

XCYTE THERAPIES INC

Form 424B3

February 08, 2006

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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-131225

PROXY STATEMENT/PROSPECTUS

Dear Stockholder:

Xcyte Therapies, Inc. and Cyclacel Group plc have entered into a stock purchase agreement under which Xcyte will purchase from Cyclacel Group plc all of the outstanding share capital of Cyclacel Ltd. in exchange for newly issued shares of Xcyte common stock, which transaction we refer to as the Stock Purchase. We refer to Cyclacel Ltd. as Cyclacel in this document. We cannot complete the Stock Purchase unless Xcyte stockholders approve the issuance of Xcyte common stock in the Stock Purchase and the other proposals described in this document.

We are sending you this document in connection with the special meeting of holders of Xcyte's common stock to be held at 701 Fifth Avenue, Suite 5100, Seattle, Washington, on March 16, 2006 at 9:00 a.m. local time, at which Xcyte common stockholders will be asked to approve (1) the issuance of Xcyte common stock in the Stock Purchase, (2) the sale of Xcyte's T cell expansion technology known as the Xcellerate Process, including related intellectual property, know-how, agreements and other assets, to Invitrogen Corporation, (3) a new equity incentive plan to provide for equity incentive awards to officers, employees and directors of Xcyte after completion of the Stock Purchase and (4) amendments to Xcyte's certificate of incorporation, including a reverse stock split of Xcyte common stock.

In the Stock Purchase, Xcyte will issue a number of shares of common stock representing approximately 80% of the Xcyte common stock outstanding after the Stock Purchase, or approximately 73.5% of the total outstanding common stock and common stock equivalents of Xcyte (after accounting for the assumed conversion of all outstanding Xcyte convertible preferred stock), subject to the adjustments described in this document.

Upon completion of the Stock Purchase, Xcyte will be renamed Cyclacel Pharmaceuticals, Inc. At or after completion of the Stock Purchase, Cyclacel Group plc intends to effect a members' voluntary liquidation under English law, which would result in the distribution of its assets, including the shares of Xcyte common stock it receives in the Stock Purchase, to its shareholders and creditors.

Xcyte common stock is traded on the Nasdaq National Market under the trading symbol XCYT. The rights of the holders of Xcyte common stock are subject to certain rights in favor of holders of Xcyte's 6% convertible exchangeable preferred stock, including liquidation preference, conversion, dividend and make-whole payment and other rights. We refer to Xcyte's 6% convertible exchangeable preferred stock as the convertible preferred stock.

After careful consideration, the board of directors of Xcyte has approved the proposals referred to above and concluded that they are fair to and in the best interests of Xcyte and its stockholders. Xcyte's board of directors recommends that its stockholders vote **FOR** each of the proposals referred to above. Approval of a majority of the shares of Xcyte common stock present and voting at a meeting at which quorum is present is

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required in order to approve the Stock Purchase and the new equity incentive plan. Approval of a majority of the outstanding common stock of Xcyte is required in order to approve the sale of Xcyte's T cell expansion technology and related assets to Invitrogen and the amendments to Xcyte's certificate of incorporation. We cannot complete the Stock Purchase unless each of the above proposals is approved. As a result, a vote against any of the above proposals is effectively a vote against the Stock Purchase.

Before voting, you should carefully review all the information contained in this document. IN PARTICULAR, YOU SHOULD CAREFULLY CONSIDER THE MATTERS DISCUSSED UNDER RISK FACTORS BEGINNING ON PAGE 21.

Your vote is very important. Whether or not you expect to attend the special meeting, please complete, date, sign and promptly return the accompanying proxy in the enclosed postage paid envelope so that your shares may be voted at the special meeting.

We strongly support the Stock Purchase and the other proposals described in this document and enthusiastically recommend that you vote in favor of the proposals presented to you for approval.

Robert L. Kirkman

President and Chief Executive Officer

Xcyte Therapies, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the shares of Xcyte common stock to be issued in the Stock Purchase or determined whether this document is truthful or complete. Any representation to the contrary is a criminal offense.

This document is dated February 8, 2006 and is first being mailed to stockholders of Xcyte on or about February 10, 2006.

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XCYTE THERAPIES, INC.

NOTICE OF SPECIAL MEETING OF COMMON STOCKHOLDERS

TO BE HELD ON MARCH 16, 2006

To the Stockholders of Xcyte Therapies, Inc.:

We will hold a special meeting of holders of Xcyte Therapies, Inc. common stock at 701 Fifth Avenue, Suite 5100, Seattle, Washington, on March 16, 2006 at 9:00 a.m. local time, to consider and vote upon the proposals listed below and any other matters that may properly come before the special meeting or any adjournment or postponement of the special meeting:

1. A proposal to approve the issuance of Xcyte common stock under the Stock Purchase Agreement, dated as of December 15, 2005 and amended by Amendment No. 1 thereto dated as of January 13, 2006, between Xcyte and Cyclacel Group plc pursuant to which Xcyte will purchase from Cyclacel Group plc all of the outstanding share capital of Cyclacel Ltd. in exchange for newly issued shares of Xcyte common stock. We refer to the stock purchase agreement, as amended, as the Stock Purchase Agreement.
2. A proposal to approve the sale of Xcyte's T cell expansion technology known as the Xcellerate Process, including all related intellectual property, all clinical data generated by Xcyte in the course of six clinical trials of its lead product, specified related documents generated and maintained by Xcyte for purposes of such clinical trials, all related raw materials, and specified agreements and equipment, to Invitrogen Corporation pursuant to the asset purchase agreement, dated as of December 14, 2005, between Xcyte and Invitrogen. We refer to the asset purchase agreement as the Asset Purchase Agreement.
3. A proposal to approve an equity incentive plan to provide for the grant of equity incentive awards to officers, employees, directors and consultants of Xcyte following the completion of the Stock Purchase.
4. A proposal to approve the amendment of Xcyte's certificate of incorporation to change Xcyte's name and modify the indemnification obligations of Xcyte.
5. A proposal to approve an amendment to Xcyte's certificate of incorporation to effect a reverse stock split of Xcyte common stock at a ratio of one share for each ten shares of common stock.

After careful consideration, the board of directors of Xcyte has approved the proposals referred to above and concluded that they are fair to and in the best interests of Xcyte and its stockholders. Xcyte's board of directors recommends that its stockholders vote **FOR** each of the proposals referred to above. Approval of a majority of the shares of Xcyte common stock present and voting at a meeting at which quorum is present is required in order to approve the Stock Purchase and the new equity incentive plan. Approval of a majority of the outstanding common stock of Xcyte is required in order to approve the sale of Xcyte's T cell expansion technology and related assets to Invitrogen and the amendments to Xcyte's certificate of incorporation. We cannot complete the Stock Purchase unless each of the above proposals is approved. As a result, a vote against any of the proposals described above is effectively a vote against the Stock Purchase.

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The proposals are described in more detail in this document, which we encourage you to read carefully and in its entirety before voting. A copy of the Stock Purchase Agreement is attached as Annex A to this document. A copy of the Asset Purchase Agreement is attached as Annex C to this document.

The close of business on February 3, 2006 has been fixed as the record date for determining those holders of Xcyte common stock entitled to receive notice of and vote at the special meeting. Accordingly, only record holders of Xcyte common stock at the close of business on that date are entitled to notice of and to vote at the special meeting and at any adjournments or postponements thereof. Holders of Xcyte convertible preferred stock are not entitled to vote on any of the proposals to be considered at the special meeting.

All holders of Xcyte common stock are cordially invited to attend the special meeting in person. You may revoke your proxy in the manner described in this document at any time before it is voted at the special meeting.

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Your vote is important **regardless of the number of shares of common stock you own**. Whether or not you expect to attend the special meeting, please complete, date, sign and promptly return the enclosed proxy card in the enclosed postage paid envelope so that your shares of common stock may be represented and voted at the special meeting.

By order of the board of directors,

Robert L. Kirkman

President and Chief Executive Officer

Seattle, Washington

February 8, 2006

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REFERENCE TO ADDITIONAL INFORMATION

This document incorporates by reference important business and financial information about Xcyte from documents that are not included in or delivered with this document. You may obtain the documents incorporated by reference in this document without charge by requesting them in writing or by telephone from Xcyte at the following address and telephone number:

Xcyte Therapies, Inc.
1124 Columbia Street
Suite 130
Seattle, Washington 98104
Tel: (206) 262-6200
Attn: Investor Relations

If you are an Xcyte stockholder and you would like to request any documents related to Xcyte, please do so by March 8, 2006 in order to receive them before the Xcyte special meeting.

For a more detailed description of the information incorporated by reference into this document and how you may obtain it, see [Where You Can Find More Information](#) on page 204.

Explanatory Note

Except as otherwise stated in this document, all per share information and other information contained in this document does not give effect to the proposed reverse stock split of Xcyte common stock described in Proposal Five.

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**QUESTIONS AND ANSWERS ABOUT THE STOCK PURCHASE
FOR XCYTE AND CYCLACEL GROUP PLC STOCKHOLDERS**

Q: What is the Stock Purchase?

A: The Stock Purchase is a transaction in which Xcyte will purchase all of the outstanding share capital of Cyclacel Ltd. from Cyclacel Group plc in exchange for a number of newly issued shares of Xcyte common stock representing approximately 80% of Xcyte's outstanding common stock following the Stock Purchase. As a result of the Stock Purchase, Cyclacel Ltd. will become a wholly-owned subsidiary of Xcyte. Upon completion of the Stock Purchase, Xcyte will be renamed Cyclacel Pharmaceuticals, Inc.

At or after completion of the Stock Purchase, Cyclacel Group plc intends to effect a members' voluntary liquidation in accordance with its certificate of incorporation, memorandum and articles of association and the applicable laws of England and Wales, which would result in the distribution of its assets, including the Xcyte common stock it receives in the Stock Purchase, to its shareholders and creditors.

Q: What will Cyclacel Group plc receive in the Stock Purchase?

A: In the Stock Purchase, Cyclacel Group plc will receive shares of Xcyte common stock in exchange for all of the outstanding share capital of Cyclacel. The exact number of shares of Xcyte common stock to be issued to Cyclacel Group plc in the Stock Purchase will be equal to the product of (1) a multiple based on the amount of cash and cash equivalents held by Xcyte immediately prior to the completion of the Stock Purchase and (2) the sum of the number of shares of Xcyte common stock issued and outstanding immediately prior to the completion of the Stock Purchase plus either (a) 50,000 shares of Xcyte common stock if the Stock Purchase is completed before the reverse stock split (described in Proposal Five) is completed or (b) 5,000 shares of Xcyte common stock if the Stock Purchase is completed after the reverse stock split is completed.

Following the Stock Purchase, based on the amount of cash and cash equivalents that Xcyte anticipates it will hold at the time of the Stock Purchase, Xcyte anticipates that (1) the current holders of Xcyte common stock will own approximately 20% of the outstanding common stock of Xcyte, or approximately 18.4% of the total outstanding common stock and common stock equivalents of Xcyte (after accounting for the assumed conversion of all outstanding Xcyte convertible preferred stock) and (2) assuming completion of the liquidation of Cyclacel Group plc, the current shareholders and creditors of Cyclacel Group plc will own approximately 80% of the outstanding common stock of Xcyte, or approximately 73.5% of the total outstanding common stock and common stock equivalents of Xcyte (after accounting for the assumed conversion of all outstanding Xcyte convertible preferred stock).

If the Stock Purchase had been completed on January 23, 2006, based on the number of shares of Xcyte common stock outstanding on such date and assuming that Xcyte will hold approximately \$20 million in cash and cash equivalents at the time of the Stock Purchase, Cyclacel Group plc would have received approximately 78,890,000 shares of Xcyte common stock in the Stock Purchase.

The foregoing ownership percentages are subject to adjustment based on the amount of cash and cash equivalents held by Xcyte immediately prior to the completion of the Stock Purchase. For a further description of such adjustment see The Stock Purchase Agreement Stock Purchase Consideration and Adjustment.

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No fractional shares of common stock will be issued in the Stock Purchase. The number of shares of Xcyte common stock to be received by Cyclacel Group plc in the Stock Purchase will be rounded down to the nearest whole share.

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Following the Stock Purchase, Cyclacel Group plc intends to effect a members' voluntary liquidation in which all of its assets, including the shares of Xcyte common stock issued in the Stock Purchase, would be distributed to its shareholders and creditors in accordance with Cyclacel Group plc's certificate of incorporation, memorandum and articles of association and the applicable laws of England and Wales.

Q: Will Xcyte stockholders receive any shares of common stock as a result of the Stock Purchase?

A: No. Xcyte stockholders will continue to hold the Xcyte shares of common stock they currently own, subject to adjustment pursuant to the proposed reverse stock split.

Q: What vote is required by Xcyte stockholders to approve the issuance of Xcyte common stock?

A: The affirmative vote of the holders of a majority of the Xcyte shares of common stock represented in person or by proxy and entitled to vote at a special meeting at which a quorum is present is required to approve the issuance of Xcyte common stock in the Stock Purchase. Xcyte stockholders who collectively held approximately 19.1% of the outstanding common stock of Xcyte as of January 23, 2006 have agreed to vote their shares of common stock in favor of the issuance of Xcyte common stock in the Stock Purchase. As of January 23, 2006, Xcyte directors and executive officers and their affiliates were entitled to vote approximately 15.9% of the outstanding shares of common stock of Xcyte (not including options, warrants or other convertible securities).

Q: What vote is required by Cyclacel Group plc stockholders to approve the Stock Purchase and approve and adopt the Stock Purchase Agreement?

A: The affirmative vote of at least 51% of Cyclacel Group plc's outstanding share capital and 51% of its preferred shares voting as a separate class is required to approve the Stock Purchase and approve and adopt the Stock Purchase Agreement. As of January 23, 2006, Cyclacel Group plc directors and executive officers and six significant shareholders were entitled to vote approximately 57.3% of the outstanding shares of Cyclacel Group plc (not including options, warrants or other convertible securities).

Q: Does Xcyte's board of directors recommend voting in favor of the issuance of Xcyte common stock in the Stock Purchase?

A: Yes. After careful consideration, Xcyte's board of directors determined that the Stock Purchase is fair to, and in the best interests of, Xcyte and its stockholders. Xcyte's board of directors recommends that Xcyte stockholders vote **FOR** the issuance of Xcyte common stock in the Stock Purchase.

For a description of the factors considered by the Xcyte board of directors in making its determination, see the section entitled "The Stock Purchase - Xcyte's Reasons for the Stock Purchase" beginning on page 45.

Q: Are there risks I should consider in deciding whether to vote for the Stock Purchase?

A: Yes. Immediately following the Stock Purchase, Xcyte's only business will be the business conducted by Cyclacel immediately prior to the Stock Purchase. As a result, in evaluating the Stock Purchase, you should carefully consider the factors discussed in the section entitled "Risk Factors" beginning on page 21, including those that relate to Cyclacel and its business.

Q: When do you expect to complete the Stock Purchase?

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A: Subject to satisfaction or waiver of all conditions, we expect to complete the Stock Purchase within approximately 10 days following the special meeting.

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For a description of the conditions to completion of the Stock Purchase, see [The Stock Purchase Agreement](#) [Conditions to the Completion of the Stock Purchase](#) on page 65.

Q: What do I need to do now?

A: We urge you to carefully read and consider the information contained in this document, including the annexes, and to consider how the Stock Purchase and the other proposals will affect you as a stockholder. You should then vote as soon as possible in accordance with the instructions provided in this document and on the enclosed proxy card.

Q: How do I vote?

A: Please complete and sign the enclosed proxy card and return it in the enclosed return envelope as soon as possible so that your shares may be represented and voted at the Xcyte special meeting. If you return your proxy card but do not include instructions on how to vote, Xcyte will vote your shares of common stock **FOR** the proposals being made at the Xcyte special meeting, unless your shares of common stock are held in [street name](#) in a brokerage account. You may also attend the special meeting and vote in person instead of submitting a proxy.

Q: What happens if I do not vote?

A: If you do not submit a proxy card or vote at the special meeting, your shares will not be counted as present for the purpose of determining a quorum and will have no effect on the outcome of the proposal to approve the issuance of shares of Xcyte common stock in the Stock Purchase or the proposal to approve the new equity incentive plan. If you submit a proxy card and affirmatively elect to abstain from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum but will not be voted at the special meeting. As a result, your abstention will have the same effect as a vote **against** such proposals.

Approval of the proposals to sell Xcyte's T cell expansion technology and related assets to Invitrogen and to amend Xcyte's certificate of incorporation is required to complete the Stock Purchase. Each of these proposals requires the affirmative vote of the holders of a majority of the outstanding common stock of Xcyte. Therefore, a failure to vote on either of these proposals is effectively a vote **against** such proposals.

Q: If my shares of common stock are held in [street name](#) by my broker, will my broker vote my shares of common stock for me?

A: Your broker cannot vote your shares of common stock unless you provide instructions on how to vote in accordance with the information and procedures provided to you by your broker. If you hold Xcyte common stock and do not instruct your broker how to vote your shares, it will be equivalent to voting against the proposal being made at the special meeting.

For a more complete description of voting shares of common stock held in [street name](#), see [Special Meeting of Xcyte Stockholders](#) on page 76.

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

A: Yes. If you want to change your vote, send the corporate secretary of Xcyte a later dated, signed proxy card before the special meeting or attend the special meeting and vote in person. You may also revoke your proxy by sending written notice to Xcyte's corporate secretary before the special meeting. If you have instructed your broker to vote your shares, you must follow your broker's directions in order to

change those instructions.

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Q: Am I entitled to appraisal rights?

A: Xcyte stockholders are not entitled to appraisal rights in connection with the Stock Purchase or any of the other proposals to be considered at the special meeting and Cyclacel Group plc shareholders are not entitled to appraisal rights in connection with the Stock Purchase or liquidation.

Q: If I want to attend the special meeting in person, what do I do?

A: You should come to 701 Fifth Avenue, Suite 5100, Seattle, Washington at 9:00 a.m. local time on March 16, 2006. Record holders of Xcyte common stock as of the record date for the special meeting (February 3, 2006) can vote in person at the special meeting. If your shares are held in street name, then you are not the stockholder of record and you must ask your broker, bank or other nominee holder how you can vote at the special meeting.

Q: Whom should I call with questions?

A: If you have any questions about the Stock Purchase or any of the proposals to be considered at the special meeting or if you need additional copies of this document or the enclosed proxy, you should contact:

Xcyte Therapies, Inc.

1124 Columbia Street, Suite 130

Seattle, Washington 98104

Tel: (206) 262-6200

Attn: Investor Relations

You may also obtain additional information about Xcyte from documents filed with the Securities and Exchange Commission by following the instructions under [Where You Can Find More Information](#) on page 204.

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SUMMARY

*This summary highlights only selected information from this document and may not contain all of the information that is important to you. To better understand the Stock Purchase and the other proposals being considered at the special meeting, you should read this entire document carefully, including the Stock Purchase Agreement, as amended, attached as Annex A, the opinion of SG Cowen & Co., LLC attached as Annex B, and the other documents to which we refer. In addition, we incorporate by reference into this document important business and financial information about Xcyte. You may obtain the information incorporated by reference into this document without charge by following the instructions in the section entitled *Where You Can Find More Information* on page 204. We have included page references parenthetically to direct you to a more complete description of the topics presented in this summary.*

The Companies

Xcyte Therapies, Inc.

1124 Columbia Street, Suite 130

Seattle, Washington 98104

(206) 262-6200

Xcyte was incorporated in 1996 and is headquartered in Seattle, Washington. From its inception in 1996 until early July 2005, Xcyte devoted substantially all of its efforts to the research and development of therapeutic products designed to enhance the body's natural immune responses to treat cancer, infectious diseases and other medical conditions associated with weakened immune systems.

On May 16, 2005, Xcyte issued a press release and filed its quarterly report on Form 10-Q for the quarter ended March 31, 2005, in which it indicated that it would discontinue plans for further development of its products for certain diseases. In July 2005, Xcyte announced a plan to evaluate its strategic alternatives. In conjunction with this plan, Xcyte also announced its decision to discontinue the clinical development of its remaining products and approved a workforce reduction plan. As of January 23, 2006, Xcyte had five remaining employees.

Cyclacel Ltd.

Dundee Technopole

James Lindsay Place

Dundee DD1 5JJ, United Kingdom

+44 1382 206 062

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Cyclacel is a clinical-stage biopharmaceutical company dedicated to the discovery, development and eventual commercialization of novel, mechanism-targeted drugs to treat human cancers and other serious disorders. Its core area of expertise is in cell cycle biology. Cyclacel focuses primarily on the discovery and development of orally available anticancer agents that target the cell cycle with the aim of slowing the progression or shrinking the size of tumors, enhancing quality of life and improving survival rates of cancer patients. Cyclacel's work with novel molecules that act on the cell cycle has also led it to pursue drug development opportunities in other indications.

Cyclacel has been focused on the cell cycle since its inception. It was founded in 1996 by Professor Sir David Lane, a recognized leader in the field of tumor suppressor biology who discovered the p53 protein, which operates as one of the body's own anticancer drugs by inhibiting cell cycle targets. In 1999, Cyclacel was joined by Professor David Glover, a recognized leader in the mechanism of mitosis, or cell division, who discovered, among other cell cycle targets, the mitotic kinases, Polo and Aurora, enzymes that act in the mitosis phase of the cell cycle. Cyclacel's expertise in cell cycle biology is at the center of its business strategy.

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Cyclacel is generating several families of anticancer drugs that act on the cell cycle. These include Cyclin Dependent kinase (CDK) and Aurora kinase (AK) inhibitors, two of the most sophisticated categories of novel drugs targeting cell cycle mechanisms. Although a number of pharmaceutical and biotechnology companies are currently attempting to develop CDK inhibitor drugs, Cyclacel believes that its lead drug candidate, seliciclib (formerly CYC202), is the only orally-available CDK inhibitor drug candidate currently in Phase II clinical trials.

Summary of the Stock Purchase (see page 41)

If the Stock Purchase is completed, Xcyte will acquire all of the outstanding share capital of Cyclacel from Cyclacel Group plc in exchange for a number of newly issued shares of Xcyte common stock representing approximately 80% of Xcyte's outstanding common stock following the transaction. As a result of the Stock Purchase, Cyclacel will become a wholly-owned subsidiary of Xcyte. Upon completion of the Stock Purchase, Xcyte will be renamed Cyclacel Pharmaceuticals, Inc.

At or after completion of the Stock Purchase, Cyclacel Group plc intends to effect a members' voluntary liquidation in accordance with its certificate of incorporation, memorandum and articles of association and the applicable laws of England and Wales, which would result in the distribution of its assets, including the Xcyte common stock it receives in the Stock Purchase, to its shareholders and creditors.

The exact number of shares of Xcyte common stock to be issued to Cyclacel Group plc in the Stock Purchase will be equal to the product of (1) a multiple based on the amount of cash and cash equivalents held by Xcyte immediately prior to the completion of the Stock Purchase and (2) the sum of the number of shares of Xcyte common stock issued and outstanding immediately prior to the completion of the Stock Purchase plus either (a) 50,000 shares of Xcyte common stock if the Stock Purchase is completed before the reverse stock split (described in Proposal Five) is completed or (b) 5,000 shares of Xcyte common stock if the Stock Purchase is completed after the reverse stock split is completed.

Following the Stock Purchase, based on the amount of cash and cash equivalents that Xcyte anticipates it will hold at the time of the Stock Purchase, Xcyte anticipates that (1) the current holders of Xcyte common stock will own approximately 20% of the outstanding common stock of Xcyte, or approximately 18.4% of the total outstanding common stock and common stock equivalents of Xcyte (after accounting for the assumed conversion of all outstanding Xcyte convertible preferred stock) and (2) assuming completion of the liquidation of Cyclacel Group plc, the current shareholders of Cyclacel Group plc will own approximately 80% of the outstanding common stock of Xcyte, or approximately 73.5% of the total outstanding common stock and common stock equivalents of Xcyte (after accounting for the assumed conversion of all outstanding Xcyte convertible preferred stock).

If the Stock Purchase had been completed on January 23, 2006, based on the number of shares of Xcyte common stock outstanding on such date and assuming that Xcyte will hold approximately \$20 million in cash and cash equivalents at the time of the Stock Purchase, Cyclacel Group plc would have received approximately 78,890,000 shares of Xcyte common stock in the Stock Purchase.

The foregoing ownership percentages are subject to adjustment based on the amount of cash and cash equivalents held by Xcyte immediately prior to the completion of the Stock Purchase. For a further description of such adjustment see The Stock Purchase Agreement Stock Purchase Consideration and Adjustment.

No fractional shares of common stock will be issued in the Stock Purchase. The number of shares of Xcyte common stock to be received by Cyclacel Group plc in the Stock Purchase will be rounded down to the nearest whole share.

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Following the Stock Purchase, the Xcyte convertible preferred stock will remain outstanding and the rights of the holders of Xcyte common stock will remain subject to the rights of the holders of Xcyte convertible preferred stock, including liquidation preference, conversion, dividend and make-whole payment and other rights. See *Description of Xcyte Capital Stock* beginning on page 188.

Pursuant to the Stock Purchase Agreement, Xcyte has agreed to adopt, and submit to its stockholders for approval, an equity incentive plan under which Xcyte will be able to grant equity incentive awards to its officers, employees, directors, and consultants.

The Stock Purchase Agreement, as amended, which is the legal document that governs the Stock Purchase, is attached as Annex A to this document. You are encouraged to read it carefully and in its entirety.

Opinion of Xcyte's Financial Advisor (see page 47)

In connection with the proposed Stock Purchase, Xcyte's financial advisor, SG Cowen & Co., LLC delivered a written opinion to the Xcyte board of directors as to the fairness, from a financial point of view, to Xcyte's stockholders of the consideration to be paid by Xcyte in the Stock Purchase. The full text of SG Cowen & Co., LLC's written opinion, dated December 14, 2005, is attached to this document as Annex B. We encourage you to read this opinion carefully and in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. **SG Cowen & Co., LLC's opinion is addressed to the Xcyte board of directors and does not constitute a recommendation to any stockholder as to how to vote on any matters relating to the Stock Purchase.**

Overview of the Stock Purchase Agreement

Conditions to Completion of the Stock Purchase (see page 65)

Xcyte's and Cyclacel Group plc's obligations to complete the Stock Purchase are subject to satisfaction or waiver of the following conditions:

the registration statement on Form S-4, of which this document is a part, must have been declared effective by the Securities and Exchange Commission under the Securities Act of 1933 and must not be subject to any stop order or proceeding seeking any stop order;

there must not have been issued any temporary restraining order, preliminary or permanent injunction or other order preventing the completion of the Stock Purchase, and no statute, rule, regulation, executive order, decree, injunction or other order shall be in effect that has the effect of making the Stock Purchase illegal;

Cyclacel Group plc shareholders must approve the Stock Purchase, and Xcyte stockholders must approve the issuance of Xcyte common stock in the Stock Purchase, the amendments of Xcyte's certificate of incorporation with regard to the proposed Xcyte reverse stock split, name change and indemnification obligations of Xcyte and the new equity incentive plan;

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any waiting period that may be applicable to the Stock Purchase under the Hart-Scott-Rodino Act or any material applicable foreign antitrust requirements must have expired or been terminated; and

there must not be any pending or overtly threatened suit or action asserted by a governmental entity challenging or seeking to restrain or prohibit the completion of the Stock Purchase.

In addition, the obligations of each of Xcyte and Cyclacel Group plc to complete the Stock Purchase are further subject to the satisfaction or waiver of the following additional conditions:

each party shall have received from the other the documents required under the Stock Purchase Agreement, including affiliate agreements, good standing certificates, and certificates from certain officers of the respective parties;

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the representations and warranties of the other party in the Stock Purchase Agreement must be true and correct except, in most cases, as would not reasonably be expected to have a material adverse effect on the other party, in each case as of the date of the Stock Purchase Agreement and on the date the Stock Purchase is to be completed;

the other party must have complied in all material respects with all agreements and covenants in the Stock Purchase Agreement; and

since the date of the Stock Purchase Agreement, there must not have occurred any material adverse effect with respect to the other party.

