

HomeTrust Bancshares, Inc.
Form 10-Q
November 12, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number: 001-35593

HOMETRUST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation of organization)

45-5055422
(IRS Employer Identification No.)

10 Woodfin Street, Asheville, North Carolina 28801
(Address of principal executive offices; Zip Code)

(828) 259-3939
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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.

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Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

There were 20,118,414 shares of common stock, par value of \$.01 per share, issued and outstanding as of November 7, 2013.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARIES
10-Q
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

(Dollar amounts in thousands except per share data)

	(Unaudited) September 30, 2013	June 30, 2013
Assets		
Cash	\$ 18,899	\$ 13,251
Interest-bearing deposits	74,019	112,462
Cash and cash equivalents	92,918	125,713
Certificates of deposit in other banks	145,606	136,617
Securities available for sale, at fair value	97,860	24,750
Loans held for sale	6,106	10,770
Total loans, net of deferred loan fees and discount	1,196,704	1,164,183
Allowance for loan losses	(29,200)	(32,073)
Net loans	1,167,504	1,132,110
Premises and equipment, net	24,796	22,400
Federal Home Loan Bank stock, at cost	2,089	1,854
Accrued interest receivable	5,824	5,549
Real estate owned (REO)	14,514	11,739
Deferred income taxes	47,247	47,428
Bank owned life insurance	62,660	62,242
Goodwill	2,802	-
Other assets	3,600	2,151
Total Assets	\$ 1,673,526	\$ 1,583,323
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	\$ 1,243,488	\$ 1,154,750
Other borrowings	2,227	-
Capital lease obligations	2,012	2,016
Other liabilities	57,733	59,042
Total liabilities	1,305,460	1,215,808
Stockholders' Equity		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued or outstanding	-	-
Common stock, \$0.01 par value, 60,000,000 shares authorized, 20,590,544 shares issued and outstanding at September 30, 2013; 20,824,900 at June 30, 2013	206	208
Additional paid in capital	224,558	227,397
Retained earnings	153,317	149,990

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Unearned Employee Stock Ownership Plan (ESOP) shares	(9,919)	(10,051)
Accumulated other comprehensive loss	(96)	(29)
Total stockholders' equity	368,066		367,515	
Total Liabilities and Stockholders' Equity	\$	1,673,526	\$	1,583,323

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Income
(Dollar amounts in thousands except per share data)

	Three Months Ended September 30,	
	2013	2012
Interest and Dividend Income		
Loans	\$14,082	\$15,216
Securities available for sale	297	96
Certificates of deposit and other interest-bearing deposits	452	391
Federal Home Loan Bank stock	12	25
Total interest and dividend income	14,843	15,728
Interest Expense		
Deposits	1,543	2,020
Other borrowings	3	189
Total interest expense	1,546	2,209
Net Interest Income	13,297	13,519
Provision for (Recovery of) Loan Losses	(2,300)	) 1,500
Net Interest Income after Provision for Loan Losses	15,597	12,019
Noninterest Income		
Service charges on deposit accounts	679	653
Mortgage banking income and fees	998	1,176
Other, net	594	514
Total other income	2,271	2,343
Noninterest Expense		
Salaries and employee benefits	7,177	6,329
Net occupancy expense	1,150	1,259
Marketing and advertising	355	314
Telephone, postage, and supplies	382	397
Deposit insurance premiums	335	522
Computer services	889	519
Loss (gain) on sale and impairment of real estate owned	(271)	) 327
Federal Home Loan Bank advance prepayment penalty	-	1,561
REO expense	454	762
Other	1,404	1,403
Total other expense	11,875	13,393
Income Before Income Taxes	5,993	969
Income Tax Expense (Benefit)	2,666	(183)
Net Income	\$3,327	\$1,152

Per Share Data:

Net income per common share:

Basic	\$0.17	\$0.06
Diluted	\$0.17	\$0.06

Average shares outstanding:

Basic	19,288,154	20,108,612
Diluted	19,377,896	20,108,612

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
 Consolidated Statements of Comprehensive Income
 (Dollar amounts in thousands)

	Three Months Ended September 30,	
	2013	2012
Net Income	\$3,327	\$1,152
Other Comprehensive Income (Loss)		
Unrealized holding gains (losses) on securities available for sale		
Gains (losses) arising during the period	\$(102	) \$177
Deferred income tax benefit (expense)	35	(60
Total other comprehensive income (loss)	\$(67	) \$117
Comprehensive Income	\$3,260	\$1,269

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
(Dollar amounts in thousands)

	Common Stock	Additional Paid In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at June 30, 2012	\$-	\$31,367	\$140,937	\$-	\$ 181	\$ 172,485
Net income	-	-	1,152	-	-	1,152
Issuance of common stock	212	211,388	-	-	-	211,600
Common stock issuance costs	-	(3,396)	-	-	-	(3,396)
Loan to ESOP for purchase of shares	-	-	-	(10,580)	-	(10,580)
ESOP shares allocated	-	33	-	132	-	165
Other comprehensive income	-	-	-	-	117	117
Balance at September 30, 2012	\$212	\$239,392	\$142,089	\$(10,448)	\$ 298	\$ 371,543
Balance at June 30, 2013	\$208	\$227,397	\$149,990	\$(10,051)	\$(29)	\$367,515
Net income	-	-	3,327	-	-	3,327
Stock repurchased	(2)	(3,592)	-	-	-	(3,594)
Stock option expense	-	325	-	-	-	325
Restricted stock expense	-	343	-	-	-	343
ESOP shares allocated	-	85	-	132	-	217
Other comprehensive loss	-	-	-	-	(67)	(67)
Balance at September 30, 2013	\$206	\$224,558	\$153,317	\$(9,919)	\$(96)	\$368,066

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Dollar amounts in thousands)

	Three Months Ended September 30,	
	2013	2012
Operating Activities:		
Net income	\$3,327	\$1,152
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for (recovery of) loan losses	(2,300)	) 1,500
Depreciation	556	565
Deferred income tax expense (benefit)	2,686	(209)
Net amortization and accretion	(129)	) 76
Loss (gain) on sale and impairment of real estate owned	(271)	) 327
Gain on sale of loans held for sale	(613)	) (921)
Origination of loans held for sale	(27,092)	) (64,006)
Proceeds from sales of loans held for sale	32,369	56,594
Decrease in deferred loan fees, net	(53)	) (164)
Increase in accrued interest receivable and other assets	(969)	) (1,590)
ESOP compensation expense	217	165
Restricted stock and stock option expense	668	-
Decrease in other liabilities	(2,499)	) (2,222)
Net cash provided by (used in) operating activities	5,897	(8,733)
Investing Activities:		
Purchase of securities available for sale	(41,810)	) (6,000)
Proceeds from maturities of securities available for sale	-	6,000
Purchase of certificates of deposit in other banks	(16,655)	) (30,545)
Maturities of certificates of deposit in other banks	7,666	16,310
Principal repayments of mortgage-backed securities	2,909	866
Net redemptions of Federal Home Loan Bank Stock	212	3,253
Net decrease in loans	13,431	23,295
Purchase of premises and equipment	(611)	) (189)
Capital improvements to real estate owned	(96)	) (118)
Proceeds from sale of real estate owned	1,262	5,061
Acquisition, net of cash paid	1,475	-
Net cash provided by (used in) investing activities	(32,217)	) 17,933
Financing Activities:		
Net decrease in deposits	(370)	) (305,866)
Net decrease in other borrowings	(2,507)	) (8,040)
Proceeds from stock conversion	-	208,204
Loan to ESOP for purchase of shares	-	) (10,580)
Common stock repurchased	(3,594))
Decrease in capital lease obligations	(4)	) (2)
Net cash used in financing activities	(6,475)	) (116,284)
Net Decrease in Cash and Cash Equivalents	(32,795)) (107,084)
Cash and Cash Equivalents at Beginning of Period	125,713	224,801

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Cash and Cash Equivalents at End of Period	\$92,918	\$117,717
Supplemental Disclosures:		
Cash paid during the period for:		
Interest	\$1,375	\$2,287
Income taxes	13	-
Noncash transactions:		
Unrealized gain (loss) in value of securities available for sale, net of income taxes	(67	) 117
Transfers of loans to real estate owned	1,615	2,708
Loans originated to finance the sale of real estate owned	94	492

The accompanying notes are an integral part of these consolidated financial statements.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

1. Summary of Significant Accounting Policies

The consolidated financial statements presented in this report include the accounts of HomeTrust Bancshares, Inc., a Maryland corporation (“HomeTrust”), and its wholly-owned subsidiary, HomeTrust Bank (the “Bank”). As used throughout this report, the term the “Company” refers to HomeTrust and the Bank, its consolidated subsidiary, unless the context otherwise requires.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all the information and footnotes required by U.S.GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2013 (“2013 Form 10-K”) filed with the SEC on September 13, 2013. The results of operations for the three months ended September 30, 2013 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2014. Certain prior year amounts have been reclassified to conform to current fiscal year presentation. The reclassifications had no impact on previously reported net income or equity.

Organization and Description of Business – HomeTrust was incorporated in Maryland on December 27, 2011 and became the holding company for the Bank on July 10, 2012 upon the completion of the Bank’s conversion from the mutual to stock form of organization (the “Conversion”). In connection with the Conversion, HomeTrust issued an aggregate of 21,160,000 shares of common stock at an offering price of \$10.00 per share for gross proceeds of \$211.6 million. HomeTrust received \$208.2 million in net proceeds from the stock offering of which \$104.1 million or 50% of the net proceeds were contributed to the Bank upon Conversion. Included in the issuance of shares was 1,058,000 shares to a newly formed “ESOP” for which HomeTrust loaned the ESOP \$10,580,000 to purchase the shares. The Bank is a federally chartered savings bank headquartered in Asheville, North Carolina with 21 retail offices located in western and central North Carolina and Greenville, South Carolina. The business of the Bank is conducted through its seven operating divisions – HomeTrust Bank, Cherryville Federal Bank, Home Savings Bank of Eden, Industrial Federal Bank of Lexington, Shelby Savings Bank, Tryon Federal Bank, and Rutherford County Bank. All divisions operate under a single set of corporate policies and procedures and are recognized as a single banking segment for financial reporting purposes.

Accounting Principles – The accounting and reporting policies of the Company conform to US GAAP.

Principles of Consolidation and Subsidiary Activities – The accompanying consolidated financial statements include the accounts of HomeTrust, the Bank, and its wholly-owned subsidiary, Western North Carolina Service Corporation (“WNCSC”). WNCSC owns office buildings in Asheville, North Carolina that are leased to the Bank. All intercompany items have been eliminated.

Cash Flows – Cash and cash equivalents include cash and interest-bearing deposits with initial terms to maturity of ninety days or less.

Securities – The Company classifies investment securities as trading, available for sale or held to maturity.

Securities available for sale are carried at fair value. These securities are used to execute asset/liability management strategies, manage liquidity, and leverage capital, and therefore may be sold prior to maturity. Adjustments for unrealized gains or losses, net of the income tax effect, are made to accumulated other comprehensive income, a separate component of total stockholders' equity.

Securities held to maturity are stated at cost, net of unamortized balances of premiums and discounts. When these securities are purchased, the Company intends to and has the ability to hold such securities until maturity.

Declines in the fair value of individual securities available for sale or held to maturity below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, the Company considers among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of the unrealized loss, and in the case of debt securities, whether it is more likely than not that the Company will be required to sell the security prior to a recovery.

Premiums and discounts are amortized or accreted over the life of the security as an adjustment to yield. Dividend and interest income are recognized when earned. Gains or losses on the sale of securities are recognized on a specific identification, trade date basis.

Loans – Loans are carried at their outstanding principal amount, less unearned income and deferred nonrefundable loan fees, net of certain origination costs. Interest income is recorded as earned on an accrual basis except for non-accruing loans where interest is recorded as earned on a cash basis. Net deferred loan origination fees/costs are deferred and amortized to interest income over the

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

life of the related loan. The premium or discount on purchased loans is amortized over the expected life of the loans and is included in interest income.

Loan Segments and Classes

The Company's loan portfolio is grouped into two segments (retail consumer loans and commercial loans) and into four classes within each segment. The Company originates, services, and manages its loans based on these segments and classes. The Company's portfolio segments and classes within those segments are subject to risks that could have an adverse impact on the credit quality of the loan portfolio. Management identified the risks described below as significant risks that are generally similar among the loan segments and classes.

Retail Consumer loan segment

The Company underwrites its retail consumer loans using automated credit scoring and analysis tools. These credit scoring tools take into account factors such as payment history, credit utilization, length of credit history, types of credit currently in use, and recent credit inquiries. To the extent that the loan is secured by collateral, the value of the collateral is also evaluated. Common risks to each class of retail consumer loans include general economic conditions within the Company's markets, such as unemployment and potential declines in collateral values, and the personal circumstances of the borrowers. In addition to these common risks for the Company's retail consumer loans, various retail consumer loan classes may also have certain risks specific to them.

One-to-four family and construction and land/lot loans are to individuals and are typically secured by 1-4 family residential property, undeveloped land, and partially developed land in anticipation of pending construction of a personal residence. Significant and rapid declines in real estate values can result in residential mortgage loan borrowers having debt levels in excess of the current market value of the collateral. Recent declines in value have led to unprecedented levels of foreclosures and losses within the banking industry. Construction and land/lot loans often experience delays in completion and cost overruns that exceed the borrower's financial ability to complete the project. Such cost overruns can routinely result in foreclosure of partially completed and unmarketable collateral.

Home equity lines of credit are often secured by second liens on residential real estate, thereby making such loans particularly susceptible to declining collateral values. A substantial decline in collateral value could render the Company's second lien position to be effectively unsecured. Additional risks include lien perfection inaccuracies and disputes with first lien holders that may further weaken collateral positions. Further, the open-end structure of these loans creates the risk that customers may draw on the lines in excess of the collateral value if there have been significant declines since origination.

Consumer loans include loans secured by deposit accounts or personal property such as automobiles, boats, and motorcycles, as well as unsecured consumer debt. The value of underlying collateral within this class is especially volatile due to potential rapid depreciation in values since date of loan origination in excess of principal repayment.

Commercial loan segment

The Company's commercial loans are centrally underwritten based primarily on the customer's ability to generate the required cash flow to service the debt in accordance with the contractual terms and conditions of the loan agreement. The Company's commercial lenders and underwriters work to understand the borrower's businesses and management experiences. The majority of the Company's commercial loans are secured by collateral, so collateral values are important to the transaction. In commercial loan transactions where the principals or other parties provide personal guarantees, the Company's commercial lenders and underwriters analyze the relative financial strength and liquidity of each guarantor. Risks that are common to the Company's commercial loan classes include general economic conditions, demand for the borrowers' products and services, the personal circumstances of the principals, and reductions in collateral values. In addition to these common risks for the Company's commercial loans, the various commercial loan classes also have certain risks specific to them.

Construction and development loans are highly dependent on the supply and demand for commercial real estate in the Company's markets as well as the demand for the newly constructed residential homes and lots being developed by the Company's commercial loan customers. Prolonged deterioration in demand could result in significant decreases in the underlying collateral values and make repayment of the outstanding loans more difficult for the Company's commercial borrowers.

Commercial real estate and commercial and industrial loans are primarily dependent on the ability of the Company's commercial loan customers to achieve business results consistent with those projected at loan origination resulting in cash flow sufficient to service the debt. To the extent that a borrower's actual business results significantly underperform the original projections, the ability of that borrower to service the Company's loan on a basis consistent with the contractual terms may be at risk. While these loans and leases are generally secured by real property, personal property, or business assets such as inventory or accounts receivable, it is possible that the liquidation of the collateral will not fully satisfy the obligation.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

Municipal leases are primarily made to volunteer fire departments and depend on the tax revenues received from the county or municipality. These leases are mainly secured by vehicles, fire stations, land, or equipment. The underwriting of the municipal leases is based on the cash flows of the fire department as well as projections of future income.

Credit Quality Indicators

Loans are monitored for credit quality on a recurring basis and the composition of the loans outstanding by credit quality indicator is provided below. Loan credit quality indicators are developed through review of individual borrowers on an ongoing basis. Generally, loans are monitored for performance on a quarterly basis with the credit quality indicators adjusted as needed. The indicators represent the rating for loans as of the date presented based on the most recent assessment performed. These credit quality indicators are defined as follows:

Pass—A pass rated asset is not adversely classified because it does not display any of the characteristics for adverse classification.

Special Mention—A special mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, such potential weaknesses may result in deterioration of the repayment prospects or collateral position at some future date. Special mention assets are not adversely classified and do not warrant adverse classification.

Substandard—A substandard asset is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Assets classified as substandard generally have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. These assets are characterized by the distinct possibility of loss if the deficiencies are not corrected.

Doubtful—An asset classified doubtful has all the weaknesses inherent in an asset classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions, and values.

Loss—Assets classified loss are considered uncollectible and of such little value that their continuing to be carried as an asset is not warranted. This classification is not necessarily equivalent to no potential for recovery or salvage value, but rather that it is not appropriate to defer a full write-off even though partial recovery may be effected in the future.

Loans Held for Sale—Loans held for sale are residential mortgages and are valued at the lower of cost or fair value less estimated costs to sell as determined by outstanding commitments from investors on a “best efforts” basis or current investor yield requirements, calculated on the aggregate loan basis. Loans sold are generally sold at par value and with servicing released.

Allowance for Loan Losses—The allowance for loan losses is management’s estimate of probable credit losses that are inherent in the Company’s loan portfolios at the balance sheet date. The allowance increases when the Company provides for loan losses through charges to operating earnings and when the Company recovers amounts from loans previously written down or charged off. The allowance decreases when the Company writes down or charges off loan amounts that are deemed uncollectible.

Management determines the allowance for loan losses based on periodic evaluations that are inherently subjective and require substantial judgment because the evaluations require the use of material estimates that are susceptible to significant change. The Company generally uses two allowance methodologies that are primarily based on management's determination as to whether or not a loan is considered to be impaired.

All classified loans above a certain threshold meeting certain criteria are evaluated for impairment on a loan-by-loan basis and are considered impaired when it is probable, based on current information, that the borrower will be unable to pay contractual interest or principal as required by the loan agreement. Impaired loans below the threshold are evaluated as a pool with additional adjustments to the allowance for loan losses. Loans that experience insignificant payment delays and payment shortfalls are not necessarily considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment history, and the amount of the shortfall relative to the principal and interest owed. Impaired loans are measured at their estimated net realizable value based on either the value of the loan's expected future cash flows discounted at the loan's effective interest rate or on the collateral value, net of the estimated costs of disposal, if the loan is collateral dependent. For loans considered impaired, an individual allowance for loan losses is recorded when the loan principal balance exceeds the estimated net realizable value.

For loans not considered impaired, management determines the allowance for loan losses based on estimated loss percentages that are determined by and applied to the various classes of loans that comprise the segments of the Company's loan portfolio. The estimated loss percentages by loan class are based on a number of factors that include by class (i) average historical losses over the past two years, (ii) levels and trends in delinquencies, impairments, and net charge-offs, (iii) trends in the volume, terms, and concentrations, (iv) trends in interest rates, (v) effects of changes in the Company's risk tolerance, underwriting standards, lending policies, procedures, and practices, and (vi) national and local business and economic conditions.

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Dollar amounts in thousands)

Future material adjustments to the allowance for loan losses may be necessary due to changing economic conditions or declining collateral values. In addition, bank regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to make adjustments to the allowance for loan losses based upon judgments that differ significantly from those of management.

Nonperforming Assets—Nonperforming assets can include loans that are past due 90 days or more and continue to accrue interest, loans on which interest is not being accrued, and real estate owned (“REO”).

Loans Past Due 90 Days or More, Non-accruing, Impaired, or Restructured—The Company's policies related to when loans are placed on non-accruing status conform to guidelines prescribed by bank regulatory authorities. Generally, the Company suspends the accrual of interest on loans (i) that are maintained on a cash basis because of the deterioration of the financial condition of the borrower, (ii) for which payment in full of principal or interest is not expected (impaired loans), or (iii) on which principal or interest has been in default for a period of 90 days or more, unless the loan is both well secured and in the process of collection. Under the Company's cost recovery method, interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accruing status when all principal and interest amounts contractually due are brought current and concern no longer exists as to the future collectability of principal and interest, which is generally confirmed when the loan demonstrates performance for six consecutive months or payment cycles.

Restructured loans to borrowers who are experiencing financial difficulty, and on which the Company has granted concessions that modify the terms of the loan, are accounted for as troubled debt restructurings (“TDRs”). These loans remain as TDRs until the loan has been paid in full, modified to its original terms, or charged off. The Company may place these loans on accrual or nonaccrual status depending on the individual facts and circumstances of the borrower. Generally, these loans are put on nonaccrual status until there is adequate performance that evidences the ability of the borrower to make the contractual payments. This period of performance is normally at least six months, and may include performance immediately prior to or after the modification, depending on the specific facts and circumstances of the borrower.

Loan Charge-offs—The Company charges off loan balances, in whole or in part to fair market value, when available, verifiable, and documentable information confirms that specific loans, or portions of specific loans, are uncollectible or unrecoverable. For unsecured loans, losses are confirmed when it can be determined that the borrower, or any guarantors, are unwilling or unable to pay the amounts as agreed. When the borrower, or any guarantor, is unwilling or unable to pay the amounts as agreed on a loan secured by collateral and any recovery will be realized upon the sale of the collateral, the loan is deemed to be collateral dependent. Repayments or recoveries for collateral dependent loans are directly affected by the value of the collateral at liquidation. As such, loan repayment can be affected by factors that influence the amount recoverable, the timing of the recovery, or a combination of the two. Such factors include economic conditions that affect the markets in which the loan or its collateral is sold, bankruptcy, repossession and foreclosure laws, and consumer banking regulations. Losses are also confirmed when the loan, or a portion of the loan, is classified as loss resulting from loan reviews conducted by the Company or its bank regulatory examiners.

Charge-offs of loans in the commercial loan segment are recognized when the uncollectibility of the loan balance and the inability to recover sufficient value from the sale of any collateral securing the loan is confirmed. The uncollectibility of the loan balance is evidenced by the inability of the commercial borrower to generate cash flows

sufficient to repay the loan as agreed causing the loan to become delinquent. For collateral dependent commercial loans, the Company determines the net realizable value of the collateral based on appraisals, current market conditions, and estimated costs to sell the collateral. For collateral dependent commercial loans where the loan balance, including any accrued interest, net deferred fees or costs, and unamortized premiums or discounts, exceeds the net realizable value of the collateral securing the loan, the deficiency is identified as unrecoverable, is deemed to be a confirmed loss, and is charged off.

Charge-offs of loans in the retail consumer loan segment are generally confirmed and recognized in a manner similar to loans in the commercial loan segment. Secured retail consumer loans that are identified as uncollectible and are deemed to be collateral dependent are confirmed as loss to the extent the net realizable value of the collateral is insufficient to recover the loan balance. Consumer loans not secured by real estate that become 90 days past due are charged off to the extent that the fair value of any collateral, less estimated costs to sell the collateral, is insufficient to recover the loan balance. Consumer loans secured by real estate that become 120 days past due are charged off to the extent that the fair value of the real estate securing the loan, less estimated costs to sell the collateral, is insufficient to recover the loan balance. Loans to borrowers in bankruptcy are subject to modification by the bankruptcy court and are charged off to the extent that the fair value of any collateral securing the loan, less estimated costs to sell the collateral, is insufficient to recover the loan balance, unless the Company expects repayment is likely to occur. Such loans are charged off within 60 days of the receipt of notification from a bankruptcy court or when the loans become 120 days past due, whichever is shorter.

Real Estate Owned—REO consists of real estate acquired as a result of customers' loan defaults. REO is stated at the lower of the related loan balance or the fair value of the property net of the estimated costs of disposal with a charge to the allowance for loan losses upon foreclosure. Any write-downs subsequent to foreclosure are charged against operating earnings. To the extent

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recoverable, costs relating to the development and improvement of property are capitalized, whereas those costs relating to holding the property are charged to expense.

Premises and Equipment—Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the 150% declining balance method and the straight-line method over the estimated useful lives which range from fifteen to forty years for buildings and three to ten years for furniture, fixtures, and equipment. Maintenance and repair costs are expensed as incurred.

Federal Home Loan Bank Stock—As a requirement for membership, the Bank invests in stock of the Federal Home Loan Bank of Atlanta (“FHLB”). This investment is carried at cost. Due to the redemption provisions of the FHLB, the Bank estimated that fair value equals cost and that this investment was not impaired at September 30, 2013 and June 30, 2013.

