next trading day if the 25th is not a trading day. Those funds will be invested in our shares on the next Investment Date for optional cash investments.

You may change the amounts of your future Automatic Monthly Electronic Deductions online at *www.computershare.com/investor* or by completing and sending to the Plan Administrator a new Direct Debit Authorization Form. You may terminate Automatic Monthly Electronic Deductions by notifying the Plan Administrator in writing or online at

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www.computershare.com/investor. Your request will be processed and will become effective as promptly as is practicable.

Purchases and Price

16. What is the source of the shares purchased under the Plan?

Shares of our common stock purchased for your account under the Plan will be purchased by the Plan Administrator either from us out of our authorized but unissued shares or from third parties on the open market or in privately negotiated transactions. We may, in our sole discretion, determine the source from which shares will be purchased under the Plan.

17. When will the shares be purchased for my account?

If the Plan Administrator is purchasing your shares with reinvested dividends, your shares will be purchased on the Dividend Payment Date, or the next trading day, if the Dividend Payment Date falls on a non-trading day, then the next trading day. We cannot give you any assurance that we will declare or pay dividends, and nothing contained in the Plan obligates us to declare or pay any dividends. The Plan is not a guarantee of future dividends.

If the Plan Administrator is purchasing your shares with optional cash investments, your shares will be purchased beginning on the next Investment Date. You should be aware that when the Plan Administrator is purchasing shares on the open market, regulations may require the Plan Administrator to make the purchases on a date later than the date otherwise specified by the Plan.

If the Plan Administrator is purchasing your shares with optional cash investments pursuant to an approved Request for Waiver, your shares will be purchased over an investment period of ten trading days, which we refer to as the Waiver Investment Period. A Waiver Investment Period may not include or straddle any Dividend Payment Date or the two trading days immediately preceding or immediately following any Dividend Payment Date. In addition, purchases will only be made for your account on trading days within the Waiver Investment Period on which trades of our common stock are reported on the NYSE and the Threshold Price, as described in the answer to Question 20, is satisfied. Each trading day in the Waiver Investment Period on which these conditions are satisfied is referred to as a Waiver Investment Date. In connection with an approved Request for Waiver, the Plan Administrator will purchase for your account, on each Waiver Investment Date, the maximum number of shares that may be purchased with one-tenth of your total proposed investment, which we refer to as the Daily Waiver Investment Amount. At your request, the Plan Administrator will deposit with DTC shares purchased for your account pursuant to a request for waiver, for a service charge of $100 per deposit.

18. What will be the price of the shares purchased with reinvested dividends under the Plan?

Shares Acquired Directly from Us

The shares acquired directly from us under the Plan with reinvested dividends will be purchased at a price equal to the Trading Price on the Dividend Payment Date, subject to any discount. Trading Price means, for any given date, the volume weighted average price of our common stock, rounded to four decimal places, as reported by the New York Stock Exchange for the trading hours from 9:30 a.m. to 4:00 p.m., Eastern time (through and including the NYSE closing print) on that date, obtained from Bloomberg, LP. Any discount will be fixed in our sole discretion, and may be no greater than 5% of the Trading Price on the Dividend Payment Date. The discount may be initiated, eliminated or adjusted at any time and in our sole discretion. We intend to communicate the discount, if any, through our website, *www.firstindustrial.com*, in the Investor Relations section under Dividend Reinvestment and Direct Stock Purchase Plan.

Open Market Purchases or Privately Negotiated Transactions

The shares acquired through open market or privately negotiated transactions under the Plan with reinvested dividends will be purchased at a price equal to the volume weighted average price of all shares acquired on the Dividend Payment Date and any additional days required for the Plan Administrator to complete the purchase of the requisite number of shares. Shares of our common stock purchased with reinvested dividends in the open market or in privately negotiated transactions will not be eligible for any purchase price discount.

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19. What will be the price of the shares purchased with both initial and optional cash investments up to $10,000?

Shares Acquired Directly from Us

The shares purchased directly from us will be purchased at a price equal to the Trading Price on the applicable Investment Date, subject to any discount. Any discount will be fixed in our sole discretion, but may be no greater than 5% of the Trading Price of the shares on the Investment Date. The discount may be initiated, eliminated or adjusted at any time in our sole discretion. We intend to communicate the discount, if any, through our website, *www.firstindustrial.com*, in the Investor Relations section under Dividend Reinvestment and Direct Stock Purchase Plan.

Open Market Purchases or Privately Negotiated Transactions

Independent Agent. An independent agent appointed by the Plan Administrator may buy our shares for the Plan by purchasing them in the open market or in privately negotiated transactions. Except for any limitations imposed by federal or state securities laws, the Plan Administrator s independent agent will have full discretion as to all matters relating to open-market purchases for the Plan. The agent will determine the number of shares, if any, to be purchased on any given day, the time of any purchase, the price to be paid for shares, the markets in which shares are to be purchased and the persons (including brokers or dealers) from or through whom purchases are made.

Price. The purchase price of our shares purchased on the open market or in privately negotiated transactions under the Plan will be equal to the volume weighted average price of all shares acquired by the Plan Administrator or its independent agent on the Investment Date and any additional days required for the Plan Administrator to complete the purchase of the requisite number of shares. Shares of our common stock purchased with optional cash investments in the open market or in privately negotiated transactions will not be eligible for any purchase price discount.

Timing and Control. Purchases may be made over a number of days to meet the requirements of the Plan. No interest will be paid on funds held by the Plan Administrator pending investment. The Plan Administrator s independent agent may commingle your funds with those of other participants in the Plan to execute purchase transactions.

Because the Plan Administrator may arrange for the purchase of shares on behalf of the Plan via open-market transactions through an independent agent, neither we nor any participant in the Plan has the authority or power to control either the timing or the pricing of the shares purchased on the open market. Therefore, you will not be able to precisely time your purchases through the Plan, and you will bear the market risk associated with fluctuations in the price of our common stock. It is anticipated that the independent agent will try to apply all funds to the purchase of shares before the next Investment Date, subject to any applicable requirements of federal or state securities laws.

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20. What will be the price of the shares purchased pursuant to a Request for Waiver?

The price of the shares purchased by the Plan Administrator for your account in connection with an approved Request for Waiver will be based on the Trading Price on each Waiver Investment Date. We may, in our sole discretion, establish prior to the beginning of a Waiver Investment Period a minimum price, which we refer to as the Threshold Price, applicable to purchases of shares during the Waiver Investment Period. We may also provide for a discount to be applied to the transaction. The discount will be available only for shares purchased directly from us and, on any Waiver Investment Date, may be no greater than 5% of the Trading Price on that Waiver Investment Date.

Threshold Price

We may establish prior to the beginning of any Waiver Investment Period a Threshold Price applicable to optional cash investments made pursuant to a Request for Waiver. This determination will be made by us in our sole discretion after a review of current market conditions, the level of participation in the Plan, current and projected capital needs, and other factors. A Threshold Price established for a Request for Waiver will not necessarily apply to any other Request for Waiver, and different Threshold Prices may apply to different Requests for Waiver in any given month. Setting a Threshold Price for a Waiver Investment Period does not affect the setting of a Threshold Price for any subsequent Waiver Investment Period. For any particular month or any particular Request for Waiver, we may waive our right to set a Threshold Price. Neither we nor the Plan Administrator will be required to provide any written notice to you as to the Threshold Price for any Waiver Investment Period.

If we establish a Threshold Price for any Request for Waiver, we will state the Threshold Price as a dollar amount that the Trading Price of our common stock must equal or exceed for each trading day of the relevant Waiver Investment Period. In the event that the Threshold Price is not satisfied for a particular trading day in the Waiver Investment Period, then that date will not be considered a Waiver Investment Date, and no shares will be purchased pursuant to the Request for Waiver on that trading day of the Waiver Investment Period. A trading day will also not be a Waiver Investment Date if no trades of common stock are made on the NYSE for that day. The Daily Waiver Investment Amount will be returned for each trading day of a Waiver Investment Period that is not a Waiver Investment Date.

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For example, if the Threshold Price is not satisfied or no trades are reported for three of the ten trading days in a Waiver Investment Period, 3/10 (i.e., 30%) of such optional cash investment will be returned to you without interest after the end of the Waiver Investment Period. The establishment of the Threshold Price and the possible return of a portion of the investment apply only to optional cash investments made pursuant to a Request for Waiver.

Waiver Discount

We may also establish a discount from the market price applicable for shares purchased directly from us in connection with optional cash investments made pursuant to a Request for Waiver. The Waiver Discount applicable to purchases made on any Waiver Investment Date may be from 0% to 5% of the Trading Price on that Waiver Investment Date, and may vary with each Request for Waiver. The waiver discount will be established at our sole discretion.

A waiver discount offered for a particular Request for Waiver will not necessarily apply to any other Request for Waiver, and we may establish different waiver discounts for different Requests for Waiver in a Waiver Investment Period.

21. Is the discount for shares purchased under the Plan subject to change?

The discount on shares purchased directly from us will not exceed 5% of the Trading Price on the applicable Investment Date, Dividend Payment Date or Waiver Investment Date, and is subject to change or discontinuance at our discretion at any time based on a number of factors, including current market conditions, the level of participation in the Plan and our current and projected capital needs. We intend to communicate the discount, if any, for any Investment Date or Dividend Payment Date through our website, *www.firstindustrial.com*, in the Investor Relations section under Dividend Reinvestment and Direct Stock Purchase Plan.

22. How will the number of shares purchased for my account be determined?

Dividend Reinvestments and Optional Cash Investments up to $10,000

The number of shares to be purchased for your account as of any Investment Date or Dividend Payment Date will be equal to the total dollar amount to be invested for you divided by the Trading Price on that Investment Date or Dividend Payment Date, less any applicable discount, computed to the sixth decimal place. More information regarding the applicable purchase price for dividend reinvestments and optional cash investments is available in the answers to Questions 18 and 19.

The total dollar amount to be invested as of any Dividend Payment Date will be the sum of the cash dividends on the number of shares applicable under your dividend reinvestment option (see the answer to Question 8) to be reinvested in our common stock.

The amount to be invested may be reduced by any amount we are required to deduct for federal tax withholding purposes (see Certain U.S. Federal Income Tax Considerations, below).

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Optional Cash Investment Pursuant to a Request for Waiver

The number of shares to be purchased for your account on each Waiver Investment Date will be equal to the Daily Waiver Investment Amount divided by the Trading Price on that Waiver Investment Date, as reduced by any applicable waiver discount, computed to the sixth decimal place. More information regarding the Daily Waiver Investment Amount is available in the answer to Question 17.

Sales of Common Shares

23. May I request that shares held in my account be sold?

Yes, you may request that all or any portion of the shares held in your account be sold either when an account is being terminated (see the answers to Questions 28 and 29) or without terminating the account. However, a fractional common share will not be sold unless all whole shares held in the account are sold. If all shares (including any fractional share) held in your account are sold, the account will be terminated automatically, and you will have to complete and file a new Enrollment Form or enroll online in order to participate again in the Plan (see the answer to Question 30).

You may sell shares in your account by either of the following methods:

Market Order: A market order is a request to sell shares promptly at the current market price. Market order sales are only available at *www.computershare.com/investor* through Investor Centre or by calling the Plan Administrator directly at 1-800-446-2617. Market order sale requests received at *www.computershare.com/investor* through Investor Centre or by telephone will be placed promptly upon receipt during market hours (normally 9:30 a.m. to 4:00 p.m. Eastern Time). Any orders received after 4:00 p.m. Eastern Time will be placed promptly on the next day the market is open. The price shall be the market price of the sale obtained by the Plan Administrator s broker, less a service charge of $25 per order and a processing fee of $0.12 per share sold.

Batch Order: A batch order is an accumulation of all sales requests by Plan participants which is submitted by the Plan Administrator as a single order. Batch orders are submitted on each market day, assuming there are sale requests to be processed. Sale instructions for batch orders received by the Plan Administrator will be processed no later than five trading days after the date on which the order is received (unless deferral is required under applicable federal or state laws or regulations), assuming the applicable market is open for trading and sufficient market liquidity exists. Batch order sales are available at *www.computershare.com/investor* through Investor Centre, by calling the Plan Administrator directly at 1-800-446-2617 or in writing. All sales requests received in writing will be submitted as batch order sales. To maximize cost savings for batch order sale requests, the Plan Administrator will seek to sell shares in round lot transactions. For this purpose the Plan Administrator may combine each selling participant s shares with those of other selling Plan participants. In every case of a batch order sale, the sale price for each selling Plan participant shall be the weighted average sale price obtained by the Plan Administrator s broker for each batch order processed by

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the Plan Administrator and executed by the broker, less a service charge of $15 per order and a processing fee of $0.12 per share sold.

Sale Proceeds are normally paid by check and distributed within 24 hours after settlement of the sale transaction.

24. What happens when I sell or transfer all the shares registered in my name?

Your participation in the Plan with respect to such holdings is automatically terminated.

Stock Certificates

25. Will I receive certificates for shares purchased under the Plan?

Common shares purchased under the Plan are registered in the name of the Plan Administrator or its nominee as agent for the participants in the Plan. No certificates for any number of shares credited to your Plan account will be issued to you unless you request them from the Plan Administrator. Requests may be made online at *www.computershare.com/investor*, in writing or by phone at 1-800-446-2617, and will be processed by the Plan Administrator within five trading days. There is no charge for this service. Any remaining whole shares and any fractional shares will continue to be credited to your account. Certificates for fractional shares will not be issued.

Shares of our common stock which are purchased for and credited to your account under the Plan may not be pledged. If you wish to pledge such shares, you must request that a certificate for such shares first be issued in your name.

26. What is the effect on my account if I request a certificate for whole shares held in the account?

If you maintain an account for reinvestment of dividends, all dividends on the shares for which a certificate is requested will continue to be reinvested under the Plan unless you file a new Direct Stock Purchase Plan Enrollment Form changing your investment election or terminate your Plan participation.

27. May shares held in certificate form be deposited in my account?

At any time, you may deposit with the Plan Administrator any certificates for shares registered in your name for safekeeping under the Plan. There is no charge for this custodial service, and, by making the deposit, you avoid responsibility for loss, theft or destruction of the certificate.

Certificates sent to the Plan Administrator should not be endorsed. If you elect to deposit certificates with the Plan Administrator for safekeeping, the Plan Administrator recommends that you send those certificates by certified or registered mail, return receipt requested, or via some other form of traceable delivery, and properly insured. The Plan Administrator will send you a statement confirming each deposit of certificates.

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The Plan Administrator will credit the shares represented by the certificates to your account in book-entry form and will combine the shares with any whole and fractional shares then held in your Plan account.

Withdrawal From the Plan

28. May I withdraw from the Plan?

Yes, you may terminate your participation in the Plan at any time online at *www.computershare.com/investor*, by calling the Plan Administrator, by using the tear-off form attached to your account statement or by writing a notice of termination to the Plan Administrator using the address found in the answer to Question 4.

29. What happens when I terminate my account?

If the Plan Administrator receives your notice of termination near a Dividend Payment Date and dividends are to be reinvested under your existing Enrollment Form, the Plan Administrator, in its sole discretion, may either distribute such dividends in cash or reinvest them in shares on your behalf. In the event reinvestment is made, the Plan Administrator will process the termination as soon as practicable, but in no event later than five trading days after the investment is completed. When terminating an account, you may request that a stock certificate be issued for all whole shares held in the account. As soon as practicable after it receives your notice of termination, the Plan Administrator will send to you (a) a certificate for all whole shares held in the account and (b) a check representing the value of any fractional common share held in the account. That check will be based on the then market value of our common stock, less a $15 service charge and any processing fees. All dividends paid after an account is terminated will be paid to you, unless you re-elect to participate in the Plan.

When terminating an account, you may request that all shares, both full and fractional, in your Plan account be sold or that some of the shares be sold and a certificate be issued for the remaining shares. The Plan Administrator will pay you the net proceeds of any sale (see the answer to Question 23).

30. When may a common stockholder re-elect to participate in the Plan?

Generally, a common stockholder of record may re-elect to participate at any time. However, we and the Plan Administrator reserve the right to reject any Enrollment Form on the grounds of excessive participation and withdrawal. This reservation is intended to minimize unnecessary administrative expenses and to encourage use of the Plan as a long-term common stockholder investment service.

Reports to Participants

31. How will I keep track of my investments?

After an investment is made under the Plan for your account, the Plan Administrator will send you a statement that will provide a record of the cost of the shares purchased for your account, the number of shares purchased, the date on which the shares were credited to your account and the total number of shares in your account. In addition, you will be sent income tax information for reporting dividends. You may also obtain information about your account any

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time through the Investor Centre section of the Plan Administrator s website, *www.computershare.com/investor*.

Other Information

32. What happens if the Company issues a stock dividend or declares a stock split?

Upon a stock dividend or a stock split payable in shares, the Plan Administrator will receive and credit to your account the applicable number of whole and/or fractional shares based on the number of shares held in your account as of the record date for the stock dividend or split.

33. If the Company issues rights to purchase securities to the common stockholders, how will the rights on shares held in my account be handled?

If we have a rights offering in which separately tradable and exercisable rights are issued to registered common stockholders, the rights attributable to whole shares held in your Plan account will be transferred to you as promptly as practicable after the rights are issued.

34. How are the shares in my account voted at stockholder meetings?

We will send you proxy materials for shares registered in the Plan Administrator s name under the Plan in the same manner as any shares registered in your own name. Shares of our common stock credited to your Plan account may also be voted in person at the meeting.

35. What are the Company s and the Plan Administrator s responsibilities under the Plan?

We and the Plan Administrator, in administering the Plan, are not liable for any act done in good faith or required by applicable law or for any good faith omission to act, including any claim of liability (a) arising out of failure to terminate a participant s account upon such participant s death prior to receipt by the Plan Administrator of notice in writing of such death, (b) with respect to the prices and times at which shares are purchased or sold for a participant, or (c) with respect to any fluctuation in market value before or after any purchase or sale of shares.

We and the Plan Administrator will not have any duties, responsibilities or liabilities other than those expressly set forth in the Plan or as imposed by applicable laws, including federal securities laws. Because the Plan Administrator has assumed all responsibility for administering the Plan, we specifically disclaim any responsibility for any of the Plan Administrator s actions or inactions in connection with the administration of the Plan. None of our directors, officers, employees or stockholders will have any personal liability under the Plan.

We and the Plan Administrator will be entitled to rely on completed forms and the proof of due authority to participate in the Plan, without further responsibility of investigation or inquiry.

The Plan Administrator may resign as administrator of the Plan, in which case we would appoint a successor administrator. In addition, we may replace the Plan Administrator with a successor administrator at any time.

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36. What are my responsibilities under the Plan?

The shares in your account may revert to the state in which you live if the shares are deemed, under your state s laws, to have been abandoned by you. For this reason, you should notify the Plan Administrator promptly of any change of address. The Plan Administrator will address account statements and other communications to you at the last address you provide to them.

You will have no right to draw checks or drafts against your account or, except as expressly provided herein to instruct the Plan Administrator with respect to any shares or cash held by the Plan Administrator.

37. May the Plan be amended, suspended or terminated?

While we expect to continue the Plan indefinitely, we may amend, suspend or terminate the Plan at any time, but such action will have no retroactive effect that would prejudice your interests. To the extent practicable, any such amendment, suspension or termination will be announced at least 30 days prior to its effective date.

38. What happens if the Plan is terminated?

You will receive (a) a certificate for all whole shares held in your account and (b) a check representing the value of any fractional common share held in your account and any uninvested cash held in the account. Orders pending on or after the effective date of the termination of the Plan will not be filled.

39. Who interprets and regulates the Plan?

We are authorized to issue interpretations, adopt regulations and take actions we deem reasonably necessary to effectuate the Plan. Any action to effectuate the Plan taken by us or the Plan Administrator in the good faith exercise of our respective judgment will be binding on all Plan participants.

40. May the transfer agent and registrar for the shares change?

Computershare Trust Company, N.A., our Plan Administrator, presently also acts as transfer agent and registrar for our shares. We reserve the right to terminate the transfer agent or Plan Administrator and appoint a new transfer agent or Plan Administrator or administer the Plan ourselves. All participants will receive notice of any such change.

41. What law governs the Plan?

The terms and conditions of the Plan and its operation will be governed by the laws of the State of Maryland.

DESCRIPTION OF COMMON STOCK

The following is a summary of the material terms of our common stock. You should read our charter and our amended and restated bylaws, which we refer to as our bylaws, which are each incorporated by reference to the registration statement of which this prospectus is a part.

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General

Under our charter, we have authority to issue 100 million shares of our common stock, par value $.01 per share. Under Maryland law, stockholders generally are not responsible for the corporation s debts or obligations. At April 25, 2008, we had outstanding 44,301,123 shares of our common stock.

Terms

Subject to the preferential rights of any other shares or series of stock, including preferred stock outstanding from time to time, and to the provisions of our charter regarding excess stock, common stockholders will be entitled to receive dividends on shares of our common stock if, as and when authorized and declared by our Board of Directors out of assets legally available for that purpose. Subject to the preferential rights of any other shares or series of stock, including preferred stock outstanding from time to time, and to the provisions of our charter regarding excess stock, common stockholders will share ratably in the assets of the Company legally available for distribution to its stockholders in the event of its liquidation, dissolution or winding up after payment of, or adequate provision for, all known debts and liabilities of the Company. For a discussion of excess stock, see Restrictions on Transfer of Capital Stock.

Subject to the provisions of our charter regarding excess stock, each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors, and, except as otherwise required by law or except as provided with respect to any other class or series of stock, common stockholders will possess the exclusive voting power. There is no cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors then standing for election, and the holders of the remaining shares of common stock will not be able to elect any directors.

Common stockholders have no conversion, sinking fund or redemption rights, or preemptive rights to subscribe for any securities of the Company.

Subject to the provisions of our charter regarding excess stock, all shares of common stock will have equal dividend, distribution, liquidation and other rights, and will have no preference, appraisal or exchange rights.

Under Maryland General Corporate Law, or the MGCL, a corporation generally cannot, subject to certain exceptions, dissolve, amend its articles of incorporation, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business unless approved by the affirmative vote of stockholders holding at least two-thirds of the shares entitled to vote on the matter, unless the corporation s articles of incorporation set forth a lesser percentage, which percentage shall not be less than a majority of all of the votes entitled to be cast on the matter. Our charter does not provide for a lesser percentage in such situations.

Restrictions on Ownership

For the Company to qualify as a REIT under the Code, not more than 50% in value of its outstanding capital stock may be owned, actually or by attribution, by five or fewer individuals,

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as defined in the Code to include certain entities, during the last half of a taxable year. To assist us in meeting this requirement, we may take certain actions to limit the beneficial ownership, directly or indirectly, by individuals of our outstanding equity securities. See Restrictions on Transfer of Capital Stock.

Transfer Agent

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

CERTAIN PROVISIONS OF MARYLAND LAW AND THE COMPANY S CHARTER AND BYLAWS

The following summary of certain provisions of Maryland law is not complete and is qualified by reference to Maryland law and our charter and bylaws, which are incorporated by reference to the registration statement of which this prospectus is a part.

Business Combinations

Under the MGCL, certain business combinations (as defined in the MGCL) between a Maryland corporation and an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder became an interested stockholder. Under the MGCL, an interested stockholder includes a person who is:

- the beneficial owner, directly or indirectly, of 10 percent or more of the voting power of the outstanding voting stock of the corporation; or

- an affiliate or associate of the corporation and was the beneficial owner, directly or indirectly, of 10 percent or more of the voting power of the then-outstanding stock of the corporation at any time within the two-year period immediately prior to the date in question.

For the purposes of the preceding paragraph MGCL defines business combinations to include certain mergers, consolidations, share exchanges and asset transfers, some issuances and reclassifications of equity securities, the adoption of a plan of liquidation or dissolution or the receipt by an interested stockholder or its affiliate of any loan advance, guarantee, pledge or other financial assistance or tax advantage provided by the Company. After the five-year moratorium period, any such business combination must be recommended by the Board of Directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation voting together as a single group; and

- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than voting stock held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected or by any affiliate or associate of the interested stockholder voting together as a single voting group.

The super-majority vote requirements will not apply if, among other things, the corporation s stockholders receive a minimum price (as defined in the MGCL) for their shares

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and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by the Board of Directors of the corporation prior to the most recent time that the interested stockholder becomes an interested stockholder. Our charter exempts from these provisions of the MGCL any business combination in which there is no interested stockholder other than Jay H. Shidler, the Chairman of our Board of Directors, or any entity controlled by Mr. Shidler, unless Mr. Shidler is an interested stockholder without taking into account his ownership of shares of our common stock and the right to acquire shares of common stock in an aggregate amount that does not exceed the number of shares of common stock that he owned and had the right to acquire, including through the exchange of limited partnership units of the Operating Partnership, at the time of the consummation of our initial public offering.