In addition, the obligation of Cyclacel Group plc to complete the Stock Purchase is further subject to the satisfaction or waiver of the following conditions:

immediately prior to the completion of the Stock Purchase, Xcyte must have at least (1) \$18 million in cash and cash equivalents if the closing occurs on or before March 31, 2006, (2) \$17.5 million if the closing occurs after March 31, 2006 and on or before April 30, 2006, or (3) \$17 million if the closing occurs after April 30, 2006; and

the sale of Xcyte's T cell expansion technology known as the Xcellerate Process to Invitrogen Corporation shall either have been completed or all conditions to such completion shall have been satisfied or irrevocably waived. More detailed information regarding the sale of assets to Invitrogen is contained in Proposal Two beginning on page 80.

Termination of the Stock Purchase Agreement (see page 71)

Xcyte and Cyclacel Group plc have the right to terminate the Stock Purchase Agreement before the Stock Purchase is completed as follows:

by mutual written consent of the parties;

by either party if the Stock Purchase has not been completed by May 31, 2006 through no fault of the terminating party;

by either party if any governmental entity permanently restrains, enjoins or otherwise prohibits completion of the Stock Purchase;

by either party if the stockholders of Xcyte have not approved the issuance of Xcyte common stock in the Stock Purchase, the amendments to Xcyte's certificate of incorporation or the equity incentive plan, or if the shareholders of Cyclacel Group plc have not approved the Stock Purchase at their respective stockholders' meeting (except where the failure to obtain approval is caused by the action or failure to act of the party and the action or failure to act is a material breach by the party of the Stock Purchase Agreement);

by either party, if the other party is in material breach of any representation, warranty, covenant or other agreement in the Stock Purchase Agreement (subject to specified conditions); or

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by either party if the condition to the closing of the transaction that the other party shall not have sustained a material adverse effect has become incapable of being satisfied by May 31, 2006.

Termination Fees (see page 72)

If the Stock Purchase Agreement is terminated in specified circumstances, either Xcyte or Cyclacel Group plc may be required to pay a termination fee of \$100,000 to the other party.

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No Solicitation Provisions (see page 67)

The Stock Purchase Agreement contains detailed provisions prohibiting Xcyte and Cyclacel Group plc from seeking a competing acquisition transaction. These no solicitation provisions prohibit Xcyte and Cyclacel Group plc, as well as their respective officers, directors, employees, subsidiaries and representatives, from taking any action to solicit a competing acquisition proposal.

The Voting Agreements (see page 74)

In connection with the execution of the Stock Purchase Agreement, certain stockholders of Xcyte and Cyclacel Group plc entered into voting agreements pursuant to which, among other things, each of these stockholders agreed, solely in his, her or its capacity as a stockholder, to vote all of his, her or its shares of Xcyte common stock and Cyclacel Group plc share capital in favor of the approval of the Stock Purchase and against any matter that could reasonably be expected to prevent the Stock Purchase.

Management Directors and Officers of Xcyte Following the Stock Purchase (see page 173)

Following the Stock Purchase, the board of directors of the combined company will consist of seven members, including Spiro Rombotis, Paul McBarron, Dr. David U Prichard, Sir John Banham and Professor Gordon McVie, each of whom is currently a director of Cyclacel Group plc, Dr. Christopher Henney, who is currently a director of Xcyte, and one additional individual who will be mutually agreed upon by Xcyte and Cyclacel Group plc.

Interests of Certain Directors, Officers and Affiliates of Xcyte and Cyclacel Group plc (see page 58)

When considering the recommendation of Xcyte's board of directors, you should be aware that some of the directors and executive officers of Xcyte have interests in the Stock Purchase that are different from, or are in addition to, your interests. These interests include:

Christopher Henney, a current director of Xcyte, continuing as a member of the board of directors of Xcyte following the Stock Purchase;

certain individuals receiving cash bonuses in connection with the Stock Purchase pursuant to certain agreements they entered into with Xcyte; and

certain directors and officers being entitled to acceleration of the vesting of their stock options as a result of the Stock Purchase.

The board of directors of Xcyte took into account these interests in considering whether to approve the Stock Purchase.

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In addition, some of the directors, officers and affiliates of Cyclacel Group plc have interests that are different from, or in addition to, those of Cyclacel Group plc shareholders. These interests include continued employment or service as a director and the right to receive Xcyte common stock in the liquidation.

Material United States Federal Income Tax Consequences of the Stock Purchase (see page 61)

No gain or loss should be recognized by Xcyte or by holders of Xcyte common stock as a result of the Stock Purchase. However, the Stock Purchase will result in an ownership change that will severely restrict, and potentially completely eliminate, Xcyte's ability to use any net operating losses or credits that were incurred by Xcyte prior to the effective date of the Stock Purchase.

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Risks (see page 21)

In evaluating the Stock Purchase Agreement, the issuance of Xcyte common stock in the Stock Purchase and the other proposals to be considered at the special meeting, you should carefully read this document in its entirety and especially consider the factors discussed in the section entitled "Risk Factors" on page 21.

Ability to Sell Xcyte Stock (see page 58)

All shares of Xcyte common stock received by Cyclacel Group plc and, following the anticipated liquidation of Cyclacel Group plc, will be freely transferable by the shareholders of Cyclacel Group plc unless that shareholder is considered an affiliate of Cyclacel Group plc under the Securities Act of 1933. Shares of Xcyte common stock received by affiliates of Cyclacel Group plc at the time the Stock Purchase is submitted to the stockholders for vote or consent may only be sold pursuant to a registration statement under the Securities Act of 1933 or an exemption from the registration requirements of the Securities Act of 1933.

Market Price Information (see page 18)

Xcyte common stock is listed on the Nasdaq National Market under the trading symbol "XCYT". On December 14, 2005, the last full trading day prior to the public announcement of the proposed Stock Purchase, Xcyte common stock closed at \$0.32 per share. On February 7, 2006 the last trading day prior to the date of this document, Xcyte common stock closed at \$0.75 per share.

You should obtain current market quotations.

Regulatory Matters (see page 58)

Xcyte is not aware of any governmental or regulatory approval required for completion of the Stock Purchase, other than the effectiveness of the registration statement of which this document is a part, compliance with applicable corporate laws of Delaware, and compliance with state securities laws. If any governmental approvals or actions are required, Xcyte intends to try to obtain them. Xcyte cannot assure you, however, that it will be able to obtain any such approvals or actions.

Appraisal Rights (see page 62)

Holders of Xcyte stock will not be entitled to appraisal or dissenter rights in connection with the Stock Purchase or any of the proposals to be considered at the special meeting. Holders of Cyclacel Group plc shares will not be entitled to appraisal rights in connection with the Stock Purchase or liquidation.

Comparison of Stockholder Rights (see page 197)

The rights of Cyclacel Group plc and, following the anticipated liquidation of Cyclacel Group plc, the shareholders of Cyclacel Group plc who become stockholders of Xcyte will be governed by Xcyte's certificate of incorporation and bylaws. Those rights differ from the rights of Cyclacel Group plc shareholders under its certificate of incorporation and memorandum and articles of association.

Table of Contents**SELECTED HISTORICAL AND PRO FORMA COMBINED FINANCIAL DATA**

The following tables present summary historical financial data for Xcyte and Cyclacel, summary unaudited pro forma combined financial data for Xcyte and Cyclacel, and per share, market price and dividend data for Xcyte.

Selected Historical Financial Data Of Xcyte

(In thousands, except per share amounts)

You should read the following tables in conjunction with Xcyte's financial statements and related notes and Xcyte's Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in Xcyte's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005 and Xcyte's Annual Report on Form 10-K for the year ended December 31, 2004, in each case, filed with the Securities and Exchange Commission, which are incorporated herein by reference. Historical results are not necessarily indicative of the results to be expected in the future.

The statement of operations data for the years ended December 31, 2002, 2003 and 2004 and the balance sheet data as of December 31, 2003 and 2004 have been derived from Xcyte's audited financial statements contained in Xcyte's Form 10-K for the year ended December 31, 2004, which are incorporated by reference in this document, and have been audited by Ernst & Young LLP, independent registered public accounting firm. The statement of operations data for the years ended December 31, 2000 and 2001 and the balance sheet data as of December 31, 2000, 2001 and 2002 are derived from audited financial statements not included or incorporated by reference in this document. The statement of operations data for the nine months ended September 30, 2004 and 2005 and the balance sheet data as of September 30, 2005 have been derived from unaudited financial statements contained in the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, which are incorporated herein by reference.

	Years Ended December 31,					Nine Months Ended September 30,	
	2000	2001	2002	2003	2004	2004	2005
Statement of Operations Data:							
Total revenue	\$ 98	\$ 30	\$	\$ 170	\$ 62	\$ 49	\$ 39
Operating expenses:							
Research and development	11,257	14,701	14,663	13,685	19,698	13,726	13,549
General and administrative	2,403	5,204	4,979	4,322	6,876	5,047	6,135
Provision for asset impairment and other restructuring costs							6,454
Total operating expenses	13,660	19,905	19,642	18,007	26,574	18,773	26,138
Loss from operations	(13,562)	(19,875)	(19,642)	(17,837)	(26,512)	(18,724)	(26,099)
Other income (expense), net	621	363	189	(620)	(13,076)	(12,476)	269
Net loss	(12,941)	(19,512)	(19,453)	(18,457)	(39,588)	(31,200)	(25,830)
Accretion of preferred stock		(8,411)	(8,001)		(8,973)	(8,973)	

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Net loss applicable to common stockholders	\$ (12,941)	\$ (27,923)	\$ (27,454)	\$ (18,457)	\$ (48,561)	\$ (40,173)	\$ (25,830)
Basic and diluted net loss per common share	\$ (11.86)	\$ (22.14)	\$ (19.34)	\$ (12.40)	\$ (3.90)	\$ (3.65)	\$ (1.31)
Shares used in basic and diluted net loss per share calculation	1,091	1,261	1,420	1,488	12,440	11,007	19,643

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	As of December 31,					September 30,
	2000	2001	2002	2003	2004	2005
Balance Sheet Data:						
Cash, cash equivalents and short-term investments	\$ 23,926	\$ 21,098	\$ 17,344	\$ 13,540	\$ 47,318	\$ 26,722
Working capital(1)	21,785	19,135	15,570	(653)	43,947	21,261
Total assets	28,479	24,727	21,535	18,498	55,603	30,195
Long-term obligations, less current portion	952	1,046	1,514	1,555	4,071	1,816
Redeemable convertible preferred stock and warrants	49,053	57,629	65,673	67,071		
Deficit accumulated during the development stage	(29,173)	(48,685)	(68,138)	(86,595)	(126,183)	(152,013)
Total stockholders equity (deficit)	(25,384)	(36,260)	(48,125)	(64,840)	44,120	18,196

(1) Working capital excludes the derivative liability of \$3,020 and \$2,282 as of December 31, 2004 and September 30, 2005, respectively.

For the year ended December 31, 2003

	Three Months Ended			
	March 31	June 30	September 30	December 31
Statement of Operations Data:				
Total revenue	\$ 13	\$ 59	\$ 73	\$ 25
Operating expenses:				
Research and development	2,699	4,330	3,083	3,573
General and administrative	1,154	1,040	918	1,210
Total operating expenses	3,853	5,370	4,001	4,783
Loss from operations	(3,840)	(5,311)	(3,928)	(4,758)
Other income (expense), net	(3)	(35)	(47)	(535)
Net loss	(3,843)	(5,346)	(3,975)	(5,293)
Net loss applicable to common stockholders	\$ (3,843)	\$ (5,346)	\$ (3,975)	\$ (5,293)
Basic and diluted net loss per common share	\$ (2.60)	\$ (3.60)	\$ (2.67)	\$ (3.53)
Shares used in basic and diluted net loss per share calculation	\$ 1,478	\$ 1,483	\$ 1,490	\$ 1,501

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	Three Months Ended			
	March 31	June 30	September 30	December 31
Statement of Operations Data:				
Total revenue	\$ 12	\$ 24	\$ 13	\$ 13
Operating expenses:				
Research and development	4,175	4,426	5,125	5,972
General and administrative	1,574	1,723	1,750	1,829
Total operating expenses	5,749	6,149	6,875	7,801
Loss from operations	(5,737)	(6,125)	(6,862)	(7,788)
Other income (expense), net	(12,547)	39	32	(600)
Net loss	(18,284)	(6,086)	(6,830)	(8,388)
Accretion of preferred stock	(8,973)			
Net loss applicable to common stockholders	\$ (27,257)	\$ (6,086)	\$ (6,830)	\$ (8,388)
Basic and diluted net loss per common share	\$ (7.98)	\$ (0.41)	\$ (0.46)	\$ (0.50)
Shares used in basic and diluted net loss per share calculation	3,415	14,800	14,807	16,740

For the first three quarters for the year ending December 31, 2005

	Three Months Ended		
	March 31	June 30	September 30
Statement of Operations Data:			
Total revenue	\$ 16	\$ 12	\$ 11
Operating expenses:			
Research and development	5,494	4,368	3,687
General and administrative	2,020	1,558	2,557
Provision for asset impairment and other restructuring costs			6,454
Total operating expenses	7,514	5,926	12,698
Loss from operations	(7,498)	(5,914)	(12,687)
Other income (expense), net	206	20	43
Net loss	(7,292)	(5,894)	(12,644)
Net loss applicable to common stockholders	\$ (7,292)	\$ (5,894)	\$ (12,644)
Basic and diluted net loss per common share	\$ (0.37)	\$ (0.30)	\$ (0.64)
Shares used in basic and diluted net loss per share calculation	19,596	19,663	19,670

Table of Contents**Selected Historical Financial Data of Cyclacel**

(In thousands, except per share amounts)

The selected financial data as of December 31, 2003 and 2004 and for the year ended March 31, 2003, the nine months ended December 31, 2003 and the year ended December 31, 2004, are derived from Cyclacel's U.S. GAAP financial statements, which have been audited by Ernst & Young LLP, independent auditors and are included in this document beginning on page 141. The selected financial data as of March 31, 2001, 2002 and 2003 and for the years ended March 31, 2001 and 2002, are derived from Cyclacel's U.S. GAAP financial statements which have been audited by Ernst & Young LLP, independent auditors, not included in this document. The statements of operations data for the nine months ended September 30, 2004 and 2005 and the period from August 13, 1996 (inception) to September 30, 2005, as well as the balance sheet data as of September 30, 2005 are derived from the unaudited Cyclacel's U.S. GAAP financial statements included in this document beginning on page 141. The financial data should be read in conjunction with Cyclacel Management's Discussion and Analysis of Financial Condition and Results of Operations and Cyclacel's financial statements and related notes appearing elsewhere in this document. Investors should read the whole of this document and not just rely on the selected financial data in this section. The historical results are not necessarily indicative of results to be expected in any future period.

	Years Ended March 31,			Nine Months Ended	Year Ended	Nine Months Ended		Period From
	2001	2002	2003	December 31,	December 31,	September 30,	2005	August 13, 1996 (Inception) to September 30, 2005
Statements of Operations Data:								
Collaboration and research and development revenue	\$	\$ 1,155	\$ 1,250	\$ 8	\$ 102	\$ 100	\$ 168	\$ 2,682
Grant revenue	170	55	941	504	823	407	118	3,328
	170	1,210	2,191	512	925	507	286	6,010
Operating expenses								
Research and development	(8,326)	(13,729)	(20,091)	(13,258)	(20,332)	(15,010)	(12,095)	(97,024)
General and administrative	(2,277)	(3,358)	(2,597)	(2,142)	(3,554)	(2,330)	(3,656)	(22,000)
Total operating expenses	(10,603)	(17,087)	(22,688)	(15,400)	(23,886)	(17,340)	(15,751)	(119,024)
Operating loss	(10,433)	(15,877)	(20,497)	(14,888)	(22,961)	(16,833)	(15,465)	(113,014)
Costs in association with aborted 2004 IPO					(3,550)	(3,348)		(3,550)
Interest and other income (expense)	(5)	1,024	558	(1,575)	1,313	1,051	550	2,340
Loss before taxes	(10,438)	(14,853)	(19,939)	(16,463)	(25,198)	(19,130)	(14,915)	(114,224)
Income tax benefit			4,397	1,486	2,456	1,930	1,506	9,845
Net loss	(10,438)	(14,853)	(15,542)	(14,977)	(22,742)	(17,200)	(13,409)	(104,379)
Dividends on preferred shares		(3,289)	(4,654)	(4,425)	(11,053)	(8,136)	(8,910)	(32,330)
Net loss applicable to ordinary shareholders	\$ (10,438)	\$ (18,142)	\$ (20,196)	\$ (19,402)	\$ (33,795)	\$ (25,336)	\$ (22,319)	\$ (136,709)

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	As of March 31,			As of December 31,		As of
	2001	2002	2003	2003	2004	September 30, 2005
Balance Sheet Data:						
Cash and cash equivalents	\$ 1,070	\$ 21,770	\$ 16,558	\$ 4,335	\$ 7,766	\$ 5,264
Short-term investments	4,703	10,697	1,575	29,345	15,152	13,595
Working capital	4,106	31,096	17,948	34,383	20,909	6,854
Total assets	9,305	39,005	26,881	42,800	31,176	23,831
Long-term debt, net of current portion	(9,217)	(1,094)	(184)	(495)	(368)	(146)
Preferred ordinary C shares		(48,766)	(53,851)			
Total shareholders' equity (deficit)	(2,590)	(15,076)	(32,147)	37,648	23,953	8,908

Table of Contents**Selected Unaudited Pro Forma Condensed Combined Financial Data of Cyclacel and Xcyte**

(In thousands, except per share amounts)

The following selected unaudited pro forma condensed combined financial information was prepared using the purchase method of accounting. For accounting purposes, Cyclacel is considered to be acquiring Xcyte in the Stock Purchase. Cyclacel and Xcyte unaudited pro forma condensed combined balance sheet data assume that the Stock Purchase took place on September 30, 2005, and combine Cyclacel's historical balance sheet at September 30, 2005 with Xcyte's historical balance sheet at September 30, 2005. Cyclacel and Xcyte unaudited pro forma condensed combined statement of operations data assume that the Stock Purchase took place as of January 1, 2004. The unaudited pro forma condensed combined statement of operations data for the year ended December 31, 2004 combine Cyclacel's historical statement of operations for the year then ended with Xcyte's statement of operations for the year ended December 31, 2004. The unaudited pro forma condensed combined statement of operations data for the nine months ended September 30, 2005 combine Cyclacel's historical statement of operations for the nine months then ended with Xcyte's historical statement of operations for the nine months ended September 30, 2005.

The selected unaudited pro forma condensed combined financial data are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations of future periods or the results that actually would have been realized had the entities been a single entity during these periods. The selected unaudited pro forma condensed combined financial data as of and for the nine months ended September 30, 2005 and for the year ended December 31, 2004 are derived from the unaudited pro forma condensed combined financial information commencing at page 180 and should be read in conjunction with that information. See Unaudited Pro Forma Condensed Combined Financial Information.

	Year Ended December 31, 2004	Nine Months Ended September 30, 2005
	<u> </u>	<u> </u>
Unaudited Pro Forma Condensed Combined Statement of Operations Data:		
Revenue	\$ 960	\$ 321
Net loss applicable to common shareholders	(82,333)	(48,100)
Basic and diluted net loss per common share	(0.90)	(0.49)
Shares used in calculation of basic and diluted net loss per common share	91,330	98,533
		As of September 30, 2005
		<u> </u>
Unaudited Pro Forma Condensed Combined Balance Sheet Data:		
Cash, cash equivalents and short-term investments		\$ 45,581
Working capital(1)		42,098
Total assets		63,441
Long-term obligations, less current portion		3,028
Shareholders' equity		46,229
		<u> </u>

(1) Working capital excludes the derivative liability of \$2,282.

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

The following information does not give effect to the proposed one-for-ten reverse stock split of Xcyte common stock described in Proposal Five.

The information below reflects:

the historical net loss and book value per share of Cyclacel and the historical net loss and book value per share of Xcyte common stock in comparison with the unaudited pro forma net loss and book value per share after giving effect to the proposed Stock Purchase of Xcyte with Cyclacel on a purchase basis; and

the equivalent historical net loss per share attributable to shares of Xcyte common stock which will be issued in the Stock Purchase.

You should read the tables below in conjunction with the respective audited and unaudited financial statements of Xcyte incorporated by reference into this document and audited and unaudited financial statements of Cyclacel included elsewhere in this document and the related notes and the unaudited pro forma condensed financial information and notes related to such financial statements included elsewhere in this document.

CYCLACEL

	Year Ended December 31, 2004	Nine Months Ended September 30, 2005
	<u>2004</u>	<u>2005</u>
Historical Per Ordinary Share Data:		
Net loss per ordinary share basic and diluted	\$ (1.72)	\$ (1.12)
Book value per share	1.22	0.45

XCYTE

	Year Ended December 31, 2004	Nine Months Ended September 30, 2005
	<u>2004</u>	<u>2005</u>
Historical Per Common Share Data:		
Net loss per common share basic and diluted	\$ (3.90)	\$ (1.31)
Book value per share	2.26	0.93

CYCLACEL AND XCYTE

	Year Ended December 31, 2004	Nine Months Ended September 30, 2005
Combined Pro Forma Per Share Data:		
Net loss per combined share basic and diluted	\$ (0.90)	\$ (0.49)
Book value per combined share	0.51	0.47
Equivalent Pro Forma Data:		
Net loss per equivalent Cyclacel share basic and diluted	\$ (3.63)	\$ (1.94)

Table of Contents**Market Price**

Xcyte common stock is listed on the Nasdaq National Market. Public trading of Xcyte common stock under the symbol XCYT commenced on March 16, 2004.

On June 6, 2005, Xcyte received notice from the Nasdaq Stock Market that for 30 consecutive trading days the bid price of its common stock had closed below the minimum \$1.00 per share requirement and, as a result, no longer complied with the Nasdaq Stock Market's continued listing criteria set by Nasdaq Marketplace Rule 4450(a)(5). The notice stated that Xcyte would be provided with 180 calendar days, or until December 5, 2005, to regain compliance. To regain compliance anytime before December 5, 2005, the bid price of Xcyte common stock must have closed at \$1.00 per share or more for a minimum of ten consecutive business days. Xcyte did not achieve compliance with Nasdaq Marketplace Rule 4450(a)(5) by December 5, 2005, and Nasdaq provided notice that the common stock would be delisted from the Nasdaq National Market. Xcyte appealed Nasdaq's determination and appeared before a Nasdaq Appeals Panel on January 12, 2006. On February 7, 2006, the Nasdaq Appeals Panel granted a continuation of Xcyte's listing on the Nasdaq National Market subject to certain conditions, including the announcement of the consummation of the Stock Purchase and Nasdaq's approval of a new listing application by Xcyte pursuant to Nasdaq's reverse merger rules on or before April 12, 2006.

Additionally, on December 28, 2005, the Nasdaq Stock Market advised Xcyte that it considers the Stock Purchase to be a reverse merger under Nasdaq's Marketplace Rules. As a result, Nasdaq has advised Xcyte that upon completion of the Stock Purchase, Xcyte will be required to meet all of the criteria for initial listing on the Nasdaq National Market, including a minimum closing bid price of \$5.00 per share.

Prior to completion of the Stock Purchase and the reverse stock split, Xcyte intends to file an initial listing application with the Nasdaq National Market pursuant to Nasdaq's reverse merger rules. If such application is accepted, Xcyte anticipates that its common stock will be listed on the Nasdaq National Market under the trading symbol CYCC.

The following table sets forth, for the quarters indicated, the high and low sales prices for a share of Xcyte common stock as reported on the Nasdaq National Market.

	Xcyte Common Stock	
	High	Low
Fiscal 2004		
First Quarter (beginning March 2004)	\$ 8.50	\$ 6.51
Second Quarter	\$ 7.45	\$ 4.00
Third Quarter	\$ 5.04	\$ 2.99
Fourth Quarter	\$ 3.70	\$ 2.00
Fiscal 2005		
First Quarter	\$ 2.92	\$ 1.22
Second Quarter	\$ 1.45	\$ 0.57
Third Quarter	\$ 0.79	\$ 0.45
Fourth Quarter	\$ 0.75	\$ 0.25
Fiscal 2006		

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First Quarter (through February 2, 2006)

\$ 0.87

\$ 0.60

You are advised to obtain current market quotations for Xcyte common stock. No assurance can be given as to the market prices of Xcyte common stock before or after the Stock Purchase.

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The following table sets forth the closing price per share of Xcyte common stock as reported on the Nasdaq National Market on:

December 14, 2005, the last full trading day prior to the public announcement of the Stock Purchase; and

February 7, 2006 the last full trading day for which closing prices were available prior to the date of this document.

<u>Date</u>	<u>Xcyte Common Stock</u>
December 14, 2005	\$ 0.32
February 7, 2006	\$ 0.75

Cyclacel is a private company and its shares are not publicly traded. Historical market price information regarding Cyclacel shares is not provided because there is no public market for Cyclacel shares.

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Dividend Data

Xcyte has never declared or paid any cash dividends on its common stock and does not currently anticipate declaring or paying cash dividends on its common stock in the foreseeable future. Xcyte's ability to pay dividends on its common stock may be limited if Xcyte fails to pay accrued dividends on its convertible preferred stock. Xcyte, however, is required to make quarterly dividend payments on its convertible preferred stock. See "Description of Xcyte Capital Stock - Preferred Stock" beginning on page 188. Except for dividends on Xcyte convertible preferred stock, Xcyte currently intends to retain all of its future earnings, if any, to finance operations. Any future determination relating to Xcyte's dividend policy will be made at the discretion of its board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and other factors that its board of directors may deem relevant.

Cyclacel has never declared or paid any cash dividends on its share capital nor does it intend to.

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RISK FACTORS

Following the Stock Purchase, Cyclacel will be a wholly-owned subsidiary of Xcyte and Cyclacel's business will be the only business conducted by Xcyte. Xcyte will be faced with a market environment that cannot be predicted and that involves significant risks, many of which will be beyond its control. In addition to the other information contained in, or incorporated by reference into, this document, you should carefully consider the material risks described below before deciding how to vote your shares of common stock.

Risks Related to the Stock Purchase

Some of Xcyte's and Cyclacel Group plc's officers and directors have conflicts of interest that may influence them to support or approve the Stock Purchase.

Certain officers and directors of Xcyte and Cyclacel Group plc participate in arrangements that provide them with interests in the Stock Purchase that are different from yours, including, among others, the continued service as an officer or director of the combined company, retention and severance benefits, the acceleration of stock and stock option vesting, continued indemnification and the potential ability to sell an increased number of shares of common stock of the combined company. These interests, among others, may influence the officers and directors of Xcyte and Cyclacel Group plc to support or approve the Stock Purchase. For a more detailed discussion see *The Stock Purchase Interests of Certain Directors, Officers and Affiliates* on page 58.

Failure to complete the Stock Purchase may result in Xcyte or Cyclacel Group plc paying a termination fee to the other and could harm Xcyte's or Cyclacel's common stock price and future business and operations.

If the Stock Purchase is not completed, Xcyte or Cyclacel Group plc may be subject to the following risks:

if the Stock Purchase Agreement is terminated under certain circumstances, Xcyte or Cyclacel Group plc will be required to pay the other party a termination fee of \$100,000;

the price of Xcyte stock may decline to the extent that the current market price of Xcyte stock reflects a market assumption that the Stock Purchase will be completed; and

costs related to the Stock Purchase, such as legal, accounting and certain financial advisory fees, must be paid even if the Stock Purchase is not completed.

In addition, if the Stock Purchase Agreement is terminated and Xcyte's or Cyclacel Group plc's board of directors determines to seek another business combination, there can be no assurance that it will be able to find a partner willing to pay an equivalent or more attractive price than the price to be paid by each party in the Stock Purchase.

The Stock Purchase may be completed even though material adverse changes may result from the announcement of the Stock Purchase, industry-wide changes and other causes.