Business Combinations—The Company uses the acquisition method of accounting, formerly referred to as the purchase method, for all business combinations. An acquirer must be identified for each business combination, and the acquisition date is the date the acquirer achieves control. The acquisition method of accounting requires the Company as acquirer to recognize the fair value of assets acquired and liabilities assumed at the acquisition date as well as recognize goodwill or a gain from a bargain purchase, if appropriate. Any acquisition-related costs and restructuring costs are recognized as period expenses as incurred.

Income Taxes—The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced, if necessary, by the amount of such benefits that are not expected to be realized based upon available evidence.

The Company recognizes interest and penalties accrued relative to unrecognized tax benefits in its respective federal or state income taxes accounts. As of September 30, 2013 and June 30, 2013, there were no accruals for uncertain tax positions and no accruals for interest and penalties. HomeTrust and the Bank file a consolidated United States federal income tax return, as well as separate unconsolidated North Carolina state income tax returns. The Company’s income tax returns subsequent to 2009 are subject to examination by the taxing authorities.

Employee Stock Ownership Plan—In connection with the Conversion, the Bank established an Employee Stock Ownership Plan (“ESOP”) for the benefit of all of its eligible employees. Full-time employees of the Company who have been credited with at least 1,000 hours of service during a 12-month period and who have attained age 21 are eligible to participate in the ESOP. It is anticipated that the Bank will make contributions to the ESOP in amounts necessary to amortize the ESOP loan payable to HomeTrust over a 20 year period.

Unearned ESOP shares are shown as a reduction of stockholders’ equity. Dividends on unearned ESOP shares, if paid, will be considered to be compensation expense. The Company recognizes compensation expense equal to the fair

value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares differs from the cost of such shares, the differential is recognized as additional paid in capital. The Company recognizes a tax deduction equal to the cost of the shares released. Because the ESOP is internally leveraged through a loan from HomeTrust to the ESOP, the loan receivable by HomeTrust from the ESOP is not reported as an asset nor is the debt of the ESOP shown as a liability in the consolidated financial statements.

Equity Incentive Plan—The Company issues restricted stock and stock options under the HomeTrust Bancshares, Inc. 2013 Omnibus Incentive Plan (“2013 Omnibus Incentive Plan”) to key officers and outside directors. In accordance with the requirements of Accounting Standards Codification (“ASC”) 718, Compensation – Stock Compensation, the Company has adopted a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured based on the fair value of the award as of the grant date and recognized over the vesting period. The Company estimates forfeitures when recognizing compensation expense and this estimate is adjusted over the requisite service period or vesting schedule based on the extent to which actual forfeitures differ from such estimate. Changes in estimated forfeitures in future periods are recognized through a cumulative catch-up adjustment, which is recognized in the period of change and also will affect the amount of estimated unamortized compensation expense to be recognized in future periods.

Comprehensive Income—Comprehensive income consists of net income and net unrealized gains (losses) on securities available for sale and is presented in the consolidated statements of comprehensive income.

Derivative Instruments and Hedging—The Company recognizes all derivatives as either assets or liabilities in the balance sheet, and measures those instruments at fair value. Changes in the fair value of those derivatives are reported in current earnings or other comprehensive income depending on the purpose for which the derivative is held and whether the derivative qualifies for hedge accounting. Loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments. The Company enters into commitments to originate loans whereby the interest rate on the

HOMETRUST BANCSHARES, INC. AND SUBSIDIARY
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loan is determined prior to funding (rate lock commitments). The Company also enters into forward sales commitments for the mortgage loans underlying the rate lock commitments. The fair values of these two derivative financial instruments are collectively insignificant to the consolidated financial statements.

Use of Estimates in Financial Statements—The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements—In July 2012, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2012-02 “Testing Indefinite-Lived Intangible Assets for Impairment”, regarding goodwill which will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this ASU, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The ASU includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The guidance was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption was permitted, including for annual and interim goodwill impairment tests performed as of a date before July 27, 2012, if an entity’s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of this ASU did not have a material impact on the Company’s Consolidated Financial Statements.

In February 2013, the FASB issued ASU No. 2013-02 “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income”. This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under US GAAP that provide additional detail about these amounts. The new guidance was effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this ASU did not have a material impact on the Company’s Consolidated Financial Statements.

In July 2013, the FASB issued ASU No. 2013-11 “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists”. This ASU provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss (“NOL”) carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 with early adoption permitted. Since the Company does not have any unrecognized tax benefits, the adoption of the ASU is not expected to have a material impact on the Company’s Consolidated Financial Statements.

2.

Business Combinations

On July 31, 2013, the Company completed its acquisition of BankGreenville Financial Corporation (“BankGreenville”) in accordance with the terms of the Agreement and Plan of Merger dated May 3, 2013. Under the terms of the agreement, BankGreenville shareholders received \$6.63 per share in cash consideration. This represents approximately \$7.8 million of aggregate deal consideration. Additional contingent cash consideration of up to \$0.75 per share (or approximately \$883,000) may be realized at the expiration of 24 months based on the performance of a select pool of loans totaling approximately \$8.0 million.

BankGreenville was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at acquisition date fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. The excess of the merger consideration over the fair value of BankGreenville’s net assets was allocated to goodwill. The book value as of July 31, 2013, of assets acquired was \$102.2 million and liabilities assumed was \$94.1 million. The Company recorded \$2.8 million in goodwill related to the acquisition.

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The following table presents the consideration paid by the Company in the acquisition of BankGreenville and the assets acquired and liabilities assumed as of July 31, 2013:

	As Recorded by BankGreenville	Fair Value and Other Merger Related Adjustments	As Recorded by the Company
Consideration Paid			
Cash			\$ 7,823
Repayment of BankGreenville preferred stock			1,050
Contingent cash consideration (1)			680
Total consideration			\$ 9,553
Assets			
Cash and cash equivalents	\$ 10,348	\$ -	\$ 10,348
Investment securities	34,345	-	34,345
Loans, net of allowance	51,622	(3,792)	47,830
FHLB Stock	447	-	447
Real estate owned	2,317	(168)	2,149
Premises and equipment, net	2,458	(117)	2,341
Accrued interest receivable	429	-	429
Deferred tax asset	-	2,470	2,470
Other assets	214	-	214
Core deposit intangibles	-	530	530
Total assets acquired	\$ 102,180	\$ (1,077)	\$ 101,103
Liabilities			
Deposits	\$ 88,906	\$ 201	\$ 89,107
Other borrowings	4,700	34	4,734
Other liabilities	511	-	511
Total liabilities assumed	\$ 94,117	\$ 235	\$ 94,352
Net identifiable assets acquired over (under)			
liabilities assumed	\$ 8,063	\$ (1,312)	6,751
Goodwill			\$ 2,802

- (1) Estimate of additional amount to be paid to shareholders on or about July 31, 2015 based on performance of a select pool of loans totaling approximately \$8.0 million.

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The following table discloses the impact of the merger with BankGreenville since the acquisition on July 31, 2013 through September 30, 2013. The table also presents certain pro forma information as if BankGreenville had been acquired on July 1, 2013. These results combine the historical results of BankGreenville in the Company's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on July 1, 2013. Acquisition related costs of \$744, net of tax (\$90 of which are included in the Company's consolidated statements of income for the three months ended September 30, 2013) are not included in the pro forma statements below. In particular, no adjustments have been made to eliminate the impact of REO write-downs recognized by BankGreenville of \$250 in July 2013 that may not have been necessary had the acquired REO been recorded at fair value as of the beginning of fiscal year 2013. Furthermore, expenses related to systems conversions and other costs of integration are expected to be recorded throughout fiscal year 2014. Additionally, the Company expects to achieve further operating cost savings as a result of the acquisition which are not reflected in the pro forma amounts below:

	Actual Three Months Ended September 30, 2013	Pro Forma Three Months Ended September 30, 2013	Actual Three Months Ended September 30, 2012
Total revenues*	\$ 15,568	\$ 15,735	\$ 15,862
Net income	3,417	3,101	1,152

* Net interest income plus other income

The carrying amount of acquired loans from BankGreenville as of July 31, 2013 consisted of purchased performing loans and purchased impaired loans as detailed in the following table:

	Purchased Performing	Purchased Impaired	Total Loans
Retail Consumer Loans:			
One-to-four family	\$ 8,274	\$ 1,392	\$ 9,666
Home equity lines of credit	3,987	134	4,121
Consumer	522	-	522
Commercial:			
Commercial real estate	23,073	4,552	27,625
Construction and development	2,367	3,529	5,896
Total	\$ 38,223	\$ 9,607	\$ 47,830

The following table presents the purchased performing loans and purchased impaired loans receivable for BankGreenville at September 30, 2013 and July 31, 2013 (the combination date):

Purchased Performing Loans	
September 30, 2013	July 31, 2013

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Contractually required principal payments receivable	\$	37,237	\$	41,077
Fair value adjustment for credit, interest rate, and liquidity		2,640		2,854
Fair value of purchased loans receivable	\$	34,597	\$	38,223

Purchased Impaired Loans

		September 30, 2013		July 31, 2013
Contractually required principal and interest payments receivable	\$	12,666	\$	12,817
Amounts not expected to be collected – nonaccretable difference		1,375		1,375
Estimated payments expected to be received		11,291		11,442
Accretable yield		1,735		1,835
Fair value of purchased impaired loans	\$	9,556	\$	9,607

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3. Securities Available for Sale
Securities available for sale consist of the following at the dates indicated:

	September 30, 2013			Estimated
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
U.S. government agencies	\$ 27,338	\$ 21	\$ (18)	\$ 27,341
Mortgage-backed securities of U.S. government agencies and government sponsored enterprises	57,544	216	(307)	57,453
Taxable municipal securities	9,132	29	(80)	9,081
Corporate bonds	3,992	6	(13)	3,985
Total	\$ 98,006	\$ 272	\$ (418)	\$ 97,860

	June 30, 2013			Estimated
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
U.S. government agencies	\$ 6,000	\$ 2	\$ -	\$ 6,002
Mortgage-backed securities of U.S. government agencies and government sponsored enterprises	18,794	81	(127)	18,748
Total	\$ 24,794	\$ 83	\$ (127)	\$ 24,750

Debt securities available for sale by contractual maturity at the dates indicated are shown below. Mortgage-backed securities are not included in the maturity categories because the borrowers in the underlying pools may prepay without penalty; therefore, it is unlikely that the securities will pay at their stated maturity schedule.

	September 30, 2013	
	Amortized	Estimated
	Cost	Fair Value
Due within one year	\$ 6,000	\$ 6,005
Due after one year through five years	21,165	21,178
Due after five years through ten years	7,893	7,879
Due after ten years	5,404	5,345
Mortgage-backed securities	57,544	57,453

Total	\$	98,006	\$	97,860
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The Company had no sales of securities during the three months ended September 30, 2013 or 2012.

Securities available for sale with costs totaling \$44,100 and \$21,429 with market values of \$44,298 and \$21,500 at September 30, 2013 and June 30, 2013, respectively, were pledged as collateral to secure various public deposits and retail repurchase agreements.

The gross unrealized losses and the fair value for securities available for sale aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2013 and June 30, 2013 are as follows:

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	Less than 12 Months		September 30, 2013 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 8,408	\$ (18)	\$ -	\$ -	\$ 8,408	\$ (18)
Mortgage-backed securities of U.S. government agencies and government-sponsored enterprises	15,420	(227)	11,941	(80)	27,361	(307)
Taxable municipal securities	5,330	(80)	-	-	5,330	(80)
Corporate bonds	3,016	(13)	-	-	3,016	(13)
Total	\$ 32,174	\$ (338)	\$ 11,941	\$ (80)	\$ 44,115	\$ (418)

	Less than 12 Months		June 30, 2013 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities of U.S. government agencies and government-sponsored enterprises	\$ 5,707	\$ (122)	\$ 745	\$ (5)	\$ 6,452	\$ (127)
Total	\$ 5,707	\$ (122)	\$ 745	\$ (5)	\$ 6,452	\$ (127)

The total number of securities with unrealized losses at September 30, 2013, and June 30, 2013 were 58 and 26, respectively. Unrealized losses on securities have not been recognized in income because management has the intent and ability to hold the securities for the foreseeable future, and has determined that it is not more likely than not that the Company will be required to sell the securities prior to a recovery in value. The decline in fair value was largely due to increases in market interest rates. The Company had no other than temporary impairment losses during the three months ended September 30, 2013 or the year ended June 30, 2013. The Bank, as a member of the FHLB, is required to maintain an investment in FHLB capital stock. No ready market exists for the FHLB stock and the carrying value approximates its fair value based on the redemption provisions of the FHLB.

4. Loans

Loans consist of the following at the dates indicated:

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	September 30, 2013		June 30, 2013
Retail consumer loans:			
One-to-four family	\$ 599,485	\$	602,050
Home equity lines of credit	128,979		125,676
Construction and land/lots	52,202		51,546
Consumer	4,058		3,349
Total retail consumer loans	784,724		782,621
Commercial loans:			
Commercial real estate	247,258		231,086
Construction and development	32,754		23,994
Commercial and industrial	18,337		11,452
Municipal leases	114,926		116,377
Total commercial loans	413,275		382,909
Total loans	1,197,999		1,165,530
Deferred loan fees, net	(1,295)	)	(1,347)
Total loans, net of deferred loan fees and discount	1,196,704		1,164,183
Allowance for loan and lease losses	(29,200))	(32,073)
Loans, net	\$ 1,167,504	\$	1,132,110

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All the qualifying first mortgage loans, home equity lines of credit, and FHLB Stock are pledged as collateral by a blanket pledge to secure any outstanding FHLB advances.

The Company's total loans by segment, class, and risk grade at the dates indicated follow:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
September 30, 2013						
Retail consumer loans:						
One-to-four family	\$ 535,032	\$ 13,991	\$ 46,347	\$ 4,096	\$ 19	\$ 599,485
Home equity lines of credit	120,750	1,867	6,176	184	2	128,979
Construction and land/lots	49,645	302	2,141	114	-	52,202
Consumer	3,788	118	120	5	27	4,058
Commercial loans:						
Commercial real estate	195,140	16,404	31,205	4,509	-	247,258
Construction and development	19,207	3,529	9,885	132	1	32,754
Commercial and industrial	14,466	1,925	1,945	-	1	18,337
Municipal leases	114,131	795	-	-	-	114,926
Total loans	\$ 1,052,159	\$ 38,931	\$ 97,819	\$ 9,040	\$ 50	\$ 1,197,999

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
June 30, 2013						
Retail consumer loans:						
One-to-four family	\$ 536,603	\$ 14,003	\$ 47,753	\$ 3,671	\$ 20	\$ 602,050
Home equity lines of credit	117,438	1,374	6,679	184	1	125,676
Construction and land/lots	48,914	209	2,199	224	-	51,546
Consumer	3,144	62	134	6	3	3,349
Commercial loans:						
Commercial real estate	179,310	20,105	27,116	4,555	-	231,086
Construction and development	9,872	2,853	10,950	318	1	23,994
Commercial and industrial	8,812	835	1,647	157	1	11,452

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Municipal leases	114,418	1,959	-	-	-	116,377
Total loans	\$ 1,018,511	\$ 41,400	\$ 96,478	\$ 9,115	\$ 26	\$ 1,165,530

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The Company's total loans by segment, class, and delinquency status at the dates indicated follows:

	30-89 Days	Past Due 90 Days+	Total	Current	Total Loans
September 30, 2013					
Retail consumer loans:					
One-to-four family	\$6,662	\$11,434	\$18,096	\$581,389	\$599,485
Home equity lines of credit	348	1,602	1,950	127,029	128,979
Construction and land/lots	467	348	815	51,387	52,202
Consumer	4	38	42	4,016	4,058
Commercial loans:					
Commercial real estate	3,032	9,199	12,231	235,027	247,258
Construction and development	308	4,867	5,175	27,579	32,754
Commercial and industrial	88	78	166	18,171	18,337
Municipal leases	467	-	467	114,459	114,926
Total loans	\$11,376	\$27,566	\$38,942	\$1,159,057	\$1,197,999

	30-89 Days	Past Due 90 Days+	Total	Current	Total Loans
June 30, 2013					
Retail consumer loans:					
One-to-four family	\$7,031	\$8,827	\$15,858	\$586,192	\$602,050
Home equity lines of credit	450	1,656	2,106	123,570	125,676
Construction and land/lots	242	429	671	50,875	51,546
Consumer	4	35	39	3,310	3,349
Commercial loans:					
Commercial real estate	3,805	7,085	10,890	220,196	231,086
Construction and development	-	5,420	5,420	18,574	23,994
Commercial and industrial	193	172	365	11,087	11,452
Municipal leases	-	-	-	116,377	116,377
Total loans	\$11,725	\$23,624	\$35,349	\$1,130,181	\$1,165,530

The Company's recorded investment in loans, by segment and class, that are not accruing interest or are 90 days or more past due and still accruing interest at the dates indicated follow:

	September 30, 2013		June 30, 2013	
	Nonaccruing	90 Days + & still accruing	Nonaccruing	90 Days + & still accruing
Retail consumer loans:				
One-to-four family	\$30,057	\$-	\$29,811	\$-

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Home equity lines of credit	4,092	-	3,793	-
Construction and land/lots	1,986	-	2,172	-
Consumer	39	-	42	-
Commercial loans:				
Commercial real estate	21,143	-	21,149	-
Construction and development	9,214	-	10,172	-
Commercial and industrial	1,209	-	1,422	-
Municipal leases	-	-	-	-
Total loans	\$67,740	\$-	\$68,561	\$-

TDRs are loans which have renegotiated loan terms to assist borrowers who are unable to meet the original terms of their loans. Such modifications to loan terms may include a lower interest rate, a reduction in principal, or a longer term to maturity. Additionally, all TDRs are considered impaired.

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The Company's loans that were performing under the payment terms of TDRs that were excluded from nonaccruing loans above at the dates indicated follow:

	September 30, 2013	June 30, 2013
Performing TDRs included in impaired loans	\$17,772	\$14,012

An analysis of the allowance for loan losses by segment for the periods shown is as follows:

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012			
	Retail Consumer	Commercial	Total	Retail Consumer	Commercial	Total	
Balance at beginning of period	\$ 21,952	\$ 10,121	\$ 32,073	\$ 21,172	\$ 13,928	\$ 35,100	
Provision for (recovery of) loan losses	(1,639)	(661)	(2,300)	689	811	2,178,914	
Executive Vice President, Finance and Administration	2013	337,500	216,000	493,158	284,940	44,886	1,376,000
Jack W. Singer, M.D.	2012	330,000	198,500	536,147	—	34,293	1,098,000
Executive Vice President, Chief Scientific Officer, Interim Chief Medical Officer and Global Head of Translational Medicine(5)	2014	370,000	175,750	1,542,615	—	55,234	2,143,000
Matthew Plunkett, Ph.D.	2013	347,500	203,500	493,158	284,940	38,502	1,367,000
Executive Vice President, Corporate Development	2012	340,000	203,000	536,147	—	42,579	1,121,000
	2014	325,000	219,375	1,481,271	—	8,339	2,033,000
	2013	325,000	260,000	501,854	427,410	9,119	1,523,000
	2012	106,041	62,500	153,000	—	—	321,500

- (1) Please see “Compensation Discussion and Analysis—Annual Cash Incentive Compensation” for a description of the 2014 cash incentive program for the named executive officers.
- (2) The amounts reported in the “Stock Awards” and “Option Awards” columns reflect the grant date fair value computed in accordance with FASB ASC Topic 718 of the stock awards and option awards, respectively, granted to the Company’s named executive officers during the applicable fiscal year, and, with respect to each fiscal year in which a stock award or option award, respectively, was modified, the incremental fair value of the modified award computed in accordance with FASB ASC Topic 718. In the case of awards with performance-based vesting conditions other than market (stock price) based vesting conditions, grant date fair values (and incremental fair values, as the case may be) are calculated for this purpose based upon the outcome (as of the grant date, or, if modified, as of the modification date) of the performance-based condition. The fiscal year 2014 modifications to the Stock Awards held by our named executive officers are described in more detail in the “Grants of Plan-Based Awards—Fiscal Year 2014” table below.

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These amounts in the “Stock Awards” and “Option Awards” columns do not necessarily correspond to the actual cash value that will be recognized by the named executive officers pursuant to these awards. For a discussion of the assumptions and methodologies used to calculate the amounts reported, please see the discussion of equity awards contained in Note 13 (Share-Based Compensation) to the Company’s Consolidated Financial Statements for the fiscal year ended December 31, 2014, included in the Company’s 2014 Annual Report filed with the SEC on March 12, 2015.

(3) A portion of the “Stock Awards” compensation for each fiscal year for the named executive officers is the grant date fair value (or, in the case of modified awards, the incremental fair value as of the modification date) of Long-Term Performance Awards that include performance-based vesting conditions and were granted (or modified, as the case may be) in that year. These awards are included in Stock Award compensation for the applicable year based on the probable outcome (as of the grant date, or, if modified, as of the modification date) of the performance-based vesting condition of the award. The following table presents, as to these awards that were granted (or modified, as the case may be) in fiscal year 2014, 2013 or 2012: (i) the grant date fair value (or, in the case of modified awards, the incremental fair value as of the modification date) included in the “Stock Awards” column as to the awards granted (or modified, as the case may be) each year based on the probable outcome (as of the grant date, or, if modified, as of the modification date) of the performance-based vesting condition; and (ii) the grant date fair value (or, in the case of modified awards, the fair value as of the modification date) of the awards granted (or modified, as the case may be) each year assuming the maximum level of performance is achieved (in each case, with the fair value as otherwise determined under applicable accounting rules as noted in footnote (2) above):

Name	Aggregate Fair Value – Based on Probable Outcome (\$) 2014	Aggregate Fair Value – Based on Maximum Performance (\$)	Aggregate Fair Value – Based on Probable Outcome (\$) 2013	Aggregate Fair Value – Based on Maximum Performance (\$)	Aggregate Fair Value – Based on Probable Outcome (\$) 2012	Aggregate Fair Value – Based on Maximum Performance (\$)
James A. Bianco, M.D.	575,099	28,310,424	315,272	3,579,348	1,318,393	7,472,740
Louis A. Bianco	233,874	11,584,014	128,211	1,466,288	536,147	3,061,916
Jack W. Singer, M.D.	233,874	11,584,014	128,211	1,466,288	536,147	3,061,916
Matthew Plunkett, Ph.D.	172,530	8,484,383	136,907	1,073,804	—	—

(4) The following table provides detail on the amounts reported in the “All Other Compensation” column of the table above for each named executive officer:

Name	Executive Health Benefits (\$)	Life Insurance Premiums (\$)	401(k) Match (\$)	Other Personal Benefits (\$)(a)	Total (\$)
James A. Bianco, M.D.	85,305	35,741	—	352,224(b)	473,270
Louis A. Bianco	19,814	9,532	3,900	9,053(c)	42,299
Jack W. Singer, M.D.	45,649	—	3,900	5,685(d)	55,234
Matthew Plunkett, Ph.D.	—	—	3,900	4,439(e)	8,339

(a) Certain named executive officers were accompanied by spouses, other family members and other guests on trips using chartered aircraft where the use of the chartered aircraft was for business purposes. In those cases, there was no incremental cost to the Company of having additional passengers on the chartered aircraft, and as a result, no

amount is reflected in this table with respect thereto.

- (b) This amount includes \$36,458 for personal travel, \$179,538 for family members' travel on commercial aircraft, \$2,995 for tax preparation fees, \$10,245 for club membership dues, \$122,628 for security expenses (including \$57,857 for personal travel on an aircraft charter that the Company required for security purposes) and \$360 for miscellaneous expenses.
- (c) This amount includes \$2,657 for tax preparation fees, \$1,813 for security expenses and \$4,583 for club membership dues.
- (d) This amount includes \$4,050 for tax preparation fees, \$948 for club membership dues and \$687 for security expenses.
- (e) This amount includes \$4,439 for family travel expenses.
- (5) All compensation reflected in this table for Dr. Bianco and Dr. Singer was paid in connection with their respective services as officers of the Company and not in connection with their services as directors of the Company. The Company does not pay director compensation to directors who are also employees of the Company.