Control Share Acquisitions

The MGCL provides that control shares (as defined in the MGCL) of a Maryland corporation acquired in a control share acquisition (as defined in the MGCL) have no voting rights except to the extent approved by a vote of holders of two-thirds of the votes entitled to be cast on the matter, excluding shares of stock owned by the acquiror or by officers or directors who are also employees of the corporation. Control shares are voting shares of stock that, if aggregated with all other shares of stock previously acquired by that person, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third;

one-third or more but less than a majority; or

a majority or more of all voting power.

Control shares do not include shares that the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of ownership of or power to direct the voting power of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the Board of Directors, upon satisfaction of certain conditions, including an undertaking to pay certain expenses, to call a special meeting of stockholders to be held within 50 days after receiving a demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any meeting of stockholders.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the MGCL, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares, except those for which voting rights have previously been approved. The corporation s redemption of the control shares will be for fair value determined, without regard to the absence of voting rights, as of the date of the last control share acquisition or of any meeting of stockholders at which the voting rights of the control shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the

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shares as determined for purposes of the appraisal rights may not be less than the highest price per share paid in the control share acquisition. Certain limitations and restrictions otherwise applicable to the exercise of dissenters rights do not apply in the context of a control share acquisition.

The control share acquisition statute does not apply to:

shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction; or

acquisitions approved or exempted by our charter or bylaws.

Our bylaws contain a provision exempting any and all acquisitions of its shares of capital stock from the control share provisions of the MGCL. There can be no assurance that this bylaw provision will not be amended or eliminated in the future.

Amendment of Charter

Except for certain minor exceptions permitted under the MGCL (e.g. modifying the number of shares of stock authorized to be issued or to effect a reverse stock split), our charter, including the provisions on classification of the Board of Directors discussed below, may be amended only by the affirmative vote of the holders of not less than two-thirds of all of the votes entitled to be cast on the matter.

Meetings of Stockholders

Our bylaws provide for annual meetings of stockholders to be held on the third Wednesday in April or on any other day as may be established from time to time by our Board of Directors. Special meetings of stockholders may be called by:

our Chairman of the Board or our President;

a majority of the Board of Directors; or

stockholders holding at least a majority of our outstanding capital stock entitled to vote at the meeting.

Our bylaws provide that any stockholder of record wishing to nominate a director or have a stockholder proposal considered at an annual meeting must provide written notice and certain supporting documentation to the Company relating to the nomination or proposal not less than 75 days nor more than 180 days prior to the anniversary date of the prior year s annual meeting or special meeting in lieu thereof, which we refer to as the Anniversary Date. If the annual meeting is called for a date more than seven calendar days before the Anniversary Date, stockholders generally must provide written notice within 20 calendar days after the date on which notice of the meeting is mailed to stockholders or the date of the meeting is publicly disclosed.

Although our bylaws do not give our Board of Directors any power to disapprove stockholder nominations for the election of directors or proposals for action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if the proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own

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proposal. Our bylaws may have those effects without regard to whether consideration of the nominees or proposal might be harmful or beneficial to us and our stockholders.

Classification of the Board of Directors

Our bylaws provide that the number of directors may be established by the Board of Directors but may not be fewer than the minimum number required by Maryland law nor more than twelve. Any vacancy will be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the remaining directors, except that a vacancy resulting from an increase in the number of directors will be filled by a majority of the entire Board of Directors. Any director elected by the Board to fill a vacancy will be subject to election at the next annual meeting of stockholders. Under the terms of our charter, the directors are divided into three classes holding office for terms expiring at the annual meetings of stockholders to be held in 2009, 2010 and 2011. As the term of each class expires, directors in that class will be elected for a term of three years and until their successors are duly elected and qualified. We believe that classification of our Board of Directors will help to assure the continuity and stability of our business strategies and policies as determined by our Board of Directors.

The classified board provision could have the effect of making the removal of incumbent directors more time consuming and difficult, which could discourage a third party from making a tender offer or otherwise attempting to obtain control of the Company, even though such an attempt might be beneficial to us and our stockholders. At least two annual meetings of stockholders, instead of one, will generally be required to effect a change in a majority of our Board of Directors. Thus, the classified board provision could increase the likelihood that incumbent directors will retain their positions. Holders of shares of common stock will have no right to cumulative voting for the election of directors. Consequently, at each annual meeting of stockholders, the holders of a majority of the shares of common stock will be able to elect all of the successors of the class of directors whose term expires at that meeting.

RESTRICTIONS ON TRANSFER OF CAPITAL STOCK

For us to qualify as a REIT under the Code, among other things, not more than 50% in value of our outstanding capital stock may be owned, actually or by attribution, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year. Our capital stock must also be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter tax year. See Certain U.S. Federal Income Tax Considerations. To ensure that we remain a qualified REIT, our charter, subject to certain exceptions, provides that no holder may own, or be deemed to own by virtue of the attribution provisions of the Code, more than an aggregate of 9.9% in value of our capital stock. Any transfer of capital stock or any security convertible into capital stock that would create a direct or indirect ownership of capital stock in excess of the ownership limit or that would result in our disqualification as a REIT, including any transfer that results in the capital stock being owned by fewer than 100 persons or results in us being closely held within the meaning of Section 856(h) of the Code, will be null and void, and the intended transferee will acquire no rights to the capital stock.

Capital stock owned, deemed to be owned, or transferred to a stockholder in excess of the ownership limit will automatically be exchanged for shares of excess stock, as defined in our

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charter, which shares will be transferred, by operation of law, to us as trustee of a trust for the exclusive benefit of the transferees to whom such capital stock may be ultimately transferred without violating the ownership limit. While the excess stock is held in trust, it will not be entitled to vote, it will not be considered for purposes of any stockholder vote or the determination of a quorum for such vote, and it will not be entitled to participate in the accumulation or payment of dividends or other distributions. A transferee of excess stock may, at any time such excess stock is held by us in trust, designate as beneficiary of the transferee stockholder s interest in the trust representing the excess stock any individual whose ownership of the capital stock exchanged into such excess stock would be permitted under the ownership limit, and may transfer that interest to the beneficiary at a price not in excess of the price paid by the original transferee-stockholder for the capital stock that was exchanged into excess stock. Immediately upon the transfer to the permitted beneficiary, the excess stock will automatically be exchanged for capital stock of the class from which it was converted.

In addition, we will have the right, for a period of 90 days during the time any excess stock is held by us in trust, and, with respect to excess stock resulting from the attempted transfer of our preferred stock, at any time when any outstanding shares of preferred stock of the series are being redeemed, to purchase all or any portion of the excess stock from the original transferee-stockholder at the lesser of the price paid for the capital stock by the original transferee-stockholder or the market price of the capital stock, as determined in the manner set forth in our charter, on the date we exercise our option to purchase or, in the case of a purchase of excess stock attributed to preferred stock which has been called for redemption, at its stated value, plus all accumulated and unpaid dividends to the date of redemption. The 90-day period begins on the date of the violative transfer if the original transferee-stockholder gives notice to us of the transfer or, if no such notice is given, the date the Board of Directors determines that a violative transfer has been made.

DISTRIBUTIONS

We currently pay regular quarterly dividends to holders of our shares. Any future dividends will be authorized by our Board of Directors and declared by us based upon a number of factors, including the amount of funds from operations, our financial condition, debt service requirements, the dividend requirements for our preferred shares, capital expenditure requirements for our properties, our taxable income, the annual distribution requirements under the REIT provisions of the Code and other factors our directors deem relevant. Our ability to make dividends to our stockholders will depend on our receipt of distributions from our Operating Partnership. We can make no assurances to you about our ability to make future dividends.

PLAN OF DISTRIBUTION

Subject to the discussion below and in certain instances, we will distribute newly issued shares of common stock sold under the Plan. Unless directed otherwise, purchases and sales under the Plan usually will be made through the Plan Administrator. You will only be responsible for a transaction fee and your pro rata share of trading fees and any brokerage commissions associated with your sales of shares of common stock attributable to you under the Plan. We will pay for all fees and commissions associated with your purchases under the Plan.

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We may sell common stock to owners of shares (including brokers or dealers) who, in connection with any resales of such shares, may be deemed to be underwriters. These shares, including shares acquired through waivers granted with respect to the stock purchase program of the Plan, may be resold in market transactions (including coverage of short positions) on any national security exchange or automated quotation system on which common stock is traded or quoted, or in privately negotiated transactions. Our common stock is listed on the NYSE under the symbol FR. The difference between the price owners who may be deemed to be underwriters pay us for shares of common stock acquired under the Plan, after deduction of the applicable discount, and the price at which such shares are resold, may be deemed to constitute underwriting commissions received by these owners in connection with such transactions.

Pursuant to the Plan, we may be requested to approve optional cash purchases in excess of the allowable maximum amounts pursuant to requests for waiver on behalf of participants that may be engaged in the securities business. In deciding whether to approve these requests, we will consider relevant factors including, but not limited to:

whether the Plan is then purchasing newly issued shares of common stock or is purchasing our shares in the open market;

our need for additional funds;

the attractiveness of obtaining those funds through the sale of our shares under the Plan in comparison to other sources of funds;

the purchase price that may apply to any sale of our shares under the Plan;

the party submitting the request, including the extent and nature of that party s prior participation in the Plan and the number of shares that party holds of record; and

the aggregate amount of optional investments in excess of $10,000 for the month for which Requests for Waiver have been submitted.

Persons who acquire shares of common stock through the Plan and resell them shortly after acquiring them, including coverage of short positions, may under some circumstances be participating in a distribution of securities that would require compliance with Regulation M under the Exchange Act and may be considered to be underwriters within the meaning of the Securities Act. We will not extend to these persons any rights or privileges other than those to which they would be entitled as a Plan participant, nor will we enter into any agreement with these persons regarding their purchase of the shares or any resale or distribution thereof. We may, however, approve requests for optional cash purchases by these persons in excess of allowable maximum limitations. If requests are submitted for any Investment Date for an aggregate amount in excess of the amount that we are willing to accept, we may honor the requests in order of receipt, pro rata or by any other method which we determine to be appropriate.

Subject to the availability of common stock registered for issuance under the Plan, there is no total maximum number of shares that can be issued pursuant to the reinvestment of dividends. From time to time, financial intermediaries may engage in positioning transactions in order to benefit from the discount acquired through the reinvestment of dividends and optional cash payments under the Plan.

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Common stock may not be available under the Plan in all states. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any common stock or other securities in any state or any other jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of the material United States federal income tax consequences to U.S. participants of participating in the Plan, as well as considerations regarding our election to be taxed as a REIT and the ownership and disposition of our common stock offered by this prospectus. This summary is for general information only and is not tax advice This discussion is based on the Code, Treasury Regulations and administrative and judicial interpretations thereof, all as in effect as of the date of this prospectus, and all of which are subject to change, possibly with retroactive effect. This discussion does not purport to deal with all aspects of federal income taxation that may be relevant to investors subject to special treatment under the U.S. federal income tax laws, such as dealers in securities, insurance companies, tax-exempt entities (except as described herein), expatriates, persons subject to the alternative minimum tax, financial institutions and partnerships or other pass-through entities. This section applies only to purchasers of common stock who hold such stock as capital assets within the meaning of Section 1221 of the Code. This summary does not discuss any state, local or foreign tax consequences associated with the participation in the Plan, the ownership, sale or other disposition of our stock or our election to be taxed as a REIT.

You are urged to consult your tax advisors, regarding the specific tax consequences to you of:

participation in the Plan;

the acquisition, ownership, and/or sale or other disposition of the common stock offered under this prospectus, including the federal, state, local, foreign and other tax consequences;

our election to be taxed as a REIT for federal income tax purposes; and

potential changes in the applicable tax laws.

When we use the term US stockholder or U.S. participant, we mean a holder of our common stock or a participant in the Plan, respectively, who, for United States federal income tax purposes is:

an individual citizen or resident of the United States;

a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision thereof;

an estate whose income is subject to U.S. federal income taxation regardless of its source; or

a trust if a U.S. court is able to exercise primary supervision over the administration of that trust and one or more U.S. persons have the authority to

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control all substantial decisions of the trust, or it has a valid election in place to be treated as a U.S. person.

Participation in the Plan by U.S. Participants

The following summary describes certain United States federal income tax consequences of participating in the Plan to U.S. participants.

Distributions you receive on shares of our common stock you hold in the Plan and that are reinvested in newly issued shares will be treated for federal income tax purposes as a taxable stock distribution to you. Accordingly, you will receive taxable dividend income in an amount equal to the fair market value of the shares of our common stock that you receive on the date we make distributions (to the extent we have current or accumulated earnings and profits for federal income tax purposes). We intend to take the position that the fair market value of the newly issued shares purchased with reinvested distributions equals the volume weighted average price of our common stock, rounded to four decimal places, as reported by the New York Stock Exchange for the trading hours from 9:30 a.m. to 4:00 p.m. Eastern time (through and including the NYSE closing point) on the date that we issue the shares to you, obtained from Bloomberg, LP. The treatment described above will apply to you whether or not the shares are issued to you at a discount. On the other hand, we intend to take the position that distributions you receive on shares of our common stock you hold in the Plan that are reinvested in shares of our common stock purchased by the agent in the open market or in privately negotiated transactions are treated for federal income tax purposes as a taxable dividend to you in an amount equal to the purchase price of such shares (to the extent that we have current or accumulated earnings and profits for federal income tax purposes).

Your statement of account will show the fair market value of the common stock purchased with reinvested distributions on the applicable date we issue the shares to you. You also will receive a Form 1099-DIV after the end of the year which will show for the year your total dividend income, your amount of any return of capital distribution and your amount of any capital gain dividend.

The IRS has indicated in certain private letter rulings that a participant in both the dividend reinvestment and optional cash purchase portions of a plan similar to our Plan who makes an optional cash purchase under the Plan will be treated as having received a distribution equal to the excess, if any, of the fair market value on the investment date of the common shares over the amount of the optional cash payment made by the participant. Certain other private letter rulings have held that a participant in only the optional cash purchase portion of a plan who makes an optional cash purchase of shares under the plan at a discount will not be treated as having received a distribution. We presently intend to take the position that a holder who makes an optional cash purchase of common shares under the Plan will be treated as having received a distribution equal to the excess, if any, of the fair market value on the investment date of the common shares, including any discount, over the amount of the optional cash payment made by the participant. We also intend to take the position that the fair market value for such determination will be equal to the volume-weighted average NYSE prices of our common stock on the applicable investment date. Any such distribution would result in taxable dividend income, reduced basis in the shares of common stock, capital gain or some combination thereof, under the rules described above.

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Under the Plan, we will bear any trading fees or brokerage commissions related to the acquisition of, but not the sale of, shares of our common stock. The IRS has held in certain private letter rulings that brokerage commissions paid by a corporation with respect to open market purchases on behalf of participants in a dividend reinvestment plan or pursuant to the optional cash purchase features of a plan were to be treated as constructive distributions to participants who were shareholders of the corporation. In these rulings the IRS determined that the payment of these fees or commissions was subject to income tax in the same manner as distributions and includable in the participant s cost basis of the shares purchased. Accordingly, to the extent that we pay brokerage commissions with respect to any open market or privately negotiated purchases made with reinvested dividends or optional cash purchases by the agent, we presently intend to take the position that shareholder participants received their proportionate amount of the commissions as distributions in addition to the amounts described above. We intend to take the position that administrative expenses of the Plan paid by us are not constructive distributions to you.

Your tax basis in your common shares acquired under the dividend reinvestment features of the Plan generally will equal the total amount of distributions you are treated as receiving, as described above. Your tax basis in your common shares acquired through an optional cash purchase under the Plan generally will equal the total amount of any distributions you are treated as receiving, as described above, plus the amount of the optional cash payment. Your holding period for the shares of our common stock acquired under the Plan will begin on the day following the date such shares were purchased for your account. Consequently, shares of our common stock purchased in different quarters will have different holding periods.

You will not realize any gain or loss when you receive certificates for whole shares of our common stock credited to your account, either upon your request, when you withdraw from the Plan or if the Plan terminates. However, you will recognize gain or loss when whole shares of our common stock or rights applicable to our common stock acquired under the Plan are sold or exchanged. You will also recognize gain or loss when you receive a cash payment for a fractional share of our common stock credited to your account when you withdraw from the Plan or if the Plan terminates. The amount of your gain or loss will equal the difference between the amount you receive for your shares or fractional shares of our common stock or rights applicable to common stock, net of any costs of sale paid by you, and your tax basis of such shares.

Taxation of the Company

The following is a general discussion of certain material U.S. federal income tax consequences of the ownership and disposition of our common stock and of our qualification and taxation as a REIT.

As used herein, the term non-U.S. stockholder means a holder of our common stock that for U.S. federal income tax purposes is either a nonresident individual alien or a corporation, estate or trust that is not a U.S. stockholder.

The U.S. federal income tax treatment of a partner in a partnership holding common stock will depend on the activities of the partnership and the status of the partner. A partner in such partnership should consult its own tax advisor regarding the federal income treatment to the partner of such partnership holding our common stock.

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Taxation of the Company as a REIT

This section is a summary of the material U.S. federal income tax matters of general application pertaining to REITs under the Code. This discussion is based upon current law, which is subject to change, possibly on a retroactive basis. The provisions of the Code pertaining to REITs are highly technical and complex and sometimes involve mixed questions of fact and law. This section does not discuss U.S. federal estate or gift taxation or state, local or foreign taxation.

In the opinion of Barack Ferrazzano Kirschbaum & Nagelberg LLP:

commencing with our taxable year ended December 31, 1994, we have been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Code; and

our current and proposed method of operation (as represented by us to Barack Ferrazzano Kirschbaum & Nagelberg LLP in a written certificate) will enable us to continue to meet the requirements for qualification and taxation as a REIT under the Code.

Barack Ferrazzano Kirschbaum & Nagelberg LLP s opinion is based on various assumptions and is conditioned upon certain representations made by us as to factual matters with respect to us and certain partnerships, limited liability companies and corporations through which we hold substantially all of our assets. Moreover, our qualification and taxation as a REIT depends upon our ability to meet, as a matter of fact, through actual annual operating results, distribution levels, diversity of stock ownership and various other qualification tests imposed under the Code discussed below, the results of which will not be reviewed by Barack Ferrazzano Kirschbaum & Nagelberg LLP. No assurance can be given that the actual results of our operations for any particular taxable year will satisfy those requirements.

To qualify as a REIT under the Code for a taxable year, we must meet certain organizational and operational requirements, which generally require us to be a passive investor in real estate and to avoid excessive concentration of ownership of our capital stock. Generally, at least 75% of the value of our total assets at the end of each calendar quarter must consist of real estate assets, cash or governmental securities. We generally may not own securities possessing more than 10% of the total voting power, or representing more than 10% of the total value, of the outstanding securities of any issuer, and the value of any one issuer s securities may not exceed 5% of the value of our assets. Shares of qualified REITs, qualified temporary investments, shares of certain wholly owned subsidiary corporations known as qualified REIT subsidiaries and shares of certain subsidiary corporations known as taxable REIT subsidiaries are exempt from these prohibitions. A REIT may own up to 100% of the securities of a taxable REIT subsidiary subject only to the limitations that the aggregate value of the securities of all taxable REIT subsidiaries owned by the REIT does not exceed 20% of the value of the assets of the REIT, and the aggregate value of all securities owned by the REIT (including the securities of all taxable REIT subsidiaries, but excluding governmental securities) does not exceed 25% of the value of the assets of the REIT. A taxable REIT subsidiary generally is any corporation (other than another REIT and corporations involved in certain lodging, healthcare, franchising and licensing activities) owned by a REIT with respect to which the REIT and such corporation jointly elect that such corporation shall be treated as a taxable REIT subsidiary.

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Also, for each taxable year, at least 75% of a REIT s gross income must be derived from specified real estate sources and 95% must be derived from such real estate sources plus certain other permitted sources. Real estate income for purposes of these requirements includes:

gain from the sale of real property not held primarily for sale to customers in the ordinary course of business;

dividends on REIT shares;

interest on loans secured by mortgages on real property;

certain rents from real property; and

certain income from foreclosure property.

For rents to qualify, they may not be based on the income or profits of any person, except that they may be based on a percentage or percentages of gross receipts. Also, subject to certain limited exceptions, the REIT may not manage the property or furnish services to tenants except through an independent contractor which is paid an arm s-length fee and from which the REIT derives no income. However, a REIT may render a de minimis amount of otherwise impermissible services to tenants, or in connection with the management of property, without causing any income from the property (other than the portion of the income attributable to the impermissible services) to fail to qualify as rents from real property. In addition, a taxable REIT subsidiary may provide certain services to tenants of the REIT, which services could not otherwise be provided by the REIT or the REIT s other subsidiaries.

Substantially all of our assets are held through certain partnerships. In general, in the case of a REIT that is a partner in a partnership, applicable regulations treat the REIT as holding directly its proportionate share of the assets of the partnership and as being entitled to the income of the partnership attributable to such share based on the REIT s proportionate share of such partnership capital.

We must satisfy certain ownership restrictions that limit the concentration of ownership of our capital stock and the ownership by us of our tenants. Our outstanding capital stock must be held by at least 100 stockholders during at least 335 days of a taxable year or during a proportionate part of a taxable year of less than 12 months. No more than 50% in value of our outstanding capital stock, including in some circumstances capital stock into which outstanding securities might be converted, may be owned actually or constructively by five or fewer individuals or certain entities at any time during the last half of any taxable year. Accordingly, our charter contain certain restrictions regarding the transfer of our common stock, preferred stock and any other outstanding securities convertible into stock when necessary to maintain our qualification as a REIT under the Code. However, because the Code imposes broad attribution rules in determining constructive ownership, no assurance can be given that the restrictions contained in our charter will be effective in maintaining our REIT qualification. See Restrictions on Transfer of Capital Stock above.

So long as we qualify for taxation as a REIT, distribute at least 90% of our REIT taxable income, computed without regard to net capital gain or the dividends paid deduction, for each taxable year to our stockholders annually and satisfy certain other distribution requirements, we will not be subject to U.S. federal income tax on that portion of such income distributed to stockholders. We will be taxed at regular corporate rates on all income not distributed to

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stockholders. Our policy is to distribute at least 90% of our taxable income annually. We may elect to pass through to our stockholders on a pro rata basis any taxes paid by us on our undistributed net capital gain income for the relevant tax year. REITs also may incur taxes for certain other activities or to the extent distributions do not satisfy certain other requirements.

Our failure to qualify during any taxable year as a REIT could have a material adverse effect upon our stockholders. If disqualified for taxation as a REIT for a taxable year, we also would be unable to elect to be taxed as a REIT for the next four taxable years, unless certain relief provisions were available. We would be subject to U.S. federal income tax at corporate rates on all of our taxable income and would not be able to deduct any dividends paid, which could have a material adverse effect on our business and could result in a discontinuation of or substantial reduction in dividends to stockholders. Should the failure to qualify as a REIT be determined to have occurred retroactively in one of our earlier tax years, the imposition of a substantial U.S. federal income tax liability on us attributable to any nonqualifying tax years could have a material adverse effect on our business and could result in a discontinuation of or substantial reduction in dividends to stockholders.

In the event that we fail to meet certain gross income tests applicable to REITs, we may retain our qualification as a REIT if we pay a penalty tax equal to the amount by which 95% (or 90% for taxable years prior to 2005) or 75% of our gross income exceeds our gross income qualifying under the 95% or 75% gross income test, respectively (whichever amount is greater), multiplied by a fraction intended to reflect our profitability, so long as such failure was considered to be due to reasonable cause and not willful neglect and certain other conditions are satisfied. For taxable years after 2004, if we fail to meet the 5% or 10% asset tests applicable to REITs at the end of any quarter and do not cure such failure within 30 days thereafter, we may nonetheless retain our qualification as a REIT provided that the failure was due to assets the value of which did not exceed a specific statutory *de minimis* amount and certain other conditions are satisfied. For violations of any of the REIT asset tests not described in the preceding sentence, we may nonetheless retain our qualification as a REIT if we pay a tax equal to the greater of $50,000 or 35% of the net income generated by the non-qualifying assets, so long as any such failure was considered to be due to reasonable cause and not willful neglect and certain other conditions are satisfied. In addition, if we fail to satisfy certain requirements of the REIT provisions (other than the failures described above in the preceding sentences), we may nonetheless retain our qualification as a REIT if we pay a penalty of $50,000 for each such failure, so long as each such failure was considered to be due to reasonable cause and not willful neglect. Any such taxes or penalty amounts could have a material adverse effect on our business and could result in a discontinuation of or substantial reduction in dividends to stockholders.