In general, either party can refuse to complete the Stock Purchase if there is a material adverse change affecting the other party between the date of signing (December 15, 2005) and the closing. However, certain types of changes will not prevent the Stock Purchase from being completed, even if they would have a material adverse effect on Xcyte or Cyclacel, including:

changes resulting from general economic conditions or conditions generally affecting the industry in which the respective company operates, except in either case to the extent the respective company is materially disproportionately adversely affected thereby relative to other similarly situated businesses;

changes due to the announcement of the execution of the Stock Purchase Agreement or the completion of the transactions contemplated by the Stock Purchase Agreement;

changes resulting from or relating to any change in accounting requirements or principles or any change in applicable laws, rules or regulations or the interpretation thereof;

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with respect to Xcyte, changes resulting from a change in the stock price or trading volume of Xcyte excluding any underlying effect that may have caused such change; or

with respect to Xcyte, changes resulting from the delisting or threatened or potential delisting of Xcyte common stock or preferred stock from the Nasdaq Stock Market.

If adverse changes occur but Xcyte and Cyclacel Group plc must still complete the Stock Purchase, Xcyte's stock price may suffer. This in turn may reduce the value of the Stock Purchase to the stockholders of Xcyte and the shareholders of Cyclacel Group plc.

The market price of Xcyte common stock may decline as a result of the Stock Purchase.

The market price of Xcyte common stock may decline as a result of the Stock Purchase for a number of reasons including if:

Xcyte does not achieve the perceived benefits of the Stock Purchase as rapidly or to the extent anticipated by financial or industry analysts;

the effect of the Stock Purchase on Xcyte's business and prospects is not consistent with the expectations of financial or industry analysts; or

investors react negatively to the effect on Xcyte's business and prospects from the Stock Purchase.

Xcyte and Cyclacel Group plc stockholders may not realize a benefit from the Stock Purchase commensurate with the ownership dilution they will experience in connection with the Stock Purchase.

If the combined company is unable to realize the strategic and financial benefits currently anticipated from the Stock Purchase, Xcyte and Cyclacel stockholders will have experienced substantial dilution of their ownership interest without receiving any commensurate benefit.

During the pendency of the Stock Purchase, Xcyte and Cyclacel Group plc may not be able to enter into a business combination with another party at a favorable price because of restrictions in the Stock Purchase Agreement.

Covenants in the Stock Purchase Agreement may impede the ability of Xcyte or Cyclacel Group plc to make acquisitions or complete other transactions that are not in the ordinary course of business pending completion of the Stock Purchase. As a result, if the Stock Purchase is not completed, the parties may be at a disadvantage to their competitors. In addition, while the Stock Purchase Agreement is in effect and subject to very narrowly defined exceptions, each party is prohibited from soliciting, initiating, encouraging or entering into certain extraordinary transactions, such as a merger, sale of assets or other business combination outside the ordinary course of business, with any third party. Any such transactions could be favorable to such party's stockholders.

Because the lack of a public market for the Cyclacel shares makes it difficult to evaluate the fairness of the Stock Purchase, the shareholders of Cyclacel Group plc may receive consideration in the Stock Purchase that is greater than or less than the fair market value of the Cyclacel shares.

The share capital of Cyclacel is privately held and is not traded in any public market. The lack of a public market makes it extremely difficult to determine the fair market value of Cyclacel's share capital. Since the percentage of Xcyte equity to be issued to Cyclacel Group plc and subsequently delivered to the shareholders of Cyclacel Group plc was determined based on negotiations between the parties, it is possible that the value of the Xcyte common stock to be issued in the Stock Purchase will be greater than the fair market value of the share capital of Cyclacel to be acquired by Xcyte in the Stock Purchase. Alternatively, it is possible that the value of the shares of Xcyte common stock to be issued in the Stock Purchase will be less than the fair market value of the shares of Cyclacel.

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Risks Related to Xcyte

In determining whether to approve the proposals you should carefully read the following risks. These risks all relate to Xcyte's current business and may also apply to the business of the combined company following the Stock Purchase.

The attempted development of products using Xcyte's Xcellerate Technology was Xcyte's only potential product line.

Xcyte has not successfully developed any product line with its Xcellerate Technology and it has no plans to pursue any other product line other than pursuant to the acquisition of Cyclacel pursuant to the Stock Purchase.

Xcyte may not be able to retain existing personnel.

In 2005, Xcyte reduced its staff by 99 employees. Xcyte's remaining staff, as of January 23, 2006 consisted of five employees. The uncertainty of the outcome of Xcyte's review of strategic alternatives, workforce reductions and the volatility in its stock price may create anxiety and uncertainty, which may adversely affect employee morale and cause Xcyte to lose employees whom it would prefer to retain. To the extent that Xcyte is unable to retain its existing personnel, its business and ability to pursue strategic alternatives may suffer. In addition, this workforce reduction may subject Xcyte to the risk of litigation, which could result in substantial costs and could divert management's time and attention away from business operations.

Xcyte expects to continue to incur substantial losses and may never achieve profitability.

Xcyte has incurred significant operating losses since it began operations in 1996, including net losses of approximately \$39.6 million for the year ended December 31, 2004 and \$25.8 million for the nine months ended September 30, 2005, and Xcyte may never become profitable. As of September 30, 2005, Xcyte had an accumulated deficit since inception of approximately \$152.0 million. These losses have resulted principally from costs incurred in Xcyte's research and development programs and from its general and administrative expenses. To date, Xcyte has derived no revenues from product sales or royalties. Xcyte does not expect to have any product sales or royalty revenue in the foreseeable future. Xcyte's operating losses have been increasing during the past several years and may increase significantly in the future. Xcyte also may be required to recognize additional losses based upon changes in the fair value of its derivative liability, which resulted from the dividend make-whole payment feature of its convertible preferred stock. These losses, among other things, have had and will continue to have an adverse effect on Xcyte's stockholders' equity and working capital. Xcyte is unable to predict when it may become profitable, if at all. If Xcyte is unable to achieve and then maintain profitability, the market value of its common stock and convertible preferred stock will likely decline.

Xcyte may be unable to maintain its listing on Nasdaq, which could cause Xcyte's stock price to fall and decrease the liquidity of its stock.

Xcyte common stock and convertible preferred stock are traded on the Nasdaq National Market, which has compliance requirements for continued listing, including a requirement that Xcyte common stock and convertible preferred stock each have a minimum bid price of \$1.00 per share. On June 6, 2005, Xcyte received a notice from the Nasdaq Stock Market that for 30 consecutive trading days the bid price of its common

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stock had closed below the minimum \$1.00 per share requirement and, as a result, its common stock no longer complied with Nasdaq's continued listing criteria. The letter stated that Xcyte would be provided with 180 calendar days, or until December 5, 2005, to regain compliance. Xcyte common stock did not regain compliance with this requirement by December 5, 2005, and Xcyte received a notice on December 5, 2005 from the Nasdaq Stock Market that its common stock would be delisted. Xcyte appealed Nasdaq's determination and appeared before a Nasdaq Appeals Panel on January 12, 2006. On February 7, 2006, the Nasdaq Appeals Panel granted a continuation of Xcyte's listing on the Nasdaq National Market subject to certain conditions, including the announcement of the consummation of the Stock Purchase and Nasdaq's approval of a new listing application by Xcyte pursuant to Nasdaq's reverse merger rules on or before April 12, 2006.

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If Xcyte's shares of common stock are delisted and any appeal Xcyte might file receives an unfavorable determination by Nasdaq, Xcyte common stock would be removed from listing on the Nasdaq National Market, and Xcyte may seek to have the applicable shares of common stock listed for trading on the Nasdaq Capital Market (formerly known as the Nasdaq SmallCap Market). Xcyte cannot assure you that it would be able to obtain listing for its shares of common stock on the Nasdaq Capital Market or that it will be able on an ongoing basis to meet the maintenance requirements thereof. If Xcyte common stock is delisted, its convertible preferred stock would also be delisted unless the convertible preferred stock meets the minimum listing requirements applicable to its common stock.

Additionally, on December 28, 2005, The Nasdaq Stock Market advised Xcyte that it considers the Stock Purchase to be a reverse merger under Nasdaq's Marketplace Rules. Based on this conclusion, Nasdaq has advised Xcyte that upon consummation of the Stock Purchase, Xcyte will be required to meet all of the initial inclusion criteria for initial listing on The Nasdaq National Market, including a closing bid price of \$5.00 per share.

If Xcyte's shares of common stock were to be delisted from trading on the Nasdaq National Market, in order to obtain relisting on the Nasdaq National Market, Xcyte would need to satisfy certain quantitative designation criteria, which it may not meet.

If Xcyte's shares of common stock were to be delisted from trading on the Nasdaq National Market and were neither relisted thereon nor listed for trading on the Nasdaq Capital Market, trading, if any, in Xcyte's shares of common stock may continue to be conducted on the OTC Bulletin Board or in a non-Nasdaq over-the-counter market, such as the pink sheets. Delisting of Xcyte's shares of common stock would result in limited release of the market price of those shares of common stock and limited analyst coverage and could restrict investors' interest in Xcyte's securities. Also, a delisting could materially adversely affect the trading market and prices for Xcyte's shares of common stock and its ability to issue additional securities or to secure additional financing. In addition, if Xcyte's shares of common stock were not listed and the trading price of its shares of common stock was less than \$5 per share, Xcyte's shares of common stock could be subject to Rule 15c-9 under the Securities Exchange Act of 1934 which, among other things, requires that broker/dealers satisfy special sales practice requirements, including making individualized written suitability determinations and receiving a purchaser's written consent prior to any transaction. In such case, Xcyte's securities could also be deemed to be a penny stock under the Securities Enforcement and Penny Stock Reform Act of 1990, which would require additional disclosure in connection with trades in those shares of common stock, including the delivery of a disclosure schedule explaining the nature and risks of the penny stock market. Such requirements could severely limit the liquidity of Xcyte's securities.

Xcyte may have limited ability to pay cash dividends on the convertible preferred stock.

Delaware law may limit Xcyte's ability to pay cash dividends on the convertible preferred stock. Under Delaware law, cash dividends on Xcyte's capital stock may only be paid from surplus or, if there is no surplus, from the corporation's net profits for the current or preceding fiscal year. Delaware law defines surplus as the amount by which the total assets of a corporation, after subtracting its total liabilities, exceed the corporation's capital, as determined by its board of directors. Since Xcyte is not profitable, its ability to pay cash dividends will require the availability of adequate surplus. Even if adequate surplus is available to pay cash dividends on the convertible preferred stock, Xcyte may not have sufficient cash to pay dividends on the convertible preferred stock. If that was to happen, holders of preferred stock would be granted certain additional rights until such dividends were repaid. See Description of Xcyte Capital Stock Preferred Stock beginning on page 188.

There are risks inherent in Xcyte's past business operations that may subject it to potential product liability suits and other claims, which may require it to engage in expensive and time-consuming litigation or pay substantial damages.

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Xcyte's past business operations expose it to product liability risks, which are inherent in the testing, manufacturing, marketing and sale of biopharmaceutical products and these risks will continue to effect Xcyte

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after the Stock Purchase. Even if Xcyte does not decide to resume the clinical development of its products, Xcyte faces a risk of clinical trial liability claims in the event that the prior use, or misuse, of its product candidates during clinical trials resulted in personal injury or death. An individual may bring a product liability claim against Xcyte if Xcellerated T Cells cause, or merely appear to have caused, an injury.

Xcyte currently has clinical trial insurance that covers its clinical trials up to \$5.0 million per occurrence with a \$5.0 million aggregate limit. However, due to factors outside of Xcyte's control, including the risks discussed above as well as conditions in the relevant insurance markets, Xcyte may not be able to renew such coverage on acceptable terms, if at all. Furthermore, even if Xcyte secures coverage, it may not be able to obtain policy limits adequate to satisfy any liability that may arise. If a successful product liability or other claim or series of claims is brought against Xcyte for uninsured liabilities or in excess of insured liabilities, its assets may not be sufficient to cover these claims and its business operations could suffer.

If Xcyte's principal stockholders, executive officers and directors choose to act together, they may be able to control its management and operations, acting in their best interests and not necessarily those of other stockholders.

Xcyte's executive officers, directors and principal stockholders, and entities affiliated with them, beneficially own a significant percentage of its common stock and convertible preferred stock. This significant concentration of share ownership may adversely affect the trading price of Xcyte common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. These stockholders, acting together, have the ability to exert substantial influence over all matters requiring approval by Xcyte's stockholders, including the election and removal of directors and any proposed Stock Purchase, consolidation or sale of all or substantially all of Xcyte's assets. In addition, they could dictate the management of Xcyte's business and affairs. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control of Xcyte or impeding a stock purchase, consolidation, takeover or other business combination that could be favorable to you. Since Xcyte convertible preferred stock has limited voting rights prior to conversion, holders of its convertible preferred stock will have little or no ability to control the outcome of a stockholder vote, except under certain circumstances where a class vote of Xcyte convertible preferred stock will be required, including, among others, upon certain amendments to the Company's certificate of incorporation or bylaws or upon a share exchange, stock purchase or consolidation of the Company unless Xcyte's shares of convertible preferred stock remain outstanding and unaffected by such transaction or convert into similar preferred stock of the surviving entity pursuant to such transaction.

Xcyte will soon be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 regarding internal control attestation and any inability to do so may negatively impact the report on its financial statements.

Section 404 of the Sarbanes-Oxley Act of 2002 requires Xcyte's management to assess the effectiveness of its internal controls over financial reporting and include an assertion in Xcyte's annual report as to the effectiveness of its controls beginning the year ending December 31, 2007, assuming Xcyte remains a non-accelerated filer as defined per SEC regulations. Subsequently, Xcyte's independent registered public accounting firm will be required to attest to whether Xcyte's assessment of the effectiveness of its internal control over financial reporting is fairly stated in all material respects and separately report on whether it believes Xcyte maintained, in all material respects, effective internal control over financial reporting for the year ending December 31, 2007. Due to the recent departure of Xcyte's Associate Director of SEC Reporting and its Controller, as well as any difficulties Xcyte may have in retaining its current personnel and the transition to new employees following the Stock Purchase, Xcyte cannot assure you that it will be able to identify deficiencies in its internal controls, remediate such deficiencies in a timely manner or comply with the Section 404 disclosure requirements for the year ending December 31, 2007. If Xcyte identifies deficiencies in its existing internal controls and are not able to remediate such deficiencies in a timely fashion or otherwise comply with the Section 404 disclosure requirements for the year ending December 31, 2007, Xcyte will not be able to give assurance regarding the effectiveness of its internal controls and the report on its financial statements provided by its independent auditors may be negatively impacted.

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Xcyte's common and convertible preferred stock may experience extreme price and volume fluctuations, which could lead to costly litigation for Xcyte and make an investment in Xcyte less appealing.

The market price of Xcyte's common and convertible preferred stock may fluctuate substantially due to a variety of factors, including:

the course of action that Xcyte takes with respect to the review of its strategic alternatives;

additions to or departures of Xcyte's key personnel;

announcements of technological innovations or new products or services by Xcyte or its competitors;

media reports and publications about immunotherapy;

announcements concerning Xcyte's competitors or the biotechnology industry in general;

new regulatory pronouncements and changes in regulatory guidelines;

general and industry-specific economic conditions;

changes in financial estimates or recommendations by securities analysts;

variations in Xcyte's quarterly results;

announcements about Xcyte's collaborators or licensors; and

changes in accounting principles.

The market prices of the securities of biotechnology companies, particularly companies like Xcyte without product revenues and earnings, have been highly volatile and are likely to remain highly volatile in the future. This volatility has often been unrelated to the performance of particular companies. In the past, companies that experience volatility in the market price of their securities have often faced securities class action litigation. Moreover, market prices for stocks of biotechnology-related and technology companies frequently reach levels that bear no relationship to the performance of these companies. These market prices generally are not sustainable and are highly volatile. Whether or not meritorious, litigation brought against Xcyte could result in substantial costs, divert Xcyte's management's attention and resources and harm Xcyte's financial condition and results of operations.

Xcyte's certificate of incorporation and bylaws and certain provisions of Delaware law may delay or prevent a change in Xcyte's management and make it more difficult for a third party to acquire Xcyte.

Xcyte's certificate of incorporation and bylaws contain provisions that could delay or prevent a change in its board of directors and management teams. Some of these provisions:

authorize the issuance of preferred stock that can be created and issued by the board of directors without prior stockholder approval, commonly referred to as "blank check" preferred stock, with rights senior to those of Xcyte common stock;

provide for the board of directors to be divided into three classes; and

require that stockholder actions must be effected at a duly called stockholder meeting and prohibit stockholder action by written consent.

In addition, because Xcyte is incorporated in Delaware, Xcyte is governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of large stockholders to complete a business combination with, or acquisition of Xcyte. These provisions may prevent a business combination or acquisition that would be attractive to stockholders and could limit the price that investors would be willing to pay in the future for Xcyte's stock.

These provisions also make it more difficult for Xcyte's stockholders to replace members of its board of directors. Because Xcyte's board of directors is responsible for appointing the members of its management team,

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these provisions could in turn affect any attempt to replace Xcyte's current management team. Additionally, these provisions may prevent an acquisition that would be attractive to stockholders and could limit the price that investors would be willing to pay in the future for Xcyte common stock.

The future sale of Xcyte's common and convertible preferred stock, and future issuances of Xcyte common stock upon conversion of its convertible preferred stock and upon the payment of make-whole dividends, if any, could negatively affect Xcyte's stock price.

If Xcyte's common or convertible preferred stockholders sell substantial amounts of its stock in the public market, or the market perceives that such sales may occur, the market price of Xcyte's common and convertible preferred stock could fall.

In addition, if Xcyte exercises its rights to pay make-whole dividends in common stock rather than in cash upon conversion of its convertible preferred stock to common stock, then the sale of such shares of common stock or the perception that such sales may occur could cause the market price of Xcyte's stock to fall. Additionally, after Xcyte's convertible preferred stock offering, the holders of its convertible preferred stock had the right to convert each share of convertible preferred stock into approximately 4.2553 shares of its common stock. Such conversion rate is subject to certain antidilution adjustments that, upon the occurrence of certain events, will increase the number of shares of common stock that each holder of convertible preferred stock will receive upon conversion into common stock. Such antidilution price adjustments may apply in the case of any strategic alternative that Xcyte pursues which may result in further dilution to the holders of outstanding common stock. The conversion of Xcyte convertible preferred stock into common stock and the payment of any make-whole dividends in shares of common stock in lieu of cash, may result in substantial dilution to the interests of Xcyte's holders of common stock.

After Xcyte convertible preferred stock offering, according to the terms of Xcyte's investors rights agreement, the holders of approximately 9.0 million shares of Xcyte common stock and warrants had rights, subject to some conditions, to require Xcyte to file registration statements covering their shares of common stock or to include their shares of common stock in registration statements that Xcyte may file for itself or other stockholders. Furthermore, if Xcyte were to include in a company-initiated registration statement shares of common stock held by those holders pursuant to the exercise of their registration rights, those sales could impair its ability to raise needed capital by depressing the price at which it could sell its common stock.

If Xcyte exchanges the convertible preferred stock for debentures, the exchange will be taxable but Xcyte will not provide any cash to pay any tax liability that any convertible preferred stockholder may incur.

An exchange of convertible preferred stock for debentures, as well as any dividend make-whole or interest make-whole payments paid in Xcyte common stock, will be taxable events for U.S. federal income tax purposes, which may result in tax liability for the holder of convertible preferred stock without any corresponding receipt of cash by the holder. In addition, the debentures may be treated as having original issue discount, a portion of which would generally be required to be included in the holder's gross income even though the cash to which such income is attributable would not be received until maturity or redemption of the debenture. Xcyte will not distribute any cash to you to pay these potential tax liabilities.

If Xcyte automatically converts the convertible preferred stock, there is a substantial risk of fluctuation in the price of Xcyte common stock from the date it elects to automatically convert to the conversion date.

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Xcyte may elect to automatically convert the convertible preferred stock on or prior to maturity if Xcyte common stock price has exceeded 150% of the conversion price for at least 20 trading days during a 30-day trading period ending within five trading days prior to the notice of automatic conversion. You should be aware that there is a risk of fluctuation in the price of Xcyte common stock between the time when it may first elect to automatically convert the preferred and the automatic conversion date.

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Xcyte does not intend to pay cash dividends on its common stock in the foreseeable future.

Xcyte does not anticipate paying cash dividends on its common stock in the foreseeable future. Any payment of cash dividends will depend on Xcyte's financial condition, results of operations, capital requirements, the outcome of the review of Xcyte's strategic alternatives and other factors and will be at the discretion of Xcyte's board of directors. Accordingly, investors will have to rely on capital appreciation, if any, to earn a return on their investment in Xcyte common stock. Furthermore, Xcyte may in the future become subject to contractual restrictions on, or prohibitions against, the payment of dividends.

Risks Related to Cyclacel

In determining whether to approve the proposals Xcyte stockholders should carefully read the following risk factors. Immediately following the Stock Purchase, Xcyte's only business will be the business conducted by Cyclacel immediately prior to the Stock Purchase. As a result, the following risks are among the most significant that you will face if the Stock Purchase is completed.

Cyclacel is at an early stage of development as a company and Cyclacel does not have, and may never have, any products that generate revenues.

Cyclacel is at an early stage of development as a company and has a limited operating history on which to evaluate its business and prospects. Since beginning operations in 1997, Cyclacel has not generated any product revenues. Cyclacel currently has no products for sale and Cyclacel cannot guarantee that it will ever have any marketable products. Cyclacel must demonstrate that its drug candidates satisfy rigorous standards of safety and efficacy for their intended uses before the Food and Drug Administration, or FDA, and other regulatory authorities in the United States, the European Union and elsewhere. Significant additional research, preclinical testing and clinical testing is required before Cyclacel can file applications with the FDA or other regulatory authorities for premarket approval of its drug candidates. In addition, to compete effectively, its drugs must be easy to administer, cost-effective and economical to manufacture on a commercial scale. Cyclacel may not achieve any of these objectives. Seliciclib and sapacitabine, its most advanced drug candidates for the treatment of cancer, are currently its only drug candidates in clinical trials and Cyclacel cannot be certain that the clinical development of these or any other drug candidates in preclinical testing or clinical development will be successful, that they will receive the regulatory approvals required to commercialize them or that any of its other research and drug discovery programs will yield a drug candidate suitable for investigation through clinical trials. Its commercial revenues, if any, will be derived from sales of drugs that Cyclacel does not expect to become marketable for several years, if at all.

Cyclacel has a history of operating losses and Cyclacel may never become profitable.

Cyclacel has incurred operating losses in each year since beginning operations in 1997 due to costs incurred in connection with its research and development activities and general and administrative costs associated with its operations, and Cyclacel may never achieve profitability. As of December 31, 2004, its accumulated deficit was \$91.0 million. Its net loss for the nine months ended September 30, 2005, the fiscal year ended December 31, 2004, the fiscal nine months ended December 31, 2003, and the fiscal year ended March 31, 2003 was \$13.4 million, \$22.7 million, \$15.0 million, and \$15.5 million, respectively. Its net loss from inception through September 30, 2005 was \$104.4 million. Its initial drug candidates are in the early stages of clinical testing and it must conduct significant additional clinical trials before it can seek the regulatory approvals necessary to begin commercial sales of its drugs. Cyclacel expects to incur continued losses for several years, as it continues its research and development of its initial drug candidates, seeks regulatory approvals and commercializes any approved drugs. If its initial drug candidates are unsuccessful in clinical trials or Cyclacel is unable to obtain regulatory approvals, or if its drugs are unsuccessful in the market, Cyclacel will not be profitable. If Cyclacel fails to become and remain profitable, or if Cyclacel is unable to fund its continuing losses, you could

lose all or part of your investment.

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Cyclacel will need to raise substantial additional capital to fund its operations and if Cyclacel fails to obtain additional funding, Cyclacel may be unable to complete the development and commercialization of its drug candidates or continue its research and development programs.

Cyclacel has funded all of its operations and capital expenditures with proceeds from private placements of its securities, interest on investments, government grants and research and development tax credits. In order to conduct the lengthy and expensive research, preclinical testing and clinical trials necessary to complete the development and marketing of its drug candidates, Cyclacel will require substantial additional funds. For example, for the fiscal year ended December 31, 2004, its cash outflow to fund operations was approximately \$19.6 million. To meet these financing requirements, Cyclacel may raise funds through public or private equity offerings, debt financings or strategic alliances. Raising additional funds by issuing equity or convertible debt securities may cause its shareholders to experience substantial dilution in their ownership interests and new investors may have rights superior to the rights of Cyclacel's other stockholders. Raising additional funds through debt financing, if available, may involve covenants that restrict its business activities and options. To the extent that Cyclacel raises additional funds through collaborations and licensing arrangements, Cyclacel may have to relinquish valuable rights to its drug discovery and other technologies, research programs or drug candidates, or grant licenses on terms that may not be favorable to it. Additional funding may not be available to it on favorable terms, or at all. If Cyclacel is unable to obtain additional funds, Cyclacel may be forced to delay or terminate its clinical trials and the development and marketing of its drug candidates.

Clinical trials are expensive, time consuming and subject to delay.

Clinical trials are expensive and complex, can take many years and have uncertain outcomes. Cyclacel estimates that clinical trials of its most advanced drug candidates will continue for several years, but may take significantly longer to complete. Failure can occur at any stage of the testing and Cyclacel may experience numerous unforeseen events during, or as a result of, the clinical trial process that could delay or prevent commercialization of its current or future drug candidates, including but not limited to:

delays in securing clinical investigators or trial sites for its clinical trials;

delays in obtaining institutional review board, or IRB, and other regulatory approvals to commence a clinical trial;

slower than anticipated patient recruitment and enrollment;

negative or inconclusive results from clinical trials;

unforeseen safety issues;

uncertain dosing issues; and

inability to monitor patients adequately during or after treatment or problems with investigator or patient compliance with the trial protocols.

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If Cyclacel suffers any significant delays, setbacks or negative results in, or termination of, its clinical trials, it may be unable to continue development of its drug candidates or generate revenue and its development costs could increase significantly.

If Cyclacel's understanding of the role played by CDKs or Aurora kinases in regulating the cell cycle is incorrect, this may hinder pursuit of Cyclacel's clinical and regulatory strategy.

Cyclacel has programs to develop small molecule inhibitors of Cyclin Dependent kinases (CDK) and Aurora kinases. Its lead drug candidate, seliciclib, is a CDK inhibitor, and CYC116 is an Aurora kinase inhibitor, based on its understanding of CDK and Aurora Kinase inhibitors. Although a number of pharmaceutical and biotechnology companies are attempting to develop CDK or Aurora inhibitor drugs for the treatment of cancer, no CDK or Aurora kinase inhibitor has yet reached the market. Cyclacel's seliciclib program relies on its understanding of the interaction of CDKs with other cellular mechanisms that regulate key stages of cell

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growth. If its understanding of the role played by CDKs or Aurora kinase inhibitors in regulating the cell cycle is incorrect, its lead drug and CYC116 may fail to produce therapeutically relevant results, hindering its ability to pursue its clinical and regulatory strategy.

If Cyclacel fails to enter into and maintain successful strategic alliances for its drug candidates, Cyclacel may have to reduce or delay its drug candidate development or increase its expenditures.

An important element of Cyclacel's strategy for developing, manufacturing and commercializing its drug candidates is entering into strategic alliances with pharmaceutical companies or other industry participants to advance its programs and enable it to maintain its financial and operational capacity. Cyclacel faces significant competition in seeking appropriate alliances. Cyclacel may not be able to negotiate alliances on acceptable terms, if at all. In addition, these alliances may be unsuccessful. If Cyclacel fails to create and maintain suitable alliances, Cyclacel may have to limit the size or scope of, or delay, one or more of its drug development or research programs. If Cyclacel elects to fund drug development or research programs on its own, Cyclacel will have to increase its expenditures and will need to obtain additional funding, which may be unavailable or available only on unfavorable terms.

Cyclacel is making extensive use of biomarkers, which are not yet scientifically validated, and its reliance on biomarker data may thus lead it to direct its resources inefficiently.

Cyclacel is making extensive use of biomarkers in an effort to facilitate its drug development and to optimize its clinical trials. Biomarkers are proteins or other substances whose presence in the blood can serve as an indicator of specific cell processes. Cyclacel believes that these biological markers serve a useful purpose in helping it to evaluate whether its drug candidates are having their intended effects through their assumed mechanisms, and thus enable it to identify more promising drug candidates at an early stage and to direct its resources efficiently. Cyclacel also believes that biomarkers may eventually allow it to improve patient selection in connection with clinical trials and monitor patient compliance with trial protocols.