The foregoing Summary Compensation Table should be read in conjunction with the tables and narrative descriptions that follow. The “Grants of Plan-Based Awards—Fiscal Year 2014” table provides information regarding the incentives awarded to the named executive officers in fiscal year 2014. The “Outstanding Equity Awards at Fiscal 2014 Year-End” and “Option Exercises and Stock Vested—Fiscal Year 2014” tables provide further information on the named executive officers’ potential realizable value and actual value realized with respect to their equity awards. The “Potential Payments upon Termination or Change in Control” section provides information on the benefits the named executive officers may be entitled to receive in connection with certain terminations of their employment and/or a change in control of the Company.

Description of Employment Agreements—Cash Compensation

The Company entered into an employment agreement with Dr. Bianco in March 2011, as amended. The employment agreement has a two-year term, with automatic one-year renewals unless either party gives notice that the term will not be extended. The agreement provides that Dr. Bianco will receive an initial annualized base salary of \$650,000, subject to review by the Compensation Committee. Based on its review, the Compensation Committee may increase (but not reduce) the base salary level. The agreement also provides for annual bonuses for Dr. Bianco with a target annual bonus of at least 50% of his base salary and that his annual bonus may be up to 125% of his base salary if actual performance exceeds the target performance goals established by the Compensation Committee for the applicable year. The agreement also provides for Dr. Bianco to participate in the Company’s usual benefit programs for senior executives, payment by the Company of disability insurance premiums and premiums for universal life insurance with a coverage amount of not less than \$5,000,000 (up to an aggregate annual limit for such premiums of \$50,000, subject to adjustment), reimbursement of a certain aspect of his additional executive health benefits up to \$30,000 per year, reimbursement of his costs to maintain his medical license and certain other personal benefits.

In July 2012, the Company entered into an offer letter with Dr. Plunkett. The letter does not have a specified term and provides for Dr. Plunkett to receive an initial annualized base salary of \$325,000. Dr. Plunkett is eligible to receive an annual discretionary bonus, with a target bonus of 30% of base salary and a maximum bonus of 75% of base salary, and to participate in the benefit programs offered by the Company.

Provisions of each of the foregoing agreements relating to equity incentive awards, as well as post-termination and change in control benefits, are discussed below under the applicable sections of this Proxy Statement.

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Grants of Plan-Based Awards—Fiscal Year 2014

The following table presents information regarding the equity awards granted to the named executive officers in fiscal year 2014.

Name/Award Type	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards			Maximum or Units (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)(3)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)(4)
		Threshold (#)	Target (#)(1)	(2)(3)					
James A. Bianco, M.D.									
Performance Award	1/30/14	—	420,418	(5)					
Performance Award	1/30/14	—	842,331	(6)					
Performance Award	1/30/14	—	1,122,111	(7)					575,099
Restricted Stock Award	1/30/14	—			1,313,997	(8)			4,362,470
Louis A. Bianco									
Performance Award	1/30/14	—	170,561	(5)					
Performance Award	1/30/14	—	341,122	(6)					
Performance Award	1/30/14	—	456,325	(7)					233,874
Restricted Stock Award	1/30/14	—			394,199	(8)			1,308,741
Jack W. Singer, M.D.									
Performance Award	1/30/14	—	170,561	(5)					
Performance Award	1/30/14	—	341,122	(6)					
Performance Award	1/30/14	—	456,325	(7)					233,874
Restricted Stock Award	1/30/14	—			394,199	(8)			1,308,741
Matthew Plunkett, Ph.D.									
Performance Award	1/30/14	—	125,676	(5)					
Performance Award	1/30/14	—	252,849	(6)					
Performance Award	1/30/14	—	336,633	(7)					172,530
Restricted Stock Award	1/30/14	—			394,199	(8)			1,308,741

(1) This column reflects the Long-Term Performance Awards that are subject to achievement by the Company of certain performance goals (discussed in the footnotes below) on or before December 31, 2016. If one or more of the performance goals of the Long-Term Performance Awards is timely achieved, the number of underlying shares in the aggregate that will ultimately vest with respect to such award will be determined by multiplying (i) an award

percentage corresponding to the particular performance goal by (ii) the total number of outstanding shares of our common stock, determined on a non-fully diluted basis, as of the vesting date, subject to the applicable share limits of the applicable equity plan at the time of vesting. In the event that sufficient shares are not available under such plan at the time of vesting, the Company may elect to amend the awards to, but is not required to, settle the Long-Term Performance Awards in cash or any other asset. For each award, the "Target" column reflects the number of shares that would vest or be issued under each award upon timely achievement of each performance goal based on the applicable payout percentages and the number of shares of the Company's common stock issued and outstanding on January 30, 2014, which was the applicable grant date of the awards. However, the actual number of shares issuable for each such award upon any vesting may be different from the number reported in the table, as the actual number will be based on the number of shares of the Company's common stock outstanding at the time of vesting. The named executive officer does not have the right to dispose of the Long-Term Performance Awards or any other shareholder rights with respect to such awards (except that any portion of such awards granted in restricted stock have voting and dividend rights).

- (2) As discussed in the "Compensation Discussion and Analysis," in January 2014, the Compensation Committee approved an extension of the deadline for achievement of the underlying performance objectives for the Company's Long-Term Performance Awards from December 31, 2015 to December 31, 2016. Except with regard to the Market Cap Goal, as described in footnote (7) below, such modifications did not result in any grant-date or incremental fair value computed in accordance with FASB ASC Topic 718 and, accordingly, are not reflected in the table.

- (3) The Company's Long-Term Performance Awards are currently subject to the terms and share limits of the 2007 Plan. If the 2015 Plan is approved at the Annual Meeting pursuant to Proposal 2, such awards will remain subject to the terms of the 2007 Plan but, as discussed in Proposal 2, shares may be issued under the 2015 Plan to the extent the Long-Term Performance Awards become vested after the Annual Meeting in satisfaction of the Company's obligations under those awards. The awards listed in the column "All Other Stock Awards: Number of Shares of Stock or Units" are time-based vesting restricted stock awards subject to the terms of the 2007 Plan. The Compensation Committee administers and has authority to interpret the 2007 Plan and the 2015 Plan provisions and make all required determinations thereunder, except the Board has authority to administer, construe, interpret and make determinations under these plans with respect to awards granted or to be granted to the non-employee directors. See "Potential Payments Upon a Termination or Change in Control" below for additional discussion concerning the termination of employment and change in control terms applicable to these awards.
- (4) For a discussion of the assumptions and methodologies used to calculate the amounts reported in this column, please see the discussion of equity awards contained in Note 13 (Share-Based Compensation) to the Company's Consolidated Financial Statements for the fiscal year ended December 31, 2014, included in the Company's 2014 Annual Report filed with the SEC on March 12, 2015. With respect to equity incentive plan awards, this column reflects the fair value of such awards based on the probable outcome (as of the grant date, or, if modified, as of the modification date) of the performance-based conditions applicable to the awards, as determined under generally accepted accounting principles.
- (5) The vesting of these awards is subject to the achievement of the Tosedostat Phase 3 goal.
- (6) The vesting of these awards is subject to the achievement of the Tosedostat Approval goal.
- (7) The vesting of these awards is subject to the achievement of the Market Cap Goal. These awards were originally granted effective January 3, 2012 and were modified in January 2014 as referred to in footnote (2) above to extend the term of the award from December 31, 2015 to December 31, 2016. These entries reflect the number of shares subject to these awards that would have vested if the market capitalization goal had been met on the modification date based on the Company's total number of outstanding shares on the modification date.
- (8) These shares vested in three equal installments on March 21, 2014, September 21, 2014 and March 21, 2015. Prior to the time the shares vested, the named executive officer generally did not have the right to dispose of the restricted shares, but had the right to vote and receive dividends (if any) paid by the Company in respect of the restricted shares.

Outstanding Equity Awards at Fiscal 2014 Year-End

The following table presents information regarding the outstanding equity awards held by each of the Company's named executive officers as of December 31, 2014, including the vesting dates for the portions of these awards that had not vested as of that date.

Name/Award Type(1)	Grant Date	Option Awards				Stock Awards			Equity Incentive Plan Awards: or Payout Value of Unearned Shares, Units or Rights That Have Not Vested
		Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Stock or Units of Stock That Have Not Vested	Number of Shares, Units or Rights That Have Not Vested	Value of Unearned Shares, Units or Rights That Have Not Vested
James A. Bianco, M.D.									
Option	12/14/05	208	—	2,832.00	12/14/15	—	—	—	—
Option	01/18/07	200	—	2,040.00	01/18/17	—	—	—	—
Option	12/27/07	333	—	567.00	12/27/17	—	—	—	—
Option	12/10/13	500,000	—	1.77	12/10/23	—	—	—	—
Restricted Stock	01/30/14	—	—	—	—	437,999(4)	1,033,678	—	—
Performance Award(5)	01/03/12	—	—	—	—	—	—	150,247	354,583
Performance Award(6)	01/03/12	—	—	—	—	—	—	1,325,708	3,128,671
Performance Award(7)	01/03/12	—	—	—	—	—	—	530,283	1,251,468
Performance Award(8)	01/03/12	—	—	—	—	—	—	1,060,567	2,502,938
Performance Award(9)	01/03/12	—	—	—	—	—	—	530,283	1,251,468
Performance Award(10)	01/03/12	—	—	—	—	—	—	219,184	517,274
Performance Award(11)	03/21/13	—	—	—	—	—	—	496,699	1,172,210
	03/21/13	—	—	—	—	—	—	995,165	2,348,589

Performance
Award(12)

Performance Award (13)	01/30/14	—	—	—	—	—	—	496,699	1,172,210
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Performance Award (14)	01/30/14	—	—	—	—	—	—	995,165	2,348,589
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Name/Award Type(1)	Grant Date	Option Awards				Stock Awards			Equity Incentive Plan Awards:
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)	Number of Shares, Units or Rights That Have Not Vested (#)(3)	or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)(2)
Louis A. Bianco									
Option	07/14/05	125	—	3,336.00	07/14/15	—	—	—	—
Option	12/14/05	100	—	2,832.00	12/14/15	—	—	—	—
Option	06/22/06	25	—	1,704.00	06/22/16	—	—	—	—
Option	01/18/07	58	—	2,040.00	01/18/17	—	—	—	—
Option	12/27/07	120	—	567.00	12/27/17	—	—	—	—
Option	12/10/13	200,000	—	1.77	12/10/23	—	—	—	—
Restricted Stock	01/30/14	—	—	—	—	131,400(4)	310,104	—	—
Performance Award(5)	01/03/12	—	—	—	—	—	—	60,099	141,834
Performance Award(6)	01/03/12	—	—	—	—	—	—	539,121	1,272,326
Performance Award(7)	01/03/12	—	—	—	—	—	—	215,649	508,932
Performance Award(8)	01/03/12	—	—	—	—	—	—	429,529	1,013,688
Performance Award(9)	01/03/12	—	—	—	—	—	—	215,649	508,932
Performance Award(10)	01/03/12	—	—	—	—	—	—	107,824	254,465
Performance Award(11)	03/21/13	—	—	—	—	—	—	201,508	475,559
Performance Award(12)	03/21/13	—	—	—	—	—	—	403,015	951,115
Performance Award(13)	01/30/14	—	—	—	—	—	—	201,508	475,559
Performance Award(14)	01/30/14	—	—	—	—	—	—	403,015	951,115
Aequus Restricted Stock	02/11/11	—	—	—	—	50,000(15)	6,500	—	—

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Name/Award Type(1)	Grant Date	Option Awards				Stock Awards		Equity Incentive Plan Awards:	
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)	Number of Shares, Units or Rights That Have Not Vested (#)(3)	Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)(2)
Jack W. Singer, M.D.									
Option	07/14/05	125	—	3,336.00	7/14/15	—	—	—	—
Option	12/14/05	100	—	2,832.00	12/14/15	—	—	—	—
Option	06/22/06	25	—	1,704.00	6/22/16	—	—	—	—
Option	01/18/07	58	—	2,040.00	1/18/17	—	—	—	—
Option	12/27/07	120	—	567.00	12/27/17	—	—	—	—
Option	12/10/13	200,000	—	1.77	12/10/23	—	—	—	—
Restricted Stock	01/30/14	—	—	—	—	131,400(4)	310,104	—	—
Performance Award(5)	01/03/12	—	—	—	—	—	—	60,099	141,834
Performance Award(6)	01/03/12	—	—	—	—	—	—	539,121	1,272,326
Performance Award(7)	01/03/12	—	—	—	—	—	—	215,649	508,932
Performance Award(8)	01/03/12	—	—	—	—	—	—	429,529	1,013,688
Performance Award(9)	01/03/12	—	—	—	—	—	—	215,649	508,932
Performance Award(10)	01/03/12	—	—	—	—	—	—	107,824	254,465
Performance Award(11)	03/21/13	—	—	—	—	—	—	201,508	475,559
Performance Award(12)	03/21/13	—	—	—	—	—	—	403,015	951,115
Performance Award(13)	01/30/14	—	—	—	—	—	—	201,508	475,559
Performance Award(14)	01/30/14	—	—	—	—	—	—	403,015	951,115

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Name/Award Type(1)	Grant Date	Option Awards				Stock Awards			Equity Incentive Plan Awards:
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(2)	Awards: Number of Shares, Units or Rights That Have Not Vested (#)(3)	or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)(2)
Matthew Plunkett, Ph.D.									
Option	12/10/13	300,000		1.77	12/10/23	—	—	—	—
Restricted Stock	10/16/12	—	—	—		33,333(16)	78,666	—	—
Restricted Stock	01/30/14	—	—	—		131,400(4)	310,104	—	—
Performance Award(5)	03/21/13	—	—	—		—	—	44,190	104,288
Performance Award(6)	03/21/13	—	—	—		—	—	397,712	938,600
Performance Award(7)	03/21/13	—	—	—		—	—	159,085	375,441
Performance Award(8)	03/21/13	—	—	—		—	—	318,170	750,881
Performance Award(9)	03/21/13	—	—	—		—	—	159,085	375,441
Performance Award(10)	03/21/13	—	—	—		—	—	65,402	154,349
Performance Award(11)	03/21/13	—	—	—		—	—	148,479	350,410
Performance Award(12)	03/21/13	—	—	—		—	—	298,726	704,993
Performance Award(13)	01/30/14	—	—	—		—	—	148,479	350,410
Performance Award(14)	01/30/14	—	—	—		—	—	298,726	704,993

- (1) Unless otherwise noted, all information in this table pertains to equity-based securities issued by the Company.
- (2) The dollar amounts shown in these columns are determined by multiplying the applicable number of shares or units by \$2.36 (the closing price of the Company's common stock on the last trading day of fiscal year 2014) or, in the case of the shares granted by Aequis, by multiplying the applicable number of shares by \$0.13 (the fair market value of Aequis' common stock as of December 31, 2014).
- (3) The entries in this column reflect the Long-Term Performance Awards that are subject to achievement by the Company of certain performance goals (identified in the footnotes below) on or before December 31, 2016. If one or more of the performance goals of the Long-Term Performance Awards is timely achieved, the number of underlying shares in the aggregate (including the number of shares subject to restricted shares and restricted share units) that will ultimately vest will be determined by multiplying (i) an award percentage corresponding to the

particular performance goal by (ii) the total number of outstanding shares of our common stock, determined on a non-fully diluted basis, as of the vesting date, subject to the applicable share limits of the applicable equity plan at the time of vesting. As of December 31, 2014, 11,862,366 shares of the Company's common stock were available for new award grants under the 2007 Plan (before taking the LTIP RSUs into account). In the event that sufficient shares are not available under the applicable equity plan at the time of vesting, the Company may elect to amend the awards to, but is not required to, settle the Long-Term Performance Awards in cash or any other asset. The table reports the aggregate number of shares that would vest or be issued under each award upon timely achievement of each performance goal based on the applicable payout percentages and the number of shares of the Company's common stock issued and outstanding on December 31, 2014. However, the actual number of shares issuable for each award upon any vesting may be different from the number reported in the table, as the actual number will be based on the number of shares of the Company's common stock outstanding at the time of vesting.

(4) These shares vested on March 21, 2015.

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- (5) The vesting of these awards is subject to the achievement of the Opaxio NDA Approval goal on or before December 31, 2016.
- (6) The vesting of these awards is subject to the achievement of the Market Cap Goal on or before December 31, 2016.
- (7) The vesting of these awards is subject to the achievement of the \$50M Sales Goal on or before December 31, 2016.
- (8) The vesting of these awards is subject to the achievement of the \$100M Sales Goal on or before December 31, 2016.
- (9) The vesting of these awards is subject to achievement of Cash Flow Breakeven goal on or before December 31, 2016.
- (10) The vesting of these awards is subject to achievement of the EPS Goal on or before December 31, 2016.
- (11) The vesting of these awards is subject to the achievement of the Pacritinib Phase 3 goal on or before December 31, 2016.
- (12) The vesting of these awards is subject to the achievement of the Pacritinib Approval on or before December 31, 2016.
- (13) The vesting of these awards is subject to the achievement of the Tosedostat Phase 3 goal on or before December 31, 2016.
- (14) The vesting of these awards is subject to the achievement of the Tosedostat Approval goal on or before December 31, 2016.
- (15) These shares were granted to Mr. Bianco by Aequeus and vested on February 11, 2015.
- (16) These shares vest on September 4, 2015, subject to continued service through the applicable vesting date.

Option Exercises and Stock Vested—Fiscal Year 2014

The following table presents information regarding the vesting during fiscal year 2014 of stock awards granted by the Company to the named executive officers. No executive officer exercised any stock options granted by the Company during fiscal year 2014.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
James A. Bianco, M.D.	—	—	1,535,342	4,982,185
Louis A. Bianco	—	—	460,602	1,494,653
Jack W. Singer, M.D.	—	—	460,602	1,494,653
Matthew Plunkett, Ph.D.	—	—	493,935	1,576,653

- (1) The dollar amounts shown in this column for stock awards are determined by multiplying the number of shares or units, as applicable, that vested by the per-share closing price of the Company's common stock on the applicable vesting date.

Potential Payments upon Termination or Change in Control

Termination Benefits

The following describes the termination benefits that may become payable to the named executive officers in connection with a termination of their employment. Each named executive officer's right to receive termination benefits is conditioned upon his executing a release of claims in favor of the Company and complying with certain restrictive covenants. None of the named executive officers is entitled to any tax gross-up payments from the Company.

Dr. Bianco's Termination Benefits

Under Dr. Bianco's employment agreement, if his employment is terminated by the Company without cause or if he resigns for good reason (as the terms "cause" and "good reason" are defined in his agreement), he will receive the following termination benefits:

- cash severance equal to two years of his base salary (paid in twenty-four monthly installments);
- reimbursement for up to two years by the Company for premiums paid to continue his health insurance under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") and that of his eligible spouse and dependents;
- continued payment for two years by the Company of premiums to maintain life insurance paid for by the Company at the time of his termination; and
- accelerated vesting of all of his then-outstanding and unvested stock-based compensation, with his outstanding, vested stock options to remain exercisable for a period of two years following his termination date.

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In the event that, immediately prior to, upon or within two years after a change in control of the Company, Dr. Bianco is terminated by the Company without cause or resigns for good reason, he will receive severance in the form of a lump sum payment equal to two years of his base salary, plus an amount equal to the greater of the average of his three prior years' bonuses or thirty percent of his base salary, as well as the payment of his COBRA and life insurance premiums and the treatment of his outstanding equity awards described above.

In the event (i) the Company is required to restate financials due to its material noncompliance with any financial reporting requirement under the U.S. securities laws during any period for which Dr. Bianco was chief executive officer of the Company or (ii) Dr. Bianco acts in a manner that would have constituted cause for his termination had he been employed at the time of such act, Dr. Bianco will not be entitled to any termination benefits that have not been paid, and will be required to repay any portion of the termination benefits that has already been paid.

Other Named Executive Officers' Termination Benefits

As of December 31, 2014, the Company's severance agreements with each of Mr. Bianco, Dr. Singer and Dr. Plunkett provided that, in the event the executive is discharged from employment by the Company without cause (as defined in the agreement) or resigns for good reason (as defined in the agreement, which definition as of December 31, 2014 expressly included, other than for Mr. Plunkett, the occurrence of a change in control of the Company), he will receive the following termination benefits:

- cash severance equal to eighteen months of his base salary;
- additional cash severance equal to the greater of the average of his three prior years' bonuses or thirty percent of his base salary;
- reimbursement for up to eighteen months by the Company for COBRA premiums to continue his medical coverage and that of his eligible dependents;
- continued payment for up to eighteen months by the Company of premiums to maintain life insurance paid for by the Company at the time of his termination;
- accelerated vesting of all of his then-outstanding and unvested stock-based compensation; and
- in the case of Mr. Bianco and Dr. Singer, his outstanding stock options would remain exercisable for a period of twenty-one months following the termination date, whereas Dr. Plunkett's options would generally remain exercisable for three months following the termination date (although this period could be extended for up to two years if the Company is not then a public company).

In January 2015, the Compensation Committee approved revisions to the applicable severance agreements of Mr. Bianco, Dr. Singer and Dr. Plunkett in order to harmonize the terms of these agreements, including revisions that resulted in the following:

- A termination for good reason (giving rise to termination benefits) no longer includes the occurrence of a change in control.
- The post-termination exercise period for options has been reduced to three months following the executive's termination date.
- All cash severance is paid in eighteen monthly installments following the executive's termination date.

With the exception of the foregoing revisions, the termination benefits for Mr. Bianco, Dr. Singer and Dr. Plunkett remain the same as in effect as of December 31, 2014 and as described above.

Change in Control Benefits

In the event of a change in control of the Company, the named executive officers are entitled to the following:

- All Long-Term Performance Awards granted to the named executive officers would generally vest (subject to certain limitations with respect to the Market Cap Goal as described in the “Compensation Discussion and Analysis”).
- With respect to Dr. Bianco, all of his other then-outstanding and unvested stock-based compensation will also fully vest, and all of his outstanding stock options will remain exercisable for a period of two years following his termination date. He will also be entitled to the severance protections described above.

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With respect to each of Mr. Bianco, Dr. Singer and Dr. Plunkett, in accordance with the Company's equity incentive plans, all of the executive's other equity-based awards generally would also vest on a change in control of the Company if the awards were to be terminated in connection with the change in control (i.e., accelerated vesting would not be required if the Compensation Committee provided for the assumption, substitution or other continuation of the award following the transaction). If the awards did not become fully vested on the change in control transaction, they would generally become fully vested/exercisable if the award holder's employment was terminated by the successor (other than for misconduct) within twelve months following the change in control (subject to any additional vesting protections provided for pursuant to an applicable agreement).

Quantification of Termination and Change in Control Benefits

The termination and change in control benefits under the agreements with our named executive officers are as follows (assuming in each case that the termination of employment and/or change in control that triggered such benefits occurred on December 31, 2014):

Name	Benefits in	Benefits in	
	Connection	with Termination (Outside of Change in Control)	Connection with a Change in Control and Termination
	(\$)	(\$)	(\$)
James A. Bianco, M.D.			
Cash Benefits	1,300,000(1)	—	1,917,500(2)
Medical/Life Insurance continuation(3)	161,237	—	161,237
Equity acceleration(4)	17,081,678	13,953,007	13,953,007
Total	18,542,915	13,953,007	16,031,744
Louis A. Bianco			
Cash Benefits	756,167(1)	—	756,167(2)
Medical/Life Insurance continuation(3)	58,244	—	58,244
Equity acceleration(4)	6,863,628	5,591,303(5)	5,591,303
Total	7,678,039	5,591,303	6,405,714
Jack W. Singer, M.D.			
Cash Benefits	749,083(1)	—	749,083(2)
Medical/Life Insurance continuation(3)	84,176	—	84,176
Equity acceleration(4)	6,863,628	5,591,303(5)	5,591,303
Total	7,696,887	5,591,303	6,424,562
Matthew Plunkett, Ph.D.			
Cash Benefits	668,125(1)	—	668,125(2)
Medical/Life Insurance continuation(3)	40,461	—	40,461
Equity acceleration(4)	5,198,577	4,259,977(5)	4,259,977
Total	5,907,163	4,259,977	4,968,563

- (1) For Dr. Bianco, this amount represents two years of his base salary. For each of the other named executive officers, this amount represents the sum of (i) eighteen months of the executive's base salary and (ii) the greater of the executive's average annual bonus for the preceding three years or 30% of the executive's base salary.
- (2) For each of the named executive officers, this amount represents the sum of (i) eighteen months of the executive's base salary (or, in the case of Dr. Bianco, two years of his base salary) and (ii) the greater of the executive's average annual bonus for the preceding three years or 30% of the executive's base salary.
- (3) This amount represents the aggregate estimated cost of the premiums that would be charged to continue health coverage for the applicable period pursuant to COBRA for the executive and his eligible dependents (to the extent that such dependents were receiving health benefits as of December 31, 2014), in each case to the extent provided in the applicable severance agreement. This amount also includes the cost of continued payment by the Company of life insurance premiums for two years for Dr. Bianco and for eighteen months for the other named executive officers.