Taxable U.S. Stockholders

Distributions. Except as discussed below, so long as we qualify for taxation as a REIT, distributions with respect to our common stock made out of current or accumulated earnings and profits (and not designated as capital gain dividends) will be includible by a U.S. stockholder as ordinary income. None of these distributions will be eligible for the dividends received deduction for a corporate stockholder. Distributions in excess of current and accumulated earnings and profits will not be taxable to a U.S. stockholder to the extent that they do not exceed the adjusted tax basis of the holder s common stock (as determined on a share by share basis), but rather will be treated as a return of capital and reduce the adjusted tax basis of such common stock. To the

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extent that such distributions exceed the adjusted tax basis of a U.S. stockholder s common stock, they will be included in income as long-term capital gain if the stockholder has held its shares for more than one year and otherwise as short-term capital gain. Any dividend declared by us in October, November or December of any year payable to a stockholder of record on a specified date in any such month shall be treated as both paid by us and received by the stockholder on December 31 of such year, provided that the dividend is actually paid by us during January of the following calendar year.

Dividends paid to a U.S. stockholder generally will not qualify for the 15% tax rate applicable to qualified dividend income. Qualified dividend income generally includes dividends paid by domestic C corporations and certain qualified foreign corporations to most noncorporate U.S. stockholders. Because we are not generally subject to U.S. federal income tax on the portion of our REIT taxable income that we distribute to our stockholders, our dividends generally will not be eligible for the 15% tax rate (for years through 2010) on qualified dividend income. As a result, our ordinary REIT dividends will continue to be taxed at the higher tax rate applicable to ordinary income. Currently, the highest marginal individual income tax rate on ordinary income is 35%. However, the 15% tax rate for qualified dividend income will apply to our ordinary REIT dividends, if any, that are (i) attributable to dividends received by us from non-REIT corporations, such as our taxable REIT subsidiaries, or (ii) attributable to income upon which we have paid corporate income tax (*e.g.*, to the extent that we distribute less than 100% of our taxable income) provided certain holding period requirements are met.

Distributions that are designated as capital gain dividends will generally be taxed as long-term capital gains (to the extent they do not exceed our actual net capital gain for the taxable year) without regard to the period for which the holder has held our common stock. However, corporate holders may be required to treat up to 20% of certain capital gain dividends as ordinary income.

We may elect to retain and pay income tax on our net capital gain received during the taxable year. If we so elect for a taxable year, our U.S. stockholders would include in income as long-term capital gains their proportionate share of such portion of our undistributed net capital gains for the taxable year as we may designate. A U.S. stockholder would be deemed to have paid its share of the tax paid by us on such undistributed net capital gain, which would be credited or refunded to the stockholder. The U.S. stockholder s basis in our common stock would be increased by the amount of undistributed net capital gain included in such U.S. stockholder s income, less the capital gains tax paid by us.

Except as noted below, the maximum tax rate on long-term capital gain applicable to non-corporate taxpayers is 15% for sales and exchanges of assets held for more than one year occurring in tax years beginning on or before December 31, 2010. The maximum tax rate on long-term capital gain from the sale or exchange of section 1250 property, or depreciable real property, is 25% to the extent that such gain would have been treated as ordinary income if the property were section 1245 property (*i.e.*, to the extent of depreciation recapture). With respect to distributions that we designate as capital gain dividends and any retained capital gain that we are deemed to distribute, we generally may designate whether such a distribution is taxable to our non-corporate U.S. stockholders at a 15% or 25% tax rate. Thus, the tax rate differential between capital gain and ordinary income for non-corporate taxpayers may be significant. In addition, the characterization of income as capital gain or ordinary income may

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affect the deductibility of capital losses. A non-corporate taxpayer may deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of $3,000. A non-corporate taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at ordinary corporate rates. A corporate taxpayer may deduct capital losses only to the extent of capital gains, with unused losses being carried back three years and forward five years.

Stockholders may not include in their individual income tax returns any of our net operating losses or capital losses. Instead, such losses would be carried over by us for potential offset against our future income (subject to certain limitations). Taxable distributions from us and gain from the disposition of common stock will not be treated as passive activity income and, therefore, stockholders generally will not be able to apply any passive activity losses (such as losses from certain types of limited partnerships in which the stockholder is a limited partner) against such income. In addition, taxable distributions from us generally will be treated as investment income for purposes of the investment interest limitations. Capital gains from the disposition of common stock (or distributions treated as such) will be treated as investment income only if the stockholder so elects, in which case such capital gains will be taxed at ordinary income rates. We will notify stockholders after the close of our taxable year as to the portions of the distributions attributable to that year that constitute each of (i) distributions taxable at ordinary income tax rates, (ii) capital gains dividends, (iii) qualified dividend income, if any, and (iv) nondividend distributions.

Sale or Exchange of Common Stock. Upon the sale, exchange or other taxable disposition of common stock to or with a person other than us, a stockholder generally will recognize gain or loss equal to the difference between (i) the amount of cash and the fair market value of any property received (less any portion thereof attributable to accumulated and declared but unpaid dividends, which will be taxable as a dividend to the extent of our current and accumulated earnings and profits attributable thereto) and (ii) the stockholder s adjusted tax basis in such stock. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if such stock has been held for more than one year. In general, any loss upon a sale or exchange of common stock by a holder who has held such stock for six months or less (after applying certain holding period rules) will be treated by such holder as long-term capital loss to the extent of distributions from us required to be treated by such stockholder as long-term capital gain. All or a portion of any loss realized upon a taxable disposition of common stock may be disallowed if substantially identical stock is purchased within 30 days before or after the disposition.

Information Reporting and Backup Withholding. Information reporting (to the IRS) will apply to dividends paid on our common stock (and the amount of tax withheld, if any) and to the proceeds received from the sale or other disposition of our common stock. Under the back-up withholding rules, a stockholder may be subject to backup withholding tax at a current rate of 28% (subject to increase to 31% after 2010) with respect to dividends paid and with respect to any proceeds for the sale or other disposition of common stock unless such stockholder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (b) provides a taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. A stockholder that does not provide us with its correct taxpayer identification number may also be subject to penalties imposed by the Service. Any amount paid as backup withholding will be creditable against such stockholder s U.S.

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federal income tax liability, and may entitle such stockholder to a refund, provided the stockholder timely furnishes the required information to the IRS.

Tax-Exempt U.S. Stockholders

Distributions by us to a tax-exempt U.S. stockholder generally should not constitute unrelated business taxable income (UBTI) provided that (i) the U.S. stockholder has not financed the acquisition of its common stock with acquisition indebtedness within the meaning of the Code and (ii) our common stock is not otherwise used in an unrelated trade or business of such tax-exempt U.S. stockholder.

Notwithstanding the preceding paragraph, under certain circumstances, qualified trusts that hold more than 10% (by value) of our shares of stock may be required to treat a certain percentage of dividends as UBTI. This requirement will only apply if we are treated as a pension-held REIT. The restrictions on ownership of shares of stock in our Charter should prevent us from being treated as a pension-held REIT, although there can be no assurance that this will be the case.

Non-U.S. Stockholders

The following discussion addresses the rules governing the U.S. federal income taxation of the ownership and disposition of common stock by non-U.S. stockholders. These rules are complex, and no attempt is made herein to provide more than a brief summary of such rules. Accordingly, the discussion does not address all aspects of U.S. federal income taxation and does not address U.S. estate and gift tax consequences or state, local or foreign tax consequences that may be relevant to a non-U.S. stockholder in light of its particular circumstances.

Distributions. Distributions to a non-U.S. Stockholder that are neither attributable to gain from sales or exchanges by us of U.S. real property interests nor designated as capital gains dividends will be treated as dividends of ordinary income to the extent that they are made out of current or accumulated earnings and profits. These distributions ordinarily will be subject to withholding of U.S. federal income tax on a gross basis at a rate of 30%, or a lower rate as permitted under an applicable income tax treaty, unless the dividends are treated as effectively connected with the conduct by the non-U.S. stockholder of a U.S. trade or business. Under some treaties, however, lower withholding rates generally applicable to dividends do not apply to dividends from REITs. Applicable certification and disclosure requirements must be satisfied to be exempt from withholding under the effectively connected income exemption. Dividends that are effectively connected with a trade or business generally will be subject to tax on a net basis, that is, after allowance for deductions, at graduated rates, in the same manner as U.S. stockholders are taxed with respect to these dividends, and are generally not subject to withholding. Any dividends received by a corporate non-U.S. stockholder that is engaged in a U.S. trade or business also may be subject to an additional branch profits tax at a 30% rate, or lower applicable treaty rate.

Distributions in excess of current and accumulated earnings and profits that exceed the non-U.S. Stockholder s adjusted tax basis in its common stock (as determined on a share by share basis) will be taxable to a non-U.S. stockholder as gain from the sale of common stock, which is discussed below. Distributions in excess of current or accumulated earnings and profits

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that do not exceed the adjusted tax basis of the non-U.S. stockholder in its common stock will reduce the non-U.S. stockholder s adjusted tax basis in its common stock and will not be subject to U.S. federal income tax, but will be subject to U.S. withholding tax as described below.

We expect to withhold U.S. income tax at the rate of 30% on any ordinary dividend distributions (including distributions that later may be determined to have been in excess of current and accumulated earnings and profits) made to a non-U.S. stockholder unless: (i) a lower treaty rate applies and the non-U.S. stockholder files an IRS Form W-8BEN evidencing eligibility for that reduced treaty rate; or (ii) the non-U.S. stockholder files an IRS Form W-8ECI claiming that the distribution is income effectively connected with the non-U.S. stockholder s trade or business.

We may be required to withhold at least 10% of any distribution in excess of our current and accumulated earnings and profits, even if a lower treaty rate applies and the non-U.S. stockholder is not liable for tax on the receipt of that distribution. Moreover, because of the uncertainty in estimating earnings and profits, we may choose to withhold 30% on all distributions. However, a non-U.S. stockholder may seek a refund of these amounts from the IRS if the non-U.S. stockholder s U.S. tax liability with respect to the distribution is less than the amount withheld.

Distributions to a non-U.S. stockholder that are designated at the time of the distribution as capital gain dividends, other than those arising from the disposition of a U.S. real property interest, generally should not be subject to U.S. federal income taxation unless: (i) the investment in our stock is effectively connected with the non-U.S. stockholder s U.S. trade or business, in which case the non-U.S. stockholder generally will be subject to the same treatment as U.S. stockholders with respect to any gain, except that a stockholder that is a foreign corporation also may be subject to the 30% branch profits tax, as discussed above, or (ii) the non-U.S. stockholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual s capital gains.

Except as hereinafter discussed, under FIRPTA, distributions to a non-U.S. stockholder that are attributable to gain from sales or exchanges by us of U.S. real property interests, whether or not designated as a capital gain dividend, will cause the non-U.S. stockholder to be treated as recognizing gain that is income effectively connected with a U.S. trade or business. Non-U.S. stockholders generally will be taxed on this gain at the same rates applicable to U.S. stockholders, subject to a special alternative minimum tax in the case of nonresident alien individuals. Also, this gain may be subject to a 30% branch profits tax in the hands of a non-U.S. stockholder that is a corporation. However, even if a distribution is attributable to a sale or exchange of U.S. real property interests, the distribution will not be treated as gain recognized from the sale or exchange of U.S. real property interests, but as an ordinary dividend subject to the general withholding regime discussed above, if:

(i) the distribution is made with respect to a class of stock that is considered regularly traded under applicable Treasury Regulations on an established securities market located in the United States, such as the New York Stock Exchange; and

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(ii) the stockholder owns 5% or less of that class of stock at all times during the one-year period ending on the date of the distribution.

We will be required to withhold and remit to the IRS 35% of any distributions to non-U.S. stockholders that are, or, if greater, could have been, designated as capital gain dividends and are attributable to gain recognized from the sale or exchange of U.S. real property interests. Distributions can be designated as capital gains to the extent of our net capital gain for the taxable year of the distribution. The amount withheld, which for individual non-U.S. stockholders may substantially exceed the actual tax liability, is creditable against the non-U.S. stockholder s U.S. federal income tax liability and is refundable to the extent such amount exceeds the non-U.S. stockholder s actual U.S. federal income tax liability, and the non-U.S. stockholder timely files an appropriate claim for refund.

Retention of Net Capital Gains. Although the law is not clear on the matter, it appears that amounts designated as undistributed capital gains in respect of the common stock held by U.S. stockholders generally should be treated with respect to non-U.S. stockholders in the same manner as actual distributions by the Company of capital gain dividends. Under that approach, the non-U.S. stockholders would be able to offset as a credit against their U.S. federal income tax liability resulting therefrom an amount equal to their proportionate share of the tax paid by us on the undistributed capital gains, and to receive from the IRS a refund to the extent their proportionate share of this tax paid were to exceed their actual U.S. federal income tax liability, and the non-U.S. stockholder timely files an appropriate claim for refund.

Sale of Common Stock. Gain recognized by a non-U.S. stockholder upon the sale, exchange or other taxable disposition of our common stock generally will not be subject to or implicate U.S. taxation unless:

(i) the investment in our common stock is effectively connected with the non-U.S. stockholder s U.S. trade or business, in which case the non-U.S. stockholder generally will be subject to the same treatment as domestic stockholders with respect to any gain and a non-U.S. stockholder that is a corporation may be subject to a 30% branch profits tax;

(ii) the non-U.S. stockholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual s net capital gains for the taxable year;

(iii) our common stock constitutes a U.S. real property interest within the meaning of FIRPTA, as described below; or

(iv) our common stock is disposed of in a wash sale by a person owning more than 5% of the common stock.

Whether Common Stock Is a U.S. Real Property Interest. Our common stock will not constitute a U.S. real property interest if we are a domestically controlled REIT. We will be a domestically controlled REIT if, at all times during a specified testing period, less than 50% in value of our stock is held directly or indirectly by non-U.S. stockholders. We believe that, currently, we are a domestically controlled REIT and, therefore, that the sale of our common

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stock would not be subject to taxation under FIRPTA. Because our common stock is publicly traded, however, we cannot guarantee that we are or will continue to be a domestically controlled REIT. Even if we do not qualify as a domestically controlled REIT at the time a non-U.S. stockholder sells our common stock, gain arising from the sale still would not be subject to FIRPTA tax if:

(i) our common is considered regularly traded under applicable Treasury regulations on an established securities market, such as the New York Stock Exchange; and

(ii) the selling non-U.S. stockholder owned, actually or constructively, 5% or less in value of our common stock throughout the five-year period ending on the date of the sale or exchange.

If gain on the sale or exchange of our common stock were subject to taxation under FIRPTA, the non-U.S. stockholder would be subject to regular U.S. income tax with respect to any gain in the same manner as a taxable U.S. stockholder, subject to any applicable alternative minimum tax and special alternative minimum tax in the case of nonresident alien individuals.

Wash Sales. In general, a wash sale of common stock occurs if a stockholder owning more than 5% of the shares of a domestically controlled REIT (at any time during the one-year period preceding the taxable distribution discussed in this paragraph) avoids a taxable distribution of gain recognized from the sale or exchange of U.S. real property interests by selling common stock before the ex-dividend date of the distribution and then, within a designated period, acquires or enters into an option or contract to acquire common stock. If a wash sale occurs, then the seller/repurchaser will be treated as having gain recognized from the sale or exchange of U.S. real property interests in the same amount as if the avoided distribution had actually been received.

Information Reporting and Backup Withholding. Information reporting (to the IRS) will apply to dividends paid on our common stock (and the amount of tax withheld, if any) and to the proceeds of a sale or other disposition of our common stock. Backup withholding tax, at a current rate of 28% (subject to increase to 31% after 2010) generally will not apply to payments of dividends made by us or our paying agents to a non-U.S. stockholder or to the proceeds of a sale or other disposition of our common stock if the holder has provided the required certification that it is not a U.S. person (generally a properly-executed IRS Form W-8BEN).

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project or similar expressions. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have an adverse effect on our operations and future prospects include, but are not limited to, changes in:

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national, international (including trade volume growth), regional and local economic conditions generally and real estate markets specifically;

legislation/regulation (including changes to laws governing the taxation of real estate investment trusts);

our ability to qualify and maintain our status as a real estate investment trust;

availability and attractiveness of financing (including both public and private capital) to us and to our potential counterparties;

interest rate levels;

our ability to maintain our current credit agency ratings, competition, supply and demand for industrial properties (including land, the supply and demand for which is inherently more volatile than other types of industrial property) in the Company s current and proposed market areas;

difficulties in consummating acquisitions and dispositions;

risks related to our investments in properties through joint ventures;

potential environmental liabilities;

slippage in development or lease-up schedules;

tenant credit risks;

higher-than-expected costs;

changes in general accounting principles, policies and guidelines applicable to real estate investment trusts;

risks related to doing business internationally (including foreign currency exchange risks and risks related to integrating international properties and operations); and

those additional factors described under the heading Risk Factors and elsewhere in the Company s most recent Annual Report on Form 10-K and in the Company s subsequent Quarterly Reports on Form 10-Q.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning us and our business, including additional factors that could materially affect our financial results, is included elsewhere in this prospectus and in the documents we incorporate by reference, including our most recent Annual Report on Form 10-K and other reports.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act, and in accordance therewith, file reports, proxy statements and other information with the SEC. You may read and copy these reports, proxy statements and other information filed with the SEC at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call 1-800-SEC-0330 for further information on the Public Reference Room. In addition, the SEC maintains a website that contains reports and other information regarding registrants that file electronically with the SEC at *www.sec.gov*. We also make available free of charge through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as our definitive proxy statement and Section 16 reports on Forms 3, 4 and 5. Our Internet website address is *www.firstindustrial.com*. The information on or linked to

our website is not a part of, and is not incorporated by reference into, this prospectus or incorporated into any other filings that we make with the SEC.

Our common stock is listed on the NYSE and our filings with the SEC can also be inspected and copied at the offices of the NYSE located at 20 Broad Street, New York, New York 10005.

DOCUMENTS INCORPORATED BY REFERENCE

We incorporate by reference information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information

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incorporated by reference is an important part of this prospectus and more recent information automatically updates and supersedes more dated information contained or incorporated by reference in this prospectus. The Company (file no. 1-13102) filed the following documents with the SEC and incorporates them by reference into this prospectus:

Annual Report on Form 10-K for the year ended December 31, 2007;

Quarterly Report on Form 10-Q for the quarter ended March 31, 2008; and

Current Reports on Form 8-K filed on May 20, 2008 and July 2, 2008.

All documents filed by the Company under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this prospectus and made a part hereof from the date of the filing of such documents. Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein (in the case of a previously filed document incorporated or deemed to be incorporated by reference herein) or in any other document subsequently filed with the SEC which also is incorporated or deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed to constitute a part of this prospectus except as so modified or superseded.

We will provide, without charge, to each person to whom this prospectus is delivered a copy of these filings upon written or oral request to First Industrial Realty Trust, Inc., 311 S. Wacker Drive, Suite 4000, Chicago, Illinois 60606, Attention: Investor Relations, telephone number (312) 344-4300.

EXPERTS

The financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2007 have been so incorporated in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Barack Ferrazzano Kirschbaum & Nagelberg LLP, Chicago, Illinois. Barack Ferrazzano Kirschbaum & Nagelberg LLP will rely as to all matters of Maryland law on the opinion of McGuireWoods LLP, Baltimore, Maryland.

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FIRST INDUSTRIAL REALTY TRUST, INC.
DIVIDEND REINVESTMENT AND
DIRECT STOCK PURCHASE PLAN
5,000,000 Shares
Common Stock
PROSPECTUS

August 8, 2008

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PART II
INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution

The following table sets forth an estimate of costs and expenses to be paid by the registrant in connection with the distribution of the securities being registered by this registration statement. All of the amounts shown are estimates, except the SEC registration fee and the NYSE listing fee:

SEC Registration Fee	$ 4,621.68
NYSE Listing Fee	5,000.00
Legal Fees and Expenses	225,000.00
Transfer Agent Fees	8,000.00
Accounting Fees and Expenses	25,000.00
Printing and Engraving Expenses	28,500.00
Miscellaneous	878.32
Total	$ 297,000.00

Item 15. Indemnification of Directors and Officers

The Articles of Amendment and Restatement of the registrant contain certain provisions limiting the liability of the directors and officers to the fullest extent permitted by Section 5-418 of the Courts and Judicial Proceedings Article of the Annotated Code of Maryland (Courts and Judicial Proceedings Article). The registrant s Articles of Amendment and Restatement and amended and restated bylaws also provide certain limitations, permitted under Maryland General Corporation Law (the MGCL), on each director s personal liability for monetary damages for breach of any duty as a director. Section 5-418 of the Courts and Judicial Proceedings Article permits a Maryland corporation to limit the liability of its directors and officers to the corporation and its stockholders for money damages, except to the extent that: (a) it is proved that the director or officer actually received an improper benefit or profit in money, property or services for the amount of the benefit or profit in money, property, or services actually received or (b) a judgment or other final adjudication is entered in a proceeding based on a finding that the act, or failure to act, of the director or officer was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding.

In addition, the registrant s Articles of Amendment and Restatement and amended and restated bylaws obligate the registrant to indemnify its directors and officers, and permit the Company to indemnify its employees and other agents, against certain liabilities and expenses incurred in connection with their service in such capacities, as well as advancement of costs, expenses and attorneys fees, to the fullest extent permitted under the MGCL. Section 2-418 of the MGCL permits a Maryland corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by the directors or officers in connection with any proceeding to which they may be made a party by reason of their service in such capacities, unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to such proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

The directors and officers of the registrant are entitled to the benefits of liability insurance maintained by the registrant for certain losses arising from claims or charges made against any officer or director in connection with his or her service in such capacity.

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The Eleventh Amended and Restated Agreement of Limited Partnership of First Industrial, L.P. contains provisions indemnifying the registrant and its officers, directors and stockholders to the fullest extent permitted by the Delaware Revised Uniform Limited Partnership Act.

Item 16. Exhibits

Exhibits	Description
4.1	Articles of Amendment and Restatement of the Company (incorporated by reference to Exhibit 3.1 of the Form 10-Q of the Company for the fiscal quarter ended June 30, 1996, File No. 1-13102)
4.2	Amended and Restated Bylaws of the Company, dated September 4, 1997 (incorporated by reference to Exhibit 1 of the Company s Form 8-K, dated September 4, 1997, as filed on September 29, 1997, File No. 1-13102)
4.3	Articles of Amendment to the Company s Articles of Amendment and Restatement, dated June 20, 1994 (incorporated by reference to Exhibit 3.2 of the Form 10-Q of the Company for the fiscal quarter ended June 30, 1996, File No. 1-13102)
4.4	Articles of Amendment to the Company s Articles of Amendment and Restatement, dated May 31, 1996 (incorporated by reference to Exhibit 3.3 of the Form 10-Q of the Company for the fiscal quarter ended June 30, 1996, File No. 1-13102)
4.5	Registration Rights Agreement, dated as of March 19, 2001, among First Industrial, L.P. and Credit Suisse First Boston Corporation, Chase Securities, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Salomon Smith Barney, Inc., Banc of America Securities LLC, Banc One Capital Markets, Inc. and UBS Warburg LLC (incorporated by reference to Exhibit 4.17 of First Industrial, L.P. s Annual Report on Form 10-K for the year ended December 31, 2000, File No. 333-21873)
4.6	Registration Rights Agreement dated September 25, 2006 among the Company, First Industrial, L.P. and the Initial Purchasers named therein (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K of First Industrial, L.P. dated September 25, 2006, File No. 333-21873)
4.7	Registration Rights Agreement, dated April 29, 1998, relating to the Company s Common Stock, par value $0.01 per share, between the Company, the Operating Partnership and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 4.1 of the Form 8-K of the Company dated May 1, 1998, File No. 1-13102)
5.1*	Opinion of Barack Ferrazzano Kirschbaum & Nagelberg LLP
5.2*	Opinion of McGuireWoods LLP
8.1*	Opinion of Barack Ferrazzano Kirschbaum & Nagelberg LLP
23.1*	Consent of PricewaterhouseCoopers LLP
23.2*	Consent of Barack Ferrazzano Kirschbaum & Nagelberg LLP (included in Exhibits 5.1 and 8.1)
23.3*	Consent of McGuireWoods LLP (included in Exhibit 5.2)

24.1*	Power of Attorney (included on the signature pages hereto)
99.1*	Form of Letter to Investors
99.2*	Direct Stock Purchase Plan Enrollment Form
99.3*	Direct Stock Purchase Plan Initial Enrollment Form
99.4*	Request for Waiver

* Filed herewith.