For most purposes, however, biomarkers have not yet been scientifically validated. If its understanding and use of biomarkers is inaccurate or flawed, or if its reliance on them is otherwise misplaced, then Cyclacel will not only fail to realize any benefits from using biomarkers, but may also be led to invest time and financial resources inefficiently in attempting to develop inappropriate drug candidates. Moreover, although the FDA has issued for comment a draft guidance document on the potential use of biomarker data in clinical development, such data are not currently accepted by the FDA or other regulatory agencies in the United States, the European Union or elsewhere in applications for regulatory approval of drug candidates and there is no guarantee that such data will ever be accepted by the relevant authorities in this connection. Its biomarker data should not be interpreted as evidence of efficacy.

To the extent Cyclacel elects to fund the development of a drug candidate or the commercialization of a drug at its expense, Cyclacel will need substantial additional funding.

Cyclacel plans to market drugs on its own, with or without a partner, that can be effectively commercialized and sold in concentrated markets that do not require a large sales force to be competitive. To achieve this goal, Cyclacel will need to establish its own specialized sales force, marketing organization and supporting distribution capabilities. The development and commercialization of its drug candidates is very expensive. To the extent Cyclacel elects to fund the full development of a drug candidate or the commercialization of a drug at its expense, Cyclacel will need to raise substantial additional funding to:

fund research and development and clinical trials connected with its research;

seek regulatory approvals;

build or access manufacturing and commercialization capabilities;

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commercialize and secure coverage, payment and reimbursement of its drug candidates, if any such candidates receive regulatory approval; and

hire additional management and scientific personnel.

Cyclacel's future funding requirements will depend on many factors, including:

the scope, rate of progress and cost of its clinical trials and other research and development activities;

the costs and timing of seeking and obtaining regulatory approvals;

the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;

the costs associated with establishing sales and marketing capabilities;

the costs of acquiring or investing in businesses, products and technologies;

the effect of competing technological and market developments; and

the payment, other terms and timing of any strategic alliance, licensing or other arrangements that Cyclacel may establish.

If Cyclacel is not able to secure additional funding when needed, Cyclacel may have to delay, reduce the scope of or eliminate one or more of its clinical trials or research and development programs or future commercialization efforts.

Due to its reliance on contract research organizations or other third parties to conduct clinical trials, Cyclacel is unable to directly control the timing, conduct and expense of its clinical trials.

Cyclacel does not have the ability to independently conduct clinical trials required to obtain regulatory approvals for its drug candidates. Cyclacel must rely on third parties, such as contract research organizations, medical institutions, clinical investigators and contract laboratories to conduct its clinical trials. In addition, Cyclacel relies on third parties to assist with its preclinical development of drug candidates. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, if the third parties need to be replaced or if the quality or accuracy of the data they obtain is compromised due to the failure to adhere to its clinical protocols or regulatory requirements or for other reasons, its preclinical development activities or clinical trials may be extended, delayed, suspended or terminated, and Cyclacel may not be able to obtain regulatory approval for or successfully commercialize its drug candidates.

To the extent Cyclacel is able to enter into collaborative arrangements or strategic alliances, Cyclacel will be exposed to risks related to those collaborations and alliances.

Although Cyclacel is not currently party to any collaboration arrangement or strategic alliance that is material to its business, in the future Cyclacel expects to be dependent upon collaborative arrangements or strategic alliances to complete the development and commercialization of some of its drug candidates particularly after the Phase II stage of clinical testing. These arrangements may place the development of its drug candidates outside its control, may require it to relinquish important rights or may otherwise be on terms unfavorable to it.

Cyclacel may be unable to locate and enter into favorable agreements with third parties, which could delay or impair its ability to develop and commercialize its drug candidates and could increase its costs of development and commercialization. Dependence on collaborative arrangements or strategic alliances will subject it to a number of risks, including the risk that:

Cyclacel may not be able to control the amount and timing of resources that its collaborators may devote to the drug candidates;

its collaborators may experience financial difficulties;

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Cyclacel may be required to relinquish important rights such as marketing and distribution rights;

business combinations or significant changes in a collaborator's business strategy may also adversely affect a collaborator's willingness or ability to complete its obligations under any arrangement;

a collaborator could independently move forward with a competing drug candidate developed either independently or in collaboration with others, including its competitors; and

collaborative arrangements are often terminated or allowed to expire, which would delay the development and may increase the cost of developing its drug candidates.

Cyclacel has no manufacturing capacity and will rely on third party manufacturers for the late stage development and commercialization of any drugs Cyclacel may develop.

Cyclacel does not currently operate manufacturing facilities for clinical or commercial production of its drug candidates under development. Cyclacel currently lacks the resources or the capacity to manufacture any of its products on a clinical or commercial scale. Cyclacel anticipates future reliance on a limited number of third party manufacturers until Cyclacel is able to expand its operations to include manufacturing capacities. Any performance failure on the part of future manufacturers could delay late stage clinical development or regulatory approval of its drug candidates or commercialization of its drugs, producing additional losses and depriving it of potential product revenues.

If the FDA or other regulatory agencies approve any of its drug candidates for commercial sale, or if Cyclacel significantly expands its clinical trials, Cyclacel will need to manufacture them in larger quantities. To date, its drug candidates have been manufactured in small quantities for preclinical testing and clinical trials and Cyclacel may not be able to successfully increase the manufacturing capacity, whether in collaboration with third party manufacturers or on its own, for any of its drug candidates in a timely or economic manner, or at all. For example, the manufacture of its drug candidate sapacitabine and CYC116 require several steps and it is not yet known if scale up to commercial production is feasible. Significant scale-up of manufacturing may require additional validation studies, which the FDA and other regulatory bodies must review and approve. If Cyclacel is unable to successfully increase the manufacturing capacity for a drug candidate whether for late stage clinical trials or for commercial sale, the drug development, regulatory approval or commercial launch of any related drugs may be delayed or there may be a shortage in supply. Even if any third party manufacturer makes improvements in the manufacturing process for its drug candidates, Cyclacel may not own, or may have to share, the intellectual property rights to such innovation.

Cyclacel currently has no marketing or sales staff. If Cyclacel is unable to conclude strategic alliances with marketing partners or if Cyclacel is unable to develop its own sales and marketing capabilities, Cyclacel may not be successful in commercializing any drugs Cyclacel may develop.

Cyclacel's strategy is to develop compounds through the Phase II stage of clinical testing and market or co-promote certain of its drugs on its own. Cyclacel has no sales, marketing or distribution capabilities. Cyclacel will depend primarily on strategic alliances with third parties, which have established distribution systems and sales forces, to commercialize its drugs. To the extent that Cyclacel is unsuccessful in commercializing any drugs itself or through a strategic alliance, product revenues will suffer, Cyclacel will incur significant additional losses and its share price will be negatively affected.

If Cyclacel evolves from a company primarily involved in discovery and development to one also involved in the commercialization of drugs, Cyclacel may encounter difficulties in managing its growth and expanding its operations successfully.

If Cyclacel advances its drug candidates through clinical trials, Cyclacel will need to expand its development and regulatory capabilities and develop manufacturing, marketing and sales capabilities or contract with third parties to provide these capabilities for it. If its operations expand, Cyclacel expects that Cyclacel will

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need to manage additional relationships with various collaborative partners, suppliers and other third parties. Its ability to manage its operations and any growth will require it to make appropriate changes and upgrades (as necessary) to its operational, financial and management controls, reporting systems and procedures where Cyclacel may operate. Any inability to manage growth could delay the execution of its business plan or disrupt its operations.

The failure to attract and retain skilled personnel could impair Cyclacel's drug development and commercialization efforts.

Cyclacel is highly dependent on its senior management and key scientific and technical personnel. The loss of the services of any member of its senior management, scientific or technical staff may significantly delay or prevent the achievement of drug development and other business objectives and could have a material adverse effect on its business, operating results and financial condition. Cyclacel also relies on consultants and advisors to assist it in formulating its research and development strategy. All of its consultants and advisors are either self-employed or employed by other organizations, and they may have conflicts of interest or other commitments, such as consulting or advisory contracts with other organizations, that may affect their ability to contribute to it.

Cyclacel intends to expand and develop new drug candidates. Cyclacel will need to hire additional employees in order to continue its clinical trials and market its drug candidates. This strategy will require it to recruit additional executive management and scientific and technical personnel. There is currently intense competition for skilled executives and employees with relevant scientific and technical expertise, and this competition is likely to continue. The inability to attract and retain sufficient scientific, technical and managerial personnel could limit or delay its product development efforts, which would adversely affect the development of its drug candidates and commercialization of its potential drugs and growth of its business.

Cyclacel's drug candidates are subject to extensive regulation, which can be costly and time-consuming, and Cyclacel may not obtain approvals for the commercialization of any of its drug candidates.

The clinical development, manufacturing, selling and marketing of its drug candidates are subject to extensive regulation by the FDA and other regulatory authorities in the United States, the European Union and elsewhere. These regulations also vary in important, meaningful ways from country to country. Cyclacel is not permitted to market a potential drug in the United States until Cyclacel receives approval of a New Drug Application, or NDA, from the FDA. Cyclacel has not received an NDA approval from the FDA for any of its drug candidates.

Obtaining an NDA approval is expensive and is a complex, lengthy and uncertain process. The FDA approval process for a new drug involves completion of preclinical studies and the submission of the results of these studies to the FDA, together with proposed clinical protocols, manufacturing information, analytical data and other information in an Investigational New Drug application, or IND, which must become effective before human clinical trials may begin. Clinical development typically involves three phases of study: Phase I, II and III. The most significant costs associated with clinical development are the Phase III clinical trials as they tend to be the longest and largest studies conducted during the drug development process. After completion of clinical trials, an NDA may be submitted to the FDA. In responding to an NDA, the FDA may refuse to file the application, or if accepted for filing, the FDA may grant marketing approval, request additional information or deny the application if it determines that the application does not provide an adequate basis for approval. In addition, failure to comply with FDA and other applicable foreign and U.S. regulatory requirements may subject it to administrative or judicially imposed sanctions. These include warning letters, civil and criminal penalties, injunctions, product seizure or detention, product recalls, total or partial suspension of production and refusal to approve either pending NDAs, or supplements to approved NDAs.

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Despite the substantial time and expense invested in preparation and submission of an NDA or equivalents in other jurisdictions, regulatory approval is never guaranteed. The FDA and other regulatory authorities in the

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United States, the European Union and elsewhere exercise substantial discretion in the drug approval process. The number, size and design of preclinical studies and clinical trials that will be required for FDA or other regulatory approval will vary depending on the drug candidate, the disease or condition for which the drug candidate is intended to be used and the regulations and guidance documents applicable to any particular drug candidate. The FDA or other regulators can delay, limit or deny approval of a drug candidate for many reasons, including, but not limited to:

those discussed in the risk factor which immediately follows;

the fact that FDA or other regulatory officials may not approve its or its third party manufacturer's processes or facilities; or

the fact that new regulations may be enacted by the FDA or other regulators may change their approval policies or adopt new regulations requiring new or different evidence of safety and efficacy for the intended use of a drug candidate.

Adverse events have been observed in Cyclacel's clinical trials and may force it to stop development of its product candidates or prevent regulatory approval of its product candidates.

Adverse or inconclusive results from Cyclacel's clinical trials may substantially delay, or halt entirely, any further development of its drug candidates. Many companies have failed to demonstrate the safety or effectiveness of drug candidates in later stage clinical trials notwithstanding favorable results in early stage clinical trials. Previously unforeseen and unacceptable side effects could interrupt, delay or halt clinical trials of its drug candidates and could result in the FDA or other regulatory authorities denying approval of its drug candidates. Cyclacel will need to demonstrate safety and efficacy for specific indications of use, and monitor safety and compliance with clinical trial protocols throughout the development process. To date, long-term safety and efficacy has not yet been demonstrated in clinical trials for any of its drug candidates. Toxicity and severe adverse effects as defined in trial protocols have been noted in preclinical and clinical trials involving certain of its drug candidates. For example, elevation of liver enzymes and decrease in potassium levels have been observed in some patients receiving its lead drug candidate, seliciclib. In addition, Cyclacel may pursue clinical trials for seliciclib in more than one indication. There is a risk that severe toxicity observed in a trial for one indication could result in the delay or suspension of all trials involving the same drug candidate. Cyclacel is currently conducting Phase IIa clinical trials to test the safety and efficacy of seliciclib, in the treatment of non small cell lung cancer and hematological cancers. Independent investigators are conducting a Phase I clinical trial to test the safety of seliciclib in nasopharyngeal cancer and Phase I clinical trials to test the safety of sapacitabine in patients with advanced cancers. Cyclacel expects to report final results of these trials in 2006. Cyclacel believes but cannot be certain that the independent investigators will publish their results in the near future. If these trials or any future trials are unsuccessful, its business and reputation could be harmed and its share price could be negatively affected.

Even if Cyclacel believes the data collected from clinical trials of its drug candidates are promising with respect to safety and efficacy, such data may not be deemed sufficient by regulatory authorities to warrant product approval. Clinical data can be interpreted in different ways. Regulatory officials could interpret such data in different ways than Cyclacel does which could delay, limit or prevent regulatory approval. The FDA, other regulatory authorities or Cyclacel may suspend or terminate clinical trials at any time. Any failure or significant delay in completing clinical trials for its drug candidates, or in receiving regulatory approval for the commercialization of its drug candidates, may severely harm its business and reputation.

Following regulatory approval of any drug candidate, Cyclacel would be subject to ongoing regulatory obligations and restrictions, which may result in significant expense and limit its ability to commercialize its potential drugs.

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If one of its drug candidates is approved by the FDA or by another regulatory authority, Cyclacel would be held to extensive regulatory requirements over product manufacturing, labeling, packaging, adverse event

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reporting, storage, advertising, promotion and record keeping. Regulatory approvals may also be subject to significant limitations on the indicated uses or marketing of the drug candidates. Potentially costly follow-up or post-marketing clinical studies may be required as a condition of approval to further substantiate safety or efficacy, or to investigate specific issues of interest to the regulatory authority. Previously unknown problems with the drug candidate, including adverse events of unanticipated severity or frequency, may result in restrictions on the marketing of the drug, and could include withdrawal of the drug from the market.

In addition, the law or regulatory policies governing pharmaceuticals may change. New statutory requirements may be enacted or additional regulations may be enacted that could prevent or delay regulatory approval of its drug candidates. Cyclacel cannot predict the likelihood, nature or extent of adverse government regulation that may arise from future legislation or administrative action, either in the United States or elsewhere. If Cyclacel is not able to maintain regulatory compliance, it might not be permitted to market its drugs and its business could suffer.

Cyclacel's applications for regulatory approval could be delayed or denied due to problems with studies conducted before Cyclacel in-licensed some of its product candidates.

Cyclacel currently licenses some of the compounds and drug candidates used in its research programs from third parties. These include sapacitabine, licensed from Sankyo Co., Ltd and CYC381 and related intellectual property, licensed from Lorus Therapeutics, Inc. Its present research involving these compounds relies upon previous research conducted by third parties over which Cyclacel had no control and before Cyclacel in-licensed the drug candidates. In order to receive regulatory approval of a drug candidate, Cyclacel must present all relevant data and information obtained during its research and development, including research conducted prior to its licensure of the drug candidate. Although Cyclacel is not currently aware of any such problems, any problems that emerge with preclinical research and testing conducted prior to its in-licensing may affect future results or its ability to document prior research and to conduct clinical trials, which could delay, limit or prevent regulatory approval for its drug candidates.

Cyclacel faces intense competition and its competitors may develop drugs that are less expensive, safer, or more effective than its drug candidates.

Cyclacel is engaged in a rapidly changing and highly competitive field. Cyclacel is seeking to develop and market products that will compete with other products and drugs that currently exist or are being developed. Cyclacel competes with companies that are developing small molecule drugs, as well as companies that have developed drugs or are developing alternative drug candidates for cancer or other serious disorders where there is abnormal cell proliferation. Cyclacel believes that other companies are currently developing drugs targeting cancer that may compete with its drug candidates, including Astex, AstraZeneca, Eisai, Kyowa Hakko, Onconova, Pfizer, Schering AG, and Sunesis. Although Aventis, a predecessor of Sanofi-Aventis, had previously announced that it has ceased Phase II development of alvocidib or flavopiridol, a CDK inhibitor, Cyclacel believes that the National Cancer Institute's Cancer Therapy Evaluation Program is continuing to enroll patients in a Phase II trial and that Sanofi-Aventis has reinitiated development of alvocidib in Phase III clinical trials in patients with chronic leukemia. Several pharmaceutical and biotechnology companies have nucleoside analogs on the market or in clinical trials for oncology indications, including Chiron, Eli Lilly and GlaxoSmithKline. A number of companies are pursuing discovery and research activities in each of the other areas that are the subject of its research and drug development programs. Cyclacel believes that AstraZeneca, Merck, jointly with Vertex, Millennium and Nerviano Medical Sciences have commenced Phase I clinical trials of Aurora kinase inhibitors in patients with advanced cancers. Several companies have reported selection of Aurora kinase inhibitor candidates for development, including Astex, Rigel and Sunesis, and may have started or are expected to start clinical trials within the next twelve months. Cyclacel believes that Chiron, Eli Lilly, GlaxoSmithKline, Novartis and Novo Nordisk have reported selection of GSK-3 inhibitor candidates for development in type 2 diabetes, Alzheimer's and stroke indications and Boehringer Ingelheim and Onconova of Plk inhibitors candidates for oncology indications.

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Cyclacel's competitors, either alone or together with collaborators, may have substantially greater financial resources and research and development staff. Its competitors may also have more experience:

developing drug candidates;

conducting preclinical and clinical trials;

obtaining regulatory approvals; and

commercializing drug candidates.

Cyclacel's competitors may succeed in obtaining patent protection and regulatory approval and may market drugs before Cyclacel does. If its competitors market drugs that are less expensive, safer, more effective or more convenient to administer than its potential drugs, or that reach the market sooner than its potential drugs, Cyclacel may not achieve commercial success. Scientific, clinical or technical developments by its competitors may render its drug candidates obsolete or noncompetitive. Cyclacel anticipates that Cyclacel will face increased competition in the future as new companies enter the markets and as scientific developments progress. If its drug candidates obtain regulatory approvals, but do not compete effectively in the marketplace, its business will suffer.

The commercial success of its drug candidates depends upon their market acceptance among physicians, patients, healthcare providers and payors and the medical community.

If Cyclacel's drug candidates are approved by the FDA or by another regulatory authority, the resulting drugs, if any, may not gain market acceptance among physicians, healthcare providers and payors, patients and the medical community. The degree of market acceptance of any of its approved drugs will depend on a variety of factors, including:

timing of market introduction, number and clinical profile of competitive drugs;

its ability to provide acceptable evidence of safety and efficacy;

relative convenience and ease of administration;

cost-effectiveness;

availability of coverage, reimbursement and adequate payment from health maintenance organizations and other third party payors;

prevalence and severity of adverse side effects; and

other potential advantages over alternative treatment methods.

If Cyclacel's drugs fail to achieve market acceptance, it may not be able to generate significant revenue and its business would suffer.

There is uncertainty related to coverage, reimbursement and payment by healthcare providers and payors for newly approved drugs. The inability or failure to obtain coverage could affect its ability to market its future drugs and decrease its ability to generate revenue.

The availability and levels of coverage and reimbursement of newly approved drugs by healthcare providers and payors is subject to significant uncertainty. The commercial success of its drug candidates in both the U.S. and international markets is substantially dependent on whether third party coverage and reimbursement is available. The U.S. Centers for Medicare and Medicaid Services, health maintenance organizations and other third party payors in the United States, the European Union and other jurisdictions are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement of new drugs and, as a result, they may not cover or provide adequate payment for its potential drugs. Cyclacel's drug candidates may not be considered cost-effective and reimbursement may not be available to consumers or may not be sufficient to allow its drug candidates to be marketed on a competitive basis.

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In some countries, pricing of prescription drugs is subject to government control. In such countries, pricing negotiations with governmental authorities can take three to 12 months or longer following application to the competent authorities. To obtain reimbursement or pricing approval in such countries may require conducting an additional clinical trial comparing the cost-effectiveness of the drug to other alternatives. In the United States, the Medicare Part D drug benefit to be implemented in 2006 will limit drug coverage through formularies and other cost and utilization management programs, while Medicare Part B limits drug payments to a certain percentage of average price or through restrictive payment policies of least costly alternatives and inherent reasonableness. Cyclacel's business could be materially harmed if coverage, reimbursement or pricing is unavailable or set at unsatisfactory levels.

Cyclacel may be exposed to product liability claims that may damage its reputation and may not be able to obtain adequate insurance.

Because Cyclacel conducts clinical trials in humans, Cyclacel faces the risk that the use of its drug candidates will result in adverse effects. Cyclacel believes that Cyclacel has obtained reasonably adequate product liability insurance coverage for its trials. Cyclacel cannot predict, however, the possible harm or side effects that may result from its clinical trials. Such claims may damage its reputation and Cyclacel may not have sufficient resources to pay for any liabilities resulting from a claim excluded from, or beyond the limit of, its insurance coverage.

Once Cyclacel has commercially available drugs based on its drug candidates, Cyclacel will be exposed to the risk of product liability claims. This risk exists even with respect to those drugs that are approved for commercial sale by the FDA or other regulatory authorities in the United States, the European Union or elsewhere and manufactured in facilities licensed and regulated by the FDA or other such regulatory authorities. Cyclacel intends to secure limited product liability insurance coverage, but may not be able to obtain such insurance on acceptable terms with adequate coverage, or at reasonable cost. There is also a risk that third parties that Cyclacel has agreed to indemnify could incur liability. Even if Cyclacel were ultimately successful in product liability litigation, the litigation would consume substantial amounts of its financial and managerial resources and may create adverse publicity, all of which would impair its ability to generate sales of the litigated product as well as its other potential drugs.

Cyclacel may be subject to damages resulting from claims that its employees or Cyclacel has wrongfully used or disclosed alleged trade secrets of their former employers.

Many of Cyclacel's employees were previously employed at universities or other biotechnology or pharmaceutical companies, including its competitors or potential competitors. Although no claims against it are currently pending, Cyclacel may be subject to claims that these employees or Cyclacel has inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If Cyclacel fails in defending such claims, in addition to paying monetary damages, Cyclacel may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent its ability to commercialize certain potential drugs, which could severely harm its business. Even if Cyclacel is successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Defending against claims relating to improper handling, storage or disposal of hazardous chemical, radioactive or biological materials could be time consuming and expensive.

Cyclacel's research and development involves the controlled use of hazardous materials, including chemicals, radioactive and biological materials such as chemical solvents, phosphorus and bacteria. Its operations produce hazardous waste products. Cyclacel cannot eliminate the risk of accidental contamination or discharge and any resultant injury from those materials. Various laws and regulations govern the use, manufacture, storage, handling and disposal of hazardous materials. Cyclacel may be sued for any injury or contamination that results

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from its use or the use by third parties of these materials. Compliance with environmental laws and regulations may be expensive, and current or future environmental regulations may impair its research, development and production efforts.

If Cyclacel fails to enforce adequately or defend its intellectual property rights its business may be harmed.

Cyclacel's commercial success depends in large part on obtaining and maintaining patent and trade secret protection for its drug candidates, the methods used to manufacture those drug candidates and the methods for treating patients using those drug candidates. Cyclacel will only be able to protect its drug candidates and its technologies from unauthorized use by third parties to the extent that valid and enforceable patents or trade secrets cover them.

Cyclacel's ability to obtain patents is uncertain because legal means afford only limited protections and may not adequately protect its rights or permit it to gain or keep any competitive advantage. Some legal principles remain unresolved and the breadth or interpretation of claims allowed in patents in the United States, the European Union or elsewhere can still be difficult to ascertain or predict. In addition, the specific content of patents and patent applications that are necessary to support and interpret patent claims is highly uncertain due to the complex nature of the relevant legal, scientific and factual issues. Changes in either patent laws or in interpretations of patent laws in the United States, the European Union or elsewhere may diminish the value of its intellectual property or narrow the scope of its patent protection.

Even if patents are issued regarding Cyclacel's drug candidates or methods of using them, those patents can be challenged by its competitors who may argue such patents are invalid and/or unenforceable. Patents also will not protect its drug candidates if competitors devise ways of making or using these product candidates without legally infringing its patents. The U.S. Federal Food, Drug and Cosmetic, or FD&C, Act and FDA regulations and policies and equivalents in other jurisdictions provide incentives to manufacturers to challenge patent validity or create modified, noninfringing versions of a drug in order to facilitate the approval of abbreviated new drug applications for generic substitutes. These same types of incentives encourage manufacturers to submit new drug applications that rely on literature and clinical data not prepared for or by the drug sponsor.

Proprietary trade secrets and unpatented know-how are also very important to Cyclacel's business. Cyclacel relies on trade secrets to protect its technology, especially where Cyclacel does not believe that patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Cyclacel's employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose its confidential information to competitors, and confidentiality agreements may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. Enforcing a claim that a third party obtained illegally and is using trade secrets is expensive and time consuming, and the outcome is unpredictable. Moreover, Cyclacel's competitors may independently develop equivalent knowledge, methods and know-how. Failure to obtain or maintain trade secret protection could adversely affect Cyclacel's competitive business position.

If Cyclacel infringes intellectual property rights of third parties, it may increase its costs or be prevented from being able to commercialize its drug candidates.

There is a risk that Cyclacel is infringing or will infringe the proprietary rights of third parties because patents and pending applications belonging to third parties exist in the United States, the European Union and elsewhere in the world in the areas its research explores. Others might have been the first to make the inventions covered by each of Cyclacel's or its licensors' pending patent applications and issued patents and might have been the first to file patent applications for these inventions. In addition, because the patent application process can take several years to complete, there may be currently pending applications, unknown to Cyclacel, which may later result in issued patents that cover the production, manufacture, commercialization or use of Cyclacel's drug candidates. In addition, the production, manufacture, commercialization or

use of its product candidates may infringe existing patents of which Cyclacel is not aware.

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There has been substantial litigation and other proceedings regarding patent and other intellectual property rights in the pharmaceutical and biotechnology industries. Defending against third party claims, including litigation in particular, would be costly and time consuming and would divert management's attention from its business, which could lead to delays in its development or commercialization efforts. If third parties are successful in their claims, Cyclacel might have to pay substantial damages or take other actions that are adverse to its business. As a result of intellectual property infringement claims, or to avoid potential claims, Cyclacel might:

be prohibited from selling or licensing any product that Cyclacel may develop unless the patent holder licenses the patent to it, which it is not required to do;

be required to pay substantial royalties or grant a cross license to its patents to another patent holder; or

be required to redesign the formulation of a drug candidate so it does not infringe, which may not be possible or could require substantial funds and time.

The development programs for its two lead drug candidates are based in part on intellectual property rights Cyclacel licenses from others, and any termination of those licenses could seriously harm its business.

Cyclacel has in-licensed certain patent rights in connection with the development programs for each of its two lead drug candidates. With respect to seliciclib, Cyclacel holds a license from Centre National de Recherche Scientifique, or CNRS, and Institut Curie. With respect to sapacitabine, Cyclacel holds a license from Sankyo Co., Ltd. of Japan. Both of these license agreements impose payment and other material obligations on Cyclacel. Under the CNRS/Institut Curie license, Cyclacel is obligated to pay license fees, milestone payments and royalties. Cyclacel is also obligated to use reasonable efforts to develop and commercialize products based on the licensed patents. Under the Sankyo license Cyclacel is obligated to pay license fees, milestone payments and royalties. Cyclacel is also obligated to use commercially reasonable efforts to commercialize products based on the licensed rights and to use reasonable efforts to obtain regulatory approval to sell the products in at least one country by September 2011. Although Cyclacel is currently in compliance with all of its material obligations under these licenses, if Cyclacel were to breach any such obligations its counterparties would be permitted to terminate the licenses. This would restrict or delay or eliminate its ability to develop and commercialize these drug candidates, which could seriously harm its business.

Intellectual property rights of third parties could adversely affect Cyclacel's ability to commercialize its drug candidates.