- (4) This amount represents the intrinsic value of the unvested portions of the executive's awards that would have accelerated in the applicable scenario presented in the table. For restricted stock awards, this value is calculated by multiplying \$2.36 (the closing price of the Company's common stock on the last trading day of fiscal year 2014) by the number of shares subject to the accelerated portion of the award.
- (5) These calculations assume that the Compensation Committee does not provide for the continuation or assumption of the awards following a change in control and that, as a result, the applicable awards are to be terminated and (other than the portion of the Long-Term Performance Awards corresponding to the Market Cap Goal) automatically vested in connection with a change in control pursuant to the Company's equity incentive plan. Since the Market Cap Goal would not have been satisfied on December 31, 2014, that portion of the Long-Term Performance Awards would have terminated without vesting.

DIRECTOR COMPENSATION

Non-Employee Director Compensation Table—Fiscal Year 2014

The following table presents information regarding the compensation earned for fiscal year 2014 by members of the Board who are not also employees of the Company. The compensation paid to Dr. Bianco and Dr. Singer, who are also employed by the Company, for fiscal year 2014 is presented in the Summary Compensation Table and the related explanatory tables. Dr. Bianco and Dr. Singer are not entitled to receive additional compensation for their services as directors.

Name	Fees Earned or Paid			Option Awards	All Other Compensation	Total
	in Cash	Stock Awards				
	(\$)(1)	(\$)(2)(3)	(\$)(2)(3)	(\$)(4)	(\$)	
John H. Bauer	88,750	642,232	—	—	730,982	
Vartan Gregorian (5)	33,000	542,230	—	—	575,230	
Karen Ignagni (6)	61,417	200,002	—	—	261,419	
Richard L. Love	95,250	642,232	—	—	737,482	
Mary O. Mundinger, DrPH	132,500	642,232	—	—	774,732	
Phillip M. Nudelman, Ph.D.	136,500	938,348	—	20,127	1,094,975	
Frederick W. Telling, Ph.D.(7)	109,000	642,232	—	—	751,232	
Reed V. Tuckson, M.D.	74,750	642,232	—	—	716,982	

(1) The amounts reported in the “Fees Earned or Paid in Cash” column reflect the amounts earned with respect to fiscal year 2014 for the director’s retainer and meeting fees.

(2) No stock options were awarded to the non-employee directors during fiscal year 2014. The amounts reported in the “Stock Awards” column of the table above reflect the grant date fair value determined in accordance with FASB ASC Topic 718 of the stock awards and option awards, respectively, granted to the Company’s non-employee directors during fiscal year 2014, provided that, with respect to the amounts included in the “Stock Awards” column that pertain to the modifications of the Long-Term Performance Awards (defined and discussed in “Compensation Discussion and Analysis”), such amounts reflect the applicable incremental fair value determined in accordance with FASB ASC Topic 718. These amounts do not necessarily correspond to the actual cash value that will be recognized by the directors pursuant to the awards. For a discussion of the assumptions and methodologies used to calculate the amounts reported, please see the discussion of equity awards contained in Note 13 (Share-Based Compensation) to the Company’s Consolidated Financial Statements for the fiscal year ended December 31, 2014, included in the Company’s 2014 Annual Report filed with the SEC on March 12, 2015.

Additional detail pertaining to the awards reflected in the “Stock Awards” column follows:

· On January 30, 2014, our Chairman, Dr. Nudelman, was granted 219,000 fully-vested shares with a grant-date fair value of \$727,080, and each of the other non-employee directors (with the exception of Ms. Ignagni, who joined our Board as a new director effective January 31, 2014) was granted 146,000 fully-vested shares with a grant-date fair value of \$484,720.

The January 30, 2014 modifications of the Long-Term Performance Awards (discussed in “Compensation Discussion and Analysis”) resulted in a modification date incremental value of \$57,510 (or \$86,265 in the case of Dr. Nudelman’s award), determined in accordance with FASB ASC Topic 718.

· In accordance with the Company’s Director Compensation Policy, on January 31, 2014, Ms. Ignagni, was granted an initial award in connection with her appointment to the Board of 31,348 fully-vested shares with a grant-date fair value of \$100,000.

· In accordance with the Company’s Director Compensation Policy, on May 22, 2014, Dr. Nudelman was granted an annual award of 43,555 fully-vested shares with a grant-date fair value of \$125,003, and each of the other non-employee directors was granted an annual award of 34,844 fully-vested shares with a grant-date fair value of \$100,002.

· Dr. Gregorian’s director term expired on May 22, 2014, and his then-outstanding and unvested equity awards terminated on that date. Any recognized expense with respect to the grant date fair value and modification date incremental value relating to his unvested awards reported in the table above was reversed.

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(3) The following table presents the number of outstanding and unexercised option awards and the number of shares subject to unvested stock awards held by each of the Company's non-employee directors as of December 31, 2014. This table includes the Long-Term Performance Awards granted to each of the non-employee directors under the Company's equity grant program and described in more detail under "Non-Employee Director Compensation Overview" below. The table below reflects the aggregate number of shares that would be issued upon timely achievement of all of the performance goals based on the applicable payout percentages for these awards and the number of shares of the Company's common stock outstanding on December 31, 2014. However, the actual number of shares issuable for each award upon any vesting may be different from the number reported in the table, as the actual number will be based on the number of shares of the Company's common stock outstanding at the time of vesting.

Director	Number of Shares Subject to Outstanding Options as of 12/31/2014	Number of Unvested Restricted Shares/ Units as of 12/31/2014
John H. Bauer	103,179	880,270
Karen Ignagni	—	—
Richard L. Love	103,180	880,270
Mary O. Mundinger, DrPH	103,195	880,270
Phillip M. Nudelman, Ph.D.	153,202	1,321,287
Frederick W. Telling, Ph.D.	103,169	880,270
Reed V. Tuckson, M.D.	102,200	880,270

In accordance with the Director Compensation Policy, non-employee director option grants and restricted stock awards, to the extent then outstanding and unvested, become fully vested in the event of a change in control (as such term is defined in the 2007 Plan) that occurs while such non-employee director is a member of the Board (subject to certain limitations with respect to the Market Cap Goal under the Long-Term Performance Awards as described in the "Compensation Discussion and Analysis").

(4) For Dr. Nudelman, the "All Other Compensation" column includes spousal travel expenses.

(5) Dr. Gregorian's director term expired on May 22, 2014.

(6) Ms. Ignagni was appointed to the Board effective January 31, 2014.

(7) For Dr. Telling, the "Fees Earned or Paid in Cash" column of the table above includes \$10,000 fees for his service on the board of directors of Aequus. Dr. Telling did not receive any other compensation in 2014 for his services to Aequus.

Non-Employee Director Compensation Overview

Equity Grants

New Director and Annual Equity Grant Policy — Effective during 2014

Under the Company's Director Compensation Policy in effect for 2014, the Company's non-employee directors were entitled to the following equity awards: (i) each new non-employee director was entitled to an award of shares of the

Company's common stock in connection with joining the Board, with the number of shares to equal \$100,000 divided by the closing price of the Company's common stock on the date of grant of the award (rounded to the nearest whole share); and (ii) in connection with each annual meeting of shareholders, each continuing non-employee director was entitled to an award of shares of the Company's common stock, with the number of shares to equal \$100,000 (\$125,000 in the case of a non-employee director who is serving as the Chairman of the Board) divided by the closing price of the Company's common stock on the date of grant of the award (rounded to the nearest whole share). In accordance with the policy, each non-employee director received a stock grant in May 2014 as described in note 2 to the table above. The awards were fully vested at grant.

New Director and Annual Equity Grant Policy — Effective July 27, 2015

Under the Company's Director Compensation Policy as amended effective July 27, 2015, the Company's non-employee directors will be entitled to the following equity awards: (i) any new non-employee director will receive a restricted stock unit award in connection with joining the Board, with the number of underlying shares to equal \$100,000 divided by the closing price of the Company's common stock on the date of grant of the award (rounded to the nearest whole share); and (ii) in connection with each annual meeting of shareholders, each continuing non-employee director will be entitled to a restricted stock unit award, with the number of underlying shares to equal \$100,000 (\$125,000 in the case of a non-employee director who is serving as the Chairman of the Board) divided by the closing price of the Company's common stock on the date of grant of the award (rounded to the nearest whole share). Such restricted stock units will vest on the date that is twelve months after the date of grant of the award or, if earlier, immediately prior to the first annual meeting of the Company's shareholders at which one or more members of the Board are to be elected and that occurs in the calendar year after the calendar year in which the award was granted. Restricted stock units that vest will be paid in an equal number of shares of the Company's common stock.

Other Director Equity Awards

The Company's non-employee directors are also eligible to receive discretionary grants of equity awards from time to time. In this regard, in our 2014 definitive proxy statement on Schedule 14A under the heading "New Plan Benefits" in Proposal 3 we disclosed that we intended to grant certain restricted stock awards at the beginning of fiscal year 2015 to each of our named executive officers and each of our non-employee directors. Such intended awards were granted to our named executive officers, but have not been granted to our non-employee directors. At this time, we do not know whether such grants to our non-employee directors will, in fact, be made, or what the size or other terms of any such grants would be.

In each of January 2012, March 2013 and January 2014, Long-Term Performance Awards were granted to each non-employee director in service at such time. In January 2014, the deadline for achievement of the goals was extended from December 31, 2015 to December 31, 2016, with vesting in each case being subject to the director's continued service with the Company. A portion of each non-employee director's Long-Term Performance Awards was granted in the form of restricted stock and a portion was granted in the form of restricted stock units. If one or more of the performance goals of the Long-Term Performance Awards goals (which are the same as the goals applicable to the Long-Term Performance Awards held by the named executive officers and discussed in the "Compensation Discussion and Analysis") is timely achieved, the number of underlying shares in the aggregate (including the number of shares subject to restricted shares and restricted share units) that will ultimately vest with respect to such award will be determined by multiplying (i) an award percentage corresponding to the particular performance goal by (ii) the total number of outstanding shares of our common stock, determined on a non-fully diluted basis, as of the vesting date (i.e., the date that the Board certifies attainment of the applicable goal), subject to the applicable share limits of the applicable equity plan at the time of vesting. In the event that sufficient shares are not available under such plan at the time of vesting, the Company may elect to amend the awards to, but is not required to, settle the Long-Term Performance Awards in cash or any other asset.

The award percentages corresponding to the various performance goals under the Long-Term Performance Awards for the non-employee directors as of December 31, 2014 are set forth in the following table.

Performance Goals(1) and Applicable Award Percentages(2)									
Pacritinib	Pacritinib	Opaxio	Market	\$50M	\$100M	Cash Flow	EPS	Tosedostat	Tosedostat
Phase 3	Approval	NDA	Cap	Sales	Sales	Break Even	Goal		Approval

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	Approval	Goal	Goal	Goal				Phase 3	Goal(3)	
								Goal(3)		
Phillip M. Nudelman, Ph.D.	0.071%	0.141%	0.013%	0.1125%	0.045%	0.09%	0.045%	0.018%	0.071%	0.141%
Other Non-Employee Directors (excluding Karen Ignagni)(4)	0.047%	0.094%	0.008%	0.075%	0.03%	0.06%	0.03%	0.013%	0.047%	0.094%

(1) For a discussion of the particular terms of the goals, see “Compensation Discussion and Analysis—Performance-Based Awards”.

(2) Percentages are stated as a percentage of the total number of outstanding shares of our common stock as of the vesting date (determined on a non-fully diluted basis).

(3) These awards relating to tosedostat were granted in January 2014.

(4) Ms. Ignagni joined our Board in January 2014.

As discussed below, however, the non-employee directors have agreed to relinquish their respective outstanding Long-Term Performance Awards if the Settlement is approved by the court.

Cash Compensation Policy

Under the Director Compensation Policy currently in effect and as in effect in fiscal year 2014, non-employee directors are also entitled to cash compensation in the form of annual retainers for service on the Board, an additional annual retainer for chairing certain committees of the Board and additional fees for attending meetings of the Board and meetings of Board committees on which the directors serve, as summarized in the following table:

	Cash Compensation under Director Compensation Policy Meeting Fees\$ Annual Cash	
	Retainer (\$)	Board Committee
Board Member, other than Chairman of the Board	40,000	—
Chairman of the Board	75,000	—
Audit Committee Chair	12,500	1,250
Non-Chair Audit Committee Members	—	1,250
Compensation Committee Chair	12,500	1,250
Non-Chair Compensation Committee Member	—	1,250
Executive Committee Member	—	1,250
Nominating and Governance Committee Chair	12,500	1,250
Non-Chair Nominating and Governance Committee Member	—	1,250

All non-employee directors are also reimbursed for their reasonable expenses incurred in attending Board meetings and committee meetings, as well as other Board-related travel expenses. When a non-employee director travels on Company business, the Company also from time to time pays the costs for the non-employee director's spouse to accompany the director.

The Board may modify our Director Compensation Policy from time to time.

Settlement Entered into in May 2015

On May 13, 2015, the Company (as nominal defendant) and our directors (as individual defendants) entered into a memorandum of understanding to settle the pending lawsuit 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 "Settlement"). The Settlement must still be memorialized in a stipulation of settlement to be filed with the court, followed by both preliminary and final approval by the court. The provisions of the Settlement include the following terms subject to court approval:

- The Company will cancel and the non-employee directors will agree to the rescission of all currently outstanding Company equity awards previously granted to non-employee directors that included performance-based vesting metrics and as to which the performance goals remained unsatisfied as of May 13, 2015;
- The Company's current non-employee directors will agree to hold (not transfer or sell or encumber in any way) until September 14, 2015 shares of the Company's stock that they currently own and that was awarded to them by the Company during 2011, or at any time after 2011 to the present, and that, at the time of the award by the Company, was fully-vested and unrestricted;
- The Company will cap the total annual compensation provided by it to its non-employee directors for each of 2015 and 2016. Such annual compensation cap for each non-employee director for each of 2015 and 2016 will be the

greater of (i) \$375,000, plus, as to our Board Chairman, an additional \$100,000, or (ii) the 75th percentile of compensation paid by a group of peer companies to their non-employee directors (and, in the case of our Chairman, the 75th percentile of compensation paid by such peers who have a non-employee director chair of their respective board of directors to such non-employee director chairs). The peer group for these purposes will be selected based on advice from the Company's compensation consultant. For purposes of the compensation cap and the peer group comparison, compensation will be determined and measured on the same basis as presented in the "Total" column of the Non-Employee Director Compensation Table above and will be based on publicly-available information at the applicable time; and

The Company will implement, if not already implemented, within 90 days following final approval of the Settlement by the court, and maintain until at least the end of calendar year 2017 the following: an annual board discussion of the Company's non-employee director compensation philosophy; the use of a compensation consultant to advise the Compensation Committee on material decisions concerning non-employee director compensation issues and compare the Company's non-employee director compensation program to a group of the Company's peers; the use of plain language in Company's compensation-related public filings; and obtain confirmation from the Company's legal department and outside legal counsel advising on executive compensation matters that any contemplated non-employee director awards do not materially violate the applicable plan or materially fail to comply with applicable law.

OTHER INFORMATION

Security Ownership of Certain Beneficial Owners and Management

The following table provides certain information regarding beneficial ownership of our common stock by each shareholder known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock as of June 30, 2015, except as otherwise noted in the footnotes to the table. The table also provides certain information as of June 30, 2015 regarding beneficial ownership of our common stock and that of Aequus by (i) each of our directors, (ii) each named executive officer and (iii) all directors and executive officers as a group:

Name and Address of Beneficial Owner	CTI BioPharma Corp.			Aequus Biopharma, Inc.		
	Common Stock Number of Shares Beneficially Owned(1)	Shares Subject to Convertible Securities(2)	Percentage Ownership(1)	Common Stock Number of Shares Beneficially Owned(1)	Shares Subject to Convertible Securities(2)	Percentage Ownership(1)
5% or More Shareholders:						
Baxalta Incorporated (3)	15,673,981	—	8.69%	—	—	—
BlackRock, Inc.(4)	9,744,234	—	5.4%	—	—	—
Directors and named executive officers of the Company:(5)						
John H. Bauer**	702,190(6)	103,179	*	—	—	—
James A. Bianco, M.D.**	3,814,657(7)	500,741	2.11%	1,000,000	—	4.38%
Louis A. Bianco	1,125,881(8)	200,428	*	200,000	—	*
Karen Ignagni**	66,192(9)	—	*	—	—	—
Richard L. Love**	647,289(10)	103,180	*	—	—	—
Mary O. Munding, DrPH**	457,831(11)	103,187	*	—	—	—
Phillip M. Nudelman, Ph.D.**	645,368(12)	153,194	*	—	—	—
Matthew J. Plunkett, Ph.D.	991,740(13)	300,000	*	—	—	—
Jack W. Singer, M.D.**	1,491,347(14)	200,428	*	1,000,000	—	4.38%
Frederick W. Telling, Ph.D.**	539,181(15)	103,169	*	300,000	—	1.31%
Reed V. Tuckson, M.D.**	673,706(16)	102,200	*	—	—	—
	11,155,382(17)(18)	1,869,706	6.12%	2,500,000	—	10.94%

All directors and
executive officers
as a group (11 persons)

*Less than 1%.

**Denotes director of the Company.

- (1) Beneficial ownership generally includes voting or investment power with respect to securities, and percentage ownership is calculated based on 180,372,288 shares of our common stock outstanding as of June 30, 2015 and 22,850,000 shares of Aequus' common stock outstanding as of June 30, 2015. This table is based upon information supplied by officers, directors and other investors including, as to our common stock, information from Schedules 13D, 13G and 13F and Forms 3 and 4 filed with the SEC. Shares of common stock subject to options, warrants or other securities convertible into common stock that are currently exercisable or convertible, or exercisable or convertible within sixty days of June 30, 2015 are deemed outstanding for computing the percentage of the person holding the option, warrant or convertible security but are not deemed outstanding for computing the percentage of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of stock beneficially owned.
- (2) Shares subject to convertible securities included in this column reflect any options, warrants and convertible debt held by the holder exercisable or convertible within sixty days after June 30, 2015. These shares are also included in the column titled "Number of Shares Beneficially Owned."

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- (3) Beneficial ownership is as of April 30, 2015 and is based on information contained in the Schedule 13G filed with the SEC on May 1, 2015. The Schedule 13G states that (i) Baxalta Incorporated (“Baxalta”) has shared voting and dispositive power over 15,673,981 shares of our common stock, and (ii) Baxalta GmbH has shared voting and dispositive power over 15,673,981 shares of our common stock. In connection with the spin-off by Baxter International Inc. of Baxalta Incorporated, the reported securities were transferred from Baxter Healthcare SA, an indirectly wholly-owned subsidiary of Baxter International Inc. to Baxalta GmbH, which at the time was also an indirect wholly-owned subsidiary of Baxter International Inc. The total 15,673,981 shares of our common stock beneficially owned by Baxalta Incorporated and Baxalta GmbH represents shares of our common stock initially issued by us to Baxter Healthcare SA upon the conversion of 30,000 shares of the Company’s Series 19 Preferred Stock acquired by Baxter Healthcare SA on November 15, 2013. Such Schedule 13G filed by Baxalta stated that, as of the time of such filing, Baxter International Inc., as the ultimate parent of Baxter Healthcare SA, may be deemed to indirectly beneficially own such shares. The address of Baxalta GmbH is Thurgauerstrasse 130, Glattpark (Opfikon), Switzerland 8152. The address of Baxalta Incorporated is One Baxter Parkway, Deerfield, Illinois 60015, U.S.A.
- (4) Beneficial ownership is as of December 31, 2014 and is based on information contained in the Schedule 13G/A Amendment No. 1 filed with the SEC on February 2, 2015 by BlackRock, Inc. The Schedule 13G/A states that Blackrock, Inc. has sole voting power over 9,470,717 shares of our common stock and sole dispositive power over 9,744,234 shares of our common stock. The address of BlackRock, Inc. is 55 East 52nd Street, New York, New York 10022, U.S.A.
- (5) The address of our current directors and executive officers listed is 3101 Western Avenue, Suite 600, Seattle, Washington 98121, U.S.A.
- (6) Number of shares beneficially owned includes 58,320 shares of unvested LTIP Restricted Stock, which have contingent performance-based vesting terms and will vest based on the achievement of certain performance goals, and does not include the LTIP RSUs.
- (7) Number of shares beneficially owned includes 583,217 shares of unvested LTIP Restricted Stock which have contingent vesting terms and will vest based on the achievement of certain performance goals and 1,060,566 shares of other unvested restricted stock. Such number does not include the LTIP RSUs.
- (8) Number of shares beneficially owned includes 236,858 shares of unvested LTIP Restricted Stock, which have contingent vesting terms and will vest based on the achievement of certain performance goals, and 318,170 shares of other unvested restricted stock. Such number does not include the LTIP RSUs. Includes 37 shares held by Mr. Bianco in trust for his children.
- (9) Ms. Ignagni was appointed to the Board effective January 31, 2014.
- (10) Number of shares beneficially owned includes 58,320 shares of unvested LTIP Restricted Stock which have contingent vesting terms and will vest based on the achievement of certain performance goals, and does not include the LTIP RSUs.
- (11) Number of shares beneficially owned includes 58,320 shares of unvested LTIP Restricted Stock which have contingent vesting terms and will vest based on the achievement of certain performance goals, and does not include the LTIP RSUs.
- (12) Number of shares beneficially owned includes 87,481 shares of unvested LTIP Restricted Stock which have contingent vesting terms and will vest based on the achievement of certain performance goals, and does not include the LTIP RSUs.
- (13) Number of shares beneficially owned includes 351,503 shares of unvested restricted stock and does not include the LTIP RSUs.
- (14) Number of shares beneficially owned includes 236,858 shares of unvested LTIP Restricted Stock which have contingent vesting terms and will vest based on the achievement of certain performance goals and 318,170 shares of other unvested restricted stock. Such number does not include the LTIP RSUs.
- (15) Number of shares beneficially owned includes 58,320 shares of unvested LTIP Restricted Stock which have contingent vesting terms and will vest based on the achievement of certain performance goals, and does not include the LTIP RSUs.

- (16) Number of shares beneficially owned includes 58,320 shares of unvested LTIP Restricted Stock which have contingent vesting terms and will vest based on the achievement of certain performance goals, and does not include the LTIP RSUs.
- (17) Number of shares beneficially owned includes (i) 1,436,014 shares of unvested LTIP Restricted Stock subject to performance-based vesting conditions and (ii) 2,048,409 shares of other unvested restricted stock for all directors and executive officers as a group. Such number does not include the LTIP RSUs.
- (18) Effective July 27, 2015, Bruce J. Seeley was appointed to serve as our Executive Vice President and Chief Commercial Officer and was granted 300,000 shares of restricted stock. Such shares will vest over a three year period.

The LTIP Restricted Stock and the LTIP RSUs held by the applicable non-employee directors and referenced in the notes above are proposed to be relinquished pursuant to the Settlement as discussed under “Director Compensation”.

Equity Compensation Plan Information

The following table sets forth information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2014, with such plans being the 2007 Plan and the ESPP.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Plans Approved by Shareholders	4,918,149(1)(2)	\$3.14	11,896,515(3)
Plan Not Approved by Shareholders	—	—	—
Totals	4,918,149	\$3.14	11,896,515

(1) These shares were subject to stock options then outstanding under the 2007 Plan.

(2) As described in the “Compensation Discussion and Analysis” above, the Compensation Committee approved the Long-Term Performance Awards under the 2007 Plan that would be payable in fully-vested shares of our common stock upon satisfaction of the performance and other requirements imposed on the award, with a portion of such awards being granted in the form of restricted shares that would vest upon achievement of the related performance goal, and the balance of such awards being granted in the form of restricted stock units as a contingent right to receive additional vested shares upon achievement of the performance goal based on our total outstanding shares at the time such goal is achieved. Columns (a) and (b) of this table are presented without giving effect to the Long-Term Performance Awards as (i) the restricted shares representing the LTIP Restricted Stock were issued and outstanding as of December 31, 2014 and (ii) the remaining number of shares that would be issuable in payment of these awards with respect to the LTIP RSUs depends on our total issued and outstanding shares at the time of payment and was therefore not determinable as of December 31, 2014. More information regarding the LTIP RSUs is presented in Proposal 2 above.