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Item 17. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5) or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective

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date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Chicago, state of Illinois, on August 8, 2008.

FIRST INDUSTRIAL REALTY TRUST, INC.

By: /s/ Michael J. Havala
Michael J. Havala
Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Michael W. Brennan and Michael J. Havala, and each of them (with full power to each of them to act alone), his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign this Registration Statement on Form S-3, to sign any and all post-effective amendments to this Registration Statement on Form S-3 and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection with such matters, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Michael W. Brennan Michael W. Brennan	President, Chief Executive Officer and Director (Principal Executive Officer)	June 30, 2008
/s/ Michael J. Havala Michael J. Havala	Chief Financial Officer (Principal Financial Officer)	June 30, 2008
/s/ Scott A. Musil Scott A. Musil	Chief Accounting Officer (Principal Accounting Officer)	June 30, 2008
/s/ Jay H. Shidler Jay H. Shidler	Director	June 30, 2008

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Signature	Title	Date
/s/ John Brenninkmeijer John Brenninkmeijer	Director	June 30, 2008
/s/ Michael G. Damone Michael G. Damone	Director	June 30, 2008
/s/ Kevin W. Lynch Kevin W. Lynch	Director	June 30, 2008
/s/ Robert D. Newman Robert D. Newman	Director	June 30, 2008
/s/ John E. Rau John E. Rau	Director	June 30, 2008
/s/ Robert J. Slater Robert J. Slater	Director	June 30, 2008
/s/ W. Edwin Tyler W. Edwin Tyler	Director	June 30, 2008
/s/ J. Steven Wilson J. Steven Wilson	Director	June 30, 2008

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EXHIBITS INDEX

Exhibits	Description
4.1	Articles of Amendment and Restatement of the Company (incorporated by reference to Exhibit 3.1 of the Form 10-Q of the Company for the fiscal quarter ended June 30, 1996, File No. 1-13102)
4.2	Amended and Restated Bylaws of the Company, dated September 4, 1997 (incorporated by reference to Exhibit 1 of the Company s Form 8-K, dated September 4, 1997, as filed on September 29, 1997, File No. 1-13102)
4.3	Articles of Amendment to the Company s Articles of Amendment and Restatement, dated June 20, 1994 (incorporated by reference to Exhibit 3.2 of the Form 10-Q of the Company for the fiscal quarter ended June 30, 1996, File No. 1-13102)
4.4	Articles of Amendment to the Company s Articles of Amendment and Restatement, dated May 31, 1996 (incorporated by reference to Exhibit 3.3 of the Form 10-Q of the Company for the fiscal quarter ended June 30, 1996, File No. 1-13102)
4.5	Registration Rights Agreement, dated as of March 19, 2001, among First Industrial, L.P. and Credit Suisse First Boston Corporation, Chase Securities, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Salomon Smith Barney, Inc., Banc of America Securities LLC, Banc One Capital Markets, Inc. and UBS Warburg LLC (incorporated by reference to Exhibit 4.17 of First Industrial, L.P. s Annual Report on Form 10-K for the year ended December 31, 2000, File No. 333-21873)
4.6	Registration Rights Agreement dated September 25, 2006 among the Company, First Industrial, L.P. and the Initial Purchasers named therein (incorporated by reference to Exhibit 10.1 of the current report on Form 8-K of First Industrial, L.P. dated September 25, 2006, File No. 333-21873)
4.7	Registration Rights Agreement, dated April 29, 1998, relating to the Company s Common Stock, par value $0.01 per share, between the Company, the Operating Partnership and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 4.1 of the Form 8-K of the Company dated May 1, 1998, File No. 1-13102)
5.1*	Opinion of Barack Ferrazzano Kirschbaum & Nagelberg LLP
5.2*	Opinion of McGuireWoods LLP
8.1*	Opinion of Barack Ferrazzano Kirschbaum & Nagelberg LLP
23.1*	Consent of PricewaterhouseCoopers LLP
23.2*	Consent of Barack Ferrazzano Kirschbaum & Nagelberg LLP (included in Exhibits 5.1 and 8.1)
23.3*	Consent of McGuireWoods LLP (included in Exhibit 5.2)
24.1*	Power of Attorney (included on the signature pages hereto)

99.1* Form of Letter to Investors

99.2* Direct Stock Purchase Plan Enrollment Form

99.3* Direct Stock Purchase Plan Initial Enrollment Form

99.4* Request for Waiver

* Filed herewith.

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—

—

—

Issuance of Series 15 preferred stock, net of

transaction costs

35

15,442

—

—

—

—

—

15,442

Conversion of Series 15 preferred stock to

common stock

(35

)

(15,442

)

9,042

15,442

—

—

—

—

Issuance of Series 16 preferred stock, net of

transaction costs

15

11,240

—

—

—

—

—

11,240

Conversion of Series 16 preferred stock to

common stock

(15

)

(11,240

)

2,521

11,240

—

—

—

—

Issuance of Series 17 preferred stock, net of

transaction costs

60

54,538

—

—

—

—

—

54,538

Conversion of Series 17 preferred stock to

common stock

(60

)

(54,538

)

42,857

54,538

—

—

—

—

Value of beneficial conversion features related to

preferred stock

—

—

—

13,901

—

—

—

13,901

Exercise or exchange of common stock purchase

warrants

—

—

9,687

17,798

—

—

—

17,798

Equity-based compensation

—

—

3,390

7,938

—

—

—

7,938

Noncontrolling interest

—

—

—

587

—

—

(900

)

(313

)

Other

—

—

(26

)

(96

)

—

—

—

(96

)

Deemed dividends on preferred stock

—

—

—

—

(13,901

)

—

—

(13,901

)

Net loss for the year ended December 31, 2012

—

—

—

—

(101,374

)

—

—

(101,374

)

Other comprehensive loss

—

—

—

—

—

(238

)

—

(238

)

Balance at December 31, 2012

—

$

—

109,824

$

1,872,885

$

(1,830,060

)

$

(8,273

)

$

(1,608

)

$

32,944

Issuance of Series 18 preferred stock, net of

transaction costs

15

14,859

—

—

—

—

—

14,859

Conversion of Series 18 preferred stock to common stock

(15)

(14,859)

15,000

14,859

—

—

—

—

Issuance of Series 19 preferred stock, net of

transaction costs

30

29,840

—

—

—

—

—

29,840

Conversion of Series 19 preferred stock to common stock									
	(30)								
	(29,840)								
	15,674								
	29,840								
	—								
	—								

—

—

Value of beneficial conversion features related to

preferred stock

—

—

—

6,900

—

—

—

6,900

Equity-based compensation

—

—

5,207

9,066

—

—

—

9,066

Noncontrolling interest

—

—

—

—

—

—

(807

)

(807

)

Other

—

—

(196

)

(245

)

—

—

—

(245

)

Deemed dividends on preferred stock

—

—

—

—

(6,900

)

—

—

(6,900

)

Net loss for the year ended December 31, 2013

—

—

—

—

(42,743

)

—

—

(42,743

)

Other comprehensive loss

—

—

—

—

—

(156

)

—

(156

)

Balance at December 31, 2013

—

$

—

145,509

$

1,933,305

$

(1,879,703

)

$

(8,429

)

$

(2,415

)

$

42,758

See accompanying notes.

CTI BIOPHARMA CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY—(Continued)

(In thousands)

	Preferred Stock		Common Stock			Accumulated Other Comprehensive Income		Total Shareholders'
	Shares	Amount	Shares	Amount	Accumulated Deficit	(Loss)	Noncontrolling Interest	Equity
Issuance of Series 20 preferred stock, net of transaction costs	9	21,486	—	—	—	—	—	21,486
Conversion of Series 20 preferred stock to common stock	(9)	(21,486)	9,000	21,486	—	—	—	—
Issuance of Series 21 preferred stock, net of transaction costs	35	32,342	—	—	—	—	—	32,342
Conversion of Series 21 preferred stock to common stock	(35)	(32,342)	17,500	32,342	—	—	—	—
Value of beneficial conversion features related to preferred stock	—	—	—	2,625	—	—	—	2,625
Exercise of common stock purchase warrants	—	—	491	1,877	—	—	—	1,877
Equity-based compensation	—	—	4,130	20,196	—	—	—	20,196
Stock option exercises	—	—	183	272	—	—	—	272
Noncontrolling interest	—	—	—	—	—	—	(862)	(862)
Expiry of mezzanine equity	—	—	—	12,016	—	—	—	12,016
Other	—	—	(52)	(170)	—	—	—	(170)
Deemed dividends on preferred stock	—	—	—	—	(2,625)	—	—	(2,625)

Net loss for the year ended December 31, 2014	—	—	—	—	(93,367)	—	—	(93,367)
Other comprehensive loss	—	—	—	—	—	1,930	—	1,930
Balance at December 31, 2014	—	$—	176,761	$2,023,949	$(1,975,695)	$ (6,499)	$ (3,277)	$ 38,478

See accompanying notes.

CTI BIOPHARMA CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2014	2013	2012
Operating activities			
Net loss	$(94,229)	$(43,550)	$(101,687)
Adjustments to reconcile net loss to net cash used in operating activities:			
Acquired in-process research and development	21,859	—	29,108
Share-based compensation expense	20,196	9,066	7,938
Depreciation and amortization	1,100	1,570	2,346
Noncash interest expense	729	513	—
Change in value of warrant liability	886	—	—
Provision for VAT assessments	600	—	(3,402)
Other	(374)	365	5
Changes in operating assets and liabilities:			
Accounts receivable	(1,980)	(227)	—
Inventory	305	(3,254)	(1,586)
Prepaid expenses and other current assets	46	4,530	(3,759)
Other assets	(356)	(846)	1,495
Accounts payable	1,454	(5,774)	3,123
Accrued expenses and other	10,250	(834)	(885)
Deferred revenue	(31)	2,636	—
Other liabilities	(5)	(25)	4,528
Total adjustments	54,679	7,720	38,911
Net cash used in operating activities	(39,550)	(35,830)	(62,776)
Investing activities			
Purchases of property and equipment	(333)	(1,657)	(2,937)
Proceeds from sales of property and equipment	—	123	—
Cash paid for acquisition of assets from S*BIO Pte Ltd.	—	—	(17,764)
Other	(208)	—	—
Net cash used in investing activities	(541)	(1,534)	(20,701)
Financing activities			
Cash paid for Series 14 preferred stock issuance costs	—	—	(170)
Proceeds from issuance of Series 15 preferred stock and warrants, net of issuance costs	—	—	32,856
Proceeds from issuance of Series 17 preferred stock, net of issuance costs	—	(105)	54,744
Proceeds from issuance of Series 18 preferred stock, net of issuance costs	—	14,859	—
Proceeds from issuance of Series 19 preferred stock, net of issuance costs	(28)	29,961	—
Cash paid for Series 20 preferred stock issuance costs	(106)	—	—
Proceeds from issuance of Series 21 preferred stock, net of issuance costs	32,621	—	—
Issuance of long-term debt, net	4,963	14,501	—
Repayment of long-term debt	(1,526)	—	—

Other	102	(244)	(214)
Net cash provided by financing activities	36,026	58,972	87,216
Effect of exchange rate changes on cash and cash equivalents	3,359	(405)	(355)
Net increase (decrease) in cash and cash equivalents	(706)	21,203	3,384
Cash and cash equivalents at beginning of year	71,639	50,436	47,052
Cash and cash equivalents at end of year	$70,933	$71,639	$50,436

See accompanying notes.

CTI BIOPHARMA CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

(In thousands)

	Year Ended December 31,		
	2014	2013	2012
Supplemental disclosure of cash flow information			
Cash paid during the period for interest	$1,894	$933	$16
Supplemental disclosure of noncash financing and investing activities			
Conversion of Series 14 preferred stock to common stock	$—	$—	$6,736
Conversion of Series 15 preferred stock to common stock	$—	$—	$15,442
Conversion of Series 16 preferred stock to common stock	$—	$—	$11,240
Conversion of Series 17 preferred stock to common stock	$—	$—	$54,538
Conversion of Series 18 preferred stock to common stock	$—	$14,859	$—
Conversion of Series 19 preferred stock to common stock	$—	$29,840	$—
Conversion of Series 20 preferred stock to common stock	$21,486	$—	$—
Conversion of Series 21 preferred stock to common stock	$32,342	$—	$—
Issuance of Series 16 preferred stock for acquisition of assets from S*BIO Pte. Ltd.	$—	$—	$11,344
Issuance of Series 20 preferred stock for acquisition of assets from Chroma Therapeutics Limited	$21,600	$—	$—
Issuance of common stock upon exercise or exchange of common stock purchase warrants	$1,877	$—	$17,798

See accompanying notes.

CTI BIOPHARMA CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

CTI BioPharma Corp., also referred to in this Annual Report on Form 10-K as CTI, the "Company," "we," "us" or "our," is a biopharmaceutical company focused on the acquisition, development and commercialization of novel targeted therapies covering a spectrum of blood-related cancers that offer a unique benefit to patients and healthcare providers. Our goal is to build a profitable company by generating income from products we develop and commercialize, either alone or with partners. We are currently concentrating our efforts on treatments that target blood-related cancers where there is an unmet medical need. In particular, we are primarily focused on commercializing PIXUVRI® (pixantrone), or PIXUVRI, in the European Union, or the E.U., for multiply relapsed or refractory aggressive B-cell non-Hodgkin lymphoma, and conducting a Phase 3 clinical trial program of pacritinib for the treatment of adult patients with myelofibrosis to support regulatory submission for approval in the United States, or the U.S., and Europe. We are also evaluating pacritinib in earlier clinical trials as treatment for other blood-related cancers.

We operate in a highly regulated and competitive environment. The manufacturing and marketing of pharmaceutical products require approval from, and are subject to, ongoing oversight by the Food and Drug Administration, or the FDA, in the U.S., the European Medicines Agency, or the EMA, in the E.U. and comparable agencies in other countries. Obtaining approval for a new therapeutic product is never certain, may take many years and may involve expenditure of substantial resources.

Principles of Consolidation

The consolidated financial statements include the accounts of CTI and its wholly-owned subsidiaries, which include Systems Medicine LLC and CTI Life Sciences Limited, or CTILS. CTILS opened a branch in Italy in December 2009. We also retain ownership of our branch, Cell Therapeutics Inc.—Sede Secondaria, or CTI (Europe); however, we ceased operations related to this branch in September 2009. In addition, CTI Commercial LLC, a wholly-owned subsidiary, was included in the consolidated financial statements until dissolution in March 2012.

As of December 31, 2014, we also had a 61% interest in our majority-owned subsidiary, Aequus Biopharma, Inc., or Aequus. The remaining interest in Aequus not held by CTI is reported as noncontrolling interest in the consolidated financial statements.

All intercompany transactions and balances are eliminated in consolidation.

Reverse Stock-Splits

On September 2, 2012, we effected a one-for-five reverse stock split, referred to as the Stock Split. Unless otherwise noted, all impacted amounts included in the consolidated financial statements and notes thereto have been retroactively adjusted for the Stock Split. Unless otherwise noted, impacted amounts include shares of common stock authorized and outstanding, share issuances and cancellations, shares underlying preferred stock, convertible notes, warrants and stock options, shares reserved, conversion prices of convertible securities, exercise prices of warrants and options, and loss per share. Additionally, the Stock Split impacted preferred stock authorized (but not outstanding because there were no shares of preferred stock outstanding as of the time of the applicable reverse stock split).

Liquidity

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date of these condensed consolidated financial statements. However, we believe that our present financial resources, together with additional milestone payments projected to be received under certain of our contractual agreements, our ability to control costs and expected net sales of PIXUVRI, will only be sufficient to fund our operations through mid-third quarter of 2015. This raises substantial doubt about our ability to continue as a going concern. Further, we have incurred net losses since inception and expect to generate losses for the next few years primarily due to research and development costs for pacritinib, PIXUVRI, Opaxio and tosedostat. Our available cash and cash equivalents were $70.9 million as of December 31, 2014.

Accordingly, we will need to raise additional funds. We may seek to raise such capital through public or private equity financings, partnerships, collaborations, joint ventures, disposition of assets, debt financings or restructurings, bank borrowings or other sources of financing. However, we have a limited number of authorized shares of common stock available for issuance and additional funding may not be available on favorable terms or at all. If additional funds are raised by issuing equity securities, substantial dilution to existing shareholders may result. If we fail to obtain additional capital when needed, we may be required to delay, scale back or eliminate some or all of our research and development programs, reduce our selling, general and administrative expenses, be unable to attract and retain highly qualified personnel, refrain from making our contractually required payments when due (including debt payments) and/or may be forced to cease operations, liquidate our assets and possibly seek bankruptcy protection. The accompanying condensed consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. For example, estimates include assumptions used in calculating reserves for sales deductions such as rebates and returns of product sold, allowances for credit losses, excess and obsolete inventory, share-based compensation expense, the allocation of our operating expenses, the allocation of purchase price to acquired assets and liabilities, restructuring charges and our liability for excess facilities, our provision for loss contingencies, the useful lives of fixed assets, the fair value of our financial instruments, our tax provision and related valuation allowance, and determining potential impairment of long-lived assets. Actual results could differ from those estimates.

Certain Risks and Uncertainties

Our results of operations are subject to foreign currency exchange rate fluctuations primarily due to our activity in Europe. We report the results of our operations in U.S. dollars, while the functional currency of our foreign subsidiaries is the euro. As the net positions of our unhedged foreign currency transactions fluctuate, our earnings might be negatively affected. In addition, the reported carrying value of our euro-denominated assets and liabilities that remain in our European branches and subsidiaries will be affected by fluctuations in the value of the U.S. dollar as compared to the euro. We review our foreign currency risk periodically along with hedging options to mitigate such risk.

Financial instruments which potentially subject us to concentrations of credit risk consist of accounts receivable. The Company has accounts receivable from the sale of PIXUVRI from a small number of distributors and health care providers. Further, the Company does not require collateral on amounts due from its distributors and is therefore subject to credit risk. The Company has not experienced any significant credit losses to date as a result of credit risk concentration.

Additionally, see Note 16, Customer and Geographic Concentrations, for further concentration disclosure.

Concentrations

We source our drug products for commercial operations and clinical trials from a concentrated group of third party contractors. If we are unable to obtain sufficient quantities of source materials, manufacture or distribute our products to customers from existing suppliers and service providers, or if we were unable to obtain the materials or services from other suppliers, manufacturers or distributors, certain research and development and sales activities may be delayed.

Cash and Cash Equivalents

We consider 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 investment-grade corporate and government obligations, carried at cost, which approximates market value.

Accounts Receivable

Our accounts receivable balance includes trade receivables related to PIXUVRI sales. We estimate an allowance for doubtful accounts based upon the age of outstanding receivables and our historical experience of collections, which includes adjustments for risk of loss for specific customer accounts. We periodically review the estimation process and make changes to our assumptions as necessary. When it is deemed probable that a customer account is uncollectible, the account balance is written off against the existing allowance. We also consider the customers' country of origin to determine if an allowance is required. We continue to monitor economic conditions, including the volatility associated with international economies, the sovereign debt crisis in certain European countries and associated impacts on the financial markets and our business. As of December 31, 2014 and 2013, our accounts receivable did not include any balance from a customer in a country that has exhibited financial stress that would have had a material impact on our financial results. We recorded an allowance for doubtful accounts of $0.1 million as of December 31, 2014. There was no allowance for doubtful accounts as of December 31, 2013.

Value Added Tax Receivable

Our European operations are subject to a value added tax, or VAT, which is usually applied to all goods and services purchased and sold throughout Europe. The VAT receivable is approximately $4.9 million and $5.5 million as of December 31, 2014 and 2013, of which $4.7 million and $5.4 million is included in other assets and $0.2 million and $0.1 million is included in prepaid expenses and other current assets as of December 31, 2014 and 2013, respectively. The collection period of VAT receivable for our European operations ranges from approximately three months to five years. For our Italian VAT receivable, the collection period is approximately three to five years. As of December 31, 2014, the VAT receivable related to operations in Italy is approximately $4.8 million. We review our VAT receivable balance for impairment whenever events or changes in circumstances indicate the carrying amount might not be recoverable.

Inventory

We began capitalizing costs related to the production of PIXUVRI in February 2012 upon receiving a positive opinion for conditional approval by the EMA's Committee for Medicinal Products for Human Use, at which time the likelihood of receiving conditional approval to market PIXUVRI in the E.U. was deemed probable. Production costs for our other product candidates continue to be charged to research and development expense as incurred prior to regulatory approval or until our estimate for regulatory approval becomes probable. We carry inventory at the lower of cost or market. The cost of finished goods and work in process is determined using the standard-cost method, which approximates actual cost based on a first-in, first-out method. Inventory includes the cost of materials, third party contract manufacturing and overhead costs, quality control costs and shipping costs from the manufacturers to the final distribution warehouse associated with the production and distribution of PIXUVRI. We regularly review our inventories for obsolescence and reserves are established when necessary. Estimates of excess inventory consider our projected sales of the product and the remaining shelf lives of product. In the event we identify excess, obsolete or unsaleable inventory, the value is written down to the net realizable value.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation commences at the time assets are placed in service. We calculate depreciation using the straight-line method over the estimated useful lives of the assets ranging from three to five years for assets other than leasehold improvements. We amortize leasehold improvements over the lesser of their useful life of 10 years or the term of the applicable lease.

Impairment of Long-lived Assets

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

Leases

We analyze leases at the inception of the agreement to classify as either an operating or capital lease. On certain of our lease agreements, the terms include rent holidays, rent escalation clauses and incentives for leasehold improvements. We recognize deferred rent relating to incentives for rent holidays and leasehold improvements and amortize the deferred rent over the term of the leases as a reduction of rent expense. For rent escalation clauses, we recognize rent expense on a straight-line basis equal to the amount of total minimum lease payments over the term of the lease.

Acquisitions

We account for acquired businesses using the acquisition method of accounting, which requires that most assets acquired and liabilities assumed be recognized at fair value as of the acquisition date. Any excess of the consideration transferred over the fair value of the net assets acquired is recorded as goodwill, and the fair value of the acquired in-process research and development, or IPR&D, is recorded on the balance sheet. If the acquired net assets do not constitute a business, the transaction is accounted for as an asset acquisition and no goodwill is recognized. In an asset acquisition, the amount allocated to acquired IPR&D with no alternative future use is charged to expense at the acquisition date.

Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. There are three levels of inputs used to measure fair value with Level 1 having the highest priority and Level 3 having the lowest:

Level 1 – Observable inputs, such as unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities, or other inputs that are observable directly or indirectly.

Level 3 - Unobservable inputs that are supported by little or no market activity, requiring an entity to develop its own assumptions.

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

At December 31, 2014 and 2013, the carrying value of financial instruments such as receivables and payables approximated their fair values due to their short-term maturities. The carrying value of our long-term debt approximated its fair value at December 31, 2014 and 2013 based on borrowing rates for similar loans and maturities.

Contingencies

We record liabilities associated with loss contingencies to the extent that we conclude the occurrence of the contingency is probable and that the amount of the related loss is reasonably estimable. We record income from gain contingencies only upon the realization of assets resulting from the favorable outcome of the contingent event. See Note 12, Collaboration, Licensing and Milestone Agreements and Note 19, Legal Proceedings, for further information regarding our current gain and loss contingencies.

Revenue Recognition

We currently have conditional approval to market PIXUVRI in the E.U. Revenue is recognized when there is persuasive evidence of the existence of an agreement, delivery has occurred, prices are fixed or determinable, and collectability is assured. Where the revenue recognition criteria are not met, we defer the recognition of revenue by recording deferred revenue until such time that all criteria under the provision are met.

Product Sales

We sell PIXUVRI through a limited number of distributors and directly to health care providers in Austria, Denmark, Finland, Germany, Norway, Sweden and the U.K. We generally record product sales upon receipt of the product by the health care providers and certain distributors at which time title and risk of loss pass. Product sales are recorded net of distributor discounts, estimated government-mandated rebates, trade discounts, and estimated product returns. Reserves are established for these deductions and actual amounts incurred are offset against the applicable reserves. We reflect these reserves as either a reduction in the related account receivable or as an accrued liability depending on the nature of the sales deduction. These estimates are periodically reviewed and adjusted as necessary.