If patents issued to third parties contain valid claims that cover Cyclacel's compounds or their manufacture or use, Cyclacel may be required to obtain licenses to these patents or to develop or obtain alternative technology. Cyclacel is aware of several published patent applications, and understands that others may exist, that could support claims that, if granted, could cover various aspects of its developmental programs, including in some cases its lead drug candidate, seliciclib, particular uses of that compound, sapacitabine or other therapeutic candidates, or gene sequences and techniques that Cyclacel uses in the course of its research and development. Based on its review of the published applications, Cyclacel believes that it is unlikely that a valid claim would be issued that covered seliciclib. In addition, Cyclacel understands that other applications exist relating to potential uses of seliciclib and sapacitabine that are not part of its current clinical programs for these compounds. Although Cyclacel intends to continue to monitor these applications, Cyclacel cannot predict what claims will ultimately be allowed and if allowed what their scope would be. If a patent is issued that covers its compounds or their manufacture or use then Cyclacel may not be in a position to commercialize the related drug candidate unless Cyclacel successfully pursues litigation to have that patent invalidated or enters into a licensing arrangement with the patent holder. Any such litigation would be time consuming and costly, and its outcome would not be guaranteed, and Cyclacel cannot be certain that it would be able to enter into a licensing arrangement with the patent holder on commercially reasonable terms. In either case, its business prospects could be materially adversely affected.

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FORWARD-LOOKING STATEMENTS IN THIS DOCUMENT

This document and the documents incorporated by reference into this document contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 with respect to Xcyte's and Cyclacel's financial condition, the amount of cash and cash equivalents that Xcyte anticipates it will hold on the closing date of the Stock Purchase, the amount of shares Xcyte expects to issue in the Stock Purchase, results of operations and businesses, products under development and the expected impact of the proposed Stock Purchase on Xcyte's financial performance. Words such as anticipates, believes, forecast, potential, contemplates, expects, intends, plans, estimates, could, would, will, may, can and similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements. Many of the important factors that will determine these results and values are beyond Xcyte's and Cyclacel's ability to control or predict. You are cautioned not to put undue reliance on any forward-looking statements. Except as otherwise required by law, Xcyte and Cyclacel do not assume any obligation to update any forward-looking statements. In evaluating the Stock Purchase, you should carefully consider the discussion of risks and uncertainties in the section entitled "Risk Factors" beginning on page 21.

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THE STOCK PURCHASE

Described in this section and the section entitled "The Stock Purchase Agreement" beginning on page 63 are the material aspects of the Stock Purchase, including the Stock Purchase Agreement. While Xcyte believes that this description covers the material terms of the Stock Purchase and the Stock Purchase Agreement, it may not contain all of the information that is important to you. You should read carefully this entire document and the other documents to which we refer for a more complete understanding of the Stock Purchase and the Stock Purchase Agreement.

Background of the Stock Purchase

From its inception in 1996 until 2005, Xcyte devoted substantially all of its efforts to the research and development of therapeutic products designed to enhance the body's natural immune responses to treat infectious diseases and other medical conditions associated with weakened immune systems.

On February 2, 2005, Xcyte announced that it had withdrawn its submission to the FDA of the clinical protocol for a planned Phase II/III clinical trial of Xcellerated T Cells in chronic lymphocytic leukemia. The FDA requested the withdrawal to allow additional discussion of the design of the trial.

On March 23, 2005, Xcyte announced that it had completed a review of its clinical development program. As a result of this review, Xcyte decided to focus its resources and activities in two clinical areas: a Phase II/III trial in chronic lymphocytic leukemia and a Phase I/II trial in patients with HIV. At such time, Xcyte also announced a workforce reduction by approximately 24% to approximately 81 employees.

On May 16, 2005, Xcyte announced its decision to discontinue the planned Phase II/III clinical trial in chronic lymphocytic leukemia and to focus its research and development efforts exclusively on HIV. At such time, Xcyte announced a further reduction in its workforce to approximately 71 employees.

At meetings of Xcyte's board of directors on June 17 and 24, 2005, the board discussed Xcyte's potential strategic alternatives. At the June 24 meeting, it was agreed that Dr. Christopher Henney and Mr. Robert Nelsen, each members of the Xcyte board, and Dr. Kirkman, who at such time served as Xcyte's Vice President and Chief Business Officer and is currently Xcyte's Acting President and Chief Executive Officer, would review in greater depth the potential strategic alternatives available to Xcyte and promptly report back to the board.

At a meeting of Xcyte's board of directors on July 1, 2005, Dr. Henney advised the board of discussions between Xcyte and potential financial advisors that could assist Xcyte in its review of its strategic alternatives. Following discussion, the board of directors authorized Xcyte to retain SG Cowen & Co., LLC as Xcyte's financial advisor. Also at such meeting, representatives of Wilson Sonsini Goodrich & Rosati, Professional Corporation, counsel to Xcyte, reviewed for the board of directors its fiduciary duties to the stockholders of Xcyte in connection with certain potential strategic alternatives.

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On July 5, 2005, Xcyte announced that it planned to identify and evaluate its strategic alternatives to maximize stockholder value, including possible merger, acquisition, asset sale or purchase transactions and in-licensing and out-licensing opportunities.

On July 8, 2005, in connection with its evaluation of its strategic alternatives, Xcyte's board of directors approved a further workforce reduction plan that resulted in the reduction of Xcyte's workforce to approximately 34 employees.

On July 13, 2005, Xcyte entered into an engagement letter with SG Cowen & Co., LLC whereby SG Cowen & Co., LLC agreed to act as Xcyte's financial advisor in connection with Xcyte's review of its strategic alternatives.

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From July through October 2005, with the assistance of SG Cowen & Co., LLC Xcyte reviewed approximately 60 potential partners and held preliminary discussions with approximately 39 of these potential partners. Xcyte entered into mutual non-disclosure agreements with 16 companies and conducted face-to-face meetings with 11 companies.

On August 1, 2005, Dr. Kirkman met with senior members of Invitrogen Corporation's management in Carlsbad, California to discuss the potential acquisition by Invitrogen of Xcyte's T Cell expansion technology known as the Xcellerate Process. Representatives of each company continued to discuss the terms of the potential acquisition during August 2005.

At a meeting of Xcyte's board of directors on August 5, 2005, Dr. Kirkman and representatives of SG Cowen & Co., LLC reviewed the status of specific contacts with third parties regarding potential transactions and business combinations. After discussion, the board authorized Dr. Kirkman to continue discussions with third parties regarding potential transactions and business combinations.

By the end of August 2005, Xcyte had received indications of interest regarding potential business combinations from three potential strategic partners and an indication of interest from Invitrogen regarding the purchase of Xcyte's T cell expansion technology.

At a meeting of Xcyte's board of directors on September 1, 2005, Dr. Kirkman reviewed with the board the indications of interest that Xcyte had received from three potential strategic partners. Dr. Kirkman's review of these indications of interest included a discussion of the business conducted by each potential strategic partner and the terms of the proposed business combination received by each such potential partner. Dr. Kirkman advised the board that none of these potential partners had expressed an interest in acquiring Xcyte's T cell expansion technology. Dr. Kirkman also reviewed with the board certain proposed terms of the potential asset sale to Invitrogen, and his review included the potential cash consideration and certain potential revenue sharing arrangements between Xcyte and Invitrogen. Following discussion, the board authorized Xcyte's management to enter into further discussions with one of the potential strategic partners, a biopharmaceutical company, and to continue discussions with other third parties regarding potential business combinations. The board also authorized management to begin drafting documents for a potential asset sale transaction with Invitrogen.

During the month of September 2005, with the assistance of SG Cowen & Co., LLC Xcyte continued discussions with the biopharmaceutical company and with other potential strategic partners.

On September 13 through 15, 2005, Dr. Kirkman visited the biopharmaceutical company's headquarters to conduct financial, technical and clinical due diligence.

On September 20 and 21, 2005, Dr. Christopher Henney and Dr. Kirkman met with the chairman of the board of directors and chief executive officer of the biopharmaceutical company to negotiate the terms of the proposed business combination.

From September 20 through September 22, 2005, representatives from Invitrogen visited Xcyte in Seattle, Washington to conduct technical and regulatory due diligence in preparation for the potential acquisition.

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On September 22, 2005, representatives of Xcyte delivered initial drafts of the Asset Purchase Agreement in connection with the potential transaction with Invitrogen to representatives of Invitrogen.

On September 26 and 27, 2005, representatives of Xcyte and Invitrogen Corporation met in Seattle, Washington to negotiate the terms of the Asset Purchase Agreement and the ancillary agreements.

On September 24, 2005, Xcyte's board of directors held a meeting to discuss the status of the potential transaction with the biopharmaceutical company. At the meeting, Dr. Kirkman reviewed the status of the negotiations with the biopharmaceutical company. In addition, representatives of SG Cowen & Co., LLC

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confirmed that as of the date of the meeting they had not received any additional indications of interest from third parties regarding a potential business combination with Xcyte. Following discussion, the board authorized management to begin the process of preparing transaction documents and engaging in a full due diligence review in preparation for a possible transaction with the biopharmaceutical company.

In early October 2005, a representative of SG Cowen & Co., LLC informed Xcyte that Cyclacel Group plc was interested in discussing a potential business combination with Xcyte.

On October 10, 2005, Dr. Kirkman and Spiro Rombotis, Chief Executive Officer of Cyclacel Group plc, had a telephonic conversation to discuss preliminary issues regarding the possibility of a business combination between the companies.

On October 11, 2005, Xcyte and Cyclacel Group plc entered into a mutual non-disclosure agreement that governed the exchange of confidential information between the companies for purposes of exploring a possible strategic transaction.

On October 12, 2005, Dr. Kirkman and Paul McBarron, Cyclacel Group plc's Chief Financial Officer, had a telephonic conversation to further explore the prospects of a potential business combination between the two companies. Dr. Kirkman and Mr. McBarron discussed the financial condition, operations, research and development and strategies of the companies. Dr. Kirkman and Mr. McBarron also discussed the principal terms of a potential business combination transaction between Xcyte and Cyclacel Group plc.

On October 19, 2005, Dr. Henney met in London, England with Mr. Rombotis and Sir John Banham, chairman of board of directors of Cyclacel Group plc, to discuss the prospects of a business combination between Xcyte and Cyclacel in greater detail. During this meeting, the participants discussed the merits, risks and the principal terms of a potential business combination between Xcyte and Cyclacel Group plc.

On October 20, 2005, Dr. Kirkman and Kathi Cordova, Xcyte's Senior Vice President of Finance and Treasurer, met with Messrs. Rombotis and McBarron in Seattle, Washington. During such meeting the parties discussed general due diligence matters with respect to Xcyte and Cyclacel.

On October 24, 2005, Xcyte's board of directors held a meeting. At such meeting, Drs. Henney and Kirkman reviewed the status of discussions with representatives of Cyclacel Group plc and gave the board an overview of the business and operations of Cyclacel. Drs. Henney and Kirkman also discussed the status of discussions with the biopharmaceutical company. The board authorized Drs. Henney and Kirkman to continue their negotiations with such entities and to continue to pursue all viable strategic alternatives.

On October 25, 2005, Dr. Kirkman traveled to Dundee, Scotland, the headquarters of Cyclacel Group plc, to meet with Mr. Rombotis, Mr. McBarron and the senior management of Cyclacel Group plc and Cyclacel. During the visit, Dr. Kirkman toured the facilities of Cyclacel and was given a presentation of the business, operations, research and development and clinical trials of Cyclacel.

At a meeting on October 31, 2005, Xcyte's board of directors reviewed the status of Xcyte's potential strategic alternatives. At the meeting, Dr. Henney reviewed the status of discussions with the biopharmaceutical company and the status of discussions regarding the possible business combination with Cyclacel. Dr. Kirkman reported to the board on his findings from his visit to Cyclacel's headquarters. At such meeting,

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Dr. Kirkman also reported on the status of negotiations with Invitrogen. Following discussion, the board authorized management to continue discussions with potential strategic partners.

On November 5, 2005, counsel for the biopharmaceutical company delivered to Xcyte a draft merger agreement for the proposed business combination between Xcyte and the biopharmaceutical company. Between November 5, 2005 and December 1, 2005, representatives of the biopharmaceutical company and Xcyte

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participated in several discussions regarding various items in the merger agreement and each company engaged in substantial due diligence in connection with the proposed business combination, including financial, intellectual property, regulatory and legal due diligence.

On November 7 and 8, 2005, representatives of Invitrogen visited Xcyte in Seattle, Washington to continue technical and regulatory due diligence.

During November and the early part of December 2005, representatives from Xcyte and Invitrogen continued to negotiate the terms of the Asset Purchase Agreement and the ancillary documents.

On November 21, 2005, Xcyte distributed to Cyclacel Group plc a draft of a proposed transaction agreement that contemplated a strategic transaction between the two companies.

On November 28, 2005, representatives of Allen & Overy LLP, counsel to Cyclacel Group plc, delivered a term sheet outlining the terms of which Cyclacel Group plc believed that a transaction could be completed, including the structure of the proposed transaction, the consideration to be paid in the transaction and the other terms and conditions. Following discussions between representatives of Xcyte and Cyclacel Group plc, on November 30, 2005, representatives of Allen & Overy delivered comments to the draft agreement previously provided by Xcyte, which comments generally reflected the terms set forth in the term sheet.

At a meeting on December 1, 2005, Xcyte's board of directors reviewed the status of Xcyte's strategic alternatives. At this meeting, Dr. Henney provided an overview of the merger negotiations between Xcyte and the biopharmaceutical company and the principal issues in the proposed merger transaction. Drs. Henney and Kirkman delivered a presentation to Xcyte's board that included information relating to the business of Cyclacel, the merits and risks of entering into a business combination with Cyclacel and the terms of the proposed Stock Purchase Agreement. Additionally, representatives of SG Cowen & Co., LLC provided an overview of the proposed Cyclacel transaction, including relative percentage ownership of stockholders of each company in the combined company and the treatment of the outstanding preferred stock and debt of each company. SG Cowen & Co., LLC also reviewed the relative benefits of the proposed structures of the proposed transactions between Xcyte and the biopharmaceutical company and between Xcyte and Cyclacel. Following discussion, the board authorized Xcyte's management to continue negotiations regarding a potential business combination transaction with both the biopharmaceutical company and Cyclacel Group plc and to perform further business, financial and legal due diligence on each company.

From December 1, 2005 through December 13, 2005, representatives of each of Xcyte and Cyclacel Group plc as well as their respective financial, legal and accounting advisors, conducted comprehensive due diligence on the other party, including financial, intellectual property, regulatory and legal due diligence. During such time, the representatives of each company continued negotiation of the draft Stock Purchase Agreement and other related documents.

On December 9, 2005, at a meeting of Xcyte's board of directors, the board discussed the status of the discussions with the biopharmaceutical company and with Cyclacel Group plc. At the meeting, Dr. Henney advised the board that Xcyte and the biopharmaceutical company had not been able to reach an agreement regarding certain terms in the proposed merger and as a result that the discussions with the biopharmaceutical company had been postponed. Dr. Kirkman and representatives of Wilson Sonsini Goodrich & Rosati, Professional Corporation, described the status of the due diligence review of Cyclacel, the principal terms of the proposed Stock Purchase Agreement and related documents with Cyclacel Group plc and responded to questions concerning those terms. Additionally, representatives of Wilson Sonsini Goodrich & Rosati, Professional Corporation, gave a presentation to the board regarding its fiduciary duties in connection with the proposed transactions. Dr. Kirkman also reviewed with the board the status of the proposed asset sale to Invitrogen, including the proposed purchase price and purchase

price adjustments, the assets to be transferred in such transaction and the stockholder approval condition to such transaction. Following discussion, the board

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authorized Xcyte's management to continue negotiations with Cyclacel Group plc and Invitrogen regarding potential strategic transactions with each such company.

On December 12, 2005, a meeting of Xcyte's board of directors was held to discuss the status of the discussions with Cyclacel Group plc, the due diligence review of Cyclacel, the Stock Purchase Agreement between Xcyte and Cyclacel Group plc, the asset sale to Invitrogen and the related Asset Purchase Agreement between Xcyte and Invitrogen. At the meeting, Xcyte's management and legal and financial advisors reviewed with the board the results of Xcyte's due diligence review of Cyclacel. In addition, representatives of SG Cowen & Co., LLC presented to the board various financial analyses and preliminary views regarding the consideration to be paid by Xcyte in the transaction. Following discussion, the board authorized management of Xcyte to continue negotiations with Cyclacel Group plc and Invitrogen and to inform the board of the status of those negotiations.

On December 14, 2005, Xcyte's board of directors held a meeting to consider the proposed transactions with Cyclacel Group plc and Invitrogen. At this meeting, Dr. Kirkman, together with representatives of Wilson Sonsini Goodrich & Rosati, Professional Corporation, and SG Cowen & Co., LLC reviewed the terms of the proposed Stock Purchase Agreement with Cyclacel Group plc and the related documents. In addition, representatives of SG Cowen & Co., LLC presented various financial analyses and its views as to the fairness from a financial point of view to the stockholders of Xcyte of the consideration to be paid by Xcyte in the transaction with Cyclacel Group plc, and the representatives of SG Cowen & Co., LLC informed Xcyte's board that SG Cowen & Co., LLC would deliver a written opinion regarding the fairness of the transaction. At the meeting, Dr. Kirkman also reviewed the terms of the Asset Purchase Agreement with Invitrogen and the related documents. After discussion, the board determined that the Stock Purchase Agreement, the Stock Purchase, the Asset Purchase Agreement with Invitrogen and the ancillary documents to such agreements were fair to the stockholders of Xcyte, and the board approved the Stock Purchase Agreement, the Stock Purchase, the Asset Purchase Agreement with Invitrogen and the ancillary documents to such agreements and authorized Xcyte to enter into the Stock Purchase Agreement, the Asset Purchase Agreement, and such ancillary documents. Subsequently, SG Cowen & Co., LLC delivered to Xcyte's board its written opinion, dated December 14, 2005, to the effect that, as of that date and based on and subject to the matters described in its opinion, the transaction with Cyclacel Group plc was fair, from a financial point of view, to the stockholders of Xcyte.

On December 14, 2005, the board of directors of Cyclacel Group plc held a special meeting to review the terms of the Stock Purchase Agreement and the related documents, as well as the proposed liquidation of Cyclacel Group plc. Cyclacel's management described the course of negotiations between the parties and the current status of the proposed transaction. Allen & Overy LLP then summarized the terms of the Stock Purchase Agreement and the proposed liquidation. After discussion, the board of directors of Cyclacel Group plc unanimously approved the Stock Purchase Agreement and the liquidation and instructed management to work towards completing the transaction.

On December 14, 2005, Xcyte and Invitrogen executed the Asset Purchase Agreement and certain ancillary agreements. On December 15, 2005, Xcyte and Invitrogen issued a joint press release announcing the execution of the Asset Purchase Agreement.

On December 15, 2005, Xcyte and Cyclacel Group plc executed the Stock Purchase Agreement. On December 15, 2005, Xcyte and Cyclacel Group plc issued a joint press release announcing the execution of the Stock Purchase Agreement.

Xcyte's Reasons for the Stock Purchase

Xcyte's board of directors has determined that the terms of the Stock Purchase and the Stock Purchase Agreement are fair to, and in the best interests of, Xcyte and its stockholders. Xcyte's board of directors consulted with senior management, as well as its legal counsel, independent auditors and financial advisors in

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reaching its decision to approve the Stock Purchase. Xcyte's board of directors considered a number of factors in its deliberations, including the following:

the strategic benefits of the Stock Purchase;

historical information concerning Xcyte's and Cyclacel's respective businesses, prospects, financial performance and condition, operations, technology, management and competitive position, including, without limitation, reports concerning results of operations during the most recent fiscal year and fiscal quarter for each corporation;

Xcyte's management's view of the financial condition, results of operations and businesses of Xcyte and Cyclacel before and after giving effect to the Stock Purchase;

current financial market conditions and historical market prices, volatility and trading information with respect to Xcyte common stock;

the relationship between the market value of Xcyte common stock and the consideration to be received by Xcyte in the Stock Purchase and a comparison of comparable transactions;

the belief that the terms of the Stock Purchase Agreement, including the parties' representations, warranties and covenants, and the conditions to their respective obligations, are reasonable;

the financial terms of the Stock Purchase;

Xcyte's management's view of the prospects of Xcyte as an independent company;

the potential for other third parties to enter into strategic relationships with or to acquire Xcyte;

detailed financial analysis and pro forma and other information with respect to the companies presented by SG Cowen & Co., LLC in presentations to the Board of Directors, including SG Cowen & Co., LLC's opinion that the consideration to be paid under the Stock Purchase Agreement is fair from a financial point of view to Xcyte's stockholders;

reports from management, financial advisors and others as to the results of the due diligence investigation of Cyclacel;

the prices paid in comparable transactions involving other biotechnology companies, as well as the trading performance for comparable companies in the industry;

beliefs shared by senior management of Xcyte that the prospects of the combined entity were more favorable than the prospects of Xcyte as a separate entity; and

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the interests of the officers and directors of Xcyte in the Stock Purchase, including the matters described under "The Stock Purchase - Interests of Certain Directors, Officers and Affiliates" on page 58 and the impact of the Stock Purchase on Xcyte's stockholders and employees.

The Xcyte board of directors also considered potential negative factors relating to the Stock Purchase, including:

the substantial dilution of the holdings of the Xcyte stockholders resulting from the issuance of Xcyte common stock to Cyclacel Group plc in the Stock Purchase;

the potential negative effect on Xcyte common stock price if product development and regulatory approval expectations for Cyclacel are not met;

the risk that the benefits sought to be achieved by the Stock Purchase will not be realized;

the risk that the Stock Purchase may not be completed in a timely manner, if at all;

the risk that Xcyte will be unable to recruit employees critical to the ongoing success of the combined company's operations; and

the other risks and uncertainties discussed above under "Risk Factors" beginning on page 21.

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The foregoing discussion of the items that the Xcyte board considered is not intended to be exhaustive, but includes all material items that the Xcyte board considered. In view of the complexity and wide variety of factors, both positive and negative, that the Xcyte board considered, the Xcyte board did not find it practical to quantify, rank or otherwise weight the factors considered. In considering the various factors, individual members of the Xcyte board considered all of these factors as a whole and concluded that, on balance, the benefits of the Stock Purchase to Xcyte and its stockholders outweighed the negative risks.

Recommendation of Xcyte s Board of Directors

After careful consideration, the Xcyte board of directors determined that the proposed Stock Purchase is fair to, and in the best interests of, Xcyte and its stockholders. **The Xcyte board of directors recommends that Xcyte stockholders vote FOR the issuance of Xcyte common stock in the Stock Purchase.**

In considering the recommendation of Xcyte s board of directors with respect to the Stock Purchase, Xcyte stockholders should be aware that certain directors and officers of Xcyte have interests in the Stock Purchase that are different from, or are in addition to, the interests of Xcyte stockholders generally. See *The Stock Purchase Interests of Certain Directors, Officers and Affiliates* on page 58.

Opinion of Xcyte s Financial Advisor

Pursuant to an engagement letter dated July 13, 2005, Xcyte retained SG Cowen & Co., LLC to render an opinion to the board of directors of Xcyte as to the fairness, from a financial point of view, to the stockholders of Xcyte of the consideration to be paid in the proposed transaction in which Cyclacel Group plc would sell, assign, transfer and deliver to Xcyte all of the issued and outstanding share capital of Cyclacel Ltd. and Xcyte would issue and deliver to Cyclacel Group plc a number of validly issued, fully paid and nonassessable shares of Xcyte common stock pursuant to the terms of the Stock Purchase Agreement. Cyclacel Group plc is a holding company that has no assets or operations other than its wholly-owned subsidiaries Cyclacel and Cyclacel Nominees Limited, which does not own any assets.

On December 14, 2005, SG Cowen & Co., LLC delivered certain of its written analyses and its oral opinion to Xcyte s board of directors, subsequently confirmed in writing as of December 14, 2005, to the effect that, subject to the various assumptions set forth therein, as of December 14, 2005, the consideration paid in the Stock Purchase was fair, from a financial point of view, to the stockholders of Xcyte. The full text of the written opinion of SG Cowen & Co., LLC, dated December 14, 2005, is attached as Annex B and is incorporated by reference into this document. You are urged to read the opinion in its entirety for the assumptions made, procedures followed, other matters considered and limits of the review by SG Cowen & Co., LLC. The summary of the written opinion of SG Cowen & Co., LLC set forth herein is qualified in its entirety by reference to the full text of such opinion. SG Cowen & Co., LLC s analyses and opinion were prepared for and addressed to the Xcyte board of directors and are directed only to the fairness, from a financial point of view, of the consideration paid in the Stock Purchase, and do not constitute an opinion as to the merits of the Stock Purchase or a recommendation to any stockholder as to how to vote on the Stock Purchase. The consideration paid in the Stock Purchase was determined through negotiations between Xcyte and Cyclacel Group plc and not pursuant to recommendations of SG Cowen & Co., LLC.

In arriving at its opinion, SG Cowen & Co., LLC reviewed and considered such financial and other matters as it deemed relevant, including, among other things:

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a draft of the Stock Purchase Agreement dated as of December 13, 2005;

certain publicly available financial and other information for Xcyte including its stock price trading history and certain other relevant financial and operating data furnished to SG Cowen & Co., LLC by Xcyte management;

certain publicly available financial and other information for Cyclacel Group plc (which includes the financial information of Cyclacel), and certain other relevant financial and operating data furnished to SG Cowen & Co., LLC by Cyclacel Group plc management;

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certain internal financial analyses, financial forecasts, reports and other information concerning Xcyte and Cyclacel Group plc (which includes the financial information of Cyclacel) prepared by the management of Xcyte and Cyclacel Group plc, respectively;

discussions SG Cowen & Co., LLC had with certain members of the managements of each of Xcyte, Cyclacel Group plc and Cyclacel concerning the historical and current business operations, financial conditions and prospects of Xcyte, Cyclacel Group plc and Cyclacel and such other matters it deemed relevant;

certain financial terms of the Stock Purchase as compared to the financial terms of certain selected business combinations SG Cowen & Co., LLC deemed relevant; and

such other information, financial studies, analyses and investigations and such other factors that SG Cowen & Co., LLC deemed relevant for the purposes of its opinion.

In conducting its review and arriving at its opinion, SG Cowen & Co., LLC, with Xcyte's consent, assumed and relied, without independent investigation, upon the accuracy and completeness of all financial and other information provided to it by Xcyte, Cyclacel Group plc and Cyclacel, respectively, or which was publicly available. SG Cowen & Co., LLC did not undertake any responsibility for the accuracy, completeness or reasonableness of, or independently to verify, this information. In addition, SG Cowen & Co., LLC did not conduct nor did SG Cowen & Co., LLC assume any obligation to conduct any physical inspection of the properties or facilities of Xcyte or Cyclacel. SG Cowen & Co., LLC further relied upon the assurance of management of Xcyte that they were unaware of any facts that would make the information provided to SG Cowen & Co., LLC incomplete or misleading in any respect. SG Cowen & Co., LLC, with Xcyte's consent, assumed that the financial forecasts which SG Cowen & Co., LLC examined were reasonably prepared by the respective managements of Xcyte, Cyclacel Group plc and Cyclacel on bases reflecting the best then available estimates and good faith judgments of such managements as to the future performance of Xcyte and Cyclacel. Management of each of Xcyte, Cyclacel Group plc and Cyclacel confirmed to SG Cowen & Co., LLC, and SG Cowen & Co., LLC assumed, with Xcyte's, Cyclacel Group plc's and Cyclacel's consent, that each of the financial forecasts that SG Cowen & Co., LLC examined with respect to Xcyte, Cyclacel Group plc and Cyclacel provided a reasonable basis for its opinion.

SG Cowen & Co., LLC did not make or obtain any independent evaluations, valuations or appraisals of the assets or liabilities of Xcyte, Cyclacel Group plc or Cyclacel, nor was SG Cowen & Co., LLC furnished with such materials. SG Cowen & Co., LLC's services to Xcyte in connection with the Stock Purchase were comprised of rendering an opinion from a financial point of view with respect to the consideration paid in the Stock Purchase. SG Cowen & Co., LLC's opinion was necessarily based upon economic and market conditions and other circumstances as they existed and could be evaluated by SG Cowen & Co., LLC on the date of its opinion. It should be understood that although subsequent developments may affect its opinion, SG Cowen & Co., LLC does not have any obligation to update, revise or reaffirm its opinion and SG Cowen & Co., LLC expressly disclaims any responsibility to do so.