(3) Of these shares, 11,862,366 shares were available for issuance under the 2007 Plan, and 34,149 were available for issuance under the ESPP. This number of shares is presented after giving effect to the LTIP Restricted Stock but before giving effect to the LTIP RSUs and before giving effect to the proposed relinquishment of the outstanding LTIP Restricted Stock by the non-employee directors pursuant to the Settlement. In the event of the full vesting of the LTIP RSUs, the foregoing 11,862,366 shares would be used entirely to satisfy only a portion of the LTIP RSUs. In such instance, the Company would be unable to issue any new awards under the 2015 Plan since all such shares would be consumed by such a partial payout of the LTIP RSUs, even after giving effect to the proposed relinquishment of the outstanding Long-Term Performance Awards by the applicable non-employee directors pursuant to the Settlement. If the LTIP RSUs become payable and sufficient shares are not available under the applicable equity plan, the number of shares payable with respect to the LTIP RSUs will be proportionately reduced such that the share limits of the applicable equity plan at the time of vesting will not be exceeded. In the event that sufficient shares are not available under such plan at the time of vesting, the Company may elect to amend the awards to, but is not required to, settle the Long-Term Performance Awards in cash or any other asset.

More information regarding the LTIP RSUs is presented in Proposal 2 above.

Executive Officers

The following table sets forth certain information with respect to our executive officers as of June 30, 2015:

Name	Age	Position
James A. Bianco, M.D.	58	President and Chief Executive Officer
Louis A. Bianco	62	Executive Vice President, Finance and Administration, Chief Governance Officer and Secretary
Matthew Plunkett, Ph.D.	44	Executive Vice President, Corporate Development
Jack W. Singer, M.D.	72	Executive Vice President, Chief Scientific Officer, Interim Chief Medical Officer and Global Head of Translational Medicine

Effective July 27, 2015, Bruce J. Seeley, age 51, was appointed to the role of Executive Vice President and Chief Commercial Officer.

For biographical information concerning Dr. James Bianco and Dr. Jack Singer, who are each our directors as well as executive officers, please see the discussion above under Proposal 1.

Mr. Bianco is one of our founders and has been our Executive Vice President, Finance and Administration since February 1, 1992. He has also been our Chief Governance Officer since September 18, 2013. He was also a director from our inception in September 1991 to April 1992 and from April 1993 to April 1995. From January 1989 through January 1992, Mr. Bianco was a Vice President at Deutsche Bank Capital Corporation in charge of risk management. Mr. Bianco is a Certified Public Accountant and received his M.B.A. from New York University. Mr. Bianco and Dr. Bianco are brothers.

Dr. Plunkett assumed his role as our Executive Vice President, Corporate Development in September 2012. Dr. Plunkett previously served as Chief Financial Officer of the California Institute for Regenerative Medicine from November 2011 to August 2012. From July 2009 to April 2011, Dr. Plunkett was the Vice President and Chief Financial Officer of iPerian, Inc. From December 2000 to July 2009, Dr. Plunkett held positions at Oppenheimer & Co. and its U.S. predecessor, CIBC World Markets, including serving as Managing Director, Head of West Coast Biotechnology from December 2008 to July 2009, and Executive Director, Head of West Coast Biotechnology from January 2008 to December 2008. He received his B.S. in chemistry from Harvey Mudd College and a Ph.D. in organic chemistry from the University of California, Berkeley.

Mr. Seeley assumed his role as our Executive Vice President and Chief Commercial Officer in July 2015. Mr. Seeley previously served as Senior Vice President and General Manager, Diagnostics at NanoString Technologies, Inc. from May 2012 to March 2015. From October 2009 to March 2012, Mr. Seeley was Executive Vice President, Commercial, at Seattle Genetics, Inc. Prior to that, from August 2004 to October 2009, Mr. Seeley served in various commercial roles at Genentech, Inc. (now a member of the Roche Group). From 1996 to 2004, Mr. Seeley held various roles at Aventis Pharmaceuticals Inc. (now a part of Sanofi) in global and U.S. marketing, sales and new product commercialization and licensing. Prior to that, from 1991 to 1996, he served in sales at Bristol-Myers Squibb Company. Mr. Seeley received a B.A. in Sociology from the University of California at Los Angeles.

Related Party Transactions Overview

Pursuant to our Code of Business Conduct and Ethics and the Amended and Restated Charter for the Audit Committee, any potential related party transaction must be fully disclosed to the person fulfilling the role of chief financial officer. Upon review, if such chief financial officer determines that the transaction is material to us, then the Audit Committee must review and approve in writing in advance such related party transaction. Item 404(a) of Regulation S-K requires us to disclose in this Proxy Statement any transaction involving more than \$120,000 in which we are a participant and in which any related person has or will have a direct or indirect material interest. A related person is any executive officer, director, nominee for director, or holder of 5% or more of our common stock or an immediate family member of any of those persons.

Certain Transactions with Related Persons

Aequus

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 certain technology known as the Genetic Polymer™.

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 (1) the outstanding balance of the note by (2) the price per share of the Aequus equity securities. While the original note matured and was due and payable in May 2012, in June 2015, we and Aequus entered into an amendment to the note pursuant to which the maturity date was extended to June 30, 2016. In addition, we and Aequus are party to 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 thirty 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, and \$1.3 million for the six months ended June 30, 2015, 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 and \$9.6 million as of June 30, 2015.

Two of our named executive officers, James A. Bianco, M.D. and Jack W. Singer, M.D., are 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. Additionally, Frederick W. Telling, Ph.D., a member of our Board, owns approximately 1.3% of Aequus as of December 31, 2014, and is also a member of Aequus' Board. In 2014, 2013 and 2012, Dr. Telling earned \$10,000, \$12,500 and \$7,500, respectively, in fees for his service on the Board of Aequus. Dr. Telling did not receive any other compensation in 2014 for his services to Aequus. Our Executive Vice President, Finance and Administration, Louis A. Bianco provides certain consulting services to Aequus, including financial guidance business development services.

Baxalta

Baxalta beneficially owns 15,673,981 shares of our common stock (or approximately 8.7% of our common stock as of June 30, 2015), initially issued in connection with entry into a Development, Commercialization and License Agreement (the "License Agreement"), dated as of November 14, 2013, by and among us, Baxter International Inc., Baxter Healthcare Corporation and Baxter Healthcare SA (collectively, "Baxter"), and a Registration Rights Agreement between us and Baxter Healthcare SA dated November 14, 2013. In April 2015, Baxalta was assigned Baxter's rights and obligations under the License Agreement.

Pursuant to the License Agreement, the Company has granted Baxalta an exclusive, worldwide (subject to certain co-promotion rights), royalty-bearing, non-transferable license (which is sub-licensable under certain circumstances) relating to pacritinib. Licensed products under the License Agreement consist of products in which pacritinib is an ingredient. Pursuant to the License Agreement, Baxter paid us an upfront payment of \$60 million, which included a \$30 million investment in our equity. The License Agreement also provides for us to receive potential additional payments of up to \$302 million upon the successful achievement of certain development and commercialization milestones, comprised of \$112 million of potential clinical, regulatory and commercial launch milestone payments, and potential additional sales milestone payments of up to \$190 million. Of such potential milestone payments, we have received \$20 million relating to the achievement of a clinical milestone and an advance of \$32 million in connection with the License Amendment discussed below. We and Baxalta will jointly commercialize and share any profits and losses on sales of pacritinib in the U.S.

We were responsible for all development costs incurred prior to January 1, 2014, and are responsible for approximately \$96 million in U.S. and E.U. development costs incurred thereafter, subject to potential adjustment in certain circumstances. All development costs exceeding the \$96 million threshold will generally be shared as follows: (i) costs generally applicable worldwide will be shared 75 percent to Baxalta and 25 percent to us, (ii) costs applicable to territories exclusive to Baxalta will be 100 percent borne by Baxalta and (iii) costs applicable exclusively to co-promotion in the U.S. will be shared equally between the parties, subject to certain exceptions.

Outside the U.S., we are eligible to receive tiered high single digit to mid-teen percentage royalty payments based on net sales for myelofibrosis, and higher double-digit royalties for other indications, subject to reduction by up to 50

percent if (i) Baxalta is required to obtain third party royalty-bearing licenses to fulfill its obligations under the License Agreement and (ii) in any jurisdiction where there is no longer either regulatory exclusivity or patent protection.

Effective June 8, 2015, we entered into the First Amendment to the License Agreement (the "License Amendment") pursuant to which two milestone payments from Baxalta to us were accelerated from the schedule contemplated by the License Agreement. As a result, we received a total advance of \$32 million from Baxalta relating to the following two milestone payments under the License Agreement: (i) the \$12 million development milestone payment payable in connection with the regulatory submission to the European Medicines Agency with respect to pacritinib (the "EMA Milestone") and (ii) a \$20 million development milestone payment payable for the first treatment dosing of the last patient enrolled in PERSIST-2 (the "PERSIST-2 Milestone"), the ongoing randomized Phase 3 trial evaluating pacritinib for patients with myelofibrosis whose platelet counts are less than or equal to 100,000 per microliter. Each of the two milestone advances will bear interest at an annual rate of 9% percent until the earlier of (i) the date of first occurrence of the respective milestone and (ii) the date that the respective advance plus accrued interest is repaid in full. In the event that pacritinib development is terminated either because of a regulatory determination that the benefit/risk profile of the drug candidate is unacceptable or due to safety concerns or certain other reasons, including the failure of pacritinib to meet certain criteria or certain endpoints (each, a "Milestone Failure"), we would be required to repay the respective advance to Baxalta in eight quarterly installments beginning thirty days after the end of the calendar quarter of the first occurrence of a Milestone Failure and a final payment equal to the remainder of the unpaid balance. Certain other events could also cause us to be required to repay the advances prior to the occurrence of the respective milestone. If a milestone is achieved, however, we would remain entitled to the respective advance. In the event that we do not spend a specified amount on the development of pacritinib from June 8, 2015 through February 29, 2016, payments to Baxalta in an amount equal to such deficiency may be required or credited against amounts owed to us in certain circumstances. Pursuant to the License Amendment, we and Baxalta have each been allocated up to 50% of the manufacturing (subject to certain conditions) with certain pricing adjustments based on comparative costs of supply. To the extent that any expenses are advanced by Baxalta on our behalf, such amounts would be deducted against any payments Baxalta owes us pursuant to the License Agreement.

The License Agreement will expire when Baxalta has no further obligation to pay royalties to us in any jurisdiction, at which time the licenses granted to Baxalta will become perpetual and royalty-free.

Prior to the recent spin-off by Baxter International Inc. of Baxalta, an affiliate of Baxter International Inc. beneficially owned approximately 15,673,981 shares of our common stock. We understand that Baxter International Inc. beneficially owns approximately 19.5% of Baxalta's common stock as of July 1, 2015. One of our subsidiaries, CTI Life Sciences Limited ("CTILS"), is party to a manufacturing and supply agreement (the "MSA") dated February 25, 2015 with Baxter Oncology GmbH ("Baxter Oncology"), which we understand is an affiliate of Baxter International Inc. Pursuant to the MSA, Baxter Oncology has agreed to provide certain manufacturing and supply services to CTILS with regard to PIXUVRI. In exchange, CTILS has agreed (i) to expend approximately €1.3 million under the MSA in connection with process development and validation for the manufacture of PIXUVRI and (ii) beginning in 2018, to purchase from Baxter Oncology a minimum percentage of PIXUVRI product sold by CTILS or its sublicensees in certain territories.

Employment Relationship

Corey Masten-Legge, a stepson of James A. Bianco, M.D., is employed as a corporate attorney in our legal department. In 2014, Mr. Masten-Legge received \$249,240 in base salary and bonus, \$3,739 in 401(k) Plan matching funds and a grant of stock options for 15,500 shares of common stock with a grant-date fair value (based on the assumptions used to value equity awards in our financial reporting) of \$41,131.

Beneficial Ownership Reporting Compliance under Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act ("Section 16(a)") requires our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC reports of ownership and reports of changes in ownership of common stock and our other equity securities. Executive officers, directors and greater than 10% shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on review of this information or written representations from reporting persons that no other reports were required, we believe that, during the 2014 fiscal year, all Section 16(a) filing requirements applicable to our executive officers, directors and any greater than 10% beneficial owners complied with Section 16(a), except that one late report on Form 4 was filed pertaining to a gift by Mary O. Munding of shares of the Company's common stock.

Other Business

As of the date of this Proxy Statement, we know of no other business that will be presented for action at the Annual Meeting.

Delivery of Documents to Shareholders Sharing an Address

We have adopted a procedure called “householding,” which the SEC has approved. Under this procedure, shareholders of record who have the same address and last name will receive only one copy of our proxy materials unless we receive contrary instructions from one or more of such shareholders. Upon oral or written request, we will deliver promptly a separate copy of the proxy materials to a shareholder at a shared address to which a single copy of proxy materials was delivered. If you are a shareholder of record at a shared address to which we delivered a single copy of the proxy materials and you desire to receive a separate copy of the proxy materials for the Annual Meeting or for our future meetings, or if you are a shareholder at a shared address to which we delivered multiple copies of the proxy materials and you desire to receive one copy in the future, please submit your request to the Householding Department of Broadridge Financial Solutions, Inc. at 51 Mercedes Way, Edgewood, New York 11717, U.S.A. or at 1-800-542-1061. If you are a beneficial shareholder, please contact your bank, broker, trustee or other nominee directly if you have questions, require additional copies of the proxy materials, wish to receive multiple reports by revoking your consent to householding or wish to request single copies of the proxy materials in the future.

Where You Can Find Additional Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document that we file at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at <http://www.sec.gov>, from which interested persons can electronically access our SEC filings.

Any person, including any beneficial owner, to whom this Proxy Statement is delivered may request copies of reports, proxy statements or other information concerning us (including the documents incorporated by reference herein) without charge, by written or telephonic request directed to our Secretary at 3101 Western Avenue, Suite 600, Seattle, Washington 98121, U.S.A. We undertake to provide required copies by first class mail or other equally prompt means within one business day of receipt of such request. If you would like to request documents, please do so by September 9, 2015 in order to receive them before the Annual Meeting.

By Order of the Board of Directors

Louis A. Bianco

Executive Vice President, Finance & Administration Secretary

Seattle, Washington

July 29, 2015

APPENDIX A

CTI BIOPHARMA CORP.

2015 EQUITY INCENTIVE PLAN

1. PURPOSE OF PLAN

The purpose of this CTI BioPharma Corp. 2015 Equity Incentive Plan (this “Plan”) of CTI BioPharma Corp., a Washington corporation (the “Corporation”), is to promote the success of the Corporation and to increase shareholder value by providing an additional means through the grant of awards to attract, motivate, retain and reward selected employees and other eligible persons.

2. ELIGIBILITY

The Administrator (as such term is defined in Section 3.1) may grant awards under this Plan only to those persons that the Administrator determines to be Eligible Persons. An “Eligible Person” is any person who is either: (a) an officer (whether or not a director) or employee of the Corporation or one of its Subsidiaries; (b) a director of the Corporation or one of its Subsidiaries; or (c) an individual consultant or advisor who renders or has rendered bona fide services (other than services in connection with the offering or sale of securities of the Corporation or one of its Subsidiaries in a capital-raising transaction or as a market maker or promoter of securities of the Corporation or one of its Subsidiaries) to the Corporation or one of its Subsidiaries and who is selected to participate in this Plan by the Administrator; provided, however, that a person who is otherwise an Eligible Person under clause (c) above may participate in this Plan only if such participation would not adversely affect either the Corporation’s eligibility to use Form S-8 to register under the Securities Act of 1933, as amended (the “Securities Act”), the offering and sale of shares issuable under this Plan by the Corporation or the Corporation’s compliance with any other applicable laws. Subject to the provisions of this Plan, the Administrator may from time to time, select among the Eligible Persons, those to whom awards shall be granted and determine the nature and amount of each award. No Eligible Person shall have any right, by virtue of this Plan, to receive an award. An Eligible Person who has been granted an award (a “participant”) may, if otherwise eligible, be granted additional awards if the Administrator shall so determine in its sole discretion. As used herein, “Subsidiary” means any corporation or other entity a majority of whose outstanding voting stock or voting power is beneficially owned directly or indirectly by the Corporation; and “Board” means the Board of Directors of the Corporation.

3. PLAN ADMINISTRATION

3.1 The Administrator. This Plan shall be administered by and all awards under this Plan shall be authorized by the Administrator. The “Administrator” means the Board or one or more committees appointed by the Board or another committee (within its delegated authority) to administer all or certain aspects of this Plan. Any such committee shall be comprised solely of one or more directors or such number of directors as may be required under applicable law. A committee may delegate some or all of its authority to another committee so constituted. The Board or a committee comprised solely of directors may also delegate, to the extent permitted by applicable law, to one or more officers of the Corporation, its powers under this Plan (a) to designate the officers and employees of the Corporation and its Subsidiaries who will receive grants of awards under this Plan, and (b) to determine the number of shares subject to, and the other terms and conditions of, such awards. The Board may delegate different levels of authority to different committees with administrative and grant authority under this Plan. Unless otherwise provided in the Bylaws of the Corporation or the applicable charter of any Administrator: (a) a majority of the members of the acting Administrator shall constitute a quorum, and (b) the vote of a majority of the members present assuming the presence of a quorum or the unanimous written consent of the members of the

Administrator shall constitute action by the acting Administrator.

To qualify any award as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), actions under this Plan shall be taken by a committee consisting solely of two or more outside directors (as this requirement is applied under Section 162(m) of the Code). Award grants, and transactions in or involving awards, intended to be exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), shall be duly and timely authorized by the Board or a committee consisting solely of two or more non-employee directors (as this requirement is applied under Rule 16b-3 promulgated under the Exchange Act). To the extent required by any applicable listing agency, this Plan shall be administered by a committee composed entirely of independent directors (within the meaning of the applicable listing agency). Notwithstanding the foregoing provisions of this paragraph, however, the failure to satisfy any such requirement shall not affect the validity of the action of the Board or any committee otherwise duly authorized and acting in the matter

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- 3.2 Powers of the Administrator. Subject to the express provisions of this Plan, the Administrator is authorized and empowered to do all things necessary or desirable in connection with the authorization of awards and the administration of this Plan (in the case of a committee or delegation to one or more officers, within any express limits on the authority delegated to that committee or person(s)), including, without limitation, the authority to:
- (a) determine eligibility and, from among those persons determined to be eligible, the particular Eligible Persons who will receive an award under this Plan;
 - (b) grant awards to Eligible Persons, determine the price (if any) at which securities will be offered or awarded and the number of securities to be offered or awarded to any of such persons (in the case of securities-based awards), determine the other specific terms and conditions of awards consistent with the express limits of this Plan, establish the installment(s) (if any) in which such awards shall become exercisable or shall vest (which may include, without limitation, performance and/or time-based schedules), or determine that the awards are vested and/or exercisable at grant and no delayed exercisability or vesting is required, establish any applicable performance-based exercisability or vesting requirements, and establish the events (if any) of termination, expiration or reversion of such awards;
 - (c) approve the forms of any award agreements (which need not be identical either as to type of award or among participants);
 - (d) construe and interpret this Plan, any sub-plan and any agreements defining the rights and obligations of the Corporation, its Subsidiaries, and participants under this Plan, further define the terms used in this Plan, and prescribe, amend and rescind rules and regulations relating to the administration of this Plan, any sub-plan or the awards granted under this Plan;
 - (e) cancel, modify, or waive the Corporation's rights with respect to, or modify, discontinue, suspend, or terminate any or all outstanding awards, subject to any required consent under Section 8.6.5;
 - (f) accelerate, waive or extend the vesting or exercisability, or modify or extend the term of, any or all such outstanding awards (in the case of options or stock appreciation rights, within the maximum ten-year term of such awards) in such circumstances as the Administrator may deem appropriate (including, without limitation, in connection with a termination of employment or services (as defined in the award agreement for purposes of the applicable award) or other events of a personal nature) subject to any required consent under Section 8.6.5;
 - (g) adjust the number of shares of Common Stock subject to any award, adjust the price of any or all outstanding awards or otherwise waive or change previously imposed terms and conditions, in such circumstances as the Administrator may deem appropriate, in each case subject to Sections 4 and 8.6 (and subject to the no repricing provision below);
 - (h) determine the date of grant of an award, which may be a designated date after but not before the date of the Administrator's action to grant the award (unless otherwise designated by the Administrator, the date of grant of an award shall be the date upon which the Administrator took the action granting an award);
 - (i) determine whether, and the extent to which, adjustments are required pursuant to Section 7.1 hereof and take any of the actions contemplated by Section 7.2 in connection with the occurrence of an event of the type contemplated by Section 7.2;
 - (j) acquire or settle (subject to Sections 7 and 8.6) rights under awards in cash, stock of equivalent value, or other consideration (subject to the no repricing provision below);
 - (k) determine the fair market value of the Common Stock or awards under this Plan from time to time and/or the manner in which such value will be determined;
 - (l) determine whether awards will be granted singly, in combination with, in tandem with, in replacement of, or as an alternative to, other awards granted under this Plan or any other incentive or compensation plan of the Corporation or any Subsidiary;
 - (m) grant waivers of Plan or award conditions;

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- (n) determine whether the performance targets or goals under any performance-based award have been met and whether a performance-based award has been earned; and
- (o) make all other determinations necessary or advisable for the administration of this Plan, any sub-plan or award agreement.

Notwithstanding the foregoing and except for an adjustment pursuant to Section 7.1 or a repricing approved by shareholders, in no case may the Administrator (1) amend an outstanding stock option or SAR to reduce the exercise price or base price of the award, (2) cancel, exchange, or surrender an outstanding stock option or SAR in exchange for cash or other awards for the purpose of repricing the award, or (3) cancel, exchange, or surrender an outstanding stock option or SAR in exchange for an option or SAR with an exercise or base price that is less than the exercise or base price of the original award.

3.3 Binding Determinations. Any action taken by, or inaction of, the Corporation or the Administrator relating or pursuant to this Plan and within its authority hereunder or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons. Neither the Board nor any Board committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan (or any award made under this Plan), and all such persons shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time. Neither the Board nor any Board committee, nor any member thereof or person acting at the direction thereof, nor the Corporation or any of its Subsidiaries, shall be liable for any damages of a participant should an option intended as an ISO (as defined below) fail to actually meet the requirements of the Code applicable to ISOs, should any other award(s) fail to qualify for any intended tax treatment, should any award grant or other action with respect thereto not satisfy Rule 16b-3 promulgated under the Exchange Act, or otherwise for any tax or other liability imposed on a participant with respect to an award.

3.4 Reliance on Experts. In making any determination or in taking or not taking any action under this Plan, the Administrator may obtain and may rely upon the advice of experts, including employees and professional advisors to the Corporation. No director, officer or agent of the Corporation or any of its Subsidiaries shall be liable for any such action or determination taken or made or omitted in good faith.

3.5 Delegation. The Administrator may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Corporation or to third parties.

4. SHARES OF COMMON STOCK SUBJECT TO THE PLAN; SHARE LIMITS

4.1 Shares Available. Subject to the provisions of Section 7.1, the capital stock that may be delivered under this Plan shall be shares of the Corporation's authorized but unissued Common Stock and any shares of its Common Stock held as treasury shares. For purposes of this Plan, "Common Stock" shall mean the common stock of the Corporation and such other securities or property as may become the subject of awards under this Plan, or may become subject to such awards, pursuant to an adjustment made under Section 7.1.

4.2 Share Limits. The maximum number of shares of Common Stock that may be delivered pursuant to awards granted to Eligible Persons under this Plan (the "Share Limit") is equal to the sum of the following:

- (1) 12,000,000 shares of Common Stock, plus
- (2) the number of shares of Common Stock available for additional award grant purposes under the Corporation's 2007 Equity Incentive Plan, as amended (the "2007 Plan"), as of the date of shareholder approval of this Plan (the "Shareholder Approval Date") and determined immediately prior to the termination of the authority to grant new awards under the 2007 Plan as of the Shareholder Approval Date, plus
- (3) the number of any shares subject to stock options granted under the 2007 Plan and outstanding on the Shareholder Approval Date which expire, or for any reason are cancelled or terminated, after the Shareholder Approval Date without being exercised, plus;

(4) the number of any shares subject to restricted stock awards granted under the 2007 Plan that are outstanding and unvested on the Shareholder Approval Date that are forfeited, terminated, cancelled or otherwise reacquired by the Corporation without having become vested.

provided that in no event shall the Share Limit exceed 29,764,794 shares (which is the sum of the 12,000,000 shares set forth above, plus the number of shares available under the 2007 Plan for additional award grant purposes as of the Effective Date (as such term is defined in Section 8.6.1), plus the aggregate number of shares subject to stock options and unvested restricted stock awards previously granted and outstanding under the 2007 Plan as of the Effective Date).