Government-mandated discounts and rebates

Our products are subject to certain programs with government entities in the E.U. whereby pricing on products is discounted below distributor list price to participating health care providers. These discounts are provided to participating health care providers either at the time of sale or through a claim by the participating health care providers for a rebate. Due to estimates and assumptions inherent in determining the amount of government discounts and rebates, the actual amount of future claims may be different from our estimates, at which time we would adjust our reserves accordingly.

Product returns and other deductions

At the time of sale, we also record estimates for certain sales deductions such as product returns and distributor discounts and incentives. We offer certain distributors a limited right of return or replacement of product that is damaged in certain instances. When we cannot reasonably estimate the amount of future product returns and/or other sales deductions, we do not recognize revenue until the risk of product return and additional sales deductions have been substantially eliminated.

Collaboration agreements

We evaluate collaboration agreements to determine whether the multiple elements and associated deliverables can be considered separate units of accounting in accordance with ASC 605-25 Revenue Recognition—Multiple-Element Arrangements. If it is determined that the deliverables under the collaboration agreement are a single unit of accounting, all amounts received or due, including any upfront payments, are recognized as revenue over the performance obligation periods of each agreement. Following the completion of the performance obligation period, such amounts will be recognized as revenue when collectability is reasonably assured.

The assessment of multiple element arrangements requires judgment in order to determine the allocation of revenue to each deliverable and the appropriate point in time, or period of time, that revenue should be recognized. In order to account for these agreements, we identify deliverables included within the agreement and evaluate which deliverables represent separate units of accounting based on whether certain criteria are met, including whether the delivered element has standalone value to the collaborator. The consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units.

Milestone payments under the collaboration agreement are generally aggregated into three categories for reporting purposes: (i) development milestones, (ii) regulatory milestones, and (iii) sales milestones. Development milestones are typically payable when a product candidate initiates or advances into different clinical trial phases. Regulatory milestones are typically payable upon submission for marketing approval with the FDA, or with the regulatory authorities of other countries, or on receipt of actual marketing approvals for the compound or for additional indications. Sales milestones are typically payable when annual sales reach certain levels.

At the inception of each agreement that includes milestone payments, we evaluate whether each milestone is substantive and at risk to both parties on the basis of the contingent nature of the milestone. This evaluation includes an assessment of whether (a) the consideration is commensurate with either (1) the entity's performance to achieve the milestone, or (2) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone, (b) the consideration relates solely to past performance and (c) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. We evaluate factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the respective milestone, the level of effort and investment required to achieve the respective milestone and whether the milestone consideration is reasonable relative to all deliverables and payment terms in the arrangement in making this assessment. Non-refundable development and regulatory milestones that are expected to be achieved as a result of our efforts during the period of substantial involvement are considered substantive and are recognized as revenue upon the

achievement of the milestone, assuming all other revenue recognition criteria are met.

Cost of Product Sold

Cost of product sold includes third party manufacturing costs, shipping costs, contractual royalties, and other costs of PIXUVRI product sold. Cost of product sold also includes any necessary allowances for excess inventory that may expire and become unsalable. We did not record an allowance for excess inventory as of December 31, 2014 and 2013.

Research and Development Expenses

Research and development costs are expensed as incurred in accordance with Financial Accounting Standards Board, or the FASB, Accounting Standards Codification, or ASC 730, Research and Development. Research and development expenses include related salaries and benefits, clinical trial and related manufacturing costs, contract and other outside service fees, and facilities and overhead costs related to our research and development efforts. Research and development expenses also consist of costs incurred for proprietary and collaboration research and development and include activities such as product registries and investigator-sponsored trials. In instances where we enter into agreements with third parties for research and development activities, we may prepay fees for services at the initiation of the contract. We record the prepayment as a prepaid asset and amortize the asset into research and development expense over the period of time the contracted research and development services are performed. Other types of arrangements with third parties may be fixed fee or fee for service, and may include monthly payments or payments upon completion of milestones or receipt of deliverables. In instances where we enter into cost-sharing arrangements, all research and development costs reimbursed by the collaborator are a reduction to research and development expense while research and development costs paid to the collaborator are an addition to research and development expense. We expense upfront license payments related to acquired technologies that have not yet reached technological feasibility and have no alternative future use.

Foreign Currency Translation and Transaction Gains and Losses

We record foreign currency translation adjustments and transaction gains and losses in accordance with ASC 830, Foreign Currency Matters. For our operations that have a functional currency other than the U.S. dollar, gains and losses resulting from the translation of the functional currency into U.S. dollars for financial statement presentation are not included in determining net loss, but are accumulated in the cumulative foreign currency translation adjustment account as a separate component of shareholders' equity (deficit), except for intercompany transactions that are of a short-term nature with entities that are consolidated, combined or accounted for by the equity method in our consolidated financial statements. We and our subsidiaries also have transactions in foreign currencies other than the functional currency. We record transaction gains and losses in our consolidated statements of operations related to the recurring measurement and settlement of such transactions.

Income Taxes

We record a tax provision for the anticipated tax consequences of our reported results of operations. The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax base of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized.

Net Loss per Share

Basic net income (loss) per share is calculated based on the net income (loss) attributable to common shareholders divided by the weighted average number of shares outstanding for the period excluding any dilutive effects of options, warrants, unvested share awards and convertible securities. Diluted net income (loss) per common share assumes the conversion of all dilutive convertible securities, such as convertible debt and convertible preferred stock using the if-converted method, and assumes the exercise or vesting of other dilutive securities, such as options, warrants and restricted stock using the treasury stock method.

Recently Adopted Accounting Standards

In March 2013, the FASB issued guidance to clarify when to release cumulative foreign currency translation adjustments when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity. The amendment is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013 and should be applied prospectively to derecognition events occurring after the effective date, with early adoption permitted. The adoption of this guidance did not have an impact on our consolidated financial statements.

In July 2013, the FASB issued guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss or tax carryforward exists. The FASB concluded that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset except in certain circumstances the unrecognized tax benefit should be presented as a liability and should not be combined with deferred tax assets. The amendment is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The adoption of this guidance did not have an impact on our consolidated financial statements.

Recently Issued Accounting Standards

In May 2014, the FASB issued a new financial accounting standard which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is not permitted. We are currently evaluating the impact of this accounting standard.

In August 2014, the FASB issued a new accounting standard which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim reporting period and to provide related footnote disclosures in certain circumstances. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the impact of this accounting standard.

Reclassifications

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

2. Inventory

The components of inventories are composed of the following as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Finished goods	$850	$601
Work-in-process	3,332	4,473
Total inventories	$4,182	$5,074

3. Property and Equipment

Property and equipment is composed of the following as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Furniture and office equipment	$11,020	$10,913
Leasehold improvements	5,078	5,078
Lab equipment	209	143
	16,307	16,134
Less: accumulated depreciation and amortization	(11,661)	(10,656)
Property and equipment, net	$4,646	$5,478

Depreciation expense of $1.1 million, $1.6 million and $2.3 million was recognized during 2014, 2013 and 2012, respectively.

4. Acquisitions

S*BIO Asset Purchase Agreement

In April 2012, we entered into an Asset Purchase Agreement with S*BIO Pte Ltd., or S*BIO, to acquire all right, title and interest in, and assume certain liabilities relating to, certain intellectual property and other assets related to compounds SB1518 (also referred to as “pacritinib”) and SB1578, or the Seller Compounds. In consideration of the assets and rights acquired under the agreement, we made a payment of $15.0 million in cash and issued 15,000 shares of Series 16 convertible preferred stock, or Series 16 Preferred Stock, to S*BIO at closing in May 2012. Each share of Series 16 Preferred Stock had a stated value of $1,000 per share. In June 2012, all outstanding shares of our Series 16 Preferred Stock were automatically converted into 2.5 million shares of our common stock at a conversion price of $5.95 per share, subject to a 19.99% blocker provision.

The total initial purchase consideration was as follows (in thousands):

Cash	$15,000
Fair value of Series 16 Preferred Stock	11,344
Transaction costs	2,764
Total initial purchase consideration	$29,108

The transaction was treated as an asset acquisition as it was determined that the assets acquired did not meet the definition of a business. We determined that the acquired assets can only be economically used for the specific and intended purpose and have no alternative future use after taking into consideration further research and development, regulatory and marketing approval efforts required in order to reach technological feasibility. Accordingly, the entire initial purchase consideration of $29.1 million was immediately expensed to acquired in-process research and development for the year ended December 31, 2012. The contingent consideration arrangement as discussed below will be recognized when the contingency is resolved and the consideration is paid or becomes payable.

As part of the consideration, S*BIO also has a contingent right to certain milestone payments from us up to an aggregate amount of $132.5 million if certain U.S., E.U. and Japanese regulatory approvals are obtained or if certain worldwide net sales thresholds are met in connection with any pharmaceutical product containing or comprising any Seller Compound for use for specific diseases, infections or other conditions. In addition, S*BIO will also be entitled to receive royalty payments from us at incremental rates in the low-single digits based on certain worldwide net sales thresholds on a product-by-product and country-by-country basis.

At our election, we may pay up to 50% of any milestone payments to S*BIO through the issuance of shares of our common stock or shares of our preferred stock convertible into our common stock in lieu of cash.

Chroma Asset Purchase Agreement

In October 2014, we entered into an Asset Purchase Agreement, or the Chroma APA, with Chroma Therapeutics Limited, or Chroma, pursuant to which we acquired all of Chroma’s right, title and interest in the compound tosedostat and certain related assets. Concurrently, we and Chroma terminated our Co-Development and License Agreement relating to tosedostat, or the Chroma License Agreement, previously entered into on March 11, 2011, thereby eliminating potential future milestone payments thereunder of up to $209.0 million, and we acquired an exclusive worldwide license with respect to tosedostat directly from Vernalis R&D Limited, or Vernalis (as discussed below).

As consideration under the Chroma APA, we issued an aggregate of 9,000 shares of our Series 20 Preferred Stock convertible into shares of common stock, or the Series 20 Preferred Stock, of which 7,920 shares have been delivered to Chroma. The remaining 1,080 shares are being held in escrow for nine months and will be applied towards any indemnification obligations of Chroma as set forth in the Chroma APA. Each share of Series 20 Preferred Stock had a stated value of $2,370 per share and was convertible into shares of common stock at a conversion price of $2.37 per share. Shares of the Series 20 Preferred Stock would receive dividends in the same amount as any dividends declared and paid on shares of common stock, but were entitled to a liquidation preference over the common stock in certain liquidation events.

The total initial purchase consideration is as follows (in thousands):

Fair value of Series 20 Preferred Stock	$21,600
Transaction costs	259
Total initial purchase consideration	$21,859

All outstanding shares of Series 20 Preferred stock were converted into 9.0 million shares of common stock in October 2014. There was no beneficial conversion feature as the Series 20 Preferred Stock was recorded at fair value as of the acquisition date.

The transaction was treated as an asset acquisition because it was determined that the assets acquired did not meet the definition of a business. We determined that the acquired assets can only be economically used for the specific and intended purpose and have no alternative future use after taking into consideration further research and development, regulatory and marketing approval efforts required in order to reach technological feasibility. Accordingly, the entire initial purchase consideration of $21.9 million was expensed to acquired in-process research and development for the year ended December 31, 2014.

Concurrently with the termination of the Chroma License Agreement and the execution of the Chroma APA, we also entered into an amended and restated license agreement with Vernalis, or the Vernalis License Agreement, for the exclusive worldwide right to use certain patents and other intellectual property rights to develop, market and commercialize tosedostat and certain other compounds, as well as deed of novation pursuant to which all rights of Chroma under its prior license agreement with Vernalis relating to tosedostat were novated to us. Under the Vernalis License Agreement, we have agreed to make tiered royalty payments of no more than a high single digit percentage of net sales of products containing licensed compounds, with such obligation to continue on a country-by-country basis for the longer of ten years following commercial launch or the expiry of relevant patent claims.

The Vernalis License Agreement will terminate when the royalty obligations expire, although the parties have early termination rights under certain circumstances, including the following: (i) we have the right to terminate, with three months' notice, upon the belief that the continued development of tosedostat or any of the other licensed compounds is not commercially viable; (ii) Vernalis has the right to terminate in the event of our uncured failure to pay sums due; and (iii) either party has the right to terminate in event of the other party's uncured material breach or insolvency.

5. Accrued Expenses

Accrued expenses consisted of the following as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Clinical and investigator-sponsored trial expenses	$7,554	$3,360
Employee compensation and related expenses	5,930	3,035
Manufacturing expenses	2,043	225
Legal expenses	885	573
Accrued selling expenses	759	562
Insurance financing	695	611
Accrued other taxes	386	236
Accrued interest expenses	186	133
Rebates and royalties	139	186
Other	1,157	548
Total accrued expenses	$19,734	$9,469

6. Leases

Lease Agreements

We lease our office space under operating leases for our U.S. and European offices. Rent expense amounted to $2.0 million, $2.0 million and $2.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. Rent expense is net of sublease income and amounts offset to excess facilities charges.

In January 2012, we entered into an agreement with Selig Holdings Company LLC to lease approximately 66,000 square feet of office space in Seattle, Washington. The term of this lease is for a period of 120 months, which commenced on May 1, 2012. We have two five-year options to extend the term of the lease at a market rate determined according to the lease. No rent payments were due during the first five months of the lease term. The initial rent amount is based on $27.00 per square foot per annum for the remainder of the first 12 months, with rent increasing three percent over the prior year's rent amount for each year thereafter for the duration of the lease. In addition, we were provided an allowance of $3.3 million for certain tenant improvements made by us.

Future Minimum Lease Payments

Future minimum lease commitments for non-cancelable operating leases at December 31, 2014 are as follows (in thousands):

	Operating Leases
2015	$ 2,600
2016	2,289
2017	2,349
2018	2,411
2019	2,474
Thereafter	6,021
Total minimum lease commitments	$ 18,144

Liability for Excess Facilities

During the year ended December 31, 2005, we reduced our workforce in the U.S. and Europe. In conjunction with this reduction in force, we vacated a portion of our laboratory and office facilities and recorded excess facilities charges. Charges for excess facilities relate to our lease obligation for excess laboratory and office space in the U.S. that we vacated as a result of the restructuring plan. We recorded these restructuring charges when we ceased using this space.

During the year ended December 31, 2010, we recorded an additional liability of $1.5 million for excess facilities under an operating lease upon vacating a portion of our corporate office space. The related charge for excess facilities was recorded as a component of rent expense, which is included in research and development and selling, general and administrative expenses for the year ended December 31, 2010.

The following table summarizes the changes in the liability for excess facilities during the year ended December 31, 2012 (in thousands):

	2005 Activities	2010 Activities	Total Excess Facilities Liability
Balance at December 31, 2011	$ 215	$ 530	$ 745
Adjustments	(32)	(62)	(94)
Payments	(183)	(468)	(651)
Balance at December 31, 2012	$ —	$ —	$ —

We will periodically evaluate our existing needs and other future commitments to determine whether we should record additional excess facilities charges or adjustments to such charges.

7. Other Liabilities

Other liabilities consisted of the following as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Deferred rent, less current portion	$4,006	$4,376
Other long-term obligations	1,876	1,281
Total other liabilities	$5,882	$5,657

The balance of deferred rent as of December 31, 2014 and 2013 relates to incentives for rent holidays and leasehold improvements associated with our operating lease for office space as discussed in Note 6, Leases. The balance of other long-term obligations includes a fee in the amount of $1.3 million payable to Hercules Technology Growth Capital Inc., or HTGC, for the years ended December 31, 2014 and 2013. See Note 8, Long-term Debt, for additional information.

8. Long-term Debt

In March 2013, we entered into a Loan and Security Agreement with HTGC providing for a senior secured term loan of up to $15.0 million, and we amended the arrangement in March 2014 thereby providing us an option to borrow an additional $5.0 million. The first $10.0 million was funded in March 2013, we exercised our option to borrow an additional $5.0 million in December 2013, and we borrowed an additional $5.0 million in October 2014. The interest

rate on the term loan floats at a rate per annum equal to 12.25% plus the amount by which the prime rate exceeds 3.25%. The term loan is repayable in 30 equal monthly installments of principal and interest (mortgage style) over 42 months, including an initial interest-only period of 12 months after closing. We paid a facility charge of $150,000 at closing and a fee in the amount of $1.3 million is payable to HTGC on the date on which the term loan is paid or becomes due and payable in full.

In addition, in March 2013, we issued a warrant to HTGC to purchase shares of common stock. The warrant was exercisable for five years from the date of issuance for 0.7 million shares of common stock. The initial exercise price of the warrant was $1.1045 per share of common stock. The exercise price and number of shares of common stock issuable upon exercise were subject to antidilution adjustments in certain events, including if within 12 months after closing the Company issued shares of common stock or securities that were exercisable or convertible into shares of common stock in transactions not registered under the Securities Act of 1933, as amended, at an effective price per share of common stock that is less than the exercise price of the warrant, then the exercise price shall automatically be reduced to equal the price per share of common stock in such transaction and the number of shares would be increased proportionately. Since the warrant did not meet the considerations necessary for equity classification in the applicable authoritative guidance, we determined the warrant was a liability instrument that is marked to fair value with changes in fair value recognized through earnings at each reporting period. The warrant was categorized as Level 2 in the fair value hierarchy as the significant inputs used in determining fair value were considered observable market data. As of the issuance date and December 31, 2013, we estimated the fair value of the warrant to be $0.5 million and $1.0 million, respectively. In January 2014, all of the warrant was exercised into 0.5 million shares of common stock via cashless exercise.

In March 2014, we entered into a First Amendment, or the Amendment, to Loan and Security Agreement, or the Original Loan Agreement (and as amended by the Amendment, the Loan Agreement). The Amendment modified certain terms applicable to the loan balance then-outstanding of $15.0 million, or the Original Loan, as described below and provided us with the option to borrow an additional $5.0 million, or the 2014 Term Loan, through October 31, 2014, subject to certain conditions. We exercised such option and received the funds in October 2014. In connection with the Amendment, we paid a facility charge of $72,500 of which $35,000 was refunded to us in October 2014 pursuant to the terms of the Amendment.

Pursuant to the Amendment, the interest-only period of the Original Loan was extended by six months such that the 24 equal monthly installments of principal and interest (mortgage style) commenced on November 1, 2014 (rather than May 1, 2014). In addition, the interest rate on the Original Loan (which is currently 12.25% plus the amount by which the prime rate exceeds 3.25%) will, upon Hercules' receipt of evidence of the achievement of positive Phase 3 data in connection with our PERSIST-1 clinical trial for pacritinib, be reduced to 11.25% plus the amount by which the prime rate exceeds 3.25%. The modified terms were not considered substantially different pursuant to ASC 470-50, Modification and Extinguishment.

The interest on the 2014 Term Loan floats at a rate per annum equal to 10.00% plus the amount by which the prime rate exceeds 3.25%. The 2014 Term Loan is repayable in 24 equal monthly installments of principal and interest (mortgage style) commencing on November 1, 2014.

Subject to certain exceptions, all loan obligations under the Loan Agreement are secured by a first priority security interest on substantially all of our personal property (excluding our intellectual property).

In connection with the transactions described above, we recorded a total debt discount of $2.2 million and the issuance costs of $0.3 million. As of December 31, 2014 and 2013, unamortized debt discount was $1.1 million and $1.7 million, unamortized issuance costs were $0.2 million and $0.3 million, and the outstanding principal balance was $18.5 million and $15.0 million, respectively.

9. Preferred Stock

Prior to the effective date of the Stock Split, we completed several preferred stock transactions during the year 2012, each of which is described below. All outstanding shares of the preferred stock issued in these transactions converted to common stock or were redeemed, in each case, prior to the effective date of the Stock Splits. Accordingly, for purposes of the descriptions of these transactions included in this Note 9, Preferred Stock, the number of shares of preferred stock issued, converted and redeemed and the initial stated value of shares of preferred stock issued are not adjusted to reflect the Stock Split. However, the number of shares of common stock issued upon conversion of the preferred stock, the conversion price of common stock issued upon conversion, the exercise prices of warrants issued and the number of shares of common stock issued or issuable upon exercise or exchange of the warrants in these transactions are adjusted to reflect the Stock Split.

Series 15-1 Preferred Stock

In May 2012, we issued 20,000 shares of our Series 15 convertible preferred stock, or Series 15-1 Preferred Stock, and a warrant to purchase up to 2.7 million shares of our common stock, or Series 15-1 Warrant, for gross proceeds of $20.0 million. Issuance costs related to this transaction were $1.3 million.

Each share of our Series 15-1 Preferred Stock was convertible at the option of the holder and was entitled to a liquidation preference equal to the initial stated value of $1,000 per share of Series 15-1 Preferred Stock, plus any

accrued and unpaid dividends before the holders of our common stock or any other junior securities receive any payments upon such liquidation. The Series 15-1 Preferred Stock was not entitled to dividends except to share in any dividends actually paid on our common stock or any pari passu or junior securities and had no voting rights except as otherwise expressly provided in our amended and restated articles of incorporation or as otherwise required by law. For the year ended December 31, 2012, we recognized $8.5 million in dividends and deemed dividends on preferred stock related to the beneficial conversion feature on our Series 15-1 Preferred Stock. In May 2012, all 20,000 shares of our Series 15-1 Preferred Stock were converted into 4.0 million shares of our common stock at a conversion price of $5.00 per share.

The Series 15-1 Warrant had an exercise price of $5.46 per share of our common stock and had an expiration date in May 2017. The Series 15-1 Warrant contained a provision that if the price per share of our common stock was less than the exercise price of the warrant at any time while the warrant is outstanding, the warrant may be exchanged for shares of our common stock based on an exchange value derived from a specified Black-Scholes value formula, or the Exchange Value, subject to certain limitations. Upon issuance, we estimated the fair value of the Series 15-1 Warrant to be approximately $10.3 million using the Black-Scholes pricing model. In September 2012, the holder elected to exchange a portion of the Series 15-1 Warrant to purchase 1.3 million shares with an Exchange Value of $5.0 million. We elected to issue 2.8 million shares of our common stock as payment for the Exchange Value. In November 2012, the holder elected to exchange the remaining portion of the Series 15-1 Warrant to purchase 1.4 million shares of our common stock with an Exchange Value of $5.4 million. We elected to issue 4.1 million shares of our common stock as payment for the Exchange Value.

Series 15-2 Preferred Stock

In July 2012, we issued 15,000 shares of our Series 15 convertible preferred stock, or Series 15-2 Preferred Stock, and a warrant to purchase up to 3.4 million shares of our common stock, or Series 15-2 Warrant, for gross proceeds of $15.0 million. Issuance costs related to this transaction were $0.8 million.

Each share of our Series 15-2 Preferred Stock was convertible at the option of the holder and was entitled to a liquidation preference equal to the initial stated value of $1,000 per share of Series 15-2 Preferred Stock, plus any accrued and unpaid dividends before the holders of our common stock or any other junior securities receive any payments upon such liquidation. The Series 15-2 Preferred Stock was not entitled to dividends except to share in any dividends actually paid on our common stock or any pari passu or junior securities and had no voting rights except as otherwise expressly provided in our amended and restated articles of incorporation or as otherwise required by law. In July 2012, all 15,000 shares of Series 15-2 Preferred Stock were converted into 5.0 million shares of our common stock at a conversion price of $2.97475 per share. For the year ended December 31, 2012, we recognized $5.0 million in dividends and deemed dividends on preferred stock related to the beneficial conversion feature on our Series 15-2 Preferred Stock.

The Series 15-2 Warrant had substantially the same features as the Series 15-1 Warrant described above, with the exception of the exercise price of $3.0672 per share of common stock and expiration date of July 2017. Upon issuance, we estimated the fair value of the Series 15-2 Warrant to be approximately $7.2 million using the Black-Scholes pricing model. In September 2012, the holder elected to exchange the Series 15-2 Warrant to purchase 3.4 million shares of our common stock with an Exchange Value of $7.4 million. We elected to issue 2.9 million shares of common stock to the holder as payment for the Exchange Value of the Series 15-2 Warrant.

Series 16 Preferred Stock

See Note 4, Acquisitions—S*BIO Asset Purchase Agreement, for information concerning our issuance of Series 16 Preferred Stock.