In rendering its opinion, SG Cowen & Co., LLC assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the Stock Purchase Agreement are true and correct, that each party will perform all of the covenants and agreements required to be performed by it under the Stock Purchase Agreement and that all conditions to the completion of the Stock Purchase will be satisfied without waiver thereof. SG Cowen & Co., LLC assumed that the final form of the Stock Purchase Agreement would be substantially similar to the last draft received by SG Cowen & Co., LLC prior to rendering its opinion. SG Cowen & Co., LLC also assumed that all governmental, regulatory and other consents and approvals contemplated by the Stock Purchase Agreement would be obtained and that, in the course of obtaining any of those consents, no restrictions will be imposed or waivers made that would have an adverse effect on the contemplated benefits of the Stock Purchase. Xcyte informed SG Cowen & Co., LLC, and SG Cowen & Co., LLC assumed, that the Stock Purchase will be treated as tax free.

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SG Cowen & Co., LLC's opinion does not constitute a recommendation to any stockholder as to how the stockholder should vote with respect to the Stock Purchase or to take any other action in connection with the Stock Purchase or otherwise. SG Cowen & Co., LLC's opinion does not express any opinion as to what the value of Xcyte common stock actually will be following the completion of the Stock Purchase. SG Cowen & Co., LLC was not requested to opine as to, and its opinion does not in any manner address Xcyte's underlying business decision to effect the Stock Purchase. Furthermore, SG Cowen & Co., LLC's opinion does not express any view as to the price or trading range for shares of the common stock of Xcyte following the completion of the Stock Purchase.

The following is a summary of the principal financial analyses performed by SG Cowen & Co., LLC to arrive at its opinion. Some of the summaries of financial analyses include information presented in tabular format. In order to fully understand the financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses. SG Cowen & Co., LLC performed certain procedures, including each of the financial analyses described below, and reviewed with the management of Xcyte the assumptions on which such analyses were based and other factors, including the historical and projected financial results of Xcyte and Cyclacel Group plc. No limitations were imposed by the Xcyte board with respect to the investigations made or procedures followed by SG Cowen & Co., LLC in rendering its opinion.

Analysis of Liquidation of Xcyte. To provide contextual data and comparative information, SG Cowen & Co., LLC compared the projected cash available to the post-transaction company and its shareholders at the completion of the Stock Purchase (assuming that (i) the Stock Purchase closes March 31, 2006 and (ii) the liquidation preferences of \$20.7 million on the convertible preferred stock of Xcyte remain outstanding at closing) to a possible liquidation scenario for Xcyte. In that analysis, SG Cowen & Co., LLC determined that the projected cash available to the post-transaction company and its shareholders at the closing of the Stock Purchase would be \$20.6 million and the projected obligations in excess of cash available upon liquidation would be \$3.4 million. Although a liquidation scenario was used for comparison purposes, the actual circumstances of liquidation could vary and the amount of cash available to shareholders upon liquidation would depend on a number of factors, including the timing of a liquidation and the actual expenses of Xcyte and the value of assets sold in any liquidation.

Analysis of Selected Phase I/II U.S. Publicly Traded Cancer Companies. To provide contextual data and comparative market information, SG Cowen & Co., LLC compared selected historical operating and financial data and ratios for Cyclacel to the corresponding financial data and ratios of certain other Phase I/II United States publicly traded cancer companies, which we refer to as the Selected U.S. Companies, whose securities are publicly traded and which SG Cowen & Co., LLC believes have operating, market valuation, trading valuations and company stage of development similar to what might be expected of Cyclacel. These companies were:

ARIAD Pharmaceuticals, Inc.
 Avalon Pharmaceuticals
 BioCryst Pharmaceuticals, Inc
 Cytokinetics, Inc.
 EntreMed, Inc.

Idera Pharmaceuticals
 ImmunoGen
 Kosan Biosciences
 Seattle Genetics
 Sunesis Pharmaceuticals

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The following table presents the market value, which we refer to as Equity Value, and the market value plus total debt less cash, which we refer to as Enterprise Value, of the Selected U.S. Companies. The information in the table is based on the closing stock price of the Selected U.S. Companies and Xcyte on December 13, 2005.

*Selected Trading Statistics of Selected U.S. Companies**(US\$ in millions)*

	Selected U.S. Companies				Equity Value and Enterprise Value Implied by consideration paid in the Stock Purchase for Cyclacel
	Low	Mean	Median	High	
Equity Value	45.0	195.5	187.2	416.4	26.8
Enterprise Value	48.9	143.4	114.3	381.5	15.1

Although the Selected U.S. Companies were used for comparison purposes, none of those companies is directly comparable to Cyclacel. Accordingly, an analysis of the results of such a comparison is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical and projected financial and operating characteristics of the Selected U.S. Companies and other factors that could affect the public trading value of the Selected U.S. Companies or Cyclacel to which they are being compared.

Analysis of Selected Phase I/II European Publicly Traded Cancer Companies. To provide additional contextual data and comparative market information, SG Cowen & Co., LLC compared selected historical operating and financial data and ratios for Cyclacel to the corresponding financial data and ratios of certain other Phase I/II European publicly traded cancer companies (the Selected European Companies) whose securities are publicly traded and which SG Cowen & Co., LLC believes have operating, market valuation and trading valuations similar to what might be expected of Cyclacel. These companies were:

Active Biotech
BioInvent
Cytos Biotechnology
Morphosys

Oxford Biomedica
Pharmexa
Transgene

The following table presents the Equity Value and Enterprise Value of the Selected European Companies. The information in the table is based on the closing stock price of the Selected European Companies and Xcyte on December 13, 2005.

*Selected Trading Statistics of Selected European Companies**(US\$ in millions based on US\$ exchange rate as of December 13, 2005)*

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	<u>Selected European Companies</u>				Equity Value and Enterprise Value Implied by consideration paid in the Stock Purchase for Cyclacel
	<u>Low</u>	<u>Mean</u>	<u>Median</u>	<u>High</u>	
Equity Value	55.7	191.7	176.9	366.9	26.8
Enterprise Value	45.2	153.2	130.8	338.4	15.1

Although the Selected European Companies were used for comparison purposes, none of those companies is directly comparable to Cyclacel. Accordingly, an analysis of the results of such a comparison is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical

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and projected financial and operating characteristics of the Selected European Companies and other factors that could affect the public trading value of the Selected European Companies or Cyclacel to which they are being compared.

Analysis of Selected Phase I/III Biotech M&A Transactions. SG Cowen & Co., LLC reviewed the financial terms, to the extent publicly available, of selected Phase I/III Biotech merger and acquisition transactions, which we refer to as Biotech Transactions, involving the acquisition of companies in the biotech industry, which were announced or completed since January 1, 2003. SG Cowen & Co., LLC reviewed the following Biotech Transactions (listed by target/acquirer):

Arakis Limited/Sosei Co. Ltd.	Oculex Pharmaceuticals, Inc./Allergan, Inc.
Aptamera, Inc./Antisoma plc	Opexa Pharmaceuticals, Inc./
	PharmaFrontiers Corp.
Corvas International, Inc./Dendreon Corp.	Salmedix, Inc./Cephalon, Inc.
Diacrin, Inc./GenVec, Inc.	Syrrx, Inc./Takeda Pharmaceuticals, Inc.
Idun Pharmaceuticals, Inc./Pfizer, Inc.	Zycos, Inc./MGI Pharma, Inc.
Ionix Pharmaceuticals Limited/Vernalis plc	

The following table presents the Equity Value and Enterprise Value on the dates the selected Biotech Transactions were announced. The information in the table for Cyclacel is based on the closing stock price of Xcyte on December 13, 2005.

*Equity Value and Enterprise Value in Selected Biotech Transactions**(US\$ in millions)*

	Equity Value and Enterprise Value in Biotech Transactions				Equity Value and Enterprise Value Implied by consideration paid in the Stock Purchase for Cyclacel
	Low	Mean	Median	High	
Equity Value	17.5	107.7	61.5	275.0	26.8
Enterprise Value	(9.9)	87.1	36.0	275.0	15.1

Although the Biotech Transactions were used for comparison purposes, none of those transactions is directly comparable to the Stock Purchase, and none of the companies in those transactions is directly comparable to Xcyte or Cyclacel. Accordingly, an analysis of the results of such a comparison is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical and projected financial and operating characteristics of the companies involved and other factors that could affect the acquisition value of such companies or Cyclacel to which they are being compared.

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Selected Phase I/II Biotech IPOs. SG Cowen & Co., LLC analyzed the initial public offering, or IPO, pre-money Equity Value, or Pre-Money Equity Value, and the current Equity Value, or Current Equity Value, of selected Phase I/II Biotech IPOs that priced between January 1, 2003 and December 13, 2005 (the Phase I/II Biotech IPOs). The table below illustrates the Pre-Money Equity Value and the Current Equity Value of the following Phase I/II Biotech IPOs (bold denotes Phase I/II cancer companies):

Acadia Pharmaceuticals	Mannkind
Advancis	Memory Pharmaceuticals
Anadys Pharmaceuticals	Metabasis Therapeutics
Avalon Pharmaceuticals	New River Pharmaceuticals
Coley Pharmaceutical	Santarus
CombinatoRx	Sunesis Pharmaceuticals
Cytokinetics	Teravance
Dynavax Technologies	Threshold Pharmaceuticals
Gentium S.p.A.	Xcyte Therapies
Inhibitex	XenoPort

Selected Phase I/II Biotech IPOs

<i>(US\$ in millions)</i>	Low	Mean	Median	High
Pre-Money Equity Value	48.6	180.9	123.2	660.5
Current Equity Value	6.7	307.4	238.2	1,201.4

Selected Phase I/II Cancer Company IPOs

<i>(US\$ in millions)</i>	Low	Mean	Median	High
Pre-Money Equity Value	63.6	175.2	122.8	361.7
Current Equity Value	6.7	177.8	156.7	473.6

Cyclacel at Offer

Cyclacel Equity Value	
Implied by consideration paid in the Stock Purchase for Cyclacel	26.8

Although the Phase I/II Biotech IPOs were used for comparison purposes, none of those IPOs is directly comparable to the Stock Purchase, and (aside from the Xcyte Therapies IPO, which was for Xcyte) none of the companies in those transactions is directly comparable to Xcyte or Cyclacel. Accordingly, an analysis of the results of such a comparison is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical and projected financial and operating characteristics of the companies involved and other factors that could affect the value of such companies or Cyclacel to which they are being compared.

Stock Trading History. To provide contextual data and comparative market data, SG Cowen & Co., LLC reviewed the historical market prices of Xcyte common stock for the twelve month period ended December 13, 2005. SG Cowen & Co., LLC noted that over this period the high price for the shares of common stock of Xcyte was \$2.84, the low price for shares of common stock of Xcyte was \$.27 and the average price was \$1.05.

Pro Forma Ownership Analysis. SG Cowen & Co., LLC analyzed the pro forma ownership in the combined company by the holders of Xcyte and noted that holders of Xcyte common stock would own approximately 20% of the combined company, based on the number of shares of

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common stock being issued in the Stock Purchase and the outstanding number of shares of common stock as of September 30, 2005.

Pro Forma Cash Analysis. SG Cowen & Co., LLC analyzed the projected expenses of the combined companies and the cash available to the combined companies. They noted that the cash available should be sufficient to fund operations of the combined companies through June 30, 2007. This analysis was based upon (1) the projected financial forecasts of the management of Cyclacel and (2) a conversion rate of 1.77 USD/GBP on December 13, 2005.

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Although SG Cowen & Co., LLC conducted this analysis to provide contextual data, the actual effects of the Stock Purchase on cash available could vary and the period of time for which the cash available will be sufficient to fund operations will depend on a number of factors, including the timing of the Stock Purchase and the actual expenses incurred in relation to the Stock Purchase.

The summary set forth above does not purport to be a complete description of all the analyses performed by SG Cowen & Co., LLC. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. SG Cowen & Co., LLC did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, notwithstanding the separate factors summarized above, SG Cowen & Co., LLC believes, and has advised the Xcyte board, that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, could create an incomplete view of the process underlying its opinion. In performing its analyses, SG Cowen & Co., LLC made numerous assumptions with respect to industry performance, business and economic conditions and other matters, many of which are beyond the control of Xcyte and Cyclacel Group plc. These analyses performed by SG Cowen & Co., LLC are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which businesses or securities may actually be sold. Accordingly, such analyses and estimates are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors. None of Xcyte, Cyclacel Group plc, SG Cowen & Co., LLC or any other person assumes responsibility if future results are materially different from those projected. The analyses supplied by SG Cowen & Co., LLC and its opinion were among several factors taken into consideration by the Xcyte board of directors in making its decision to enter into the Stock Purchase Agreement and should not be considered as determinative of such decision.

SG Cowen & Co., LLC was selected by the Xcyte board of directors to render an opinion to the Xcyte board because SG Cowen & Co., LLC is a nationally recognized investment banking firm and because, as part of its investment banking business, SG Cowen & Co., LLC is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. SG Cowen & Co., LLC is providing financial services for Xcyte for which it will receive customary fees. In addition, in the ordinary course of its business, SG Cowen & Co., LLC and its affiliates actively trade the equity securities of Xcyte for their own account and for the accounts of their customers, and, accordingly, may at any time hold a long or short position in such securities. SG Cowen & Co., LLC and its affiliates in the ordinary course of business have from time to time provided, and in the future may continue to provide, commercial and investment banking services to Xcyte and Cyclacel Group plc, including serving as a financial advisor on potential acquisitions and as an underwriter on equity offerings, and have received and may in the future receive fees for the rendering of such services.

Pursuant to the SG Cowen & Co., LLC engagement letter, if the transaction is consummated, SG Cowen & Co., LLC will be entitled to receive a transaction fee. Xcyte has also agreed to pay a fee to SG Cowen & Co., LLC for rendering its opinion, which fee shall be credited against any transaction fee paid. Additionally, Xcyte has agreed to reimburse SG Cowen & Co., LLC for its travel and all other reasonable out-of-pocket expenses (including the reasonable fees and disbursements of SG Cowen & Co., LLC's counsel, if any) attorneys' fees, and has agreed to indemnify SG Cowen & Co., LLC against certain liabilities, including liabilities under the federal securities laws. The terms of the fee arrangement with SG Cowen & Co., LLC, which are customary in transactions of this nature, were negotiated at arm's length between Xcyte and SG Cowen & Co., LLC, and the Xcyte board of directors was aware of the arrangement, including the fact that a significant portion of the fee payable to SG Cowen & Co., LLC is contingent upon the completion of the Stock Purchase.

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Cyclacel Group plc's Reasons for the Stock Purchase

In approving and authorizing the Stock Purchase, the Cyclacel Group plc board of directors considered a number of factors, including, among others, those discussed in the following paragraphs. Although the following discussion describes the material factors considered by the Cyclacel Group plc board in reaching its determination, it may not include all of the factors considered. In light of the wide variety of factors considered in connection with its evaluation of the Stock Purchase and related transactions, the Cyclacel Group plc board of directors did not consider it practicable to, and did not attempt to, quantify or otherwise assign relative weights to the specific factors it considered in reaching its determination. The Cyclacel Group plc board of directors viewed its position and determinations as being based on all of the information available and the factors presented to and considered by it. In addition, individual directors may have given different weight to different factors or other factors not described.

In reaching its decision, the Cyclacel Group plc board of directors consulted with Cyclacel Group plc's management with respect to strategic and operational matters and with Cyclacel Group plc's legal counsel with respect to the Stock Purchase Agreement and the transactions contemplated thereby.

The decision of the Cyclacel Group plc board of directors to enter into the Stock Purchase Agreement and approve the Stock Purchase and related transactions was the result of its careful consideration of numerous factors, including the following positive factors that it believes will contribute to the success of the combined enterprise:

the combination of Xcyte's status as an existing public company with Cyclacel's product pipeline.

the possibility that the combined entity would be able to take advantage of the potential benefits resulting from the combination of Xcyte's more established public company infrastructure and the development candidates provided by Cyclacel including seliciclib, sapacitabine and CYC116;

the Stock Purchase will provide Cyclacel Group plc shareholders, who currently hold share capital in a private company, with shares of common stock in a publicly traded company, which would provide enhanced liquidity;

the Cyclacel Group plc board's consideration of strategic alternatives to the Stock Purchase, including other potential business combination transactions and continuing to operate Cyclacel Group plc on a stand-alone basis;

the fact that Xcyte's available cash, together with Cyclacel's other cash resources, are anticipated to be sufficient to meet Cyclacel's projected operating requirements through the third quarter of 2007 and that, without Xcyte's cash, Cyclacel Group plc would need to raise additional funds through a private equity or debt financing or other arrangement;

the range of options available to the combined company to access private and public equity markets should additional capital be needed in the future will likely be greater than the financing options available to Cyclacel Group plc on a stand-alone basis;

its understanding of Cyclacel's business, operations, financial condition and prospects, and of Xcyte's business, operations, financial condition and prospects; and

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the belief that the terms of the Stock Purchase Agreement, including the parties' representations, warranties and covenants, and the conditions to their respective obligations, such as the condition that Xcyte have a specified amount of cash at closing, are reasonable under the circumstances.

The Cyclacel Group plc board of directors also identified and considered a number of uncertainties and risks including the following:

the risk that the benefits sought to be achieved by the Stock Purchase will not be realized;

the risk that the Stock Purchase may not be completed in a timely manner, if at all;

the potential for Xcyte to be delisted from the Nasdaq National Market; and

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various other applicable risks associated with the combined company and the Stock Purchase including those described under the section entitled Risk Factors beginning on page 21 of this document.

The Cyclacel Group plc board of directors weighed the benefits, advantages and opportunities against the negative factors described above, including the possible diversion of management attention for an extended period of time. The Cyclacel Group plc board of directors realized that there can be no assurance about future results, including results expected or considered in the factors listed above. However, the Cyclacel Group plc board of directors concluded that the potential benefits significantly outweighed the potential risks of completing the Stock Purchase Agreement.

After taking into account these and other factors, the Cyclacel Group plc board of directors unanimously approved and authorized the Stock Purchase Agreement and the transactions contemplated thereby, including the Stock Purchase and liquidation.

Completion and Effectiveness of the Stock Purchase

The Stock Purchase will be completed when all of the conditions to completion of the Stock Purchase are satisfied or waived, including approval of the issuance of shares of Xcyte common stock in the Stock Purchase by the Xcyte stockholders and the approval and adoption of the Stock Purchase Agreement and approval of the Stock Purchase by the shareholders of Cyclacel Group plc. We expect the Stock Purchase to occur within approximately 10 days following the special meeting. However, because the completion of the Stock Purchase is subject to a number of conditions, we cannot predict the exact timing or if the Stock Purchase will be completed at all.

Stock Purchase Consideration

In the Stock Purchase, Xcyte will purchase all of the outstanding share capital of Cyclacel Ltd. from Cyclacel Group plc in exchange for a number of newly issued shares of Xcyte common stock representing approximately 80% of Xcyte's outstanding common stock following the transaction. The exact number of shares of Xcyte common stock to be issued to Cyclacel Group plc in the Stock Purchase will be a number of shares equal to the product of (1) a multiple based on the amount of cash and cash equivalents held by Xcyte immediately prior to the completion of the Stock Purchase and (2) the number of shares of Xcyte common stock issued and outstanding immediately prior to the completion of the Stock Purchase plus (a) 50,000 shares of Xcyte common stock if the Stock Purchase is completed before the reverse stock split (described in Proposal Five) is completed or (b) 5,000 shares of Xcyte common stock if the Stock Purchase is completed after the reverse stock split is completed.

If the Stock Purchase had been completed on January 23, 2006, based on the number of shares of Xcyte common stock outstanding on such date and assuming that Xcyte will hold approximately \$20 million in cash and cash equivalents at the time of the Stock Purchase, Cyclacel Group plc would have received approximately 78,890,000 shares of Xcyte common stock in the Stock Purchase.

No Fractional Shares

No fractional shares of common stock will be issued in the Stock Purchase. The number of shares of Xcyte common stock to be received by Cyclacel Group plc in the Stock Purchase will be rounded down to the nearest whole share.

The Liquidation of Cyclacel Group plc

Upon completion of the Stock Purchase, it is intended that Cyclacel Group plc be placed into a members' voluntary liquidation in accordance with its memorandum and articles of association and the applicable laws of England and Wales. As a result of the members' voluntary liquidation, the assets of Cyclacel Group plc which will principally comprise the shares of Xcyte common stock received by Cyclacel Group plc in the Stock Purchase would be distributed to Cyclacel Group plc shareholders (subject to the payment of, or adequate provision being made in respect of, any creditor claims against Cyclacel Group plc) in accordance with its

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memorandum and articles of association, in the manner described below. As a result of the liquidation preference in favor of holders of Cyclacel Group plc preferred shareholders, except as described below, the holders of Cyclacel Group plc's ordinary shares are not expected to be entitled to receive anything in the liquidation.

A members' voluntary liquidation is a form of liquidation procedure in the United Kingdom that can be used only where a company is solvent. The procedure will require the directors (or a majority of the directors) of Cyclacel Group plc to make a statutory declaration of solvency; this declaration must state that the directors have made a full inquiry into Cyclacel Group plc's affairs and that, having done so, they believe that Cyclacel Group plc will be able to pay its debts in full within a specified period, which can be no more than 12 months from the passing of the members' resolution, as described below. The declaration must also include a statement of Cyclacel Group plc's assets and liabilities as at the latest practicable date before making the statutory declaration. It is intended that the statutory declaration will be made by the directors (or a majority of them) before a solicitor (or commissioner of oaths, justice of the peace or notary public) immediately following the completion of the Stock Purchase, and the related conversion by Scottish Enterprise of a loan note into preferred shares of Cyclacel Group plc, so that the statement of Cyclacel Group plc's assets and liabilities shows the Xcyte shares as an asset of the company and no longer shows the liability comprising the Scottish Enterprise loan note.

A director making the declaration as to solvency without reasonable grounds will be liable to imprisonment or a fine or both. If Cyclacel Group plc's debts are not paid within the period specified in the declaration, it will be presumed that the directors did not have reasonable grounds for their opinion. Before taking this route, the directors therefore intend to carry out full due diligence into the assets and potential liabilities of Cyclacel Group plc and to discuss its financial position with the company's auditors and the proposed liquidators.

In order to place Cyclacel Group plc into a members' voluntary liquidation, an extraordinary general meeting of Cyclacel Group plc will be convened so that its shareholders can consider a special resolution putting Cyclacel Group plc into a members' voluntary liquidation and an ordinary resolution appointing Richard Setchim of PricewaterhouseCoopers LLP as liquidator. At this extraordinary general meeting, it is also intended that the shareholders will consider the following resolutions:

amending the articles of association of Cyclacel Group plc so as to enable a distribution in specie of the assets to shareholders; and

empowering the liquidator to make a distribution of the Xcyte shares to the preferred shareholders of Cyclacel Group plc, subject to making provision for any creditor claims (as referred to below).

The liquidation will be effective on the date (and at the time) that the shareholders' special resolution putting Cyclacel Group plc into liquidation is passed, and the directors' powers will cease except insofar as the shareholders of Cyclacel Group plc at the extraordinary general meeting of the company or the liquidator sanctions the continuance of such powers, which is uncommon.

The liquidator appointed in respect of Cyclacel Group plc must be authorized as an insolvency practitioner by one of a number of professional bodies in England and Wales and the liquidator's role includes investigating Cyclacel Group plc's affairs, advertising for creditor claims and, having paid or made provision for such claims, distributing any surplus assets to those shareholders that are entitled to receive them pursuant to Cyclacel Group plc's memorandum and articles of association.

Following the commencement of the liquidation, Cyclacel Group plc will continue to be the legal owner of its assets (including the Xcyte shares it receives in the Stock Purchase) and the liquidator will merely act as the agent of Cyclacel Group plc in performing his or her functions. Cyclacel Group plc will remain liable for taxes while it is in liquidation, and any tax will be payable before a distribution can be made to

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shareholders. On the passing of the shareholders' resolution putting the company into liquidation, Cyclacel Group plc will commence a new accounting period for United Kingdom tax purposes. It will also cease to be a member of a consolidated tax group with its subsidiaries for certain (but not all) United Kingdom tax purposes.

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On average, it takes approximately 30 days for a liquidator in a members' voluntary liquidation to investigate the affairs of a company and to send out the necessary notifications and advertisements in order to identify the company's creditors and notify them of the commencement of the liquidation. This includes a statutory period of 21 days which must be given to known and unknown creditors in order for them to lodge any claims which they may have against the company. On this basis, a liquidator will not generally be in a position to make any distribution to the shareholders of a company until at least 30 days from the date of the commencement of the liquidation (and this period may be longer, depending on the liabilities that are identified during the investigation and due diligence period). However, a liquidator may be prepared to make any early distribution to the shareholders (including, in some cases, a distribution on the date of the commencement of the liquidation) if alternative arrangements are made for the payment of any creditor claims that may subsequently come to light. These alternate arrangements generally take the form of an indemnity, given by a substantial majority of the shareholders to whom an early distribution is made, whereby the shareholders agree to indemnify the company and the liquidator against any claims that may be made against either of them as a consequence of or following the early distribution.

Cyclacel Group plc believes that an early distribution is in the best interests of its shareholders and, as a result, it is currently investigating whether a sufficient number of its preferred shareholders would be prepared to give such an indemnity, so as to enable the liquidator to make an early distribution of the Xcyte shares to the preferred shareholders and, if possible, a distribution on the same day as the day on which the liquidation is commenced. It is not yet known whether this will be possible. If such an indemnity (in a form acceptable to the proposed liquidator) is not forthcoming, the distribution could not be made until at least 30 days after the commencement of the liquidation (and possibly for a longer period).

It is also proposed that, upon the distribution referred to above being made to the preferred shareholders by the liquidator, the preferred shareholders will transfer a number of Xcyte shares, representing approximately between 10% to 15% of the total amount of shares received by the preferred shareholders, and including shares that may be purchased by certain executives of Cyclacel Group plc as described under 'The Stock Purchase Interests of Certain Directors, Officers and Affiliates Cyclacel Group plc Senior Executive Incentive Plan and Other Equity Awards', to an escrow agent to hold pursuant to an escrow agreement to be entered into between the escrow agent, the preferred shareholders and the ordinary shareholders of Cyclacel Group plc immediately prior to the completion of the Stock Purchase. This agreement will provide that if the value of the Xcyte shares received by Cyclacel Group plc shareholders in the liquidation, not including the escrow shares, exceeds the aggregate liquidation preference of the preferred shares at the time of the distribution over any 10-day period in the two years following the distribution, the escrow shares will be transferred to the individuals or entities that held ordinary shares of Cyclacel Group plc at the time of the liquidation on a *pari passu* basis and *pro rata* to the number of ordinary shares held immediately prior to the completion of the liquidation. If this valuation is not achieved within this period, the agreement will provide that the escrow shares will be released to the individuals or entities that held preferred shares of Cyclacel Group plc at the time of the liquidation on a *pari passu* basis and *pro rata* to the number of preferred shares held immediately prior to the completion of the liquidation. The ordinary shareholders in this regard will include the holders of any options and warrants in respect of Cyclacel Group plc in circumstances where those options or warrants have been exercised prior to the commencement of the liquidation. As an alternative, the holders of the options or warrants may be given rights under the escrow agreement in return for cancelling those options or warrants although the implications of such an arrangement are still being considered.

Once any creditor claims have been dealt with, the Xcyte shares have been distributed and Cyclacel Group plc affairs have been fully wound-up, the liquidator will present an account to a final meeting of Cyclacel Group plc's members; the account, together with a return of the final meeting, must also be sent to the Registrar of Companies in England and Wales. Unless the court makes an order deferring the dissolution of Cyclacel Group plc (which is very uncommon), it will be dissolved three months after the return and accounts are delivered to the Registrar of Companies.

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Adoption of New Equity Incentive Plan

Pursuant to the Stock Purchase Agreement, Xcyte has agreed to adopt, and submit to its stockholders for approval, an equity incentive plan under which Xcyte will be able to make option grants to its officers, employees, directors and consultants. It is anticipated that Xcyte will grant stock options to new Xcyte directors, officers and employees following the Stock Purchase. A copy of the proposed equity incentive plan is attached hereto as Annex D.