The following limits also apply with respect to awards granted under this Plan:

- (a) The maximum number of shares of Common Stock that may be delivered pursuant to options qualified as incentive stock options granted under this Plan is 12,000,000 shares.
- (b) The maximum number of shares of Common Stock subject to those options and stock appreciation rights that are granted during any calendar year to any individual under this Plan is 2,700,000 shares.
- (c) Additional limits with respect to Performance-Based Awards are set forth in Section 5.2.3.

Each of the foregoing numerical limits is subject to adjustment as contemplated by Section 4.3, Section 7.1, and Section 8.10.

4.3 Awards Settled in Cash, Reissue of Awards and Shares. Except as provided in the next sentence, shares that are subject to or underlie awards granted under this Plan which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan shall again be available for subsequent awards under this Plan. Shares that are exchanged by a participant or withheld by the Corporation as full or partial payment in connection with any award under this Plan, as well as any shares exchanged by a participant or withheld by the Corporation or one of its Subsidiaries to satisfy the tax-related items withholding obligations related to any award, shall not be available for subsequent awards under this Plan. To the extent that an award granted under this Plan is settled in cash or a form other than shares of Common Stock, the shares that would have been delivered had there been no such cash or other settlement shall not be counted against the shares available for issuance under this Plan. In the event that shares of Common Stock are delivered in respect of a dividend equivalent right granted under this Plan, the number of shares delivered with respect to the award shall be counted against the Share Limit. (For purposes of clarity, if 1,000 dividend equivalent rights are granted and outstanding when the Corporation pays a dividend, and 50 shares are delivered in payment of those rights with respect to that dividend, 50 shares shall be counted against the Share Limit). To the extent that shares of Common Stock are delivered pursuant to the exercise of a stock appreciation right or stock option granted under this Plan, the number of underlying shares as to which the exercise related shall be counted against the applicable share limits under Section 4.2, as opposed to only counting the shares issued. (For purposes of clarity, if a stock appreciation right relates to 100,000 shares and is exercised at a time when the payment due to the participant is 15,000 shares, 100,000 shares shall be charged against the applicable share limits under Section 4.2 with respect to such exercise.) Refer to Section 8.10 for application of the foregoing share limits with respect to assumed awards. The foregoing adjustments to the share limits of this Plan are subject to any applicable limitations under Section 162(m) of the Code with respect to awards intended to qualify as performance-based compensation thereunder.

4.4 No Fractional Shares; Minimum Issue. Unless otherwise expressly provided by the Administrator, no fractional shares shall be delivered under this Plan. The Administrator may pay cash in lieu of any fractional shares in settlements of awards under this Plan. The Administrator may from time to time impose a limit (of not greater than 100 shares) on the minimum number of shares that may be purchased or exercised as to awards (or any particular type of award) granted under this Plan unless (as to any particular award) the total number purchased or exercised is the total number at the time available for purchase or exercise under the award.

5.AWARDS

5.1 Type and Form of Awards. The Administrator shall determine the type or types of award(s) to be made to each selected Eligible Person. Awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of the Corporation or one of its Subsidiaries. The types of awards that may be granted under this Plan are (subject, in each case, to the no repricing provisions of Section 3.2):

5.1.1 Stock Options. A stock option is the grant of a right to purchase a specified number of shares of Common Stock during a specified period as determined by the Administrator. An option may be intended as an incentive stock option within the meaning of Section 422 of the Code (an "ISO") or a nonqualified stock option (an option not intended to be an ISO). The award agreement for an option will indicate if the option is intended as an ISO; otherwise it will be deemed to be a nonqualified stock option. The maximum term of each option (ISO or nonqualified) shall be ten (10) years. The per share exercise price for each option shall be not less than 100% of the fair market value of a share of Common Stock on the date of grant of the option. When an option is exercised, the exercise price for the shares to be purchased shall be paid in full in cash or such other method permitted by the Administrator consistent with Section 5.5.

5.1.2 Additional Rules Applicable to ISOs. To the extent that the aggregate fair market value (determined at the time of grant of the applicable option) of stock with respect to which ISOs first become exercisable by a participant in any calendar year exceeds \$100,000, taking into account both Common Stock subject to ISOs under this Plan and stock subject to ISOs under all other plans of the Corporation or one of its Subsidiaries (or any parent or predecessor corporation to the extent required by and within the meaning of Section 422 of the Code and the regulations promulgated thereunder), such options shall be treated as nonqualified stock options. In reducing the number of options treated as ISOs to meet the \$100,000 limit, the most recently granted options shall be reduced first. To the extent a reduction of simultaneously granted options is necessary to meet the \$100,000 limit, the Administrator may, in the manner and to the extent permitted by law, designate which shares of Common Stock are to be treated as shares acquired pursuant to the exercise of an ISO. ISOs may only be granted to employees of the Corporation or one of its subsidiaries (for this purpose, the term "subsidiary" is used as defined in Section 424(f) of the Code, which generally requires an unbroken chain of ownership of at least 50% of the total combined voting power of all classes of stock of each subsidiary in the chain beginning with the Corporation and ending with the subsidiary in question). There shall be imposed in any award agreement relating to ISOs such other terms and conditions as from time to time are required in order that the option be an "incentive stock option" as that term is defined in Section 422 of the Code. No ISO may be granted to any person who, at the time the option is granted, owns (or is deemed to own under Section 424(d) of the Code) shares of outstanding Common Stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation, unless the exercise price of such option is at least 110% of the fair market value of the stock subject to the option and such option by its terms is not exercisable after the expiration of five years from the date such option is granted. If an otherwise-intended ISO fails to meet the applicable requirements of Section 422 of the Code, the option shall be a nonqualified stock option.

5.1.3 Stock Appreciation Rights. A stock appreciation right or "SAR" is a right to receive a payment, in cash and/or Common Stock, equal to the excess of the fair market value of a specified number of shares of Common Stock on the date the SAR is exercised over the "base price" of the award, which base price shall be set forth in the applicable award agreement and shall be not less than 100% of the fair market value of a share of Common Stock on the date of grant of the SAR. The maximum term of a SAR shall be ten (10) years.

5.1.4 Other Awards; Dividend Equivalent Rights. The other types of awards that may be granted under this Plan include: (a) stock bonuses, restricted stock, performance stock, restricted stock units, phantom stock or similar rights to purchase or acquire shares, whether at a fixed or variable price (or no price) or fixed or variable ratio related to the Common Stock, and any of which may (but need not) be fully vested at grant or vest upon the passage of time, the

occurrence of one or more events, the satisfaction of performance criteria or other conditions, or any combination thereof; (b) any similar derivative securities with a value derived from the value of or related to the Common Stock and/or returns thereon; or (c) cash awards. Dividend equivalent rights may be granted as a separate award or in connection with another award under this Plan; provided, however, that dividend equivalent rights may not be granted in connection with a stock option or SAR granted under this Plan. In addition, any dividends and/or dividend equivalents as to the unvested portion of a restricted stock award that is subject to performance-based vesting requirements or the unvested portion of a restricted stock unit award that is subject to performance-based vesting requirements will be subject to termination and forfeiture to the same extent as the corresponding portion of the award to which they relate in the event the applicable performance-based vesting requirements are not satisfied.

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5.2 Section 162(m) Performance-Based Awards. Without limiting the generality of the foregoing, any of the types of awards listed in Section 5.1.4 above may be, and options and SARs granted to officers and employees also may be, granted as awards intended to satisfy the requirements for “performance-based compensation” within the meaning of Section 162(m) of the Code. An Award (other than an option or SAR) intended by the Administrator to satisfy the requirements for “performance-based compensation” within the meaning of Section 162(m) of the Code is referred to as a “Performance-Based Award.” An option or SAR intended to satisfy the requirements for “performance-based compensation” within the meaning of Section 162(m) of the Code is referred to as a “Qualifying Option” or a “Qualifying SAR.” The grant, vesting, exercisability or payment of Performance-Based Awards may depend (or, in the case of Qualifying Options or Qualifying SARs, may also depend) on the degree of achievement of one or more performance goals relative to a pre-established targeted level or levels using one or more of the Business Criteria set forth below (on an absolute or relative (including, without limitation, relative to the performance of one or more other companies or upon comparisons of any of the indicators of performance relative to one or more other companies) basis) for the Corporation on a consolidated basis or for one or more of the Corporation’s subsidiaries, segments, divisions or business units, or any combination of the foregoing. Any Qualifying Option or Qualifying SAR shall be subject only to the requirements of Section 5.2.1 and 5.2.3 in order for such award to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code. Any other Performance-Based Award shall be subject to all of the following provisions of this Section 5.2. Nothing, however, requires the Administrator to structure any award or compensation as “performance-based compensation” under Section 162(m) of the Code.

5.2.1 Class; Administrator. The eligible class of persons for Performance-Based Awards under this Section 5.2 shall be officers and employees of the Corporation or one of its Subsidiaries. To qualify awards as performance-based compensation under Section 162(m) of the Code, the Administrator approving Performance-Based Awards, or any Qualifying Option or Qualifying SAR, or making any certification required pursuant to Section 5.2.4 must be constituted as provided in Section 3.1.

5.2.2 Performance Goals. The specific performance goals for Performance-Based Awards (other than Qualifying Options and Qualifying SARs) shall be, on an absolute or relative basis, established based on one or more of the following business criteria (“Business Criteria”) as selected by the Administrator in its sole discretion: earnings per share, cash flow (which means cash and cash equivalents derived from either net cash flow from operations or net cash flow from operations, financing and investing activities), cash position, regulatory approval, stock price, total shareholder return, gross revenue, revenue growth, operating income (before or after taxes), net earnings (before or after interest, taxes, depreciation and/or amortization), return on equity or on assets or on net investment or on sales, cost containment or reduction, or any combination thereof. To qualify awards as performance-based under Section 162(m), the applicable Business Criterion (or Business Criteria, as the case may be) and specific performance formula, goal or goals (“targets”) must be established and approved by the Administrator during the first 90 days of the performance period (and, in the case of performance periods of less than one year, in no event after 25% or more of the performance period has elapsed) and while performance relating to such target(s) remains substantially uncertain within the meaning of Section 162(m) of the Code. The terms of the Performance-Based Awards may specify the manner, if any, in which performance targets shall be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other items specified by the Administrator at the time of establishing the targets. The applicable performance measurement period may not be less than three months nor more than 10 years.

5.2.3 Form of Payment; Maximum Performance-Based Award. Grants or awards under this Section 5.2 may be paid in cash or shares of Common Stock or any combination thereof. Grants of Qualifying Options and Qualifying SARs to any one participant in any one calendar year shall be subject to the limit set forth in Section 4.2(b). The maximum number of shares of Common Stock which may be subject to Performance-Based Awards (including Performance-Based Awards payable in shares of Common Stock and Performance-Based Awards payable in cash where the amount of cash payable upon or following vesting of the award is determined with reference to the fair

market value of a share of Common Stock at such time) that are granted to any one participant in any one calendar year shall not exceed 2,700,000 shares (counting such shares on a one-for-one basis for this purpose), either individually or in the aggregate, subject to adjustment as provided in Section 7.1; provided that this limit shall not apply to Qualifying Options and Qualifying SARs (which are covered by the limit of Section 4.2(b)). The aggregate amount of compensation to be paid to any one participant in respect of all Performance-Based Awards payable only in cash (excluding cash awards covered by the preceding sentence where the cash payment is determined with reference to the fair market value of a share of Common Stock upon or following the vesting of the award) and granted to that participant in any one calendar year shall not exceed \$650,000. Awards that are cancelled during the year shall be counted against these limits to the extent required by Section 162(m) of the Code.

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5.2.4 Certification of Payment. Before any Performance-Based Award under this Section 5.2 (other than Qualifying Options and Qualifying SARs) is paid and to the extent applicable to qualify the award as performance-based compensation within the meaning of Section 162(m) of the Code, the Administrator must certify in writing that the performance target(s) and any other material terms of the Performance-Based Award were in fact timely satisfied.

5.2.5 Reservation of Discretion. The Administrator will have the discretion to determine the restrictions or other limitations of the individual awards granted under this Section 5.2 including the authority to reduce awards, payouts or vesting or to pay no awards, in its sole discretion, if the Administrator preserves such authority at the time of grant by language to this effect in its authorizing resolutions or otherwise.

5.2.6 Expiration of Grant Authority. As required pursuant to Section 162(m) of the Code and the regulations promulgated thereunder, the Administrator's authority to grant new awards that are intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code (other than Qualifying Options and Qualifying SARs) shall terminate upon the first meeting of the Corporation's shareholders that occurs in the fifth year following the year in which the Corporation's shareholders first approve this Plan, subject to any subsequent extension that may be approved by shareholders.

5.3 Award Agreements. Each award shall be evidenced by a written or electronic award agreement or notice in a form approved by the Administrator (an "award agreement"), and, in each case and if required by the Administrator, executed or otherwise electronically accepted by the recipient of the award in such form and manner as the Administrator may require.

5.4 Deferrals and Settlements. Payment of awards may be in the form of cash, Common Stock, other awards or combinations thereof as the Administrator shall determine, and with such restrictions (if any) as it may impose. The Administrator may also require or permit participants to elect to defer the issuance of shares or the settlement of awards in cash under such rules and procedures as it may establish under this Plan. The Administrator may also provide that deferred settlements include the payment or crediting of interest or other earnings on the deferral amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in shares.

5.5 Consideration for Common Stock or Awards. The purchase price (if any) for any award granted under this Plan or the Common Stock to be delivered pursuant to an award, as applicable, may be paid by means of any lawful consideration as determined by the Administrator, including, without limitation, one or a combination of the following methods:

- services rendered by the recipient of such award;
- cash, check payable to the order of the Corporation, or electronic funds transfer;
- notice and third party payment in such manner as may be authorized by the Administrator;
- the delivery of previously owned shares of Common Stock;
- by a reduction in the number of shares otherwise deliverable pursuant to the award; or
- subject to such procedures as the Administrator may adopt, pursuant to a "cashless exercise" with a third party who provides financing for the purposes of (or who otherwise facilitates) the purchase or exercise of awards.

In no event shall any shares newly-issued by the Corporation be issued for less than the minimum lawful consideration for such shares or for consideration other than consideration permitted by applicable state law. The Corporation will not be obligated to deliver any shares unless and until it receives full payment of the exercise or purchase price therefor and any related withholding obligations under Section 8.5 and any other conditions to exercise or purchase have been satisfied. Unless otherwise expressly provided in the applicable award agreement, the Administrator may at any time eliminate or limit a participant's ability to pay any purchase or exercise price of any award or shares by any method other than cash payment to the Corporation.

5.6 Definition of Fair Market Value. For purposes of this Plan, “fair market value” shall mean, unless otherwise determined or provided by the Administrator in the circumstances, the closing price (in regular trading) for a share of Common Stock on the NASDAQ Stock Market (the “Market”) for the date in question or, if no sales of Common Stock were reported on the Market on that date, the closing price (in regular trading) for a share of Common Stock on the Market for the next preceding day on which sales of Common Stock were reported on the Market. The Administrator may, however, provide with respect to one or more awards that the fair market value shall equal the closing price (in regular trading) for a share of Common Stock on the Market on the last trading day preceding the date in question or the average of the high and low trading prices of a share of Common Stock on the Market for the date in question or the most recent trading day. If the Common Stock is no longer listed or is no longer actively traded on the Market as of the applicable date, the fair market value of the Common Stock shall be the value as reasonably determined by the Administrator for purposes of the award in the circumstances. The Administrator also may adopt a different methodology for determining fair market value with respect to one or more awards if a different methodology is necessary or advisable to secure any intended favorable tax, legal or other treatment for the particular award(s) (for example, and without limitation, the Administrator may provide that fair market value for purposes of one or more awards will be based on an average of closing prices (or the average of high and low daily trading prices) for a specified period preceding the relevant date).

5.7 Transfer Restrictions.

5.7.1 Limitations on Exercise and Transfer. Unless otherwise expressly provided in (or pursuant to) this Section 5.7 or required by applicable law: (a) all awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; (b) awards shall be exercised only by the participant; and (c) amounts payable or shares issuable pursuant to any award shall be delivered only to (or for the account of) the participant.

5.7.2 Exceptions. The Administrator may permit awards to be exercised by and paid to, or otherwise transferred to, other persons or entities pursuant to such conditions and procedures, including limitations on subsequent transfers, as the Administrator may, in its sole discretion, establish in writing. Any permitted transfer shall be subject to compliance with applicable federal, state and foreign securities and exchange control laws and shall not be for value (other than nominal consideration, settlement of marital property rights, or for interests in an entity in which more than 50% of the voting interests are held by the Eligible Person or by the Eligible Person’s family members).

5.7.3 Further Exceptions to Limits on Transfer. The exercise and transfer restrictions in Section 5.7.1 shall not apply to:

- (a) transfers to the Corporation (for example, in connection with the expiration or termination of the award),
- (b) the designation of a beneficiary to receive benefits in the event of the participant’s death or, if the participant has died, transfers to or exercise by the participant’s beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution,
- (c) subject to any applicable limitations on ISOs, transfers to a family member (or former family member) pursuant to a domestic relations order if received by the Administrator,
- (d) if the participant has suffered a disability, permitted transfers or exercises on behalf of the participant by his or her legal representative, or
- (e) the authorization by the Administrator of “cashless exercise” procedures with third parties who provide financing for the purpose of (or who otherwise facilitate) the exercise of awards consistent with applicable laws and any limitations imposed by the Administrator.

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5.8 International Awards. Notwithstanding any provision of this Plan to the contrary, to comply with the laws in the countries where the Corporation or one of its Subsidiaries operates or has Eligible Persons, the Administrator, in its sole discretion, shall have the power and authority to (a) modify the terms and conditions of any Award granted to Eligible Persons in light of the laws of jurisdictions where the Eligible Persons work or reside; (b) establish sub-plans and agreements and determine the exercise or purchase price, methods of exercise and other terms and procedures and rules, to the extent such actions may be necessary or advisable, including the adoption or rules, procedures, sub-plans and agreements applicable to Subsidiaries in particular jurisdictions; provided, however, that no such sub-plans or agreements and/or modifications shall increase the Share Limit or otherwise require shareholder approval; (c) take any action, before or after an award is made, that it deems advisable to obtain approval or comply with any necessary local governmental regulatory exemptions or approvals. Without limiting the generality of the foregoing, the Administrator is specifically authorized to adopt rules, procedures and sub-plans with provisions that limit or modify rights on eligibility to receive an award under this Plan or on termination of active service; available methods of exercise or settlement of an award, payment of tax-related items, the shifting of employer tax liability to the participant, the withholding procedures and handling of any share certificates or other indicia of ownership which may vary with local requirements. The Administrator may also adopt sub-plans to this Plan intended to allow the Corporation to grant tax-qualified awards in a particular jurisdiction. Notwithstanding the foregoing, the Corporation's obligation to issue any shares of Common Stock or make any other payment in respect of an award granted under this Plan is subject to compliance with all applicable laws as provided in Section 8.1 of this Plan.

6.EFFECT OF TERMINATION OF EMPLOYMENT OR SERVICE ON AWARDS

6.1 General. The Administrator shall establish the effect (if any) of a termination of employment or service (as defined in the award agreement for purposes of the applicable award) on the rights and benefits under each award under this Plan and in so doing may make distinctions based upon, inter alia, the cause of termination and type of award. If the participant is not an employee of the Corporation or one of its Subsidiaries, is not a member of the Board, and provides other services to the Corporation or one of its Subsidiaries, the Administrator shall be the sole judge for purposes of this Plan (unless a contract or the award otherwise provides) of whether the participant continues to render services to the Corporation or one of its Subsidiaries and the date, if any, upon which such services shall be deemed to have terminated.

6.2 Events Not Deemed Terminations of Service. Unless the express policy of the Corporation or one of its Subsidiaries, or the Administrator, otherwise provides, or except as otherwise provided by applicable law, the employment relationship shall not be considered terminated in the case of (a) sick leave, (b) military leave, or (c) any other leave of absence authorized by the Corporation or one of its Subsidiaries, or the Administrator; provided that, unless reemployment upon the expiration of such leave is guaranteed by contract or law or the Administrator otherwise provides, such leave is for a period of not more than three months. In the case of any employee of the Corporation or one of its Subsidiaries on an approved leave of absence, continued vesting of the award while on leave from the employ of the Corporation or one of its Subsidiaries may be suspended until the employee returns to service, unless the Administrator otherwise provides or applicable law otherwise requires. In no event shall an award be exercised after the expiration of the term set forth in the applicable award agreement.

6.3 Effect of Change of Subsidiary Status. For purposes of this Plan and any award, if an entity ceases to be a Subsidiary of the Corporation a termination of employment or service (as defined in the award agreement for purposes of the applicable award) shall be deemed to have occurred with respect to each Eligible Person in respect of such Subsidiary who does not continue as an Eligible Person in respect of the Corporation or another Subsidiary that continues as such after giving effect to the transaction or other event giving rise to the change in status unless the Subsidiary that is sold, spun-off or otherwise divested (or its successor or a direct or indirect parent of such Subsidiary or successor) assumes the Eligible Person's award(s) in connection with such transaction.

7.AJUSTMENTS; ACCELERATION

7.1 Adjustments. Subject to Section 7.2, upon (or, as may be necessary to effect the adjustment, immediately prior to): any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, conversion or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock; or any exchange of Common Stock or other securities of the Corporation, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; then the Administrator shall equitably and proportionately adjust (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any outstanding awards, (3) the grant, purchase, or exercise price (which term includes the base price of any SAR or similar right) of any outstanding awards, and/or (4) the securities, cash or other property deliverable upon exercise or payment of any outstanding awards, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding awards.

Unless otherwise expressly provided in the applicable award agreement, upon (or, as may be necessary to effect the adjustment, immediately prior to) any event or transaction described in the preceding paragraph or a sale of all or substantially all of the business or assets of the Corporation as an entirety, the Administrator shall equitably and proportionately adjust the performance standards applicable to any then-outstanding performance-based awards to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding performance-based awards.

It is intended that, if possible, any adjustments contemplated by the preceding two paragraphs be made in a manner that satisfies applicable U.S. legal, tax (including, without limitation and as applicable in the circumstances, Section 424 of the Code as to ISOs, Section 409A of the Code as to awards intended to comply therewith and not be subject to taxation thereunder, and Section 162(m) of the Code as to any award intended to be performance-based compensation thereunder) and accounting (so as to not trigger any unintended charge to earnings with respect to such adjustment) requirements.

Without limiting the generality of Section 3.3, any good faith determination by the Administrator as to whether an adjustment is required in the circumstances pursuant to this Section 7.1, and the extent and nature of any such adjustment, shall be conclusive and binding on all persons.

7.2 Corporate Transactions - Assumption and Termination of Awards. Upon the occurrence of any of the following: any merger, combination, consolidation, conversion or other reorganization in connection with which the Corporation does not survive (or does not survive as a public company in respect of its Common Stock); any exchange of Common Stock or other securities of the Corporation in connection with which the Corporation does not survive (or does not survive as a public company in respect of its Common Stock); a sale of all or substantially all the business, stock or assets of the Corporation in connection with which the Corporation does not survive (or does not survive as a public company in respect of its Common Stock); a dissolution of the Corporation; or any other event in which the Corporation does not survive (or does not survive as a public company in respect of its Common Stock); then the Administrator may make provision for a cash payment in settlement of, or for the termination, assumption, substitution or exchange of any or all outstanding share-based awards or the cash, securities or property deliverable to the holder of any or all outstanding share-based awards, based upon, to the extent relevant under the circumstances, the distribution or consideration payable to holders of the Common Stock upon or in respect of such event. Upon the occurrence of any event described in the preceding sentence, then, unless the Administrator has made a provision for the substitution, assumption, exchange or other continuation or settlement of the award or the award would otherwise continue in accordance with its terms in the circumstances: (1) unless otherwise provided in the applicable award agreement, each then-outstanding option and SAR shall

become fully vested, all shares of restricted stock then outstanding shall fully vest free of restrictions, and each other award granted under this Plan that is then outstanding shall become payable to the holder of such award; and (2) each award shall terminate upon the related event; provided that the holder of an option or SAR shall be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise his or her outstanding vested options and SARs (after giving effect to any accelerated vesting required in the circumstances) in accordance with their terms before the termination of such awards (except that in no case shall more than ten days' notice of the impending termination be required and any acceleration of vesting and any exercise of any portion of an award that is so accelerated may be made contingent upon the actual occurrence of the event).