Series 17 Preferred Stock

In October 2012, we issued 60,000 shares of our Series 17 convertible preferred stock, or Series 17 Preferred Stock, in an underwritten public offering for gross proceeds of $60.0 million, before deducting underwriting commissions and discounts and other offering costs. Issuance costs related to this transaction were $5.5 million, including $3.9 million in underwriting commissions and discounts.

Each share of Series 17 Preferred Stock was convertible at the option of the holder and was entitled to a liquidation preference equal to the stated value of $1,000 per share plus any accrued and unpaid dividends before the holders of our common stock or any other junior securities receive any payments upon such liquidation. The holders of Series 17

Preferred Stock were not entitled to receive dividends except to share in any dividends actually paid on shares of our common stock or other junior securities and had no voting rights except as otherwise expressly provided in our amended and restated articles of incorporation or as otherwise required by law. For the year ended December 31, 2012, we recognized $0.4 million in dividends and deemed dividends on preferred stock related to the beneficial conversion feature on our Series 17 Preferred Stock and all 60,000 shares of Series 17 Preferred Stock were converted into 42.9 million shares of our common stock at a conversion price of $1.40 per share.

Series 18 Preferred Stock

In September 2013, we issued 15,000 shares of Series 18 preferred stock, or Series 18 Preferred Stock, for gross proceeds of $15.0 million in a registered direct offering. Issuance costs related to this transaction were $0.1 million. Each share of Series 18 Preferred Stock was entitled to a liquidation preference equal to the initial stated value of $1,000 per share of Series 18 Preferred Stock, plus any accrued and unpaid dividends, before the holders of our common stock or any other junior securities receive any payments upon such liquidation. The Series 18 Preferred Stock was not entitled to dividends except to share in any dividends actually paid on common stock or any pari passu or junior securities. The Series 18 Preferred Stock had no voting rights except as otherwise expressly provided in the amended articles or as otherwise required by law. For the year ended December 31, 2013, we recognized $6.9 million in dividends and deemed dividends on preferred stock related to the beneficial conversion feature on our Series 18 Preferred Stock. In September 2013, all 15,000 shares of Series 18 preferred stock were converted into 15.0 million shares of common stock at a conversion price of $1.00 per share.

Series 19 Preferred Stock

See Note 12, Collaboration, Licensing and Milestone Agreements—Baxter, for information concerning our issuance of Series 19 Preferred Stock.

Series 20 Preferred Stock

See Note 4, Acquisitions—Chroma APA, for information concerning our issuance of Series 20 Preferred Stock.

Series 21 Preferred Stock

In November 2014, we issued 35,000 shares of our Series 21 convertible preferred stock, or Series 21 Preferred Stock, in an underwritten public offering for gross proceeds of $35.0 million, before deducting underwriting commissions and discounts and other offering costs. Issuance costs related to this transaction were $2.7 million, including $2.1 million in underwriting commissions and discounts.

Each share of Series 21 Preferred Stock was convertible at the option of the holder and was entitled to a liquidation preference equal to the initial stated value of such holder’s Series 21 Preferred Stock of $1,000 per share, plus any declared and unpaid dividends and any other payments that may be due on such shares, before any distribution of assets may be made to holders of capital stock ranking junior to the Series 21 Preferred Stock.

The Series 21 Preferred Stock was not entitled to dividends except to share in any dividends actually paid on the common stock or any pari passu or junior securities. The Series 21 Preferred Stock had no voting rights, except as otherwise expressly provided in the Amended Articles or as otherwise required by law.

For the year ended December 31, 2014, we recognized $2.6 million in deemed dividends on preferred stock related to the beneficial conversion feature on our Series 21 Preferred Stock, and all 35,000 shares of Series 21 Preferred Stock were converted into 17.5 million shares of our common stock at a conversion price of $2.00 per share.

10. Common Stock
Common Stock Reserved

A summary of common stock reserved for issuance is as follows as of December 31, 2014 (in thousands):

Equity incentive plans	16,781
Common stock purchase warrants	5,183
Employee stock purchase plan	34
Total common stock reserved	21,998

Warrants

Warrants to purchase up to 0.1 million shares of our common stock with an exercise price of $12.30 per share, issued in connection with the issuance of our Series 1 Preferred Stock in April 2009, or Class B Warrants, were outstanding as of December 31, 2013. We classified the Class B Warrants as mezzanine equity as they included a redemption feature that may be triggered upon certain fundamental transactions that are outside of our control. These warrants expired in October 2014 and were no longer outstanding as of December 31, 2014. Warrants to purchase up to 5,000 shares of common stock with an exercise price of $13.50 per share, issued to the placement agent for the Series 1 Preferred Stock transaction were outstanding as of December 31, 2013. These warrants were also classified as mezzanine equity due to the same redemption feature as that of the Class B warrants. These warrants expired in October 2014 and were no longer outstanding as of December 31, 2014.

Warrants to purchase up to 0.2 million shares of our common stock with an exercise price of $42.00 per share, issued in connection with our registered offering of common stock in May 2009, were outstanding as of December 31, 2013. These warrants expired in May 2014 and were no longer outstanding as of December 31, 2014.

Warrants to purchase up to 10,667 shares of our common stock with an exercise price of $46.875 per share, issued to the placement agent in connection with the registered offering of common stock in May 2009, were outstanding as of December 31, 2013. These warrants expired in November 2014 and were no longer outstanding as of December 31, 2014.

Warrants to purchase up to 19,556 shares of our common stock with an exercise price of $51.00 per share, issued to the underwriter of our public offering of common stock in July 2009, were outstanding as of December 31, 2013. These warrants expired in April 2014 and were no longer outstanding as of December 31, 2014.

Warrants to purchase up to 0.7 million shares of our common stock with an exercise price of $18.09 per share, issued in connection with the issuance of our Series 4 Preferred Stock in April 2010, or Series 4 Warrants, were outstanding as of December 31, 2013. The Series 4 Warrants were classified as mezzanine equity due to the same redemption feature as that of the Class B warrants as described above. The Series 4 Warrants expired in April 2014 and were no longer outstanding as of December 31, 2014.

Warrants to purchase up to 0.9 million shares of our common stock with an exercise price of $15.00 per share, issued in connection with the issuance of our Series 5 Preferred Stock in May 2010, or Series 5 Warrants, were outstanding as of December 31, 2013. These warrants were classified as mezzanine equity due to the same redemption feature as that of the Class B warrants as described above. The Series 5 Warrants expired in November 2014 and were no longer outstanding as of December 31, 2014. Warrants to purchase up to 35,000 shares with an exercise price of $15.00 per share issued to the placement agent for the Series 5 Preferred Stock transaction were outstanding as of December 31, 2014 and 2013 and will expire in May 2015. These warrants are also classified as mezzanine equity due to the same redemption feature as that of the Class B warrants as described above.

Warrants to purchase up to 0.1 million shares with an exercise price of $12.60 per share issued in July 2010 were outstanding as of December 31, 2014 and 2013. These warrants expired in January 2015.

Warrants to purchase up to 0.2 million shares of our common stock with an exercise price of $12.60 per share, issued in connection with the issuance of our Series 6 Preferred Stock in July 2010, were outstanding as of December 31, 2014 and 2013. Warrants to purchase up to 11,600 shares with an exercise price of $12.60 per share issued to the placement agent for the Series 6 Preferred Stock transaction were outstanding as of December 31, 2014 and 2013. These warrants are classified as mezzanine equity due to the same redemption feature as that of the Class B warrants as described above. These warrants expired in January 2015.

Warrants to purchase up to 0.8 million shares of our common stock with an exercise price of $13.50 per share, issued in connection with the issuance of our Series 7 Preferred Stock in October 2010, were outstanding as of December 31, 2014 and 2013. Warrants to purchase up to 37,838 shares with an exercise price of $13.80 per share issued to the placement agent for the Series 7 Preferred Stock transaction were outstanding as of December 31, 2014 and 2013. These warrants expire in October 2015.

Warrants to purchase up to 0.6 million shares of our common stock with an exercise price of $12.00 per share, issued in connection with the issuance of our Series 12 Preferred Stock in May 2011, were outstanding as of December 31, 2014 and 2013. Warrants to purchase up to 30,423 shares with an exercise price of $13.125 per share issued to the placement agent for the Series 12 Preferred Stock transaction were outstanding as of December 31, 2014 and 2013. These warrants expire in May 2016.

Warrants to purchase up to 1.8 million shares of our common stock with an exercise price of $10.75 per share, issued in connection with the issuance of our Series 13 Preferred Stock in July 2011, were outstanding as of December 31, 2014 and 2013. Warrants to purchase up to 70,588 shares with an exercise price of $12.25 per share and warrants to purchase up to 35,294 shares with an exercise price of $12.25 per shares, issued to the placement agent and to the financial advisor, respectively were outstanding as of December 31, 2014 and 2013. These warrants expire in July 2016.

Warrants to purchase up to 1.4 million shares of our common stock with an exercise price of $7.25 per share, issued in connection with the issuance of our Series 14 Preferred Stock in December 2011, were outstanding as of December 31, 2014 and 2013. Warrants to purchase up to 69,566 shares with an exercise price of $8.625 per share and warrants to purchase up to 34,783 shares with an exercise price of $8.625 per shares, issued to the placement agent and to the financial advisor, respectively were outstanding as of December 31, 2014 and 2013. These warrants expire in December 2016.

See Note 8, Long-term Debt, and Note 9, Preferred Stock, for additional information concerning our warrants.

11. Other Comprehensive Loss

Total accumulated other comprehensive loss consisted of the following (in thousands):

	Net Unrealized Loss on Securities Available-For-Sale	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Loss
December 31, 2013	$ (422)	$ (8,007)	$ (8,429)
Current period other comprehensive income (loss)	(68)	1,998	1,930
December 31, 2014	$ (490)	$ (6,009)	$ (6,499)

12. Collaboration, Licensing and Milestone Agreements

Baxter

In November 2013, we entered into a Development, Commercialization and License agreement, or Baxter Agreement, with Baxter International Inc., Baxter Healthcare Corporation and Baxter Healthcare SA, or collectively, Baxter, for the development and commercialization of pacritinib for use in oncology and potentially additional therapeutic areas. Under the Baxter Agreement, we granted to Baxter an exclusive, worldwide (subject to our certain co-promotion rights in the U.S.), royalty-bearing, non-transferable, and (under certain circumstances outside of the U.S.) sub-licensable license to its know-how and patents relating to pacritinib. We received an upfront payment of $60.0 million upon execution of the Baxter Agreement, which included an equity investment of $30 million to acquire our Series 19 Preferred Stock as discussed below.

Under the Baxter Agreement, we may receive potential clinical, regulatory and commercial launch milestone payments of up to $112.0 million and potential additional sales-based milestone payments of up to $190.0 million. We have determined that all of the sales-based milestone payments are contingent consideration and will be accounted for

as revenue in the period in which the respective revenue recognition criteria are met. We have also determined that all of the clinical, regulatory and commercial launch milestones are substantive and will be recognized as revenue upon the achievement of the milestone, assuming all other revenue recognition criteria are met.

Under the Baxter Agreement, the Company and Baxter will jointly commercialize and share profits and losses on sales of pacritinib in the U.S. Outside the U.S., the Company is also eligible to receive tiered high single digit to mid-teen percentage royalties based on net sales for myelofibrosis, and higher double-digit royalties for other indications, subject to reduction by up to 50% if (i) Baxter is required to obtain third party royalty-bearing licenses to fulfill its obligations under the Baxter Agreement, and (ii) in any jurisdiction where there is no longer either regulatory exclusivity or patent protection.

Under the Baxter Agreement, the Company is responsible for all development costs incurred prior to January 1, 2014 as well as approximately up to $96.0 million on or after January 1, 2014 for U.S. and E.U. development costs, subject to potential adjustment in certain circumstances. All development costs exceeding such threshold will generally be shared as follows: (i) costs generally applicable worldwide will be shared 75% to Baxter and 25% to the Company, (ii) costs applicable to territories exclusive to Baxter will be 100% borne by Baxter and (iii) costs applicable exclusively to co-promotion in the U.S. will be shared equally between the parties, subject to certain exceptions.

We record the development cost reimbursements received from Baxter as license and contract revenue in the statements of operations, and we record the full amount of development costs as research and development expense.

Pursuant to the accounting guidance under ASC 605-25 Revenue Recognition – Multiple-Element Arrangements, we have determined that the following non-contingent deliverables under the Baxter Agreement meet the criteria for separation and are therefore treated as separate units of accounting:

- a license from the Company to develop and commercialize pacritinib worldwide (subject to certain co-promotion rights of the Company in the U.S.); and
- development services provided by the Company related to jointly agreed-upon development activities with cost sharing as discussed above.

Both of the above non-contingent deliverables have no general right of return and are determined to have standalone values.

The Baxter Agreement also required Baxter and the Company to negotiate and enter into a manufacturing and supply agreement providing for the manufacture of the licensed products. The manufacturing and supply agreement contemplated under the Baxter Agreement was not considered as a deliverable at the inception of the arrangement because the critical terms such as pricing and quantities were not defined and delivery of the services would be dependent on successful clinical results that are uncertain.

Also under the Baxter Agreement, joint commercialization, manufacturing, development and steering committees with representatives from the Company and Baxter will be established. We considered whether our participation on the joint development committees may be a separate deliverable and determined that it did not represent a separate unit of accounting as the committee's activities are primarily related to governance and oversight of development activities and are therefore combined with the development services. Our participation on the joint commercialization and manufacturing committees was also determined to be a non-deliverable.

We also considered whether our regulatory roles under the Baxter Agreement constitute a separate deliverable and determined that it should also be combined with the development services.

The Baxter Agreement will expire when Baxter has no further obligation to pay royalties to us in any jurisdiction, at which time the licenses granted to Baxter will become perpetual and royalty-free. Either party may terminate the Baxter Agreement prior to expiration in certain circumstances. The Company may terminate the Baxter Agreement if Baxter has not undertaken requisite regulatory or commercialization efforts in the applicable countries and certain other conditions are met. Baxter may terminate the Baxter Agreement prior to expiration in certain circumstances including (i) in the event development costs for myelofibrosis for the period commencing January 1, 2014 are reasonably projected to exceed a specified threshold, (ii) as to some or all countries in the event of commercial failure of the licensed product or (iii) without cause following the one-year anniversary of the Baxter Agreement date, provided that such termination will have a lead-in period of six months before it becomes effective. Additionally, either party may terminate the Baxter Agreement in events of force majeure, or the other party's uncured material breach or insolvency. In the event of a termination prior to the expiration date, rights in pacritinib will revert to the Company.

We allocated the fixed and determinable Baxter Agreement consideration of $30 million based on the percentage of the relative selling price of each unit of accounting. We estimated the selling price of the license using the income approach which values the license by discounting direct cash flow expected to be generated over the remaining life of the license, net of cash flow adjustments related to working capital. We estimated the selling price of the development services by discounting the estimated development expenditures to the date of arrangement which include internal estimates of personnel needed to perform the development services as well as third party costs for services and supplies. Of the $30 million Agreement consideration, $27.3 million was allocated to the license and $2.7 million was allocated to the development services.

Because delivery of the license occurred upon the execution of the Baxter Agreement in November 2013 and the remaining revenue recognition criteria were met, all $27.3 million of the allocated arrangement consideration related

to the license was recognized as revenue during the year ended December 31, 2013.

The allocated amount of $2.7 million to the development services is expected to be recognized as development service revenue through approximately 2018, with majority of development services expected to be completed through approximately 2015, based on a proportional performance method, by which revenue is recognized in proportion to the development costs incurred. During the year ended December 31, 2014 and 2013, $0.8 million and $0.1 million of development services was recognized as revenue, and the remaining $1.8 million and $2.6 million was recorded as deferred revenue in the balance sheet as of December 31, 2014 and 2013, respectively.

Concurrently with the execution of the Baxter Agreement, we issued 30,000 shares of Series 19 convertible preferred stock, no par value, or Series 19 Preferred Stock to Baxter for $30.0 million. Issuance costs related to this transaction were $0.2 million. Each share of Series 19 Preferred Stock was convertible at the option of the holder and was entitled to a liquidation preference equal to the stated value of $1,000 per share plus any accrued and unpaid dividends before the holders of our common stock or any other junior securities receive any payments upon such liquidation. The holder of Series 19 Preferred Stock was not entitled to receive dividends except to share in any dividends actually paid on shares of our common stock or other junior securities and had no voting rights except as otherwise expressly provided in our amended and restated articles of incorporation or as otherwise required by law. For the year ended December 31, 2013, all 30,000 shares of Series 19 Preferred Stock were converted into 15,673,981 shares of our common stock at a conversion price of $1.914 per share. There was no beneficial conversion feature on Series 19 Preferred Stock.

In August 2014, we received a $20 million milestone payment from Baxter in connection with the first treatment dosing of the last patient enrolled in PERSIST-1. Of the $20 million milestone payment recorded in license and contract revenue, $18.2 million was allocated to the license and $1.8 million was allocated to the development services based on the relative-selling price percentages used to allocate the arrangement consideration discussed above.

Servier

In September 2014, we entered into an Exclusive License and Collaboration Agreement, or the Servier Agreement, with Les Laboratoires Servier and Institut de Recherches Internationales Servier, or collectively, Servier. Under the Servier Agreement, we granted Servier an exclusive and sublicensable (subject to certain conditions) royalty-bearing license with respect to the development and commercialization of PIXUVRI for use in pharmaceutical products outside of the CTI Territory (defined below). We retained rights to PIXUVRI in Austria, Denmark, Finland, Germany, Israel, Norway, Sweden, Turkey, the U.K. and the U.S., or collectively, the CTI Territory.

In October 2014, we received a non-refundable, non-creditable cash upfront payment of €14.0 million. Subject to the achievement of certain conditions, we are eligible to receive milestone payments under the Servier Agreement in the approximate aggregate amount of up to €89.0 million, which is comprised of the following: up to €49.0 million in potential clinical and regulatory milestone payments (of which €9.5 million is payable upon occurrence of certain enrollment events in connection with the PIX306 study for PIXUVRI); and up to €40.0 million in potential sales-based milestone payments. Of the foregoing potential milestone payments, we received a €1.5 million milestone payment in February 2015 relating to the attainment of reimbursement approval for PIXUVRI in Spain. We have determined that all of the clinical and regulatory milestones are substantive and will be recognized as revenue upon achievement of the milestone, assuming all other revenue recognition criteria are met. We have also determined that the sales-based milestone payments are contingent consideration and will be recognized as revenue in the period in which the respective revenue recognition criteria are met. For a number of years following the first commercial sale of a product containing PIXUVRI in the respective country, regardless of patent expiration or expiration of regulatory exclusivity rights, we are eligible to receive tiered royalty payments ranging from a low double digit percentage up to a percentage in the mid-twenties based on net sales of PIXUVRI products, subject to certain reductions of up to mid-double digit percentages under certain circumstances. As previously disclosed, we owe royalties on net sales of PIXUVRI products as well as other payments to certain third parties, including the €2.1 million payment (or $2.7 million using the currency exchange rate as of September 16, 2014, the date of Servier Agreement) to Novartis International Pharmaceutical Ltd., or Novartis, which is recorded in Other operating expense for the year ended December 31, 2014.

Unless otherwise agreed by the parties, (i) certain development costs incurred pursuant to a development plan and (ii) certain marketing costs incurred pursuant to a marketing plan will be shared equally by the parties, subject to a maximum dollar obligation of each party. We record reimbursements received from Servier as revenue and record the full amount of costs as operating expenses in the statements of operations.

The Servier Agreement will expire on a country-by-country basis upon the expiration of the royalty terms in the countries outside of the CTI Territory, at which time all licenses granted to Servier would become perpetual and royalty-free. Each party may terminate the Servier Agreement in the event of an uncured repudiatory breach (as defined under English law) of the other party's obligations. Servier may terminate the Servier Agreement without cause on a country-by-country basis upon written notice to us within a specified time period or upon written notice within a certain period of days in the event of (i) certain safety or public health issues involving PIXUVRI or (ii) cessation of certain marketing authorizations. In the event of a termination prior to the expiration date, rights granted to Servier will terminate, subject to certain exceptions.

Pursuant to accounting guidance under ASC 605-25 Revenue Recognition – Multiple-Element Arrangements, we identified the following non-contingent deliverables with standalone value at the inception of the Servier Agreement:

·a license with respect to the development and commercialization of PIXUVRI in certain countries; and
·development services under the development plans.

We have determined that our regulatory, commercial, and manufacturing and supply responsibilities, as well as our joint committee obligations also have standalone value but are insignificant.

The license deliverable has standalone value because it is sublicensable and can be used for its intended purpose without the receipt of the remaining deliverables. The service deliverables have standalone value because these services are not proprietary in nature, and other vendors could provide the same services to derive value from the license. Further, there is no general right of return associated with these deliverables. As such, the deliverables meet the criteria for separation and qualify as separate units of accounting.

We allocated the arrangement consideration of $18.1 million (€14.0 million converted into U.S. dollar using the currency exchange rate as of September 16, 2014, the date of the Servier Agreement) based on the percentage of the relative selling price of each unit of accounting as follows (in thousands):

License	$17,277
Development and other services	852
Total upfront payment	$18,129

We estimated the selling price of the license using the income approach that values the license by discounting direct cash flow expected to be generated over the remaining life of the license, net of cash flow adjustments related to working capital. The estimates and assumptions include, but are not limited to, estimated market opportunity, expected market share, and contractual royalty rates. We estimated the selling price of the development services deliverable, which includes personnel costs as well as third party costs for applicable services and supplies, by discounting estimated expenditures for services to the date of the Servier Agreement. We concluded that a change in the key assumptions used to determine the best estimate of selling price for the license deliverable would not have a significant effect on the allocation of the arrangement consideration.

During the year ended December 31, 2014, we recognized $17.3 million of the arrangement consideration allocated to the license as revenue since the delivery of the license occurred upon the execution of the Servier Agreement in September 2014 and the remaining revenue recognition criteria were satisfied. The amount allocated to the development and other services is expected to be recognized as revenue through approximately 2022 on a straight-line basis. During the year ended December 31, 2014, $18,000 of development services was recognized as revenue, and the remaining $0.5 million was recorded as deferred revenue in the balance sheet as of December 31, 2014.

Novartis

In January 2014, we entered into a Termination Agreement, or the Termination Agreement, with Novartis to reacquire the rights to PIXUVRI and Opaxio, or collectively, the Compounds, previously granted to Novartis under our License and Co-Development Agreement with Novartis entered into in September 2006, as amended, or the Original Agreement. Pursuant to the Termination Agreement, the Original Agreement was terminated in its entirety, other than certain customary provisions, including those pertaining to confidentiality and indemnification, which survive termination.

Under the Termination Agreement, we agreed not to transfer, license, sublicense or otherwise grant rights with respect to intellectual property of the Compounds unless the transferee/licensee/sublicensee agrees to be bound by the terms of the Termination Agreement. We also agreed to provide potential payments to Novartis, including a percentage ranging from the low double-digits to the mid-teens, of any consideration received by us or our affiliates in connection with any transfer, license, sublicense or other grant of rights with respect to intellectual property of PIXUVRI or Opaxio, respectively; provided that such payments will not exceed certain prescribed ceilings in the low-single digit

millions. Novartis is entitled to receive potential payments of up to $16.6 million upon the successful achievement of certain sales milestones of the Compounds. Novartis is also eligible to receive tiered low single-digit percentage royalty payments for the first several hundred million in annual net sales, and ten percent royalty payments thereafter based on annual net sales of each Compound, subject to reduction in the event generic drugs are introduced and sold by a third party, causing the sale of PIXUVRI or Opaxio to fall by a percentage in the high double-digits. To the extent we are required to pay royalties on net sales of Opaxio pursuant to the license agreement between us and PG-TXL Company, L.P., dated as of November 13, 1998, as amended, we may credit a percentage of the amount of such royalties paid to those payable to Novartis, subject to certain exceptions. Notwithstanding the foregoing, royalty payments for both PIXUVRI and Opaxio are subject to certain minimum floor percentages in the low single-digits.