Regulatory Matters

Xcyte is not aware of any governmental or regulatory approval, or the expiration of any waiting period under the Hart-Scott Rodino Act, required for completion of the Stock Purchase, other than the effectiveness of the registration statement of which this document is a part, compliance with applicable corporate laws of Delaware, and compliance with state securities laws. If any governmental approvals or actions are required, Xcyte intends to try and obtain them. Xcyte cannot assure you, however, that it will be able to obtain any such approvals or actions.

Other Approvals

If any additional approvals or actions are required, we intend to try to obtain them. We cannot assure you, however, that we will be able to obtain any approvals or actions in a timely fashion or at all.

Restrictions on Sales of Shares by Affiliates of Cyclacel

The issuance of shares of Xcyte common stock to be issued in the Stock Purchase is being registered by the registration statement of which this document forms a part. These shares of common stock will be freely transferable under the Securities Act, except for shares of Xcyte common stock issued to any person who is an affiliate of Cyclacel Group plc at the time the Stock Purchase and liquidation are submitted to the stockholders for vote or consent. Persons who may be deemed to be affiliates include individuals or entities that control, are controlled by, or are under common control with Cyclacel Group plc, and may include some of the officers and directors, as well as their respective principal stockholders. Affiliates at the time the Stock Purchase and liquidation are submitted to the stockholders for vote or consent may not sell their shares of Xcyte common stock acquired in the liquidation except pursuant to (1) an effective registration statement under the Securities Act covering the resale of those shares of common stock, (2) an exemption under paragraph (d) of Rule 145 under the Securities Act or (3) any other applicable exemption under the Securities Act.

As an inducement to Xcyte to enter into the Stock Purchase Agreement, Cyclacel Group plc has agreed to use its commercially reasonable efforts to cause its affiliates to sign certain affiliate agreements. Pursuant to these affiliate agreements, Xcyte would be entitled to place appropriate legends on the certificates evidencing any Xcyte common stock to be received by these persons, or entities, if these persons or entities are affiliates of Cyclacel at the time the Stock Purchase or the liquidation are submitted to stockholders for vote or consent, and to issue stop transfer instructions to the transfer agent for the Xcyte common stock received by the affiliates. Further, pursuant to these affiliate agreements, these individuals would also acknowledge the resale restrictions imposed by Rule 145 under the Securities Act on shares of Xcyte common stock to be received by them in the Stock Purchase, if these persons or entities are affiliates of Cyclacel Group plc at the time the Stock Purchase is submitted to stockholders for vote or consent.

Interests of Certain Directors, Officers and Affiliates

Xcyte

When considering the recommendation of Xcyte's boards of directors, you should be aware that certain directors and officers of Xcyte have interests in the Stock Purchase that are different from, or are in addition to, those of the stockholders of Xcyte.

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Directorships

Following the Stock Purchase, the board of directors of the combined company will consist of seven members, including, Dr. Christopher Henney, who is currently a director of Xcyte.

Retention and Severance Plans

On October 4, 2005, Xcyte entered into an Acquisition Bonus and Severance Agreement with Robert L. Kirkman, M.D., Xcyte's President and Chief Executive Officer. Pursuant to this agreement, upon the completion of the Stock Purchase, Xcyte will pay Dr. Kirkman a bonus in an amount equal to \$150,000, less applicable withholding taxes, which amount is equivalent to approximately six months of his base salary. Additionally, if Dr. Kirkman's employment with Xcyte is terminated by Xcyte without cause or if Dr. Kirkman terminates his employment with Xcyte for good reason, either during the 60 days prior to or the twelve months following completion of the Stock Purchase, Xcyte will pay Dr. Kirkman a lump sum severance payment of \$150,000, less applicable withholding taxes, and will reimburse Dr. Kirkman for certain COBRA benefits following such termination.

On October 4, 2005, Xcyte approved the execution of an Acquisition Bonus Agreement with Christopher S. Henney, Ph.D., D.Sc., chairman of Xcyte's board of directors. Pursuant to this agreement, upon the completion of the Stock Purchase, Xcyte will pay Dr. Henney a bonus in an amount equal to \$250,000, less applicable withholding taxes.

On July 26, 2005, Xcyte entered into a Retention and Separation Agreement with Kathi Cordova, Xcyte's Senior Vice President of Finance and Treasurer. Pursuant to this agreement, Xcyte will pay Ms. Cordova the equivalent of two weeks of her base salary, less applicable withholding, for each month following July 1, 2005 through the earliest to occur of the following events: the involuntary termination without cause of Ms. Cordova's employment with Xcyte or the completion of the Stock Purchase. Ms. Cordova will not be entitled to receive such retention incentive payment unless she remains employed by Xcyte through the earliest to occur of the above stated events. Additionally, upon any involuntary termination without cause of Ms. Cordova's employment with Xcyte, Xcyte will (a) pay Ms. Cordova a lump sum payment equivalent to four weeks of her base salary, plus an additional three weeks of her base salary for every year that Ms. Cordova has been employed by Xcyte and (b) reimburse Ms. Cordova for costs of COBRA benefits during the three month period following commencement of such COBRA benefits, in each case, less applicable withholding.

Acceleration of Options

The vesting of all options granted pursuant to Xcyte's Amended and Restated 2003 Directors' Stock Option Plan will be accelerated immediately upon the closing of the Stock Purchase and the asset sale to Invitrogen pursuant to the terms of the Amended and Restated 2003 Directors' Stock Option Plan. As a result of this acceleration, any holder of options granted pursuant to the Amended and Restated 2003 Directors' Stock Option Plan will have the right to exercise one hundred percent (100%) of the options held by such holder pursuant to such plan. The number of options on Xcyte common stock that will become fully vested as a result of the accelerated vesting provisions of the 2003 Directors' Stock Option Plan is approximately 22,769.

The vesting of 25% of the unvested options granted pursuant to Xcyte's Amended and Restated 1996 Stock Option Plan will be accelerated immediately upon the closing of the Stock Purchase and the asset sale to Invitrogen pursuant to the terms of the Amended and Restated 1996

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Stock Option Plan. As a result of this acceleration, any holder of options granted pursuant to the Amended and Restated 1996 Stock Option Plan will have the right to exercise twenty-five percent (25%) of all unvested options held by such holder under such plan. The number of options on Xcyte common stock that will become fully vested as a result of the accelerated vesting provisions of the Amended and Restated 1996 Stock Option Plan is approximately 114,251.

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The vesting of up to 25% of the total options granted under any award pursuant to Xcyte's 2003 Stock Plan will be accelerated immediately upon the closing of the Stock Purchase and the asset sale to Invitrogen pursuant to the terms of the 2003 Stock Option Plan. As a result of this acceleration, any holder of options under the 2003 Stock Plan will have the right to exercise the lesser of twenty five percent (25%) of the options granted to such holder under the 2003 Stock Plan award or all remaining unvested options granted to the holder under the award pursuant to such plan. In addition, any holder of such options who is involuntarily terminated within twelve (12) months of the closing of the transaction will have the right to exercise the lesser of an additional twenty-five percent (25%) of the options granted to such holder under the 2003 Stock Plan award or all remaining unvested options granted to the holder under the award pursuant to such plan, for a total of fifty percent (50%) of the options granted to such holder under the 2003 Stock Plan award or all remaining unvested options granted to the holder under the award pursuant to such plan. The number of shares of Xcyte common stock that will become fully vested as a result of the accelerated vesting provisions of the 2003 Stock Plan is approximately 65,834.

Indemnification of Certain Persons

Xcyte's certificate of incorporation permits Xcyte to indemnify and advance expenses to its directors and officers with respect to actions for breach of duty to Xcyte, its stockholders, and others.

Cyclacel Group plc

In addition, some of the officers and directors of Cyclacel Group plc may have interests in the Stock Purchase and related transactions that are different from, or are in addition to, those of Cyclacel Group plc shareholders. These interests exist because these officers and directors may receive additional securities of Cyclacel Group plc prior to the liquidation in consideration of rights that they have under Cyclacel Group plc's Senior Executive Incentive Plan, because they will become employed by or serve as directors of Xcyte, or continue to be employed by Cyclacel, following completion of the Stock Purchase and for a number of other reasons that are described below.

Directorships

Following the Stock Purchase, the board of directors of the combined company will consist of seven members, including Dr. David U Prichard, Sir John Banham, Paul McBarron, Spiro Rombotis and Professor Gordon McVie, each of whom is currently a director of Cyclacel Group plc.

Senior Executive Incentive Plan and Other Equity Awards

Each of Dr. Judy Chiao, Dr. Robert Jackson, Paul McBarron and Spiro Rombotis, each of whom is an executive officer of Cyclacel, and non-executive directors Sir John Banham and Dr. David U Prichard, are participants in and have received equity incentive awards under Cyclacel or Cyclacel Group plc share option plans or Senior Executive Incentive Plan. In settlement of these incentive arrangements, subject to the approval of Cyclacel Group plc's shareholders, Cyclacel Group plc expects to issue an aggregate of 1,600,000 preferred shares to these individuals prior to the liquidation of Cyclacel Group plc, and as holders of these shares, these individuals would receive shares of Xcyte common stock in the liquidation. The allocation of these preferred shares has been approved by Cyclacel Group plc's Remuneration Committee, and, subject to the approval of Cyclacel Group plc's shareholders, is as follows:

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<u>Name</u>	<u>Preferred Shares</u>
Judy Chiao	130,000
Robert Jackson	175,000
Paul McBarron	200,000
Spiro Rombotis	955,000
Sir John Banham	90,000
David U Prichard	50,000

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The shares of Xcyte common stock received in the liquidation in respect of these Cyclacel Group plc preferred shares will not initially be freely transferable by these individuals, and instead one third of these shares will become freely transferable on each of the first three anniversaries of the liquidation.

Additionally, it is anticipated that, subject to the approval by Cyclacel Group plc's shareholders, Dr. Judy Chiao, Dr. Robert Jackson, Paul McBarron and Spiro Rombotis would also be granted conditional rights by other holders of Cyclacel Group plc preferred shares at the time of the liquidation, to purchase Xcyte shares received by Cyclacel Group plc in the Stock Purchase. It is expected that the aggregate number of options to purchase Xcyte shares will be equivalent to the number of shares a holder of 1,290,000 ordinary shares in Cyclacel Group plc would receive in the liquidation. These rights would only be exercisable if, within two years following the liquidation, the aggregate market value of shares of Xcyte common stock received by Cyclacel Group plc for ten consecutive trading days exceeds the aggregate liquidation preference of all outstanding Cyclacel Group plc shares as of the liquidation and with one third vesting on each of the first three anniversaries of the liquidation. The allocation of these common share equivalents has been approved by Cyclacel Group plc's Remuneration Committee, and, subject to the approval of Cyclacel Group plc's shareholders, is as follows:

<u>Name</u>	<u>Ordinary Share Equivalents</u>
Judy Chiao	60,000
Robert Jackson	75,000
Paul McBarron	200,000
Spiro Rombotis	955,000

Continued Employment

Following the Stock Purchase, it is expected that Messrs. Rombotis and McBarron would serve as the President and Chief Executive Officer and Chief Operating Officer, Chief Financial Officer and Secretary, respectively, of Xcyte and would enter into new employment agreements with Xcyte in respect of such service. It is expected that in connection with these new employment agreements, each of Messrs. Rombotis and McBarron would receive grants of options to purchase Xcyte common stock under the equity incentive plan described under Proposal Three. The precise terms of these employment agreements, including the number of shares of Xcyte common stock that will be subject to new option grants, have not yet been finalized, and would be negotiated between Messrs. Rombotis and McBarron and Xcyte following the completion of the Stock Purchase. It is also expected that Drs. Chiao and Jackson will continue to serve as executive officers of Cyclacel per their existing employment agreements.

Material United States Federal Income Tax Consequences of the Stock Purchase

The following discussion is based on the Internal Revenue Code of 1986, as amended, applicable Treasury Regulations, judicial authorities and administrative rulings and practices, all as of the date hereof. The Internal Revenue Service could adopt a position contrary to that presented in the following discussion. In addition, future legislative, judicial or administrative changes or interpretations could adversely affect the accuracy of the statements and conclusions set forth herein. Any such changes or interpretations could be applied retroactively and could affect the tax consequences resulting from the proposed Stock Purchase.

Federal Income Tax Consequences of the Proposed Stock Purchase to Xcyte

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No gain or loss should be recognized by Xcyte as a result of the Stock Purchase. However, the Stock Purchase will result in an ownership change that will severely restrict, and potentially completely eliminate, Xcyte's ability to use any net operating losses or credits that were incurred by Xcyte prior to the effective date of the Stock Purchase.

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Federal Income Tax Consequences of the Proposed Stock Purchase to Holders of Xcyte shares Of Common Stock

No gain or loss should be recognized by holders of Xcyte shares of common stock as a result of the Stock Purchase.

Anticipated Accounting Treatment of the Proposed Stock Issuance

Because Cyclacel Group plc shareholders will own approximately 80% of the shares of common stock of the combined company immediately following the consummation of the proposed Stock Purchase, Cyclacel will be deemed to be the acquiring company for accounting purposes. The proposed transaction will be accounted for as a reverse acquisition under the purchase method of accounting for business combinations in accordance with accounting principles generally accepted in the United States. The purchase price in this proposed transaction will be the sum of the fair values of Xcyte outstanding convertible preferred stock and common stock, Xcyte outstanding stock options (as estimated using the Black-Scholes option pricing model) and Cyclacel transaction costs.

The total purchase price will be allocated to the Xcyte net tangible and intangible assets acquired and liabilities assumed, based on their fair values as of the completion of the proposed transaction.

Appraisal Rights

Appraisal rights are not available to Xcyte stockholders in connection with the Stock Purchase or any of the other proposals to be considered at the special meeting and Cyclacel Group plc shareholders are not entitled to appraisal rights in connection with the Stock Purchase or liquidation.

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THE STOCK PURCHASE AGREEMENT

The following is a summary of the material terms of the Stock Purchase Agreement (as amended). A copy of the Stock Purchase Agreement, as amended, is attached as Annex A to this document and is incorporated by reference into this document. The Stock Purchase Agreement has been attached to this document to provide you with information regarding its terms. It is not intended to provide any other factual information about Xcyte, Cyclacel or Cyclacel Group plc. The following description does not purport to be complete and is qualified in its entirety by reference to the Stock Purchase Agreement. You should refer to the full text of the Stock Purchase Agreement for details of the Stock Purchase and the terms and conditions of the Stock Purchase Agreement.

General

Under the Stock Purchase Agreement, Xcyte will acquire all of the issued and outstanding share capital of Cyclacel from Cyclacel Group plc in exchange for newly issued shares of Xcyte common stock. After completion of the Stock Purchase, Cyclacel will be a wholly-owned subsidiary of Xcyte. The closing of the Stock Purchase will occur no later than the fifth business day after the last of the conditions to the Stock Purchase have been satisfied or waived, or at another time as Xcyte and Cyclacel Group plc agree. However, because the Stock Purchase is subject to a number of conditions, we cannot predict exactly when the closing will occur or if it will occur at all.

The Liquidation of Cyclacel Group plc

The Stock Purchase Agreement provides that immediately following the Stock Purchase, Cyclacel Group plc will (1) appoint a liquidator to distribute Cyclacel Group plc's assets and (2) instruct the liquidator to distribute the shares of Xcyte common stock received by Cyclacel Group plc to its shareholders and creditors. The Stock Purchase Agreement provides that Cyclacel Group plc will complete the members' voluntary liquidation as soon as reasonably possible following the Stock Purchase.

Amendments to Xcyte's Certificate of Incorporation

The Stock Purchase Agreement provides that, following the Stock Purchase, Xcyte's certificate of incorporation would be amended in order to:

effect a reverse stock split of Xcyte common stock at a ratio of one share for each ten shares outstanding;

change the name of the combined company to Cyclacel Pharmaceuticals, Inc.; and

modify the indemnification obligations of Xcyte to its officers, directors, employees and agents.

Stock Purchase Consideration and Adjustment

At the closing of the Stock Purchase, Cyclacel Group plc will receive shares of Xcyte common stock in exchange for all of the outstanding share capital of Cyclacel.

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The exact number of shares of Xcyte common stock to be issued in the Stock Purchase will be calculated in accordance with the following formula:

$$\text{New Common Shares} = \text{Outstanding Common Shares}^* \left\{ \frac{\left\{ 1 \frac{\text{Xcyte Cash}}{\text{Xcyte Cash} + \$80,000,000} \right\}}{\left\{ \frac{\text{Xcyte Cash}}{\text{Xcyte Cash} + \$80,000,000} \right\}} \right\}$$

where:

- New Common Shares: the number of shares of Xcyte common stock to be issued in the Stock Purchase.
- Outstanding Common Shares: the sum of (1) the number of shares of Xcyte common stock issued and outstanding immediately prior to the completion of the Stock Purchase, *plus* (a) 50,000 shares of Xcyte common stock if the Stock Purchase is completed before the reverse stock split (as described in Proposal Five) is completed or (b) 5,000 shares of Xcyte's common stock if the Stock Purchase is completed after the reverse stock split is completed.
- Xcyte Cash: the sum of (1) the amount of cash, cash equivalents and the market value of short-term investments held by Xcyte immediately prior to the completion of the Stock Purchase, *plus* (a) \$500,000 if the completion of the Stock Purchase occurs after March 31, 2006 and on or before April 30, 2006 or (b) \$1,000,000 if the completion of the Stock Purchase occurs after April 30, 2006.

As a result of the foregoing calculation, the number of shares that Xcyte will issue in the Stock Purchase will be adjusted depending on the amount of cash, cash equivalents and the market value of short-term investments held by Xcyte immediately prior to the completion of the Stock Purchase. Xcyte anticipates that it will hold approximately \$20 million in cash, cash equivalents and short-term investments upon the completion of the Stock Purchase. Based on such amount of cash, cash equivalents and short-term investments held, Xcyte anticipates that (1) the current holders of Xcyte common stock will own approximately 20% of the outstanding common stock of Xcyte, which represents approximately 18.4% of the total outstanding common stock and common stock equivalents of Xcyte (after accounting for the assumed conversion of all outstanding Xcyte convertible preferred stock) and (2) assuming completion of the liquidation of Cyclacel Group plc, the current shareholders of Cyclacel Group plc will own approximately 80% of the outstanding common stock of Xcyte, which represents approximately 73.5% of the total outstanding common stock and common stock equivalents of Xcyte (after accounting for the assumed conversion of all outstanding Xcyte convertible preferred stock).

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The following table sets forth an estimate of (1) the percentage of the outstanding Xcyte common stock that would be held by Xcyte's current common stockholders immediately following the completion of the Stock Purchase and (2) the percentage of the outstanding Xcyte common stock that would be held by Cyclacel Group plc immediately following the Stock Purchase, in each case, depending on the amount of cash and cash equivalents held by Xcyte immediately prior to the completion of the Stock Purchase.

Cash and cash equivalents held by Xcyte at Close(1)	Percentage of Common Stock to be Owned by Xcyte's Current Common Stockholders(2)	Percentage of Common Stock to be Issued to Cyclacel Group plc(2)
\$16.5	17.1%	82.9%
\$17.0	17.5%	82.5%
\$17.5	17.9%	82.1%
\$18.0	18.4%	81.6%
\$18.5	18.8%	81.2%
\$19.0	19.2%	80.8%
\$19.5	19.6%	80.4%
\$20.0	20.0%	80.0%
\$20.5	20.4%	79.6%
\$21.0	20.8%	79.2%
\$21.5	21.2%	78.8%
\$22.0	21.6%	78.4%

- (1) The cash that Xcyte will be deemed to hold immediately prior to the completion of the Stock Purchase shall equal the amount of cash actually held plus (a) \$500,000 if the closing of the Stock Purchase occurs after March 31, 2006 and on or before April 30, 2006 or (b) \$1,000,000 if the closing of the Stock Purchase occurs after April 30, 2006.
- (2) These percentages do not reflect further dilution that would be caused by the conversion of Xcyte convertible preferred stock.

Adoption of New Equity Incentive Plan

Xcyte agreed to adopt, and submit to its stockholders for approval, an equity incentive plan under which Xcyte will be able to grant equity-based stock awards to its officers, employees, directors, and consultants. It is anticipated that Xcyte will make option grants to new Xcyte directors, officers, and employees following the Stock Purchase. A copy of the proposed equity incentive plan is attached to this document as Annex D.

Conditions to the Completion of the Stock Purchase

Each party's obligation to complete the Stock Purchase is subject to the satisfaction or waiver by each of the parties, at or prior to the Stock Purchase, of various conditions, which include the following:

the registration statement on Form S-4, of which this document is a part, must have been declared effective by the Securities and Exchange Commission under the Securities Act of 1933 and must not be subject to any stop order or proceeding (or any proceeding threatened by the Securities and Exchange Commission) seeking a stop order;

there must not have been issued any temporary restraining order, preliminary or permanent injunction or other order preventing the completion of the Stock Purchase, and no law, statute, rule, regulation, executive order, decree, injunction or other order shall be in

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effect which has the effect of making the Stock Purchase illegal;

shareholders of Cyclacel Group plc must approve the Stock Purchase and the Stock Purchase Agreement, and Xcyte stockholders must approve the issuance of Xcyte common stock in the Stock Purchase, the amendment of Xcyte's certificate of incorporation and the equity incentive plan;

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any waiting period applicable to the Stock Purchase under the Hart-Scott-Rodino Act or any material applicable foreign antitrust requirements must have expired or been terminated; and

there must not be any pending or overtly threatened suit, action or other legal proceeding asserted by a governmental entity challenging or seeking to restrain or prohibit the Stock Purchase, to impose any material limitation on the ability of Xcyte or Cyclacel Group plc to own any assets or operate their businesses or to compel Xcyte, Cyclacel, or Cyclacel Group plc to dispose of or hold separate any material assets.

In addition, each party's obligation to complete the Stock Purchase is further subject to the satisfaction or waiver by that party of the following additional conditions:

all representations and warranties of the other party in the Stock Purchase Agreement being true and correct in all respects on the date of the Stock Purchase Agreement and on the date on which the Stock Purchase is to be completed with the same force and effect as if made on the date on which the Stock Purchase is to be completed or, if such representations and warranties expressly relate to a particular date, then as of that particular date, except, in most cases, where the failure of these representations and warranties to be true and correct (without giving effect to any limitation as to materiality), individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the party making the representations and warranties;

the other party to the Stock Purchase Agreement having performed or complied in all material respects with all agreements and covenants required to be performed or complied with by it on or before the date on which the Stock Purchase is to be completed; and

the other party having delivered the documents required under the Stock Purchase Agreement for the closing of the Stock Purchase, including affiliate agreements, good standing certificates, and certificates from certain of its officers.

In addition, the obligation of Cyclacel Group plc to complete the Stock Purchase is further subject to the satisfaction or waiver of the following conditions:

immediately prior to the completion of the Stock Purchase, Xcyte having at least (1) \$18 million in cash and cash equivalents if the closing occurs on or before March 31, 2006, (2) \$17.5 million if the closing occurs after March 31, 2006 and on or before April 30, 2006, or (3) \$17 million if the closing occurs after April 30, 2006;

the sale of Xcyte's T cell expansion technology known as the Xcellerate Process to Invitrogen Corporation either having been completed or all conditions to such completion having been satisfied or irrevocably waived (the material terms of the sale of assets to Invitrogen are described in Proposal Two beginning on page 80 you should consider these terms in connection with the Stock Purchase); and

since the date of the Stock Purchase Agreement, there not having occurred any material adverse effect with respect to Xcyte.

In addition, the obligations of Xcyte to complete the Stock Purchase is further subject to there not having occurred any material adverse effect with respect to Cyclacel since the date of the Stock Purchase Agreement.

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Each of the conditions listed in the previous three paragraphs may be waived by the party or parties whose obligations to complete the Stock Purchase are so conditioned.

The Stock Purchase Agreement provides that a material adverse effect means, with regard to Xcyte or Cyclacel, any effect, change, event, circumstance or development, when taken together with all other effects that have occurred prior to the date of determination of the occurrence of the material adverse effect, that is or would reasonably be expected to be or become materially adverse to the business, assets, liabilities, capitalization, financial condition or prospects of that party and its subsidiaries taken as a whole or the ability of that party to

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perform its obligations under, or complete the Stock Purchase or other transactions contemplated by the Stock Purchase Agreement. None of the following, alone or in combination, however, shall be deemed to constitute a material adverse effect :

any effect resulting from the announcement of the execution of the Stock Purchase Agreement or the completion of the transactions contemplated by the Stock Purchase Agreement;

any effect resulting from general economic conditions or conditions generally affecting the industry in which such party operates except to the extent that such party is materially disproportionately affected thereby relative to other similarly situated businesses;

any effect resulting from or relating to any change in accounting requirements or principals or any change in applicable laws, rules or regulations or the interpretation thereof;

with respect to Xcyte, any effect resulting from any change in Xcyte's stock price or trading volume or failure to meet published revenue or earnings projections; and

with respect to Xcyte, the delisting or threatened or potential delisting of Xcyte common stock or convertible preferred stock from the Nasdaq Stock Market.

No Solicitation

Each of Xcyte and Cyclacel Group plc agreed that, except as described below, Xcyte and Cyclacel Group plc and their respective subsidiaries will not, nor will either party authorize or permit any of the officers, directors and representatives (including any investment banker, attorney or accountant retained by it or any of its subsidiaries) of it or its subsidiaries to, and it shall use its commercially reasonable efforts to cause its and its subsidiaries' non-officer employees and other agents not to (and shall not authorize any of them to) directly or indirectly:

solicit, initiate, encourage, induce or knowingly facilitate any inquiry with respect to, or the communication, making, submission or announcement of, any acquisition proposal (as defined below);

furnish to any person any information with respect to it in connection with or in response to an acquisition proposal or inquiry with respect to any acquisition proposal;

engage in discussions or negotiations with respect to any acquisition proposal with respect to itself;

approve, endorse or recommend an acquisition proposal; or

enter into any letter of intent or similar agreement relating to an acquisition proposal.

An acquisition proposal includes any offer or proposal with respect to:

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any merger, consolidation, amalgamation, share exchange, business combination, issuance or acquisition of securities, reorganization, recapitalization, tender offer, exchange offer or similar transaction (1) in which Xcyte or Cyclacel Group plc is a constituent corporation, (2) in which any individual, entity, governmental entity, or group (as defined under applicable securities laws) directly or indirectly acquires beneficial or record ownership of securities representing more than 15% of the outstanding securities of any class of voting securities of Xcyte or Cyclacel Group plc or any of their subsidiaries or (3) any purchase from Cyclacel Group plc or Xcyte or any of their subsidiaries of more than a fifteen percent (15%) interest in any class of outstanding voting securities of such party or any of its subsidiaries;

any sale, lease, exchange, transfer, license, acquisition or disposition of any business or assets that constitute more than fifteen percent (15%) of the consolidated net revenue, net income or book value of the assets of or fair market value of the assets of Xcyte, Cyclacel Group plc or any of their subsidiaries; and

any liquidation or dissolution of Cyclacel Group plc or Xcyte.

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However, before obtaining the applicable Xcyte or Cyclacel Group plc stockholder approval of the transaction, each party may furnish its nonpublic information to, and may enter into discussions or negotiations with, any third party in response to a superior offer (as defined below) that is submitted to that party if:

that party has not breached the no solicitation provisions of the Stock Purchase Agreement;

that party's board of directors concludes in good faith, after consultation with its outside counsel, that the failure to take such action is reasonably likely to result in a breach of its fiduciary duties to its stockholders;

that party gives the other party at least one business days' prior notice of the identity of the third party before delivering any non-public information or entering into discussions with such person;

that party receives from the person making the superior offer an executed confidentiality agreement containing provisions at least as favorable to such party as those contained in the confidentiality agreement between Xcyte and Cyclacel Group plc; and

contemporaneously with the furnishing of nonpublic information to a third party, that party delivers the same information to the other party if not previously delivered.

In addition, the board of directors of Xcyte or Cyclacel Group plc may withhold, withdraw, amend or modify its recommendation in favor of the Stock Purchase if that party's board of directors determines in good faith, after consultation with its outside counsel, that the failure to withhold, withdraw, amend or modify its recommendation is reasonably likely to result in a breach of its fiduciary duties to its stockholders.