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Without limiting the preceding paragraph, in connection with any event referred to in the preceding paragraph or any change in control event defined in any applicable award agreement, the Administrator may, in its discretion, provide for the accelerated vesting of any award or awards as and to the extent determined by the Administrator in the circumstances.

The Administrator may adopt such valuation methodologies for outstanding awards as it deems reasonable in the event of a cash or property settlement and, in the case of options, SARs or similar rights, but without limitation on other methodologies, may base such settlement solely upon the excess if any of the per share amount payable upon or in respect of such event over the exercise or base price of the award.

In any of the events referred to in this Section 7.2, the Administrator may take such action contemplated by this Section 7.2 prior to such event (as opposed to on the occurrence of such event) to the extent that the Administrator deems the action necessary to permit the participant to realize the benefits intended to be conveyed with respect to the underlying shares. Without limiting the generality of the foregoing, the Administrator may deem an acceleration and/or termination to occur immediately prior to the applicable event and, in such circumstances, will reinstate the original terms of the award if an event giving rise to an acceleration and/or termination does not occur.

Without limiting the generality of Section 3.3, any good faith determination by the Administrator pursuant to its authority under this Section 7.2 shall be conclusive and binding on all persons.

7.3 Other Acceleration Rules. The Administrator may override the provisions of Section 7.2 by express provision in the award agreement and may accord any Eligible Person a right to refuse any acceleration, whether pursuant to the award agreement or otherwise, in such circumstances as the Administrator may approve. The portion of any ISO accelerated in connection with an event referred to in Section 7.2 (or such other circumstances as may trigger accelerated vesting of the award) shall remain exercisable as an ISO only to the extent the applicable \$100,000 limitation on ISOs is not exceeded. To the extent exceeded, the accelerated portion of the option shall be exercisable as a nonqualified stock option under the Code.

8. OTHER PROVISIONS

8.1 Compliance with Laws. This Plan, the granting and vesting of awards under this Plan, the offer, issuance and delivery of shares of Common Stock, and/or the payment of money under this Plan or under awards are subject to compliance with all applicable federal, state, local and foreign laws, rules and regulations (including but not limited to state and federal securities law and federal margin requirements) and to such approvals by any listing, regulatory or governmental authority, including governmental agencies outside the United States, as may, in the opinion of counsel for the Corporation, be necessary or advisable in connection therewith. The person acquiring any securities under this Plan will, if requested by the Corporation, provide such assurances and representations to the Corporation as the Administrator may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements.

8.2 No Rights to Award. No person shall have any claim or rights to be granted an award (or additional awards, as the case may be) under this Plan, subject to any express contractual rights (set forth in a document other than this Plan) to the contrary.

8.3 No Employment/Service Contract. Nothing contained in this Plan (or in any other documents under this Plan or in any award) shall confer upon any Eligible Person or other participant any right to continue in the employ or other service of the Corporation or one of its Subsidiaries, constitute any contract or agreement of employment or other service or affect an employee's status as an employee at will, nor shall interfere in any way with the right of the Corporation or one of its Subsidiaries to change a person's compensation or other benefits, or to terminate his or her employment or other service, with or without cause. Nothing in this Section 8.3, however, is intended to adversely affect any express independent right of such person under a separate employment or service contract other than an award agreement.

8.4 Plan Not Funded. Awards payable under this Plan shall be payable in shares or from the general assets of the Corporation, and no special or separate reserve, fund or deposit shall be made to assure payment of such awards. No participant, beneficiary or other person shall have any right, title or interest in any fund or in any specific asset (including shares of Common Stock, except as expressly otherwise provided) of the Corporation or one of its Subsidiaries by reason of any award hereunder. Neither the provisions of this Plan (or of any related documents), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Corporation or one of its Subsidiaries and any participant, beneficiary or other person. To the extent that a participant, beneficiary or other person acquires a right to receive payment pursuant to any award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Corporation.

8.5 Tax Withholding. The Corporation and its Subsidiaries, as appropriate shall have the authority and the right to deduct or withhold or require a participant to remit to the Corporation or its Subsidiaries an amount sufficient to satisfy any tax-related items with respect to any tax withholding or taxable event concerning a participant arising as a result of this Plan or to take any action as may be necessary in the opinion of the Corporation or its Subsidiaries, as appropriate, to satisfy withholding obligations for the payment of tax-related items, including but not limited to (a) withholding from the participant's wages or other cash compensation; (b) withholding from the proceeds from the sale of the shares of Common Stock subject to or underlying an award either through a voluntary sale or a mandatory sale arranged by the Corporation on the participant's behalf; (c) through withholding of shares of Common Stock underlying the award; provided, however, that the fair market value of the shares of Common Stock withheld to cover any tax-related items may in no event exceed the minimum whole number of shares required to be withheld under applicable tax law; or (d) any other method of withholding deemed acceptable by the Administrator in its sole discretion. The Corporation shall have no obligation to deliver shares of Common Stock or make any other payment under or with respect to an award until the participant or other person has made arrangements acceptable to the Administrator for the satisfaction of these tax obligations with respect to any tax withholding or taxable event concerning the participant or such other person arising as a result of the participant's participation in this Plan. For purposes of this Plan, "tax-related items" means federal, state, local or foreign taxes including but not limited to income tax, social insurance contributions, fringe benefits tax, payment on account, employment tax, payroll tax and stamp taxes, required by law to be withheld any employer liability that may be shifted to any participants.

8.6 Effective Date, Termination and Suspension, Amendments.

8.6.1 Effective Date. This Plan is effective as of July 27, 2015, the date of its approval by the Board (the "Effective Date"). This Plan shall be submitted for and subject to shareholder approval no later than twelve months after the Effective Date. Unless earlier terminated by the Board and subject to any extension that may be approved by stockholders, this Plan shall terminate at the close of business on the day before the tenth anniversary of the Effective Date. After the termination of this Plan either upon such stated termination date or its earlier termination by the Board, no additional awards may be granted under this Plan, but previously granted awards (and the authority of the Administrator with respect thereto, including the authority to amend such awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of this Plan.

8.6.2 Board Authorization. The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part. No awards may be granted during any period that the Board suspends this Plan.

8.6.3 Shareholder Approval. To the extent then required by applicable law or deemed necessary or advisable by the Board, any amendment to this Plan shall be subject to shareholder approval.

8.6.4 Amendments to Awards. Without limiting any other express authority of the Administrator under (but subject to) the express limits of this Plan, the Administrator by agreement or resolution may waive conditions of or limitations on awards to participants that the Administrator in the prior exercise of its discretion has imposed, without the consent of a participant, and (subject to the requirements of Sections 3.2 and 8.6.5) may make other changes to the terms and

conditions of awards. Any amendment or other action that would constitute a repricing of an award is subject to the limitations set forth in Section 3.2.

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8.6.5 Limitations on Amendments to Plan and Awards. No amendment, suspension or termination of this Plan or amendment of any outstanding award agreement shall, without written consent of the participant, affect in any manner materially adverse to the participant any rights or benefits of the participant or obligations of the Corporation under any award granted under this Plan prior to the effective date of such change. Changes, settlements and other actions contemplated by Section 7 shall not be deemed to constitute changes or amendments for purposes of this Section 8.6.

8.7 Privileges of Stock Ownership. Except as otherwise expressly authorized by the Administrator, a participant shall not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by the participant. Except as expressly required by Section 7.1 or otherwise expressly provided by the Administrator, no adjustment will be made for dividends or other rights as a shareholder for which a record date is prior to such date of delivery.

8.8 Governing Law; Construction; Severability.

8.8.1 Choice of Law. This Plan, the awards, all documents evidencing awards and all other related documents shall be governed by, and construed in accordance with the laws of the State of Washington, without regard to its conflict of law provisions.

8.8.2 Severability. If a court of competent jurisdiction holds any provision invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

8.9 Captions. Captions and headings are given to the sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

8.10 Stock-Based Awards in Substitution for Stock Options or Awards Granted by Other Corporation. Awards may be granted to Eligible Persons in substitution for or in connection with an assumption of employee stock options, SARs, restricted stock or other stock-based awards granted by other entities to persons who are or who will become Eligible Persons in respect of the Corporation or one of its Subsidiaries, in connection with a distribution, merger or other reorganization by or with the granting entity or an affiliated entity, or the acquisition by the Corporation or one of its Subsidiaries, directly or indirectly, of all or a substantial part of the stock or assets of the employing entity. The awards so granted need not comply with other specific terms of this Plan, provided that the awards shall reflect adjustments giving effect to the assumption or substitution consistent with any conversion applicable to the Common Stock (or the securities otherwise subject to the award) in the transaction and any change in the issuer of the security. Any shares that are delivered and any awards that are granted by, or become obligations of, the Corporation, as a result of the assumption by the Corporation of, or in substitution for, outstanding awards previously granted by an acquired company (or previously granted by a predecessor employer (or direct or indirect parent thereof) in the case of persons that become employed by the Corporation or one of its Subsidiaries in connection with a business or asset acquisition or similar transaction) shall not be counted against the Share Limit or other limits on the number of shares available for issuance under this Plan.

8.11 Non-Exclusivity of Plan. Nothing in this Plan shall limit or be deemed to limit the authority of the Board or the Administrator to grant awards or authorize any other compensation, with or without reference to the Common Stock, under any other plan or authority.

8.12 No Corporate Action Restriction. The existence of this Plan, the award agreements and the awards granted hereunder shall not limit, affect or restrict in any way the right or power of the Corporation or any Subsidiary (or any of their respective shareholders, board of directors or committees thereof, as the case may be) to make or authorize: (a) any adjustment, recapitalization, reorganization or other change in the capital structure or business of the Corporation or any Subsidiary, (b) any merger, amalgamation, consolidation or change in the ownership of the Corporation or any Subsidiary, (c) any issue of bonds, debentures, capital, preferred or prior preference stock ahead of or affecting the capital stock (or the rights thereof) of the Corporation or any Subsidiary, (d) any dissolution or liquidation of the Corporation or any Subsidiary, (e) any sale or transfer of all or any part of the assets or business of the Corporation or any Subsidiary, or (f) any other corporate act or proceeding by the

Corporation or any Subsidiary. No participant, beneficiary or any other person shall have any claim under any award or award agreement against any member of the Board or the Administrator, or the Corporation or any employees, officers or agents of the Corporation or any Subsidiary, as a result of any such action.

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- 8.13 Other Company Benefit and Compensation Programs. Payments and other benefits received by a participant under an award made pursuant to this Plan shall not be deemed a part of a participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Corporation or any Subsidiary, except where the Administrator expressly otherwise provides or authorizes in writing. Awards under this Plan may be made in addition to, in combination with, as alternatives to or in payment of grants, awards or commitments under any other plans, arrangements or authority of the Corporation or its Subsidiaries.
- 8.14 Clawback Policy. The awards granted under this Plan are subject to the terms of any recoupment, clawback or similar policy of the Corporation as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require repayment or forfeiture of awards or any shares of Common Stock or other cash or property received with respect to the awards (including any value received from a disposition of the shares acquired upon payment of the awards).

APPENDIX B

CTI BIOPHARMA CORP.

2007 Employee Stock Purchase Plan

Effective as of September 27, 2007 and amended and restated as of July 27, 2015.

1.Purpose. The CTI BioPharma Corp. 2007 Employee Stock Purchase Plan (the “Plan”) is intended to encourage ownership of stock by employees of CTI BioPharma Corp., a Washington corporation (the “Company”), and certain Related Corporations designated to participate in the Plan, and to provide additional incentive for the employees to promote the success of the business of the Company and any such designated Related Corporations. It is intended that the Plan shall be an “employee stock purchase plan” within the meaning of Section 423 of the Code.

2.Definitions. As used in this Plan, the following terms shall have the meanings set forth below:

(a)“Base Salary” means the regular gross base salary paid to an Optionee by one or more Participating Employers during such individual’s period of participation in the Plan, plus any pre-tax contributions made by the Optionee to any Code Section 401(k) salary deferral plan or any Code Section 125 cafeteria benefit program now or hereafter established by the Company or any Related Corporation. The following items of compensation shall not be included in Base Salary: (i) all overtime payments, bonuses, commissions (other than those functioning as base salary equivalents), profit-sharing distributions and other incentive-type payments and (ii) any and all contributions (other than Code Section 401(k) or Code Section 125 contributions) made on the Optionee’s behalf by the Corporation or any Related Corporation under any employee benefit or welfare plan now or hereafter established.

(b)“Beneficiary” means the person designated as beneficiary on the Optionee’s Enrollment Form, if no such beneficiary is named or no such Enrollment Form is in effect at the Optionee’s death, his or her beneficiary as determined under the provisions of the Company’s program of life insurance for the employee.

(c)“Board” means the Board of Directors for the Company.

(d)“Change in Control” means any of the following:

(i) the direct or indirect sale or exchange by the shareholders of the Company of all or substantially all of the Stock where the shareholders of the Company before such sale or exchange do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company;

(ii) a merger in which the shareholders of the Company before such merger do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company;

(iii) the sale, exchange, or transfer of all or substantially all of the Company’s assets (other than a sale, exchange or transfer to one or more corporations or other entities where the shareholders of the Company before such sale, exchange, or transfer retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the corporation(s) or other entities to which the assets were transferred).

(e)“Code” means the Internal Revenue Code of 1986, as amended, or any statute successor thereto, and any regulations issued from time to time thereunder.

(f)“Committee” means a committee of the Board consisting of not less than two directors of the Company who are not employees of the Company or any Related Corporation, each appointed by the Board from time to time to serve at its pleasure for the purpose of carrying out the responsibilities of the Committee under the Plan. For any period during which no such committee is in existence, all authority and responsibility assigned to the Committee under this Plan shall be exercised, if at all, by the Board.

(g)“Eligible Employee” means a person who is employed by any Participating Employer and whose customary employment is for more than twenty (20) hours per week and for more than five (5) months per calendar year (or, as to a particular Offering Period, such lesser number of hours per week and/or lesser number of months per year as may be provided by the Committee in advance of such Offering Period).

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(h)“Enrollment Form” means the Enrollment/Change Form whereby an Optionee authorizes a Participating Employer to withhold payroll deductions from his or her Base Salary and is otherwise in such form as the Committee may specify.

(i)“Exchange Act” means the Securities Exchange Act of 1934, as amended.

(j)“Fair Market Value” means, as of any given date, (i) if the Stock is listed or admitted to trade on a national securities exchange, the closing price of a share of Stock on such date (in regular trading) on the principal national securities exchange on which the Stock is so listed or admitted to trade, or, if there is no trading of the Stock on such date, then the closing price of a share of Stock on such exchange on the last day on which there was trading in the shares of Stock on such exchange that preceded such date; or (ii) in the absence of exchange data required to determine Fair Market Value pursuant to the foregoing, the value as established by the Committee as of the relevant time for purposes of the Plan.

(k)“Offering Commencement Date” means any date on which Options are granted under the Plan as determined by the Committee pursuant to Section 8.

(l)“Offering Period” means a period of approximately six (6) months’ duration, beginning on an Offering Commencement Date and ending, subject to Section 9.6, on the last business day of the sixth calendar month ending after such date, during which Options are granted and outstanding under the Plan pursuant to a determination by the Committee under Section 4. The Committee shall have the power to change the duration of Offering Periods without shareholder approval and may provide for any such Offering Period to be divided into one or more “purchase periods,” provided that any such change is announced prior to the relevant Offering Period, and that any such Offering Period shall not be less than three (3) months and shall not exceed twenty-seven (27) months.

(m)“Offering Termination Date” means the last business day of an Offering Period as established by the Committee in advance of the Offering Period, on which Options granted for such Offering Period must, if ever, be exercised.

(n)“Option” means an option to purchase shares of Stock granted under the Plan.

(o)“Optionee” means an Eligible Employee to whom an Option is granted.

(p)“Option Shares” means shares of Stock purchasable under an Option.

(q)“Participating Employer” means the Company or any Related Corporation which is designated by the Committee as a corporation whose Eligible Employees are eligible to receive Options as of a particular Offering Commencement Date.

(r)“Related Corporation” means any corporation which is or during the term of the Plan becomes a parent corporation of the Company, as defined in Section 424(e) of the Code, or a subsidiary corporation of the Company, as defined in Section 424(f) of the Code.

(s)“Stock” means the common stock, without par value, of the Company.

(t)“Stock Purchase Agreement” means the Stock Purchase Agreement under which an Optionee agrees to such terms and other such provisions governing his or her participation in the Plan (not inconsistent with the Plan) as the Committee may deem advisable.

3. Term of Plan. The Plan shall become effective upon the adoption of the Plan by the Board, subject to the approval of the Plan by the shareholders of the Company within 12 months of such adoption. Subject to any extension that may

be approved by the Board and the shareholders, no Option shall be granted under the Plan on or after the twentieth (20th) anniversary of such approval but Options theretofore granted may extend beyond that date.

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4. Administration. The Plan shall be administered by the Committee. The Committee shall further determine which (if any) Related Corporations shall be Participating Employers as of each Offering Commencement Date. The Committee shall have authority in its discretion to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to determining the terms of Options granted under the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. Any determination of the Committee shall be final and binding upon all persons having or claiming any interest under the Plan or under any Option granted pursuant to the Plan. Notwithstanding anything else contained in this Plan to the contrary, the Committee may also adopt rules, procedures, separate offerings or sub-plans applicable to particular Subsidiaries or locations, which sub-plans may be designed to be outside the scope of Section 423 of the Code and need not comply with the otherwise applicable provisions of this Plan. The Committee may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Company or a Related Corporation. Without limiting the generality of the foregoing, the Committee (or its delegate) may provide forms and procedures for Enrollment Forms, and other forms or elections contemplated by the Plan, and may provide for Enrollment Forms, and other forms or elections contemplated by the Plan, to be in electronic format. Neither the Board nor any Committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan, and all such persons shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time.

5. Amendment and Termination. The Board may suspend, terminate or amend the Plan at any time and from time to time, subject to shareholder consent as may be required by applicable law. No suspension or termination of or amendment to the Plan may materially adversely affect the rights of an Optionee with respect to any Option held by the Optionee as of the date of such termination or amendment without the Optionee's consent. Changes contemplated by Section 9.6 of this Plan shall not be deemed to constitute changes or amendments requiring Participant consent.

6. Shares of Stock Subject to the Plan. No more than an aggregate of 2,000,000¹ shares of Stock may be issued or delivered pursuant to the exercise of Options granted under the Plan. Shares to be delivered upon the exercise of Options may be either shares of Stock which are authorized but unissued or shares of Stock held by the Company in its treasury. If an Option expires or terminates for any reason without having been exercised in full, the unpurchased shares subject to the Option shall become available for other Options granted under the Plan. The Company shall, at all times during which Options are outstanding, reserve and keep available shares of Stock sufficient to satisfy such Options, and shall pay all fees and expenses incurred by the Company in connection therewith. In the event of any capital change in the outstanding Stock as contemplated in Section 9.6, the number and kind of shares of Stock reserved and kept available by the Company shall be appropriately adjusted.

7. Eligibility. Each individual who is an Eligible Employee on any Offering Commencement Date of any Offering Period under the Plan may enter such Offering Period on such date, provided he or she remains an Eligible Employee and complies with all enrollment procedures established by the Committee for such Offering Period, and provided, further, he or she meets all of the following requirements:

(a) Such Eligible Employee will not, after grant of the Option, own stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or of any Related Corporation. For purposes of this subparagraph (a), the rules of Section 424(d) of the Code shall apply in determining the stock ownership of the Eligible Employee, and stock which the Eligible Employee may purchase under outstanding options shall be treated as stock owned by the Eligible Employee.

(b) Upon grant of the Option, the employee's rights to purchase stock under all employee stock purchase plans (as defined in Section 423(b) of the Code) of the Company and its Related Corporations will not accrue at a rate which

exceeds \$25,000 of fair market value of the stock (determined at the time the right to purchase such shares is granted, before giving effect to any discounted purchase price under any such plan) for each calendar year in which such Option is outstanding at any time. The accrual of rights to purchase stock shall be determined in accordance with Section 423(b)(8) of the Code. For purposes of the foregoing, a right to purchase shares accrues when it first become exercisable during the calendar year.

8. Offering Commencement Date. Options shall be granted on the first business day of any calendar month which is designated by the Committee as the beginning of an Offering Period.

¹ Currently, 50,833 shares of Stock may be issued or delivered pursuant to the exercise of Options granted under the Plan. If shareholders approve this amendment and restatement of the Plan, this limit will increase to 2,000,000 shares of Stock.

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9. Terms and Conditions of Options.

9.1 General. An Optionee shall be granted a separate Option on each Offering Commencement Date for each Offering Period in which he or she participates. All Options granted on a particular Offering Commencement Date shall comply with the terms and conditions set forth in Sections 9.2 through 9.10.

9.2 Purchase Price. The purchase price of Option Shares shall be 85% of the lower of (a) the Fair Market Value of the shares as of the Offering Commencement Date and (b) the Fair Market Value of the shares as of the Offering Termination Date; provided, however, that the Committee may provide prior to the start of any Offering Period that the purchase price for that Offering Period shall be determined by applying a discount amount (not to exceed 15%) to either (1) the Fair Market Value of the Stock on the Offering Commencement Date of the Offering Period, or (2) the Fair Market Value of the Stock on the Offering Termination Date of that Offering Period, or (3) the lesser of the Fair Market Value of the Stock on the Offering Commencement Date of the Offering Period or the Fair Market Value of the Stock on the Offering Termination Date of that Offering Period.

9.3 Restrictions on Transfer. Options may not be assigned, transferred, pledged, or otherwise disposed of, except by will or under the laws of descent and distribution. An Option may not be exercised by anyone other than the Optionee during the lifetime of the Optionee. Unless otherwise provided by the Committee, the Optionee shall agree in the Stock Purchase Agreement to notify the Company of any transfer of the shares within two (2) years of the Offering Commencement Date of the Offering Period in which those shares were acquired (or, if later, within one (1) year after the Offering Termination Date of such Offering Period). The Company shall have the right to place a legend on all stock certificates instructing the transfer agent to notify the Company of any transfer of the shares.

9.4 Expiration. Each Option granted for an Offering Period shall expire at the close of business on the applicable Offering Termination Date or on such earlier date as may result from the operation of Section 9.5 or by action of the Committee taken pursuant to Section 9.6.

9.5 Termination of Employment of Optionees; Leave of Absence. If an Optionee ceases for any reason to be an Eligible Employee during an Offering Period, whether due to death, retirement, voluntary severance, involuntary severance, transfer, or because the entity that employs the Optionee ceases to be a Related Corporation, his or her Option shall immediately expire, and the Optionee's accumulated payroll deductions shall be returned to the Optionee or his or her Beneficiary, as the case may be, by the Company, without interest. If an Optionee commences a sick leave, military leave, or other leave of absence approved by the Company or a Participating Employer, and the leave meets the requirements of Treasury Regulation Section 1.421-1(h)(2) and the Optionee is an employee of the Company or a Related Corporation or on such leave as of the applicable Offering Termination Date, such Optionee's payroll deductions hereunder shall cease, and the Optionee's accumulated payroll deductions for the applicable Offering Period shall be used to exercise the Optionee's Option as of the applicable Offering Termination Date in accordance with the provisions hereof (unless the Optionee makes a timely withdrawal election in accordance with Section 9.7, in which case such Optionee's accumulated payroll deductions shall be paid to him or her in cash in accordance with Section 9.7). During leaves of absence approved by the Company or a Participating Employer and meeting the requirements of Treasury Regulation Section 1.421-1(h)(2), an Optionee may elect to continue participation in the Plan by making cash payments to the Company on his or her normal paydays equal to the reduction in his or her payroll deductions hereunder caused by such leave.