University of Vermont

We entered into an agreement, or the UVM Agreement, with the University of Vermont, or UVM, in March 1995, as amended in March 2000, which grants us an exclusive, sublicensable license for the rights to PIXUVRI, or the UVM Agreement. Pursuant to the UVM Agreement, we acquired the rights to make, have made, sell and use PIXUVRI. Pursuant to the UVM Agreement, we are obligated to make payments to UVM based on net sales. Our royalty payments range from low-single digits to mid-single digits as a percentage of net sales. The higher royalty rate is payable for net sales in countries where specified UVM licensed patents exist, or where we have obtained orphan drug protection, until such UVM patents or such protection no longer exists. For a period of ten years after first commercialization of PIXUVRI, the lower royalty rate is payable for net sales in such countries after expiration of the designated UVM patents or loss of orphan drug protection, and in all other countries without such specified UVM patents or orphan drug protection. Unless otherwise terminated, the term of the UVM Agreement continues for the life of the licensed patents in those countries in which a licensed patent exists, and continues for ten years after the first sale of PIXUVRI in those countries where no such patents exist. We may terminate the UVM Agreement, on a country-by-country basis or on a patent-by-patent basis, at any time upon advance written notice. UVM may terminate the UVM Agreement upon advance written notice in the event royalty payments are not made. In addition, either party may terminate the UVM Agreement (a) in the event of an uncured material breach of the UVM Agreement by the other party; or (b) in the event of bankruptcy of the other party.

S*BIO Pte Ltd.

See Note 4, Acquisitions—S*BIO Asset Purchase Agreement, for further information regarding the asset purchase agreement with S*BIO.

Chroma

In October 2014, the Chroma Licensing Agreement was terminated in connection with the Chroma APA. See Note 4, Acquisitions—Chroma APA, for further information.

Vernalis

Concurrently with the termination of the Co-Development and Licensing Agreement with Chroma and the execution of the Chroma APA, we also entered into (i) the Vernalis License Agreement for the exclusive worldwide right to use certain patents and other intellectual property rights to develop, market and commercialize tosedostat and certain other compounds and (ii) a deed of novation pursuant to which all rights of Chroma under Chroma’s prior license agreement with Vernalis relating to tosedostat were novated to us. Under the Vernalis License Agreement, we have agreed to make tiered royalty payments of no more than a high single digit percentage of net sales of products containing licensed compounds, with such obligation to continue on a country-by-country basis for the longer of ten years following commercial launch or the expiry of relevant patent claims. The Vernalis License Agreement will terminate when the royalty obligations expire, although the parties have early termination rights under certain circumstances, including the following: (i) we have the right to terminate, with three months’ notice, upon the belief that the continued development of tosedostat or any of the other licensed compounds is not commercially viable; (ii) Vernalis has the right to terminate in the event of our uncured failure to pay sums due; and (iii) either party has the right to terminate in event of the other party’s uncured material breach or insolvency.

Gynecologic Oncology Group (GOG)

We entered into an agreement with the GOG, now part of NRG Oncology, in March 2004, as amended, related to the GOG-0212 trial of Opaxio in patients with ovarian cancer, which the GOG is conducting. We recorded a $0.9 million obligation due to the GOG based on the 1,100 patient enrollment milestone achieved in the third quarter of 2013 which was subsequently paid in the first half of 2014. In the first quarter of 2014, we also recorded a $0.3 million

obligation to the GOG as required under the agreement based on the additional 50 patients enrolled, with such amount being paid in April 2014. We may be required to pay up to an additional $1.0 million upon the attainment of certain other milestones, of which $0.5 million has been recorded in accrued expenses as of December 31, 2014.

PG-TXL

In November 1998, we entered into an agreement with PG-TXL Company, L.P., or PG-TXL, as amended in February 2006, which grants us an exclusive worldwide license for the rights to Opaxio and to all potential uses of PG-TXL's polymer technology, or the PG-TXL Agreement. Pursuant to the PG-TXL Agreement, we acquired the rights to research, develop, manufacture, market and sell anti-cancer drugs developed using this polymer technology. Pursuant to the PG-TXL Agreement, we are obligated to make payments to PG-TXL upon the achievement of certain development and regulatory milestones of up to $14.4 million. The timing of the remaining milestone payments under the PG-TXL Agreement is based on trial commencements and completions for compounds protected by PG-TXL license rights, and regulatory and marketing approval of those compounds by the FDA and the EMA. Additionally, we are required to make royalty payments to PG-TXL based on net sales. Our royalty payments range from low-single digits to mid-single digits as a percentage of net sales. Unless otherwise terminated, the term of the PG-TXL Agreement continues until no royalties are payable to PG-TXL. We may terminate the PG-TXL Agreement (i) upon advance written notice to PG-TXL in the event issues regarding the safety of the products licensed pursuant to the PG-TXL Agreement arise during development or clinical data obtained reveal a materially adverse tolerability profile for the licensed product in humans or (ii) for any reason upon advance written notice. In addition, either party may terminate the PG-TXL Agreement (a) upon advance written notice in the event certain license fee payments are not made; (b) in the event of an uncured material breach of the respective material obligations and conditions of the PG-TXL Agreement; or (c) in the event of liquidation or bankruptcy of a party.

Nerviano Medical Sciences

Under a license agreement entered into with Nerviano Medical Sciences, S.r.l. for brostallicin, we may be required to pay up to $80.0 million in milestone payments based on the achievement of certain product development results. Due to the early stage of development of brostallicin, we cannot make a determination that the milestone payments are reasonably likely to occur at this time.

Cephalon

Pursuant to an acquisition agreement entered into with Cephalon, Inc., or Cephalon, in June 2005, we have the right to receive up to $100.0 million in payments upon achievement of specified sales and development milestones related to TRISENOX. During the year ended December 31, 2014 and 2013, we received $15.0 million and $5.0 million, respectively, from Teva Pharmaceutical Industries Ltd., or Teva, upon the achievement of worldwide net sales milestones of TRISENOX, which was included in license and contract revenue. TRISENOX was acquired from us by Cephalon. Cephalon was subsequently acquired by Teva. The achievement of the remaining milestones is uncertain at this time.

Other Agreements

We have several agreements with contract research organizations, third party manufacturers, and distributors which have durations of greater than one year for the development and distribution of certain of our compounds.

13. Share-Based Compensation

Share-Based Compensation Expense

Share-based compensation expense for all share-based payment awards made to employees and directors is measured based on the grant-date fair value estimated in accordance with generally accepted accounting principles. We

recognize share-based compensation using the straight-line, single-award method based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Share-based compensation is reduced for estimated forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. For performance-based awards that do not include market-based conditions, we record share-based compensation expense only when the performance-based milestone is deemed probable of achievement. We utilize both quantitative and qualitative criteria to judge whether milestones are probable of achievement. For awards with market-based performance conditions, we recognize the grant-date fair value of the award over the derived service period regardless of whether the underlying performance condition is met.

For the years ended December 31, 2014, 2013 and 2012, we recognized share-based compensation expense which consisted of the following types of awards (in thousands):

	2014	2013	2012
Performance rights	$1,549	$1,165	$2,358
Restricted stock	14,749	5,906	5,180
Options	3,898	1,995	400
Total share-based compensation expense	$20,196	$9,066	$7,938

The following table summarizes share-based compensation expense for the years ended December 31, 2014, 2013 and 2012, which was allocated as follows (in thousands):

	2014	2013	2012
Research and development	$3,437	$2,178	$1,730
Selling, general and administrative	16,759	6,888	6,208
Total share-based compensation expense	$20,196	$9,066	$7,938

Share-based compensation had a $20.2 million, $9.1 million and $7.9 million effect on our net loss attributable to common shareholders, which resulted in a $(0.14), $(0.08) and $(0.14) effect on basic and diluted net loss per common share for the years ended December 31, 2014, 2013 and 2012, respectively. It had no effect on cash flows from operations or financing activities for the periods presented; however, during the years ended 2014, 2013 and 2012, we repurchased 57,000, 200,000 and 23,000 shares of our common stock totaling $0.2 million, $0.2 million and $0.1 million, respectively, for cash in connection with the vesting of employee restricted stock awards based on taxes owed by employees upon vesting of the awards.

As of December 31, 2014, unrecognized compensation cost related to unvested stock options and time-based restricted stock awards amounted to $6.3 million, which will be recognized over the remaining weighted-average requisite service period of 1.02 years. The unrecognized compensation cost related to unvested options and restricted stock does not include the value of performance-based share awards.

For the years ended December 31, 2014, 2013 and 2012, no tax benefits were attributed to the share-based compensation expense because a valuation allowance was maintained for substantially all net deferred tax assets.

Stock Plan

Pursuant to our 2007 Equity Incentive Plan, as amended and restated, or the Plan, we may grant the following types of incentive awards: (1) stock options, including incentive stock options and non-qualified stock options, (2) stock appreciation rights, (3) restricted stock, (4) restricted stock units and (5) cash awards. The Plan is administered by the Compensation Committee of our Board of Directors, which has the discretion to determine the employees, consultants and directors who shall be granted incentive awards. Options expire 10 years from the date of grant, subject to the recipients continued service to the Company. As of December 31, 2014, 32.5 million shares were authorized for issuance, of which 11.9 million shares of common stock were available for future grants, under the Plan.

Stock Options

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

	Year Ended December 31,		
	2014	2013	2012
Risk-free interest rate	1.7%	1.4 %	0.8 %
Expected dividend yield	None	None	None

Expected life (in years)	5.2	5.3	4.7
Volatility	97 %	102 %	88 %

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

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

The following table summarizes stock option activity for all of our stock option plans:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Thousands)
Outstanding at January 1, 2012 (59,000 exercisable)	156,000	$ 90.07		
Granted	179,000	$ 4.92		
Exercised	—	$ —		
Forfeited	(23,000)	$ 5.93		
Cancelled and expired	(5,000)	$ 886.13		
Outstanding at December 31, 2012 (105,000 exercisable)	307,000	$ 33.72		
Granted	4,352,000	$ 1.71		
Exercised	—	$ —		
Forfeited	(112,000)	$ 2.40		
Cancelled and expired	(28,000)	$ 133.72		
Outstanding at December 31, 2013 (1,560,000 exercisable)	4,519,000	$ 3.04		
Granted	1,015,000	$ 3.49		
Exercised	(183,000)	$ 1.49		
Forfeited	(356,000)	$ 2.25		
Cancelled and expired	(77,000)	$ 9.86		
Outstanding at December 31, 2014	4,918,000	$ 3.14	8.83	$ 2,480
Vested or expected to vest at December 31, 2014	4,759,000	$ 3.15	8.82	$ 2,436
Exercisable at December 31, 2014	3,174,000	$ 3.42	8.73	$ 1,925

The weighted average exercise price of options exercisable at December 31, 2013 and 2012 was $5.39 and $89.08, respectively. The weighted average grant-date fair value of options granted during 2014, 2013 and 2012 was $2.59, $1.32 and $3.28 per option, respectively.

Restricted Stock

We issued 4.4 million, 6.4 million and 4.3 million shares of restricted common stock in 2014, 2013 and 2012, respectively. The weighted average grant-date fair value of restricted shares issued during 2014, 2013 and 2012 was $3.23, $1.21 and $4.77, respectively. Additionally, 0.3 million, 1.2 million and 0.9 million shares of restricted stock were cancelled during 2014, 2013 and 2012, respectively.

A summary of the status of nonvested restricted stock awards as of December 31, 2014 and changes during the period then ended, is presented below:

	Nonvested Shares	Weighted Average Grant-Date Fair Value Per Share
Nonvested at December 31, 2013	4,688,000	$ 2.95
Issued	4,426,000	$ 3.23
Vested	(5,764,000)	$ 2.42
Forfeited	(296,000)	$ 3.00
Nonvested at December 31, 2014	3,054,000	$ 4.35

The total fair value of restricted stock awards vested during the years ended December 31, 2014, 2013 and 2012 was $18.0 million, $5.1 million and $3.4 million, respectively.

Long-Term Performance Awards

In November 2011, we granted restricted stock units to our executive officers and directors that became effective on January 3, 2012, or the Long-Term Performance Awards. The Long-Term Performance Awards vest upon achievement of milestone-based performance conditions. (There were eight of such performance conditions, one of which is a market-based performance condition). If one or more of the underlying performance-based conditions are timely achieved, the award recipient will be entitled to receive a number of shares of our common stock (subject to share limits of the Plan), determined by multiplying (i) the award percentage corresponding to that particular performance goal by (ii) the total number of outstanding shares of our common stock as of the date that the particular performance goal is achieved.

In June 2012, one of the performance conditions was achieved as discussed below. In March 2013, certain performance criteria of the Long-Term Performance Awards were modified, two new performance-based awards were granted, one performance-based award was cancelled, and the expiration date was extended to December 31, 2015. In January 2014, the expiration date of the Long-Term Performance Awards was further extended to December 31, 2016, and two new performance-based awards were granted.

The aggregate of the award percentages related to all ten performance goals in effect as of December 31, 2014 is 12.0%, of which 8.8% and 3.2% are attributable to the executive officers and director participants, respectively. A portion of each of these awards was granted in the form of restricted shares of common stock issued on January 3, 2012.

The fair value of the Long-Term Performance Awards was estimated based on the average present value of the awards to be issued upon achievement of the performance conditions. The average present value was calculated based upon the expected date the shares of common stock underlying the performance awards will vest, or the event date, the expected stock price on the event date, and the expected shares outstanding as of the event date. The event date, stock price and the shares outstanding were estimated using a Monte Carlo simulation model, which is based on assumptions by management, including the likelihood of achieving the milestones and potential future financings.

In June 2012, our Board of Directors certified completion of the performance condition relating to approval of our marketing authorization application for PIXUVRI in the E.U. and 0.4 million shares vested to our executive officers and directors. We recognized $1.1 million in share-based compensation upon satisfaction of this performance condition for the year ended December 31, 2012.

We determined the Long-Term Performance Awards with a market-based performance condition had a grant-date fair value of $3.6 million for the current executive officers and director participants. We determined that the market-based performance condition had an incremental fair value of $0.8 million on the first modification date in March 2013 and an additional incremental fair value of $1.8 million on the second modification date in January 2014 for the current executive officers and director participants, which are being recognized in addition to the unrecognized grant-date fair value as of the modification date over the remaining estimated requisite service period. We recognized $1.4 million, $1.2 million and $1.3 million in share based compensation expense related to the performance awards with a market-based performance condition for the years ended December 31, 2014, 2013 and 2012, respectively.

Nonemployee Share-Based Compensation

Share-based compensation expense for awards granted to nonemployees is determined using 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 and restricted stock awards granted to nonemployees is periodically remeasured as the underlying

options or awards vest. The value of the instrument is amortized to expense over the vesting period with final valuation measured on the vesting date. As of December 31, 2014 and 2013 unvested nonemployee options to acquire approximately 78,000 and 157,000 shares of common stock were outstanding, respectively. Additionally, unvested nonemployee restricted stock awards totaled approximately 21,000 and 163,000 as of December 31, 2014 and 2013, respectively. As of December 31, 2012, all nonemployee options and restricted stock awards had vested. We recorded compensation expense of $317,000 and $310,000 in 2014 and 2013, respectively, and reversed previously recorded compensation expense of $1,000 in 2012 related to nonemployee stock options and restricted stock awards.

Employee Stock Purchase Plan

Under our 2007 Employee Stock Purchase Plan, as amended and restated in August 2009, or the Purchase Plan, eligible employees may purchase a limited number of shares of our common stock at 85% of the lower of the subscription date fair market value and the purchase date fair market value. There are two six-month offerings per year. Under the Purchase Plan, we issued approximately 4,000, 3,000, 3,000 shares to employees in each year ended December 31, 2014, 2013 and 2012. There are 50,833 shares of common stock authorized under the Purchase Plan and 34,149 shares are reserved for future purchases as of December 31, 2014.

14. Employee Benefit Plans

The Company’s U.S. employees participate in the CTI BioPharma Corp. 401(k) Plan whereby eligible employees may defer up to 80% of their compensation, up to the annual maximum allowed by the Internal Revenue Service. We may make discretionary matching contributions based on certain plan provisions. We recorded $0.2 million, $0.2 million and $0.2 million related to discretionary matching contributions during each of the years ended December 31, 2014, 2013 and 2012, respectively.

15. Shareholder Rights Plan

In December 2009, our Board of Directors approved and adopted a shareholder rights plan, or Rights Plan, in which one preferred stock purchase right was distributed for each common share held as of the close of business on January 7, 2010. Initially, the rights are not exercisable, and are attached to and trade with, all of the shares of CTI’s common stock outstanding as of, and issued subsequent to January 7, 2010. In 2012, our Board of Directors approved certain amendments to the Rights Plan.

Each right, if and when it becomes exercisable, will entitle the holder to purchase a unit consisting of one ten-thousandth of a share of Series ZZ Junior Participating Cumulative Preferred Stock, no par value per share, at a cash exercise price of $8.00 per unit, subject to standard adjustment in the Rights Plan. The rights will separate from the common stock and become exercisable if a person or group acquires 20% or more of our common stock. Upon acquisition of 20% or more of our common stock, the Board could decide that each right (except those held by a 20% shareholder, which become null and void) would become exercisable entitling the holder to receive upon exercise, in lieu of a number of units of preferred stock, that number of shares of our common stock having a market value of two times the exercise price of the right. In certain circumstances, including if there are insufficient shares of our common stock to permit the exercise in full of the rights, the holder may receive units of preferred stock, other securities, cash or property, or any combination of the foregoing.

In addition, if we are acquired in a merger or other business combination transaction, each holder of a right, except those rights held by a 20% shareholder which become null and void, would have the right to receive, upon exercise, common stock of the acquiring company having a market value equal to two times the exercise price of the right. The Board may redeem the rights for $0.0001 per right or terminate the Rights Plan at any time prior to an acquisition by a person or group holding 20% or more of our common stock. The Rights Plan will expire on December 3, 2015.

16. Customer and Geographic Concentrations

We consider our operations to be a single operating segment focused on the development, acquisition and commercialization of novel treatments for cancer. Financial results of this reportable segment are presented in the accompanying consolidated financial statements.

All sales of PIXUVRI during 2014 and 2013 were in Europe. Product sales from PIXUVRI's major customers as a percentage of total product sales were as follows:

	Year Ended December 31,		
	2014	2013	2012
Customer A	57%	67 %	-
Customer B	27%	-	-

The following table depicts long-lived assets based on the following geographic locations (in thousands):

	Year Ended December 31,	
	2014	2013
United States	$4,512	$5,336
Europe	134	142
Total long-lived assets	$4,646	$5,478

17. Net Loss Per Share

Basic and diluted net loss per share is calculated using the weighted average number of shares outstanding as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2014	2013	2012
Net loss attributable to common shareholders	$(95,992)	$(49,643)	$(115,275)
Basic and diluted:			
Weighted average shares outstanding	153,467	119,042	62,021
Less weighted average restricted shares outstanding	(4,936)	(4,847)	(3,896)
Shares used in calculation of basic and diluted net loss per common share	148,531	114,195	58,125
Net loss per common share: Basic and diluted	$(0.65)	$(0.43)	$(1.98)

Equity awards, warrants, and unvested share rights aggregating 14.8 million shares, 11.8 million shares and 8.5 million shares for the year ended December 31, 2014, 2013 and 2012, respectively, prior to the application of the treasury stock method, are excluded from the calculation of diluted net loss per share because they are anti-dilutive.

18. Related Party Transactions

In May 2007, we formed Aequus, a majority-owned subsidiary of which our ownership was approximately 61% as of December 31, 2014. We entered into a license agreement with Aequus whereby Aequus gained rights to our Genetic Polymer™ technology which Aequus will continue to develop. The Genetic Polymer technology may speed the manufacture, development, and commercialization of follow-on and novel protein-based therapeutics.

In May 2007, we also entered into an agreement to fund Aequus in exchange for a convertible promissory note. The terms of the note provide that (i) interest accrues at a rate of 6% per annum until maturity, (ii) in the event the note balance is not paid on or before the maturity date, interest accrues at a rate of 10% per annum and (iii) prior to maturity, the note is convertible into a number of shares of Aequus equity securities equal to the quotient obtained by dividing (a) the outstanding balance of the note by (b) the price per share of the Aequus equity securities. The note matured and was due and payable in May 2012, although it has not yet been repaid. We are currently in negotiations with Aequus to, among other things, extend the maturity date of the note. In addition, we entered into a services

agreement to provide certain administrative and research and development services to Aequus. The amounts charged for these services, if unpaid by Aequus within 30 days, will be considered additional principal advanced under the promissory note. We funded Aequus $2.0 million, $1.5 million and $0.6 million during the years ended December 31, 2014, 2013 and 2012, respectively, including amounts advanced in association with the services agreement. The Aequus note balance, including accrued interest, was approximately $8.1 million and $5.8 million as of December 31, 2014 and 2013, respectively. This intercompany balance was eliminated in consolidation.

Our President and Chief Executive Officer, James A. Bianco, M.D., and our Executive Vice President, Global Medical Affairs and Translational Medicine, Jack W. Singer, M.D., are both minority shareholders of Aequus, each owning approximately 4.4% of the equity in Aequus as of December 31, 2014. Both Dr. Bianco and Dr. Singer are members of Aequus' Board of Directors. Additionally, Frederick W. Telling, Ph.D., a member of our Board of Directors, owns approximately 1.3% of Aequus as of December 31, 2014 and is also a member of Aequus' Board of Directors.

19. Legal Proceedings

In August 2009, SICOR Società Italiana Corticosteroidi S.R.L., or Sicor, filed a lawsuit in the Court of Milan to obtain the Court's assessment that we were bound to source the chemical compound, BBR2778, from Sicor according to the terms of a supply agreement executed between Sicor and Novuspharma S.p.A, or Novuspharma, a pharmaceutical company located in Italy, on October 4, 2002. We are the successor in interest to such agreement by virtue of our merger with Novuspharma in January 2004. Sicor alleged that the agreement was not terminated according to its terms. We asserted that the supply agreement in question was properly terminated and that we have no further obligation to comply with its terms. On December 30, 2013, the Court of Milan issued its decision and rejected all of Sicor's claims; this proceeding has therefore concluded and is not subject to appeal.

On December 10, 2009, the Commissione Nazionale per le Società e la Borsa (which is the public authority responsible for regulating the Italian securities markets), or CONSOB, sent us a notice claiming, among other things, violation of the provisions of Section 114, paragraph 1 of the Italian Legislative Decree no. 58/98 due to the asserted late disclosure of the contents of the opinion expressed by Stonefield Josephson, Inc., an independent registered public accounting firm, with respect to our 2008 financial statements. The sanctions established by Section 193, paragraph 1 of the Italian Legislative Decree no. 58/98 for such violations could require us to pay a pecuniary administrative sanction amounting to between $6,000 and $606,000 upon conversion from euros as of December 31, 2014. Until CONSOB's right is barred, CONSOB may, at any time, confirm the occurrence of the asserted violation and apply a pecuniary administrative sanction within the foregoing range. To date, we have not received any such notification.

The Italian Tax Authority, or the ITA, issued notices of assessment to CTI (Europe) based on the ITA's audit of CTI (Europe)'s VAT returns for the years 2003, 2005, 2006 and 2007, or, collectively, the VAT Assessments. The ITA audits concluded that CTI (Europe) did not collect and remit VAT on certain invoices issued to non-Italian clients for services performed by CTI (Europe). We believe that the services invoiced were non-VAT taxable consultancy services and that the VAT returns are correct as originally filed. We are defending ourselves against the assessments both on procedural grounds and on the merits of the case. As of December 31, 2012, we reversed the entire reserve we had previously recorded relating to the VAT Assessments after having received favorable court rulings. In January 2013, our then remaining deposit for the VAT Assessments was refunded to us. The current status of the legal proceedings surrounding each respective VAT year return at issue is as follows:

2003. In June 2013, the Regional Tax Court issued decision no. 119/50/13 in regards to the 2003 VAT assessment, which accepted the appeal of the ITA and reversed the previous decision of the Provincial Tax Court. In January 2014, we were notified that the ITA requested partial payment of the 2003 VAT assessment in the amount of €0.4 million translated to $0.6 million which we paid in March 2014. We believe that the decision of the Regional Tax Court did not carefully take into account our arguments and the documentation we filed, and in January 2014, we appealed such decision to the Italian Supreme Court both on procedural grounds and on the merits of the case.

2005, 2006 and 2007. The ITA has appealed to the Italian Supreme Court the decisions of the respective appellate court with respect to each of the 2005, 2006 and 2007 VAT returns.

If the final decisions of the Italian Supreme Court for the VAT Assessments are unfavorable to us, we may incur up to $11.4 million in losses for the VAT amount assessed including penalties, interest and fees upon conversion from euros as of December 31, 2014.