9.6 Capital Changes Affecting the Stock. In the event that, between the Offering Commencement Date and Offering Termination Date of an Option, a stock dividend is paid or becomes payable in respect of the Stock or there occurs a split-up or other increase or contraction in the number of shares of Stock without receipt of any consideration by the Company or other change in the corporate structure or capitalization affecting the Stock, appropriate adjustments shall be made to (i) the maximum number and class of securities issuable under the Plan, (ii) the maximum number and

class of securities purchasable per Optionee on any one Offering Termination Date and (iii) the number and class of securities and the price per share in effect under each outstanding Option in order to prevent the dilution or enlargement of benefits thereunder. In the event of a Change in Control, the Committee, in its sole discretion, shall either (a) provide that Options granted under the Plan shall be fully exercised to the extent of each Optionee's accumulated payroll deductions for the Offering Period as of a date prior to the Change in Control established by the Committee, or (b) arrange with the surviving, continuing, successor or purchasing corporation, as the case may be, that such corporation assume the Company's rights and obligations under the Plan. In the event that, after the Offering Commencement Date, there occurs a dissolution or liquidation of the Company, except pursuant to a transaction to which Section 424(a) of the Code applies, each Option shall terminate, but the Optionee shall have the right to exercise his or her Option prior to such dissolution or liquidation.

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9.7 Payroll Deductions. An Optionee may purchase shares under his or her Option during any particular Offering Period by completing and returning to the Committee (or its delegate) prior to the beginning of such Offering Period (or such earlier deadline as may be established for such Offering Period) the Stock Purchase Agreement and the Enrollment Form indicating the percentage, in any multiple of one percent (1%) up to a maximum established by the Committee for that particular Offering Period (which maximum shall be ten percent (10% unless the Committee establishes a different maximum for the particular Offering Period prior to the Offering Commencement Date of such Offering Period) of his or her Base Salary, which is to be withheld each payroll period. The Optionee shall not be permitted to change the percentage of Base Salary withheld during an Offering Period. However, the Optionee may withdraw any or all of his or her accumulated payroll deductions by submitting to the Committee (or its delegate) a new Enrollment Form no later than one (1) business day prior to the Offering Termination Date whereupon his or her payroll deductions for the remainder of the Offering Period shall cease, his or her accumulated payroll deductions for the Offering Period will be repaid to him or her in cash (without interest), and he or she shall not be permitted to re-enroll in such Offering Period. Any Stock Purchase Agreement and Enrollment Form in effect for an Offering Period shall remain in effect as to any payroll deduction amounts for subsequent Offering Periods until withdrawn as set forth above in this Section 9.7 (in which case submission of a new Enrollment Form and Stock Purchase Agreement shall be required for participation in a future Offering Period) or modified by submission of a new Enrollment Form, or until the Optionee's termination of employment for any reason as provided in Section 9.5.

9.8 Exercise of Options/Excess Payroll Deductions.

(a) On the Offering Termination Date, the Optionee may purchase that number of whole shares of Stock obtained by dividing the amount collected from the Optionee through payroll deductions during the Offering Period ending with that Offering Termination Date by the purchase price in effect for that Offering Period. However, unless the Committee establishes a different limit in advance of the applicable Offering Period, the maximum number of shares of Stock purchasable by any one Optionee on any Offering Termination Date shall not exceed 5,000 shares, subject to periodic adjustments in the event of certain changes in the Company's capitalization. Any payroll deductions not applied to the purchase of Stock by reason of the limitation on the maximum number of shares purchasable by each Optionee on the Offering Termination Date, or by reason of the limits set forth in Section 7 above, shall be promptly refunded, without interest.

(b) If the total number of shares which all Optionees elect to purchase, together with any shares already purchased under the Plan, exceeds the total number of shares which may be purchased under the Plan pursuant to Section 6, the number of shares which each Optionee is permitted to purchase shall be decreased pro rata based on the Optionee's accumulated payroll deductions in relation to all accumulated payroll deductions currently being withheld under the Plan. The payroll deductions of each Optionee, to the extent in excess of the aggregate purchase price payable for the Stock pro-rated to such individual, shall be promptly refunded, without interest.

(c) If the number of shares purchasable includes a fraction, such number shall be adjusted to the next smaller whole number and the purchase price shall be adjusted accordingly. Any payroll deductions not applied to the purchase of Stock on any Offering Termination Date because they are not sufficient to purchase a whole share of Stock shall be held for the purchase of Stock on the next Offering Termination Date. Accumulated payroll deductions not withdrawn prior to the Offering Termination Date shall be automatically applied by the Company toward the purchase of whole shares of Stock.

9.9 Delivery of Stock. Except as provided below, within a reasonable time after the Offering Termination Date, the Company shall deliver or cause to be delivered (either by issuing a certificate or certificates for such shares, or by recording such shares in book-entry form in the name of the Optionee) to the Optionee the number of shares purchased by the Optionee under the Plan on that date. The number of shares purchased will be issued or delivered in the Optionee's name only, or if his or her Enrollment Form so specifies, in the name of the employee and another person of legal age as joint tenants with rights of survivorship. Stock shall not be issued or delivered with respect to an Option unless the exercise of such Option and the issuance and delivery of such Stock pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or automated quotation system upon which the Stock may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Optionee shall have no rights as a shareholder in respect of shares for which he or she has not received a certificate (or as to which the shares have not been recorded in book entry form, registered in his or her name, as the case may be). Notwithstanding the foregoing, the Company may elect to hold for the benefit of the Optionee any shares otherwise to be delivered to the Optionee pursuant to this Section 9.9, or to deliver the same to such agent or agents of the Company for the benefit of the Optionee as the Company may select, for the period during which the transfer of such shares is limited by this Plan and by Section 423 of the Code (and thereafter, until the Optionee requests delivery of such shares of stock in writing). In that event, the Optionee shall have all the rights of a shareholder in the shares so held by the Company or its agent, subject to the notification requirement set forth in Section 9.3, from and after the issuance of the same and the Company or its agent shall adopt reasonable procedures to enable the Optionee to exercise such rights. In the event of the Optionee's death while any shares are so held, such shares shall be delivered to the Optionee's Beneficiary promptly following the Committee's receipt of evidence satisfactory to the Committee of the Optionee's death.

9.10 Return of Accumulated Payroll Deduction. In the event that the Optionee or his or her Beneficiary is entitled to the return of accumulated payroll deductions, whether by reason of voluntary withdrawal, termination of employment, retirement, death, or in the event that accumulated payroll deductions exceed the price of the shares purchased (except if for the reason that accumulated payroll deductions were insufficient to cover the purchase price of one whole share of Stock), such amount shall be returned by the Company to the Optionee or the Beneficiary, as the case may be, as soon as practicable following the Offering Termination Date of the Offering Period in which the same were deducted (or, if earlier, the date of such withdrawal from the Plan or termination of employment, retirement or death). Accumulated payroll deductions held by the Company shall not bear interest nor shall the Company be obliged to segregate the same from any of its other assets.

10. No Enlargement of Employment Rights. Neither the establishment or continuation of the Plan, nor the grant of any Option hereunder shall be deemed to give any employee the right to be retained in the employ of the Company or a Related Corporation, or any successor to either, or to interfere with the right of the Company or such Corporation or successor to discharge the employee at any time.

11. Tax Withholding. If, at any time, the Company or any Related Corporation is required, under applicable laws and regulations, to withhold, or to make any deduction of any taxes or take any other action in connection with any exercise of an Option or transfer of shares of Stock, the Company or such Related Corporation shall have the right to deduct from all amounts paid in cash any taxes required by law to be withheld therefrom, and in the case of shares of Stock, the Optionee or his or her estate or Beneficiary shall be required to pay the Company or such Related Corporation the amount of taxes required to be withheld, or, in lieu thereof, the Company or such Related Corporation shall have the right to retain, or sell without notice, a sufficient number of shares of Stock to cover the amount required to be withheld, or to make other arrangements with respect to withholding as it shall deem appropriate.

12. Governing Law. The Plan and all Options and actions taken thereunder shall be governed by and construed in accordance with the laws of the state of Washington, without regard to the conflict of laws principles thereof.

13. Use of Funds; Interest. All payroll deductions received or held by the Company under the Plan will be included in the general assets of the Company and may be used for any corporate purpose. Notwithstanding anything else contained herein to the contrary, no interest will be paid to any Optionee under the Plan. Amounts payable under this Plan shall be payable in shares of Stock or from the general assets of the Company and, except for any shares that may be reserved on the books of the Company for issuance with respect to the Plan, no special or separate reserve, fund or deposit shall be made to assure payment of amounts that may be due with respect to the Plan. No Optionee or other person will have any right, title or interest in any fund or in any specific asset (including shares of Stock) of the Company or any Related Corporation by reason of any Option hereunder. Neither the Plan nor any document related to or action taken pursuant to the Plan will create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or any Related Corporation and any Optionee or other person. To the extent that an Optionee or other person acquires a right to receive payment pursuant to the Plan, such right will be no greater than the right of any unsecured general creditor of the Company.

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14. Plan Construction.

14.1 Section 16. It is the intent of the Company that transactions involving Options under the Plan (other than “Discretionary Transactions” as that term is defined in Rule 16b-3(b)(1) promulgated under the Exchange Act), in the case of Optionees who are or may be subject to the prohibitions of Section 16 of the Exchange Act, satisfy the requirements for exemption under Rule 16b-3(c) promulgated under Section 16 of the Exchange Act to the maximum extent possible. Notwithstanding the foregoing, the Company shall have no liability to any Optionee for Section 16 consequences of Options or other events with respect to the Plan.

14.2 Section 423. Except as the Committee may expressly provide in the case of one or more sub-plans adopted pursuant to Section 4, each separate offering under the Plan and Options granted thereunder are intended to qualify under Section 423 of the Code. Accordingly, as to any Options that are intended to qualify under Section 423 of the Code, all Optionees are to have the same rights and privileges (within the meaning of Section 423(b)(5) of the Code and except as not required thereunder to qualify the Plan under Section 423) under the Plan, subject to differences in compensation among Optionees and subject to the payroll deduction and share limits of this Plan.

14.3 Interpretation. If any provision of the Plan or of any Option would otherwise frustrate or conflict with the intents expressed above, that provision to the extent possible shall be interpreted so as to avoid such conflict. If the conflict remains irreconcilable, the Committee may disregard the provision if it concludes that to do so furthers the interest of the Company and is consistent with the purposes of the Plan as to such persons in the circumstances.

15. Severability. If any provision of the Plan shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of the Plan shall continue in effect.

16. Captions and Headings. Captions and headings are given to the sections of the Plan solely as a convenience to facilitate reference. Such captions and headings shall not be deemed in any way material or relevant to the construction of interpretation of the Plan or any provision hereof.

17. No Effect on Other Plans or Corporate Authority. The adoption of the Plan shall not affect any other Company or Related Corporation compensation or incentive plans in effect. Nothing in the Plan will limit or be deemed to limit the authority of the Board or Committee (1) to establish any other forms of incentives or compensation for employees of the Company or any Related Corporation (with or without reference to the Stock), or (2) to grant or assume options (outside the scope of and in addition to those contemplated by the Plan) in connection with any proper corporate purpose; to the extent consistent with any other plan or authority. Benefits received by an Optionee under an Option granted pursuant to the Plan shall not be deemed a part of the Optionee’s compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Company or any Related Corporation, except where the Committee or the Board (or the board of directors of the Related Corporation that sponsors such plan or arrangement, as applicable) expressly otherwise provides or authorizes in writing.

CTI BIOPHARMA CORP. 3101 WESTERN AVENUE, SUITE 600 SEATTLE, WA 98121 VOTE BY INTERNET -www.proxyvote.com Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years. VOTE BY PHONE - 1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions. VOTE BY MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. M89822-P68562 CTI BIOPHARMA CORP. To withhold authority to vote for any individual for Withhold for All All Except nominee(s), mark "For All Except" and write the The Board of Directors recommends you vote FOR number(s) of the nominee(s) on the line below. the following: 1. Election of Directors !!! Nominees: 01) James A. Bianco, M.D. 04) Mary O. Mundinger, DrPH 02) Karen Ignagni 05) Jack W. Singer, M.D. 03) Richard L. Love 06) Frederick W. Telling, Ph.D. The Board of Directors recommends you vote FOR the following proposals: for Against Abstain 2. To approve the Company's 2015 Equity Incentive Plan; !!! 3. To approve an amendment to the Company's 2007 Employee Stock Purchase Plan; !!! 4. To ratify the selection of Marcum LLP as the Company's independent auditor for the year ending December 31, 2015; !!! 5. To approve, by non-binding advisory vote, the compensation of the Company's named executive officers; and !!! 6. To approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of !!! the Annual Meeting to adopt any of Proposals 1 through 5. Note: In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Annual Meeting and all adjournments and postponements thereof. For address changes/comments, mark here. (see reverse for instructions) ! Please indicate if you plan to attend this meeting. !! Yes No Please sign exactly as your name(s) appear(s) on the stock certificate(s). When shares are held jointly, each person must sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. An authorized person should sign on behalf of corporations, partnerships and associations and give his or her title. Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com. M89823-P68562 CTI BIOPHARMA CORP. Annual Meeting of Shareholders September 23, 2015 10:00 AM Eastern Time This proxy is solicited by the Board of Directors The undersigned shareholder(s), hereby revoking any proxy previously given, hereby appoint(s) James A. Bianco, M.D. and Phillip M. Nudelman, Ph.D., or either of them, as proxies, with full power of substitution, to represent and vote for, and on behalf of, the shareholder(s) the number of shares of common stock of CTI BioPharma Corp. that the shareholder(s) would be entitled to vote if personally present at the Annual Meeting of Shareholders to be held on September 23, 2015, or at any adjournment or postponement thereof. This proxy, when properly executed, will be voted in the manner directed herein by the shareholder(s). If NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" EACH ITEM. Whether or not direction is made, each of the named proxies is authorized to vote this proxy in his discretion, upon such other matter or matters that may properly come before the meeting and any postponement(s) or adjournment(s) thereof. Address Changes/Comments:

_____ (If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.) To be signed on reverse side



ITALIAN PROXY CARD

DELEGA DI VOTO

CTI BioPharma Corp.

Assemblea Annuale degli Azionisti

23 settembre 2015

La presente delega è proposta per conto del Consiglio di Amministrazione

L’/Gli azionista/i il/i cui nominativo/i compare/compaiono sull’allegata certificazione di partecipazione al sistema di gestione accentrata di Monte Titoli S.p.A., rilasciata dall’intermediario ai sensi degli articoli 21 e ss. del Regolamento adottato dalla Banca d’Italia e dalla Consob in data 22 febbraio 2008, con la presente revocando contestualmente ogni procura precedentemente conferita a tal fine, delega/delegano James A. Bianco, M.D. e Phillip M. Nudelman, Ph.D., e ciascuno con il potere di nominare propri sostituti, a rappresentarlo/li nell’Assemblea Annuale degli Azionisti di CTI BioPharma Corp. che si terrà il 23 settembre 2015 ed in ogni successiva convocazione o rinvio della stessa, nonché ad esercitare i diritti di voto connessi alle azioni ordinarie di CTI BioPharma Corp. rispetto alle quali il/i sottoscritto/i avrebbe/avrebbero il potere di votare qualora fosse/fossero personalmente presente/i nell’Assemblea Annuale.

La presente delega, debitamente sottoscritta ed inviata congiuntamente alla certificazione rilasciata dall’intermediario ai sensi degli articoli 21 e ss. del Regolamento adottato dalla Banca d’Italia e dalla Consob in data 22 febbraio 2008, conferisce il potere di votare conformemente alle seguenti istruzioni ricevute dal/i socio/i. **NEL CASO IN CUI NON SIA CONTENUTA ALCUNA ISTRUZIONE, LA PRESENTE DELEGA CONFERISCE IL POTERE DI VOTARE “A FAVORE” DI CIASCUNA PROPOSTA.** Sia che siano state fornite istruzioni sia che non lo siano, ciascuno dei soggetti delegati è autorizzato ad esercitare a sua discrezione il diritto di voto conferito in virtù della presente delega in ogni altra materia che dovesse essere propriamente presentata in Assemblea o in ogni successiva convocazione o rinvio della stessa.

L’/Gli Azionista/i fornisce/forniscono le seguenti istruzioni di voto:

LA PRESENTE DELEGA DI VOTO È VALIDA UNICAMENTE SE SOTTOSCRITTA E DATATA

Il Consiglio di Amministrazione raccomanda di votare **A FAVORE** relativamente alle seguenti proposte:

Approvazione della nomina, per la durata di un anno, dei seguenti sei amministratori per il Consiglio di Amministrazione:

NEGO LA A FAVORE
A FAVORE DELEGA DI TUTTI
DI TUTTI
PER TUTTI ECCETTO

Al fine di negare il conferimento della delega di voto in relazione ad uno o più candidati, si prega di segnare “A favore di tutti eccetto” e indicare il/i numero/i del/i candidato/i sulla linea sottostante.

..

.. ..

- 01) James A. Bianco,
M.D. 04) Mary O.
Mundinger DrPH
02) Karen
Ignagni 05) Jack
W. Singer M.D.
03) Frederick W. Telling,
Ph.D. 06) Frederick W.
Telling, Ph.D.

Approvazione del Piano di Incentivo Azionario 2015 della Società.	A FAVORE	CONTRO	ASTENUTO

Approvazione di una modifica al Piano di Acquisto Azioni per i Dipendenti 2007 della Società.	A FAVORE	CONTRO	ASTENUTO

Ratifica della nomina di Marcum LLP quale società di revisione indipendente della Società per l'esercizio che si concluderà il 31 dicembre 2015.	A FAVORE	CONTRO	ASTENUTO

Approvazione, attraverso un voto a carattere consultivo non vincolante, della remunerazione di determinati dirigenti esecutivi della Società (named executive officers) ¹ .	A FAVORE	CONTRO	ASTENUTO

Approvazione dell'aggiornamento dell'Assemblea Annuale, se necessario o appropriato, al fine di sollecitare ulteriori deleghe qualora vi siano voti insufficienti nel momento in cui l'Assemblea Annuale sia chiamata a deliberare su alcuna delle Proposte da 1 a 5.	A FAVORE	CONTRO	ASTENUTO

¹ Così come definiti e identificati ai sensi del punto 402 della Regolamentazione S-K della normativa federale statunitense in materia di strumenti finanziari.



ISTRUZIONI DI VOTO

(a) Firmare e datare la presente delega nell'apposito spazio qui sotto.

(b) Trasmettere SIA la delega firmata SIA la certificazione rilasciata dall'intermediario ai sensi degli articoli 21 e ss. del Regolamento adottato dalla Banca d'Italia e dalla Consob in data 22 febbraio 2008 (o una copia integrale della stessa) al seguente indirizzo, o per posta o via fax:

CTI BioPharma Corp.

Attn: Corporate Secretary

3101 Western Ave., Suite 600

Seattle, WA 98121

FAX: +1 (206) 284-6206

(c) È NECESSARIO allegare alla presente delega la certificazione rilasciata dall'intermediario ai sensi degli articoli 21 e ss. del Regolamento adottato dalla Banca d'Italia e dalla Consob in data 22 febbraio 2008 (o una copia integrale della stessa) perché il proprio voto venga computato.

(d) Scadenza: la delega dovrà essere ricevuta al suddetto indirizzo (per posta o per fax) prima della chiusura delle votazioni in data 23 settembre 2015. Qualora provvediate all'invio della documentazione per posta successivamente al 15 settembre 2015, si consiglia vivamente di inviare la stessa anche via fax al suddetto numero.

Tutte le altre deleghe di voto precedentemente conferite dal sottoscritto in relazione alle azioni ordinarie di CTI BioPharma Corp., in base alle quali il sottoscritto avrebbe il potere di votare nell'Assemblea Annuale o in ogni sua ulteriore convocazione o rinvio sono espressamente revocate.

Siete pregati di sottoscrivere la presente delega in modo leggibile, indicando il Vostro nominativo, corrispondente a quello riportato nella certificazione rilasciata dall'intermediario ai sensi degli articoli 21 e ss. del Regolamento adottato dalla Banca d'Italia e dalla Consob in data 22 febbraio 2008. Qualora l'azione sia cointestata, ciascuno dei cointestatari dovrà sottoscrivere la presente delega. Se si sottoscrive in qualità di procuratore, esecutore, curatore, fiduciario o tutore occorre specificare tale titolo. Le società di capitali, società di persone e associazioni sottoscrivono tramite un legale rappresentante che dovrà indicare tale titolo.

FIRMA (si prega di firmare nell'apposito spazio) _____ DATA _____
FIRMA (COINTESTATARI) _____ DATA _____

ITALIAN PROXY CARD (English translation)

CTI BioPharma Corp.

Annual Meeting of the Shareholders

September 23, 2015

This Proxy is Solicited on Behalf of the Board of Directors

The shareholder(s) whose name(s) appear(s) on the enclosed certifications(s) of participation in the Central Depository System of Monte Titoli S.p.A., issued by authorized intermediaries pursuant to Section 21 (and the following sections) of the Regulation enacted by the Bank of Italy and CONSOB on February 22, 2008, hereby revoking any proxy previously given, hereby appoint(s) James A. Bianco, M.D. and Phillip M. Nudelman, Ph.D., and each of them, as proxies, with full power of substitution, to represent and vote for, and on behalf of, the shareholder(s), the number of shares of common stock of CTI BioPharma Corp. that the shareholder(s) would be entitled to vote if personally present at the Annual Meeting of Shareholders to be held on September 23, 2015, or at any adjournment or postponement thereof.

This proxy, when properly executed and submitted together with your certification issued by the authorized intermediaries pursuant to Section 21 (and the following sections) of the Regulation enacted by the Bank of Italy and CONSOB on February 22, 2008, will be voted in the manner directed herein by the shareholder(s). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" EACH ITEM. Whether or not direction is made, each of the named proxies is authorized to vote this proxy in his discretion, upon such other matter or matters that may properly come before the meeting and any postponement(s) or adjournment(s) thereof.

The shareholder(s) direct(s) that this proxy be voted as follows:

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED

The Board of Directors recommends you vote FOR the following proposals:

- | | | | | |
|--|-----|-------------------------|---------|---|
| (1) Approval to elect the following six directors to the Board of Directors to serve one-year terms: | FOR | WITHHOLD | FOR ALL | To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below. |
| | ALL | ALL | EXCEPT | |
| | .. | .. | .. | |
| 01) James A. Bianco,
M.D.
Mundinger DrPH | | 04) Mary O. | | |
| 02) Karen Ignagni | | 05) Jack W. Singer M.D. | | |
| 03) Richard L.
Love | | 06) Frederick | | |

W. Telling, Ph.D.

(2) Approval of the Company's 2015 Equity Incentive Plan.	FOR	AGAINST	ABSTAIN

(3) Approval of an amendment to the Company's 2007 Employee Stock Purchase Plan.	FOR	AGAINST	ABSTAIN

(4) To ratify the selection of Marcum LLP as our independent auditors for the year ending December 31, 2015.	FOR	AGAINST	ABSTAIN

(5) To approve, by non-binding advisory vote, the compensation of the Company's named executive officers ¹ .	FOR	AGAINST	ABSTAIN

(6) To approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Annual Meeting to adopt any of Proposals 1 through 5.	FOR	AGAINST	ABSTAIN

¹ As they are defined and identified according to Item 402 of Regulation S-K under U.S. federal securities regulations.



VOTING INSTRUCTIONS

(a) Please sign and date this card in the space provided below.

(b) Please submit BOTH this signed proxy card AND the certification issued by the authorized intermediaries pursuant to Section 21 (and the following sections) of the Regulation enacted by the Bank of Italy and CONSOB on February 22, 2008 (or a complete copy) to the following address either by mail or by fax:
CTI BioPharma Corp.

Attn: Corporate Secretary

3101 Western Ave., Suite 600

Seattle, WA 98121

FAX: 00 +1 (206) 284-6206

(c) You MUST include the certification issued by the authorized intermediaries pursuant to Section 21 (and the following sections) of the Regulation enacted by the Bank of Italy and CONSOB on February 22, 2008 (or a complete copy) together with this proxy card for your vote to be counted.

(d) Deadline: Your proxy card must be received at the above address (by mail or fax) prior to the adjournment of the Annual Meeting on September 23, 2015. If you are depositing your vote in the mail after September 15, 2015, we recommend that you also submit the papers by fax to the above number.

All other proxies heretofore given by the undersigned to vote shares of stock of CTI BioPharma Corp., which the undersigned would be entitled to vote if personally present at the Annual Meeting or any adjournment or postponement thereof, are hereby expressly revoked.

Please sign exactly as your name(s) appear(s) on the stock certifications(s) issued by the authorized intermediaries pursuant to Section 21 (and the following sections) of the Regulation enacted by the Bank of Italy and CONSOB on February 22, 2008. When shares are held jointly, each person must sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. An authorized person should sign on behalf of corporations, partnerships and associations and give his or her title.

SIGNATURE (PLEASE SIGN WITHIN BOX) _____ DATE _____
SIGNATURE (JOINT OWNERS) _____ DATE _____