In July 2014, Joseph Lopez and Gilbert Soper, shareholders of the Company, filed a derivative lawsuit purportedly on behalf of the Company, which is named a nominal defendant, against all current and one past member of the Company's Board of Directors in King County Superior Court in the State of Washington, docketed as Lopez & Gilbert v. Nudelman, et al., Case No. 14-2-18941-9 SEA. The lawsuit alleges that the directors exceeded their authority under the Plan by improperly transferring 4,756,137 shares of the Company's common stock from the Company to themselves. It alleges that the directors breached their fiduciary duties by granting themselves fully vested shares of Company common stock, which the plaintiffs allege were not among the six types of grants

authorized by the Plan, and that the non-employee directors were unjustly enriched by these grants. The lawsuit also alleges that from 2011 through 2014, the non-employee members of the Board of Directors granted themselves grossly excessive compensation, and in doing so breached their fiduciary duties and were unjustly enriched. Among other remedies, the lawsuit seeks a declaration that the specified grants of common stock violated the Plan, rescission of the granted shares, disgorgement of the compensation awards to the non-employee directors from 2011 through 2014, disgorgement of all compensation and other benefits received by the defendant directors in the course of their breaches of fiduciary duties, damages, an order for certain corporate reforms and plaintiffs' costs and attorneys' fees. Because the complaint is derivative in nature, it does not seek monetary damages from the Company. In September 2014, the director defendants moved to dismiss the complaint. The motion to dismiss was heard on November 21, 2014, and the Court entered an order denying the motion to dismiss on December 5, 2014. Defendants' answer to the complaint was filed on January 13, 2015. The trial date is currently set for August 24, 2015. At this stage of the litigation, no probability of loss can be predicted.

20. Income Taxes

We file income tax returns in the U.S., Italy and the United Kingdom. A substantial part of our operations takes place in the State of Washington, which does not impose an income tax as that term is defined in ASC 740, Income Taxes. As such, our state income tax expense or benefit, if recognized, would be immaterial to our operations. We are not currently under examination by an income tax authority, nor have we been notified that an examination is contemplated.

In 2014, 2013 and 2012, we had losses from operations before income taxes from domestic operations of $86.7 million, $42.1 million and $111.1 million; and from foreign operations of $9.3 million, $7.6 million and $4.2 million, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying values of assets and liabilities for financial reporting and income tax reporting in accordance with ASC 740. We have a valuation allowance equal to net deferred tax assets due to the uncertainty of realizing the benefits of the assets. Our valuation allowance increased $28.0 million, increased $11.3 million, decreased $113.5 million during 2014, 2013 and 2012, respectively.

The reconciliation between our effective tax rate and the income tax rate as of December 31, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
Federal income tax rate	(34 %)	(34 %)	(34 %)
Research and development tax credits	(3)	(3)	—
I.R.C. Section 382 limited research and development tax credits	—	—	1
Non-deductible executive compensation	3	1	1
I.R.C. Section 382 limited net operating losses	—	3	134
Valuation allowance	30	27	(111)
Expired tax attribute carryforwards	—	—	7
Foreign tax rate differential	3	6	1
Other	1	—	1
Net effective tax rate	— %	— %	— %

Significant components of our deferred tax assets and liabilities as of December 31, 2014 and 2013 were as follows (in thousands):

	December 31,	
	2014	2013
Deferred tax assets:		
Net operating loss carryforwards	$63,983	$49,777
Capitalized research and development	34,936	31,046
Research and development tax credit carryforwards	3,968	1,486
Stock based compensation	12,809	12,097
Intangible assets	17,007	10,518
Depreciation and amortization	191	96

Other deferred tax assets	3,072	3,062
Total deferred tax assets	135,966	108,082
Less valuation allowance	(135,293)	(107,271)
	673	811
Deferred tax liabilities:		
GAAP adjustments on Novuspharma merger	(208)	(208)
Deductions for tax in excess of financial statements	(465)	(603)
Total deferred tax liabilities	(673)	(811)
Net deferred tax assets	$—	$—

Due to our equity financing transactions, and other owner shifts as defined in Internal Revenue Code Section 382, or the Code, we incurred “ownership changes” pursuant to the Code. These ownership changes trigger a limitation on our ability to utilize our net operating losses, or NOL, and research and development credits against future income. We have obtained a private letter ruling that determines the availability of the NOL after a 2007 ownership change.

In October 2012, an “ownership change” occurred. The ownership change limits the utilization of certain tax attributes including the NOL. After the October 2012 ownership change the utilization of the NOL is limited to approximately $4.3 million annually. At December 2014, the gross NOL carryforward was approximately $1.1 billion. The annual NOL limitation will reduce the available NOL carryforward to approximately $188.2 million expiring from 2018 to 2024. The deferred tax asset and valuation allowance have been reduced accordingly.

At December 2014, the NOL carryforward in the United Kingdom was approximately $20.9 million which be carried forward indefinitely. The NOL carryforward for the United Kingdom is not included in our schedule of deferred tax assets nor our effective tax rate reconciliation because the net impact on our financial statements is not material. NOLs in Italy are not material.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation 48, Accounting for Uncertainty in Income Taxes, as codified in ASC 740-10, and we have analyzed filing positions in our tax returns for all open years. We are subject to U.S. federal and state, Italian and United Kingdom income taxes with varying statutes of limitations. Tax years from 1998 forward remain open to examination due to the carryover of net operating losses or tax credits. Our policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. As of December 31, 2014, we had no unrecognized tax benefits and therefore no accrued interest or penalties related to unrecognized tax benefits. We believe that our income tax filing positions reflected in the various tax returns are more-likely-than not to be sustained on audit and thus there are no anticipated adjustments that would result in a material change to our consolidated financial position, results of operations and cash flows. Therefore, no reserves for uncertain income tax positions have been recorded.

In July 2013, the FASB issued guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss or tax carryforward exists. FASB concluded that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset except in certain circumstances the unrecognized tax benefit should be presented as a liability and should not be combined with deferred tax assets. The amendment is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The adoption of this standard did not have an impact on its consolidated financial statements.

21. Unaudited Quarterly Data

The following table presents summarized unaudited quarterly financial data (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014				
Total revenues (1), (2)	$1,411	$1,343	$39,534	$17,789
Product sales, net	1,268	1,148	2,021	2,472
Gross profit (3)	1,123	946	1,769	2,176
Net income (loss) attributable to CTI	(29,002)	(27,399)	4,603	(41,569)
Net income (loss) attributable to CTI common shareholders	(29,002)	(27,399)	4,603	(44,194)
Net income (loss) per common share—basic	(0.20)	(0.19)	0.03	(0.27)
Net income (loss) per common share—diluted	(0.20)	(0.19)	0.03	(0.27)
2013				
Total revenues (4)	$1,126	$306	$362	$32,884

Product sales, net	1,126	306	362	520
Gross profit (3)	1,071	270	349	487
Net income (loss) attributable to CTI	(19,384)	(18,011)	(15,544)	10,196
Net income (loss) attributable to CTI common shareholders	(19,384)	(18,011)	(22,444)	10,196
Net income (loss) per common share—basic	(0.18)	(0.17)	(0.20)	0.08
Net income (loss) per common share—diluted	(0.18)	(0.17)	(0.20)	0.08

(1) Total revenues for the third quarter of 2014 include $17.3 million of license and contract revenue recognized in connection with the collaboration agreement with Servier in September 2014 and $20.0 million of license and contract revenue for a milestone payment received under the collaboration agreement with Baxter. See Note 12, Collaboration, Licensing and Milestone Agreements, for additional information.

(2) Total revenues for the fourth quarter of 2014 include $15.0 million of milestone payments received from Teva in November 2014 upon the achievement of worldwide net sales milestones of TRISENOX. See Note 12, Collaboration, Licensing and Milestone Agreements, for additional information.

(3) Gross profit is computed by subtracting cost of product sold from net product sales.

(4) Total revenues for the fourth quarter of 2013 include $27.4 million of license and contract revenue recognized in connection with the collaboration agreement with Baxter in November 2013 and $5.0 million of license and contract revenue from Teva in November 2013 upon the achievement of a worldwide net sales milestone of TRISENOX. See Note 12, Collaboration, Licensing and Milestone Agreements, for additional information.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures
(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, under the supervision and with the participation of our Chief Executive Officer and Executive Vice President, Finance and Administration, or EVP of Finance, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Annual Report on Form 10-K. Based upon that evaluation, our Chief Executive Officer and EVP of Finance have concluded that, as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were effective.

(b) Management’s Annual Report on Internal Controls

Management of the Company, including its consolidated subsidiaries, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting is a process designed under the supervision of the Company’s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of the end of the Company’s 2014 fiscal year, management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting based on the framework established in “Internal Control—Integrated Framework” (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company’s internal control over financial reporting as of December 31, 2014 was effective.

The registered independent public accounting firm of Marcum LLP, as auditors of the Company’s consolidated financial statements, has audited our internal controls over financial reporting as of December 31, 2014, as stated in their report, which appears herein.

(c) Changes in Internal Controls

There have been no changes to our internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial

reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference from the Company's 2015 definitive proxy statement (which will be filed with the SEC within 120 days after December 31, 2014 in connection with the solicitation of proxies for the Company's 2015 annual meeting of shareholders) ("2015 Proxy Statement") under the captions "Proposal 1—Election of Directors," "Other Information—Executive Officers," and "Beneficial Ownership Reporting Compliance under Section 16(a) of the Exchange Act."

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference from the Company's 2015 Proxy Statement under the captions "Executive Compensation" and "Director Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this Item is incorporated herein by reference from the Company's 2015 Proxy Statement under the captions "Other Information—Security Ownership of Certain Beneficial Owners and Management" and "Other Information—Equity Compensation Plan Information."

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference from the Company's 2015 Proxy Statement under the captions "Other Information—Related Party Transactions Overview," "Other Information—Certain Transactions with Related Persons" and "Director Attributes and Independence."

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference from the Company's 2015 Proxy Statement under the caption "Proposal 4—Ratification of the Selection of Independent Auditors."

PART IV

Item 15. Exhibits, Financial Statement Schedules
(a)Financial Statements and Financial Statement Schedules

(i) Financial Statements
Reports of Marcum LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Comprehensive Loss

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(ii) Financial Statement Schedules
All schedules have been omitted since they are either not required, are not applicable, or the required information is shown in the financial statements or related notes.

(iii) Exhibits

Exhibit Number	Exhibit Description	Location
2.1	Agreement and Plan of Merger by and between the Registrant and Novuspharma, S.p.A., dated as of June 16, 2003.	Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed on June 17, 2003.
3.1	Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-3 (File No. 333-153358), filed on September 5, 2008.
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series F Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on February 9, 2009.
3.3	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on

		March 27, 2009.
3.4	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 1 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on April 13, 2009.
3.5	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 2 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 21, 2009.
3.6	Articles of Amendment to Amended and Restated Articles of Incorporation; Certificate of Designation, Preferences and Rights of Series ZZ Junior Participating Cumulative Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form 8-A, filed on December 28, 2009.
3.7	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 3 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on January 19, 2010.
3.8	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 4 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on April 5, 2010.
3.9	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 5 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on May 27, 2010.

Exhibit Number	Exhibit Description	Location
3.10	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 6 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on July 27, 2010.
3.11	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on September 17, 2010.
3.12	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 7 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on October 22, 2010.
3.13	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 8 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on January 18, 2011.
3.14	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 9 Preferred Stock.	Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed on January 18, 2011.
3.15	Form of Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 10 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on February 24, 2011.
3.16	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 11 Preferred Stock.	Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed on February 24, 2011.
3.17	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 12 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on May 2, 2011.
3.18	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on May 18, 2011.
3.19	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on June 17, 2011.
3.20	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 13 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on July 6, 2011.
3.21	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on November 15, 2011.

3.22	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 14 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on December 14, 2011.
3.23	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 15-1 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on May 31, 2012.
3.24	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 16 Preferred Stock.	Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed on June 5, 2012.
3.25	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 15-2 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 1, 2012.

Exhibit Number	Exhibit Description	Location
3.26	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on August 31, 2012.
3.27	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on September 4, 2012.
3.28	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 17 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on October 11, 2012.
3.29	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on June 26, 2013.
3.30	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 18 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on September 18, 2013.
3.31	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 19 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on November 15, 2013.
3.32	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on May 22, 2014.
3.33	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on June 2, 2014.
3.34	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 20 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on October 27, 2014.
3.35	Articles of Amendment to Amended and Restated Articles of Incorporation; Designation of Preferences, Rights and Limitations of Series 21 Preferred Stock.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on November 13, 2014.

3.37	Amendment to Amended and Restated Articles of Incorporation.	Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on February 27, 2015.
3.36	Amended and Restated Bylaws.	Incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed on June 2, 2014.
4.1	Shareholder Rights Agreement, dated December 28, 2009, between the Registrant and Computershare Trust Company, N.A.	Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A, filed on December 28, 2009.
4.2	First Amendment to Shareholder Rights Agreement, dated as of August 31, 2012, between the Registrant and Computershare Trust Company, N.A., as Rights Agent.	Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed on September 4, 2012.
4.3	Second Amendment to Shareholder Rights Agreement, dated as of December 6, 2012, between the Registrant and Computershare Trust Company, N.A., as Rights Agent.	Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed on December 7, 2012.

Exhibit Number	Exhibit Description	Location
4.4	Specimen Common Stock Certificate.	Incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-3 (File No. 333-200452), filed on November 21, 2014.
4.5	Form of Common Stock Purchase Warrant, dated July 27, 2010.	Incorporated by reference to Exhibit 4.6 to the Registrant's Quarterly Report on Form 10-Q, filed on August 6, 2010.
4.6	Form of Common Stock Purchase Warrant, dated October 22, 2010.	Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed on October 22, 2010.
4.7	Form of Common Stock Purchase Warrant, dated May 3, 2011.	Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed on May 2, 2011.
4.8	Form of Common Stock Purchase Warrant, dated July 5, 2011.	Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed on July 6, 2011.
4.9	Form of Common Stock Purchase Warrant, dated December 13, 2011.	Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, filed on December 14, 2011.
4.10	Form of Warrant to Purchase Common Stock, dated May 29, 2012.	Incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K, filed on May 31, 2012.
4.11	Form of Warrant to Purchase Common Stock, dated July 30, 2012 (expiry date on May 27, 2015).	Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed on August 1, 2012.
4.12	Warrant Agreement, dated March 26, 2013, by and between the Registrant and Hercules Technology Growth Capital, Inc.	Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed on March 28, 2013.
10.1	Office Lease, dated as of January 27, 2012, by and between the Registrant and Selig Holdings Company LLC.	Incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, filed on March 8, 2012.
10.2*	Employment Agreement between the Registrant and James A. Bianco, dated as of March 10, 2011.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on March 15, 2011.
10.3*	Amendment to Employment Agreement between the Registrant and James A. Bianco, dated as of March 21, 2013.	Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q, filed on May 2, 2013.
10.4*		Filed herewith.

	Amendment No. 2 to Employment Agreement between the Registrant and James A. Bianco, dated as of January 6, 2015.	
10.5*	Offer Letter, by and between the Registrant and Matthew Plunkett, dated July 30, 2012.	Incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012, filed on February 28, 2013.
10.6*	Form of Severance Agreement for the Registrant's Executive Officers other than James A. Bianco (as in effect as of January 6, 2015).	Filed herewith.

Exhibit Number	Exhibit Description	Location
10.7*	Form of Severance Agreement for Louis A. Bianco and Jack W. Singer, as amended by Form of Amendment (in each case, as in effect prior to January 6, 2015).	Incorporated by reference to Exhibit 10.5 and 10.6, respectively, to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, filed on March 16, 2009.
10.8*	Severance Agreement, dated as of March 21, 2013, between the Registrant and Matthew Plunkett (as in effect prior to January 6, 2015).	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on March 22, 2013.
10.9*	Director Compensation Policy.	Incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q, filed on August 2, 2012.
10.10*	Form of Indemnity Agreement for the Registrant's Executive Officers and Directors.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on June 2, 2014.
10.11*	Form of Italian Indemnity Agreement for certain of the Registrant's Executive Officers.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on December 17, 2009.
10.12*	2007 Employee Stock Purchase Plan, as amended and restated.	Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed on October 23, 2009.
10.13*	2007 Equity Incentive Plan, as amended and restated.	Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed on October 31, 2014.
10.14*	Form of 2007 Equity Incentive Plan Restricted Stock Award Agreement.	Filed herewith.
10.15*	Global Form of 2007 Equity Incentive Plan Restricted Stock Unit Award Agreement.	Filed herewith.
10.16*	Global Form of 2007 Equity Incentive Plan Stock Option Agreement.	Filed herewith.
10.17*	Form of 2007 Equity Incentive Plan Restricted Stock Award Agreement for the Registrant's directors (relating to applicable awards granted prior to December 17, 2014).	Incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q, filed on April 26, 2011.
10.18*	Form of 2007 Equity Incentive Plan Restricted Stock Award Agreement (relating to applicable awards granted prior to December 17, 2014).	Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q, filed on October 30, 2013.
10.19*	Form of 2007 Equity Incentive Plan Restricted Stock Award Agreement for employees (relating to	Incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q, filed on

	applicable awards granted prior to December 17, 2014).	April 26, 2011.
10.20*	Form of 2007 Equity Incentive Plan Stock Option Agreement for the Registrant's directors and officers (relating to applicable awards granted prior to December 17, 2014).	Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed on October 30, 2013.
10.21*	2007 Equity Incentive Plan Restricted Stock Award Agreement, dated April 8, 2011, by and between the Registrant and James Bianco.	Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q, filed on July 28, 2011.

Exhibit Number	Exhibit Description	Location
10.22*	Amendment to Restricted Stock Award Agreement, dated September 20, 2011, by and between the Registrant and James Bianco.	Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q, filed on October 25, 2011.
10.23*	Form of Stock Award Agreement for grants of fully vested shares under the Registrant's 2007 Equity Incentive Plan, as amended.	Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed on October 30, 2013.
10.24*	Form of Equity/Long-Term Incentive Award Agreement for James A. Bianco, Louis A. Bianco and Jack W. Singer.	Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q, filed on April 20, 2012.
10.25*	Form of Equity/Long-Term Incentive Award Agreement for the Registrant's directors.	Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q, filed on April 20, 2012.
10.26*	Form of Equity/Long-Term Incentive Award Agreement for Matthew J. Plunkett.	Incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q, filed on May 2, 2013.
10.27*	Amendment to Form of Equity/Long-Term Incentive Award Agreement, dated as of March 21, 2013, for James A. Bianco, Louis A. Bianco, Jack W. Singer and the Registrant's directors.	Incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q, filed on May 2, 2013.
10.28*	Amendment to Form of Equity/Long-Term Incentive Award Agreement, dated as of January 30, 2014, for the Registrant's directors and officers.	Incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K, filed on March 4, 2014.
10.29	Acquisition Agreement by and among the Registrant, Cell Technologies, Inc. and Cephalon, Inc., dated June 10, 2005.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on June 14, 2005.
10.30	Acquisition Agreement among the Registrant, Cactus Acquisition Corp., Saguaro Acquisition Company LLC, Systems Medicine, Inc. and Tom Hornaday and Lon Smith dated July 24, 2007.	Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed on July 27, 2007.
10.31	Second Amendment to the Acquisition Agreement, dated as of August 6, 2009, by and among the Registrant and each of Tom Hornaday and Lon Smith, in their capacities as Stockholder Representatives.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on August 7, 2009.
10.32†	License Agreement between the Registrant and PG-TXL Company, dated as of November 13, 1998.	Incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998, filed on March 31, 1999.

10.33†	Amendment No. 1 to the License Agreement between the Registrant and PG-TXL Company, L.P., dated as of February 1, 2006.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on February 7, 2006.
10.34†	Termination Agreement, effective January 3, 2014, by and among Novartis International Pharmaceutical Ltd. and the Registrant.	Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed on April 29, 2014.

Exhibit Number	Exhibit Description	Location
10.35†	Asset Purchase Agreement, dated April 18, 2012, between S*BIO Pte Ltd. and the Registrant.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on April 24, 2012.
10.36†	Asset Purchase Agreement, dated October 24, 2014, by and between Chroma Therapeutics Limited and the Registrant.	Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K/A, filed on November 6, 2014.
10.37†	Exclusive License and Collaboration Agreement by and between the Registrant, CTI Life Sciences Limited, Laboratoires Servier and Institut de Recherches Internationales Servier dated as of September 16, 2014.	Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed on October 31, 2014.
10.38†	Development, Commercialization and License Agreement dated as of November 14, 2013 between the Registrant, Baxter International Inc., Baxter Healthcare Corporation and Baxter Healthcare SA.	Incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K, filed on March 4, 2014.
10.39†	Amended and Restated Exclusive License Agreement, dated October 24, 2014, by and between Vernalis (R&D) Ltd. and the Registrant.	Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K/A, filed on November 6, 2014.
10.40†	Drug Product Manufacturing Supply Agreement, dated July 13, 2010, by and between NerPharMa, S.r.l. and the Registrant.	Incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q, filed on August 6, 2010.
10.41†	Manufacturing and Supply Agreement, dated as of April 15, 2014, by and between the Registrant and DSM Fine Chemicals Austria Nfg GmbH & Co KG.	Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed on August 4, 2014.
10.42†	Master Services Agreement, dated July 9, 2012, between Quintiles Commercial Europe Limited CTI Life Sciences Ltd.	Incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q, filed on August 2, 2012.
10.43	Letter of Guarantee, dated July 1, 2012, between the Registrant and Quintiles Commercial Europe Limited.	Incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q, filed on August 2, 2012.
10.44	Registration Rights Agreement, among the Registrant and Baxter Healthcare SA, dated November 14, 2013.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on November 15, 2013.

10.45	Registration Rights Agreement, among the Registrant and Chroma Therapeutics Limited, dated October 24, 2014.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on October 27, 2014.
10.46	Loan and Security Agreement, dated March 26, 2013, by and among the Registrant, Systems Medicine LLC and Hercules Technology Growth Capital, Inc.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on March 28, 2013.
10.47	First Amendment to Loan and Security Agreement, dated March 25, 2014, by and among the Registrant, Systems Medicine LLC and Hercules Technology Growth Capital, Inc.	Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, filed on April 29, 2014.
10.48	Second Amendment to Loan and Security Agreement, dated October 22, 2014, by and among the Registrant, Systems Medicine LLC, Hercules Technology Growth Capital, Inc. and Hercules Capital Funding Trust 2012-1.	Filed herewith.

Exhibit Number	Exhibit Description	Location
10.49	Stipulation of Settlement, dated February 13, 2012.	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed on February 15, 2012.
10.50	Stipulation of Settlement, dated November 6, 2012.	Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K, filed on March 27, 2013.
12.1	Statement Re: Computation of Ratio of Earnings to Fixed Charges.	Filed herewith.
21.1	Subsidiaries of the Registrant.	Filed herewith.
23.1	Consent of Marcum LLP, Independent Registered Public Accounting Firm.	Filed herewith.
24.1	Power of Attorney. Contained in the signature page of this Annual Report on Form 10-K and incorporated herein by reference.	Filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101.INS	XBRL Instance	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition	Filed herewith.
101.LAB	XBRL Taxonomy Extension Labels	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation	Filed herewith.

* Indicates management contract or compensatory plan or arrangement.
† Portions of these exhibits have been omitted pursuant to a request for confidential treatment.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on March 12, 2015.

CTI BioPharma Corp.

By: /s/ James A. Bianco
James A. Bianco, M.D.
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James A. Bianco and Louis A. Bianco, and each of them his attorney-in-fact, with the power of substitution, for him in any and all capacities, to sign any amendment of post-effective amendment to this Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the SEC, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Phillip M. Nudelman Phillip M. Nudelman, Ph.D.	Chairman of the Board and Director	March 12, 2015
/s/ James A. Bianco James A. Bianco, M.D.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 12, 2015
/s/ Louis A. Bianco Louis A. Bianco	Executive Vice President, Finance and Administration (Principal Financial Officer and Principal Accounting Officer)	March 12, 2015

/s/ John H. Bauer	Director	March 12, 2015

John H. Bauer

/s/ Karen Ignagni	Director	March 12, 2015

Karen Ignagni

/s/ Richard L. Love	Director	March 12, 2015

Richard Love

/s/ Mary O. Mundinger	Director	March 12, 2015

Mary O. Mundinger, DrPH

/s/ Jack W. Singer	Director	March 12, 2015

Jack W. Singer, M.D.

/s/ Frederick W. Telling	Director	March 12, 2015

Frederick Telling, Ph.D.

/s/ Reed V. Tuckson.	Director	March 12, 2015

Reed V. Tuckson, M.D.

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