A superior offer means an unsolicited, bona fide written acquisition proposal for at least 50% of the assets, capital stock or voting power of a party made by a third party on terms that the board of directors of the party receiving the offer determines in good faith (after taking into account such matters as its board of directors deems relevant following consultation with its outside legal counsel and a financial advisor):

is reasonably likely to be more favorable, from a financial point of view to that party's stockholders than the terms of the Stock Purchase; and

is reasonably capable of being consummated.

An offer will not be a superior offer if (1) any financing required to consummate the transaction contemplated by such offer is not committed and is not reasonably capable of being obtained by such third party or (2) if the consummation of such transaction is contingent on any such financing being obtained.

The Stock Purchase Agreement also provides that each party will promptly advise the other of the status and terms of, and keep the other party fully informed on a current basis with respect to, any acquisition proposal or any inquiry or request for information relating to that acquisition proposal or any change to that acquisition proposal.

Meetings of Stockholders

Xcyte is obligated under the Stock Purchase Agreement to hold and convene a special meeting of stockholders for purposes of considering the issuance of shares of Xcyte common stock in the Stock Purchase, the amendment to Xcyte's certificate of incorporation and approval of the equity incentive plan. This obligation is not affected by any withholding, withdrawal, modification or amendment of Xcyte's board of directors recommendation.

Cyclacel Group plc is obligated under the Stock Purchase Agreement to hold and convene the Cyclacel Group plc special meeting of stockholders for purposes of considering the approval and adoption of the Stock Purchase Agreement and approval of the Stock Purchase and the voluntary liquidation of Cyclacel Group plc. This obligation is not affected by any withholding, withdrawal, modification or amendment of Cyclacel Group plc's board of directors recommendation.

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Covenants; Conduct of Business Pending the Stock Purchase

Xcyte agreed that it will conduct its businesses in the ordinary course in accordance with past practices and in compliance with all applicable laws, regulations, and certain contracts, and to take other agreed-upon actions. Xcyte also agreed that it would conduct its business in compliance with specific restrictions relating to:

declaring any dividends or making other distributions or repurchasing any securities, other than required dividend payments on Xcyte's outstanding convertible preferred stock;

issuing securities, including options and warrants, other than in connection with previously-granted options and options or warrants;

amending or waiving any rights under, or permitting the acceleration of vesting under, any stock option plan, stock option or warrant agreement, restricted stock, or other contract relating to any equity award;

modifying its certificate of incorporation or bylaws other than as contemplated by the Stock Purchase Agreement or becoming a party to any merger, consolidation or similar transaction with another entity or the acquisition of equity or material assets of other entities;

forming any subsidiary, acquiring equity or other interests of another entity or entering into any material partnership arrangements, joint development agreements or strategic alliances;

making any capital expenditure or other expenditure other than in the ordinary course of business consistent with past practices;

entering into any material contract, or amending, terminating, waiving or exercising any material right or remedy or assigning any material right or material claim under any material contract;

acquiring, leasing or licensing any right or asset or selling, encumbering, disposing, transferring, leasing or licensing any right or asset or waiving any material right;

writing off as uncollectible, or establishing any extraordinary reserve with respect to, any receivable or other indebtedness except in the ordinary course of business consistent with past practices;

pledging or encumbering any assets, except for encumbrances on immaterial assets made in the ordinary course of business consistent with past practices;

lending money to any person, incurring or guaranteeing indebtedness, or issuing or selling any debt securities or options, warrants, calls or other similar rights to acquire any debt securities;

adopting or amending any employee benefit plan, paying any bonus or making any profit sharing or similar payment to or entering into or increasing the wages or fringe benefits or other compensation of any of its directors, officers, or employees except as required by law;

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granting any material rights to any third party;

transferring or licensing any rights to intellectual property, or extending, amending or modifying, in any material respect, or entering into any agreement, relating to intellectual property;

entering into or materially modifying any material contract, agreement or obligation relating to the distribution, sale, license or marketing by third parties of Xcyte's products or products licensed by Xcyte;

paying, discharging or satisfying any claim, liability or obligation, other than non-material amounts in the ordinary course of business;

changing any of its personnel policies or other business policies, or any of its methods of accounting or accounting practices in any respect;

making any tax election, or adopting or changing any accounting method, principle or practice;

commencing or settling any legal proceeding;

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entering into any material transaction or taking any other material action outside the ordinary course of business or inconsistent with past practices; or

agreeing or committing to take any of these restricted actions.

Cyclacel Group plc agreed that it will cause Cyclacel to conduct its businesses in the ordinary course consistent with past practices and in compliance with all applicable laws, regulations and certain contracts, and to take other agreed-upon actions. Cyclacel Group plc also agreed that it would conduct its business and would cause Cyclacel to conduct its business in compliance with specific restrictions relating to:

declaring any dividends or making other distributions or repurchasing any securities;

issuing securities, including options and warrants;

amending or waiving any rights under, or permitting the acceleration of vesting under, any restricted stock purchase agreement, or other contract relating to any equity award;

modifying its certificate of incorporation or articles of association or becoming a party to any merger, consolidation or similar transaction or the acquisition of assets that are material to Cyclacel;

forming any subsidiary, acquiring equity or other interests of another entity or entering into any material partnership arrangements, joint development agreements or strategic alliances;

making any material capital expenditure;

acquiring, leasing or licensing any right or asset or selling, encumbering, disposing, transferring or leasing or licensing any right or asset (other than assets that are not material or that are acquired, leased or licensed in the ordinary course of business and consistent with past practices) or waiving any material right;

writing off as uncollectible, or establishing any extraordinary reserve with respect to, any material receivable or other indebtedness except in the ordinary course of business consistent with past practices;

pledging or encumbering its assets except for encumbrances on immaterial assets made in the ordinary course of business consistent with past practices;

lending money to any person, incurring or guaranteeing any indebtedness, or issuing or selling any debt securities or options, warrants, calls or other similar rights to acquire any debt securities;

adopting or entering into any employee benefit plan, paying any bonus or making any profit sharing or similar payment to or entering into or increasing the wages or fringe benefits or other compensation of any of its directors, officers, or employees except as required by law;

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making any grant of exclusive rights to any third party;

making any material tax election, or adopting or changing any accounting methods, principles or practices;

entering into any material transaction or taking any other material action outside the ordinary course of business or inconsistent with past practices;

commencing or settling any legal proceeding other than in the ordinary course of business consistent with past practices; or

agreeing or committing to take any of these restricted actions.

Other Agreements

Each of Xcyte and Cyclacel Group plc has agreed to use its commercially reasonable efforts to:

file all applications, notices, reports and other documents reasonably required to be filed with a governmental entity with respect to the Stock Purchase;

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take all actions necessary to complete the Stock Purchase;

coordinate with the other in preparing and exchanging information and promptly provide the other with copies of all filings or submissions made in connection with the Stock Purchase;

obtain all consents, approvals or waivers reasonably required in connection with the transactions;

lift any injunction prohibiting the Stock Purchase or other transactions contemplated by the Stock Purchase Agreement;

ensure that this document will not contain any untrue statement of material fact or omit to state any material fact required to be stated in this document or that are necessary in order to make the statements in this document not misleading; and

consult and agree with each other about any public statement either will make concerning the Stock Purchase, subject to certain exceptions.

Xcyte and Cyclacel Group plc agreed that:

Xcyte will use commercially reasonable efforts to maintain the listing of its common stock on the Nasdaq Stock Market and to obtain the authorization for quotation of its common stock to be issued in the Stock Purchase;

following the Stock Purchase, Xcyte will fulfill and honor the indemnification agreements between Xcyte and each of its directors and officers and will maintain directors' and officers' liability insurance for Cyclacel's directors and officers;

upon completion of the Stock Purchase, Xcyte's board of directors will consist of seven directors, five of whom will be selected by Cyclacel Group plc, one of whom will be selected by Xcyte and one of whom shall be mutually agreed upon by Xcyte and Cyclacel Group plc;

Xcyte would adopt and approve, and submit for stockholder approval, an equity incentive plan to provide for the grant of equity incentive awards to officers, employees, directors and consultants of Xcyte following the completion of the Stock Purchase and reserve a number of shares of Xcyte common stock under the equity incentive plan equal to (i) 10% multiplied by (ii) the sum of (A) the number of shares of Xcyte common stock issued and outstanding immediately prior to the Stock Purchase, plus (B) the number of shares of Xcyte common stock expected to be issued pursuant to the Stock Purchase; and

Cyclacel Group plc will cause Cyclacel to use reasonable best efforts to prepare and deliver to Xcyte certain financial statements of Cyclacel.

Cyclacel Group plc Executive Equity Awards

Pursuant to the Stock Purchase Agreement, Cyclacel Group plc has agreed to settle all of its obligations under its Senior Executive Incentive Plan, as well as all other obligations of Cyclacel Group plc with respect to equity incentive compensation held by certain of its officers and directors through the issuance of an aggregate of 1,750,000 preferred shares (of which 150,000 would be issued to a former director and

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1,600,000 would be issued to certain executive officers) and 1,290,000 ordinary shares of Cyclacel Group plc, which shares will be exchanged for shares of Xcyte common stock in the liquidation. Pursuant to the Stock Purchase Agreement, for the one year following the completion of the Stock Purchase, Xcyte will not grant certain of its officers and directors equity awards without the unanimous consent of Xcyte's board of directors.

Termination

The Stock Purchase Agreement may be terminated at any time before the completion of the Stock Purchase, whether before or after the stockholder approvals have been obtained:

by mutual written consent of Xcyte and Cyclacel Group plc;

by Xcyte or Cyclacel Group plc, if the Stock Purchase has not been completed by May 31, 2006, but this right to terminate the Stock Purchase Agreement will not be available to any party whose action or

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failure to act has been a principal cause of the failure of the Stock Purchase to be completed by such date and such action or failure to act constitutes a breach of the Stock Purchase Agreement;

by Xcyte or Cyclacel Group plc, if a governmental entity has issued an order, decree or ruling or taken any other action that permanently restrains, enjoins or otherwise prohibits the Stock Purchase, which order, decree, ruling or other action is final and nonappealable;

by Xcyte or Cyclacel Group plc, if the stockholders of Xcyte have not approved the issuance of Xcyte common stock in the Stock Purchase, the amendment of Xcyte's certificate of incorporation or the equity incentive plan or if the shareholders of Cyclacel have not approved the Stock Purchase, in each case at the applicable stockholders' meeting or at any adjournment or postponement of the applicable meeting, provided that a party may not terminate for failure of its stockholders to so approve if such failure was caused by the action or failure to act of such party and such action or failure to act is a material breach of the Stock Purchase Agreement;

by Xcyte or Cyclacel Group plc, if the other party has breached any of its representations, warranties, covenants or other agreements contained in the Stock Purchase Agreement in any case such that the conditions to the closing of the Stock Purchase would not be satisfied, and such breach has not been or cannot be cured within 15 days after delivery of written notice of such breach or inaccuracy or if the breaching party has ceased using commercially reasonable efforts to cure such breach; or

by Xcyte or Cyclacel Group plc, if the condition to the closing of the transaction that the other party shall not have sustained a material adverse effect has become incapable of being satisfied by May 31, 2006.

Termination Fees

Fees payable by Xcyte

Xcyte must pay Cyclacel a termination fee of \$100,000 if the Stock Purchase Agreement is terminated because Xcyte's stockholders do not approve the issuance of Xcyte common stock in the Stock Purchase and an acquisition proposal with respect to Xcyte was announced prior to the Xcyte stockholder meeting and Xcyte enters into a definitive agreement with respect to such acquisition proposal within six months of the termination.

Fees payable by Cyclacel

Cyclacel Group plc must pay Xcyte a termination fee of \$100,000 if the Stock Purchase Agreement is terminated because Cyclacel Group plc's stockholders do not approve the Stock Purchase and an acquisition proposal with respect to Cyclacel Group plc was announced prior to the Cyclacel Group plc stockholder meeting and Cyclacel Group plc enters into a definitive agreement with respect to such acquisition proposal within six months of the termination.

Representations and Warranties

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The Stock Purchase Agreement contains customary representations and warranties of Cyclacel Group plc and Xcyte relating to, among other things:

corporate organization and power and similar corporate matters;

subsidiaries;

capital structure;

authorization, due execution and delivery of the Stock Purchase Agreement;

the absence of any conflicts or violations of each party's agreements as a result of the Stock Purchase or the Stock Purchase Agreement;

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financial statements and, with respect to Xcyte, documents filed with the Securities and Exchange Commission, the accuracy of information contained in those documents and the absence of undisclosed liabilities;

absence of material changes or events;

filing of tax returns and payment of taxes;

intellectual property;

compliance, permits and absence of restrictions;

litigation matters;

the absence of brokerage or finders fees or agents commissions;

employee benefits and related matters;

the absence of liens and encumbrances;

environmental matters;

the validity of material contracts to which the parties or their subsidiaries are a party and the absence of any violation, default or breach to such contracts;

properties;

approval by the board of directors;

votes required for approval of the proposals;

transactions with affiliates; and

with respect to Xcyte, the inapplicability of the provisions of Section 203 of the Delaware General Corporation Law to the Stock Purchase.

The representations and warranties are subject to materiality and knowledge qualifiers in many respects and will not survive the Stock Purchase, but their accuracy forms the basis of one of the conditions to the obligations of Xcyte and Cyclacel Group plc to complete the Stock Purchase.

This description of the representations and warranties is included to provide investors with information regarding the terms of the Stock Purchase Agreement. It is not intended to provide any other factual information about Xcyte, Cyclacel or Cyclacel Group plc. The assertions embodied in the representations and warranties are subject to qualifications and exceptions. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

Amendment; Extension and Waiver

The Stock Purchase Agreement may be amended by the parties at any time, except that after the Stock Purchase Agreement has been approved and adopted by Cyclacel Group plc and the issuance of shares has been approved by the Xcyte stockholders, no amendment which by law requires further approval by the stockholders of Xcyte or Cyclacel Group plc shall be made without such further approval.

Expenses; Reimbursement

Whether or not the Stock Purchase is completed, all fees and expenses incurred in connection with the Stock Purchase, the Stock Purchase Agreement and the transactions contemplated by the Stock Purchase Agreement will be paid by the party incurring such fees or expenses, except that Xcyte will pay all fees and expenses incurred by it in connection with the filing, printing and mailing of this document and the registration statement of which it is a part and any amendments or supplements thereto.

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AGREEMENTS RELATED TO THE STOCK PURCHASE

Voting Agreements

As a condition to Xcyte's entering into the Stock Purchase Agreement, certain Cyclacel Group plc shareholders indicated below entered into voting agreements pursuant to which, among other things, each of these shareholders agreed, solely in his, her or its capacity as a shareholder, to vote all of his, her or its shares of Cyclacel Group plc in favor of the approval of the Stock Purchase and the liquidation and against any matter that could reasonably be expected to prevent the Stock Purchase. These Cyclacel Group plc shareholders may vote their shares of Cyclacel Group plc on all other matters.

As of January 23, 2006, the shareholders of Cyclacel Group plc that entered into voting agreements collectively owned 586,929 ordinary shares and 10,781,427 preferred shares of Cyclacel Group plc, representing approximately 57.3% of the outstanding share capital of Cyclacel Group plc and approximately 60.0% of the outstanding preferred shares of Cyclacel Group plc. All of these stockholders are executive officers, directors, or entities controlled by such persons, or 5% shareholders, of Cyclacel Group plc, respectively.

In addition, as a condition to Cyclacel Group plc's entering into the Stock Purchase Agreement, the Xcyte stockholders indicated below entered into voting agreements with Cyclacel Group plc pursuant to which, among other things, each of these stockholders agreed, solely in his, her or its capacity as a stockholder, to vote all of his, her or its shares of Xcyte common stock in favor of the approval of the share issuance in the Stock Purchase and the other proposals and against any matter that could reasonably be expected to prevent the Stock Purchase. These Xcyte stockholders may vote their Xcyte common stock on all other matters.

The Xcyte stockholders that entered into voting agreements include certain affiliates of Stephen Wertheimer and Robert Nelsen, each of whom are Xcyte directors and certain affiliates of Jean Deleage, a former Xcyte director. As of January 23, these stockholders collectively owned shares representing approximately 19.1% of the outstanding common stock of Xcyte.

Under these voting agreements, subject to certain exceptions, the stockholders also have agreed not to sell or transfer the Xcyte common stock and options or Cyclacel Group plc shares owned, controlled or acquired, either directly or indirectly, by them or their voting rights with respect to such shares of common stock until the earlier of the termination of the Stock Purchase Agreement or the completion of the Stock Purchase, unless each person to which any shares of common stock or any interest in any shares of common stock is transferred agrees in writing to be bound by the terms and provisions of the voting agreement.

These voting agreements will terminate upon the earlier to occur of the termination of the Stock Purchase Agreement or the completion of the Stock Purchase.

Cyclacel Affiliate Agreements

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As an inducement to Xcyte to enter into the Stock Purchase Agreement, Cyclacel Group plc has agreed to use its commercially reasonable efforts to cause its affiliates to sign certain affiliate agreements. Pursuant to these affiliate agreements, if such persons are affiliates of Cyclacel Group plc at the time the Stock Purchase and liquidation are submitted to the shareholders for vote or consent, Xcyte will be entitled to place appropriate legends on the certificates evidencing any Xcyte common stock to be received by these persons, or entities, and to issue stop transfer instructions to the transfer agent for the Xcyte common stock received by the affiliates. Further, pursuant to these affiliate agreements these individuals will also acknowledged the resale restrictions imposed by Rule 145 under the Securities Act on shares of Xcyte common stock to be received by them in the Stock Purchase and liquidation.

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Operations After the Stock Purchase

Following the Stock Purchase, Cyclacel will become a wholly-owned subsidiary of Xcyte. Following the liquidation of Cyclacel Group plc, the shareholders of Cyclacel Group plc will become stockholders of Xcyte, and their rights as stockholders will be governed by Xcyte's certificate of incorporation, as then in effect, the Xcyte bylaws and the laws of the State of Delaware. See Comparison of Rights of Holders of Xcyte Common Stock and Cyclacel Group plc Shares on page 197.

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SPECIAL MEETING OF XCYTE COMMON STOCKHOLDERS

General

Xcyte is furnishing this document to holders of Xcyte common stock in connection with the solicitation of proxies by the Xcyte board of directors for use at the special meeting of stockholders to be held on March 16, 2006 and at any adjournment, postponement or continuation thereof. This document is first being furnished to stockholders of Xcyte on or about February 10, 2006.

Date, Time and Place

The special meeting of stockholders will be held on March 16, 2006 at 9:00 a.m., local time, at 701 Fifth Avenue, Suite 5100, Seattle, Washington.

Purpose of Xcyte Special Meeting

At the special meeting, we are asking holders of Xcyte common stock to consider and vote upon the proposals listed below and any other matters that may properly come before the special meeting or any adjournment or postponement of the special meeting:

1. A proposal to approve the issuance of Xcyte common stock pursuant to the Stock Purchase Agreement, dated as of December 15, 2005, between Xcyte and Cyclacel Group plc, pursuant to which Xcyte will purchase from Cyclacel Group plc all of the outstanding share capital of Cyclacel in exchange for newly issued shares of Xcyte common stock.
2. A proposal to approve the sale of Xcyte's T cell expansion technology known as the Xcellerate Process, including all related intellectual property, all clinical data generated by Xcyte in the course of six clinical trials of its lead product, specified related documents generated and maintained by Xcyte for purposes of such clinical trials, all related raw materials, and specified agreements and equipment, to Invitrogen Corporation pursuant to the asset purchase agreement, dated as of December 14, 2005, between Xcyte and Invitrogen (which we refer to as the Asset Purchase Agreement).
3. A proposal to approve an equity incentive plan to provide for the grant of equity incentive awards to officers, employees, and directors and consultants of Xcyte following the completion of the Stock Purchase.
4. A proposal to approve the amendment of Xcyte's certificate of incorporation to change Xcyte's name and modify the indemnification obligations of Xcyte.

5. A proposal to approve an amendment to Xcyte's certificate of incorporation to effect a reverse stock split of Xcyte common stock at a ratio of one share for each ten shares of common stock outstanding.

Record Date; Shares of Common Stock Outstanding and Entitled to Vote

Xcyte has fixed the close of business on February 3, 2006 as the record date for determination of holders of Xcyte common stock entitled to notice of and to attend and vote at the special meeting or at any adjournment thereof. As of the close of business on January 23, 2006, there were 19,672,393 shares of Xcyte common stock outstanding and entitled to vote. Each share of Xcyte common stock entitles its holder to one vote at the special meeting on all matters properly presented at the meeting.

Holders of Xcyte convertible preferred stock are *not* entitled to vote at the special meeting.

Quorum and Vote of Xcyte Stockholders Required

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present at the Xcyte special meeting if shares of common stock representing a majority of the votes entitled to be cast are represented.

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in person or by proxy. If a quorum is not present at the Xcyte special meeting, we expect that the meeting will be adjourned or postponed to solicit additional proxies. Abstentions and broker non-votes count as being present to establish a quorum. A broker non-vote occurs when a broker is not permitted to vote because the broker does not have instructions from the beneficial owner of the shares of common stock.

The proposals to be voted on at the special meeting will require the following approvals:

1. The approval of the issuance of Xcyte common stock in the Stock Purchase requires the affirmative vote of holders of shares of common stock representing a majority of the shares of Xcyte common stock represented in person or by proxy and entitled to vote at the special meeting at which a quorum is present. **The approval of the issuance of Xcyte common stock in the Stock Purchase is a condition to the completion of the Stock Purchase, and thus a vote against this proposal effectively will be a vote against the Stock Purchase.**
2. The approval of the sale of Xcyte's T cell expansion technology known as the Xcellerate Process requires the affirmative vote of holders of shares of common stock representing a majority of the outstanding shares of Xcyte common stock entitled to vote at the special meeting. **Because this proposal requires the approval of the holders of a majority of the outstanding shares of Xcyte common stock, a failure to vote on this proposal is effectively a vote against this proposal. Additionally, the substantial completion of the proposed sale of Xcyte's T cell expansion technology and related assets is a condition to the completion of the Stock Purchase, and thus a vote against this proposal or a failure to vote on this proposal effectively will be a vote against the Stock Purchase.**
3. The approval of the proposed Xcyte equity incentive plan requires the affirmative vote of holders of shares of common stock representing a majority of the shares of Xcyte common stock represented in person or by proxy and entitled to vote at the special meeting at which a quorum is present. **The approval of the equity incentive plan is a condition to the completion of the Stock Purchase, and thus a vote against this proposal effectively will be a vote against the Stock Purchase.**
4. The approval of the amendment to Xcyte's certificate of incorporation to change Xcyte's name and modify the indemnification obligations of Xcyte requires the affirmative vote of holders of shares of common stock representing a majority of the outstanding shares of Xcyte common stock entitled to vote at the special meeting. **Because this proposal requires the approval of the holders of a majority of the outstanding shares of Xcyte common stock, a failure to vote on this proposal is effectively a vote against this proposal. Additionally, the approval of the amendment to Xcyte's certificate of incorporation is a condition to the completion of the Stock Purchase, and thus a vote against this proposal or a failure to vote on this proposal effectively will be a vote against the Stock Purchase.**
5. The approval of the amendment to Xcyte's certificate of incorporation to effect a reverse stock split of Xcyte common stock at a ratio of one share for each ten shares of common stock requires the affirmative vote of holders of shares of common stock representing a majority of the outstanding shares of Xcyte common stock entitled to vote at the special meeting. **Because this proposal requires the approval of the holders of a majority of the outstanding shares of Xcyte common stock, a failure to vote on this proposal is effectively a vote against this proposal. Additionally, the approval of the amendment to Xcyte's certificate of incorporation is a condition to the completion of the Stock Purchase, and thus a vote against this proposal or a failure to vote on this proposal effectively will be a vote against the Stock Purchase.**

Xcyte stockholders who collectively held approximately 19.1% of the outstanding common stock on January 23, 2006 have entered into agreements to vote their shares of common stock in favor of the above proposals.

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If you do not submit a proxy card or vote at the special meeting, your shares of common stock will not be counted as present for the purpose of determining a quorum and will have no effect on the outcome of the

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proposal to approve the issuance of shares of Xcyte common stock in connection with the Stock Purchase and the equity incentive plan; however, that failure will have the effect of a vote against the proposal to sell Xcyte's T cell expansion technology and related assets to Invitrogen as well as the proposals to amend Xcyte's certificate of incorporation.

Voting of Proxies

Xcyte requests that its stockholders complete, date and sign the accompanying proxy and promptly return it in the accompanying envelope or otherwise mail it to Xcyte. Brokers holding Xcyte common stock in street name may vote the shares of common stock only if the stockholder provides instructions on how to vote. Brokers will provide directions on how to instruct the broker to vote the shares of common stock. All properly executed proxies that Xcyte receives prior to the vote at the special meeting, and that are not revoked, will be voted in accordance with the instructions indicated on the proxies or, if no direction is indicated, to approve the issuance of Xcyte common stock in the Stock Purchase and the other proposals set forth in this document. Properly executed proxies, other than proxies voting against the issuance of Xcyte common stock in the Stock Purchase, will also be voted for any adjournment or postponement of Xcyte's special meeting of stockholders for the purpose of soliciting additional votes to approve the issuance of Xcyte common stock in the Stock Purchase, if necessary. Xcyte's board of directors does not currently intend to bring any other business before the special meeting and, so far as Xcyte's board of directors knows, no other matters are to be brought before the special meeting. If other business properly comes before the special meeting, the proxies will vote in accordance with their own judgment.

Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of Xcyte common stock beneficially owned by others to forward to such beneficial owners. Xcyte may reimburse persons representing beneficial owners of Xcyte common stock for their costs of forwarding solicitation materials to such beneficial owners. In addition to solicitation by use of the mails, proxies may be solicited by directors, officers, employees or agents of Xcyte in person or by telephone, telegram or other means of communication. No additional compensation will be paid to directors, officers or other regular employees of Xcyte for such services.

Revocation of Proxies

Stockholders may revoke their proxies at any time prior to use by delivering to the Secretary of Xcyte a signed notice of revocation or a later-dated signed proxy, or by attending the special meeting in person and revoking the proxy by signing a notice of revocation. Attendance at the special meeting does not in itself constitute the revocation of a proxy. Stockholders who have instructed their broker to vote their shares of common stock must follow their broker's directions in order to change those instructions. You may also attend the Xcyte special meeting in person instead of submitting a proxy.

Solicitation of Proxies

Xcyte will pay for all costs incurred by it in connection with the solicitation of proxies from its stockholders on behalf of its board of directors, including assembly, printing and mailing of this document and the proxy card.

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MATTERS BEING SUBMITTED TO A VOTE OF XCYTE STOCKHOLDERS

PROPOSAL ONE

APPROVAL OF THE ISSUANCE OF COMMON STOCK IN THE STOCK PURCHASE

At the special meeting and any adjournment or postponement thereof, Xcyte stockholders will be asked to consider and vote upon a proposal to approve the issuance of Xcyte common stock pursuant to a Stock Purchase Agreement dated as of December 15, 2005 between Xcyte Therapies, Inc., and Cyclacel Group plc. Under the Stock Purchase Agreement, Xcyte will acquire all of the issued and outstanding share capital of Cyclacel from Cyclacel Group plc in exchange for newly issued shares of Xcyte common stock. After completion of the Stock Purchase, Cyclacel will be a wholly-owned subsidiary of Xcyte. The terms of, reasons for and other aspects of the Stock Purchase are described in detail in the other sections of this document.

Required Vote

The approval of the issuance of Xcyte common stock in the Stock Purchase requires the affirmative vote of holders of a majority of the shares of Xcyte common stock represented in person or by proxy and entitled to vote at the special meeting at which a quorum is present.

The approval of the issuance of Xcyte common stock in the Stock Purchase is a condition to the completion of the Stock Purchase, and thus a vote against this proposal is effectively a vote against the Stock Purchase.

**XCYTE S BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL
OF THE ISSUANCE OF XCYTE COMMON STOCK IN THE STOCK PURCHASE**

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PROPOSAL TWO

APPROVAL OF THE PROPOSED SALE OF XCYTE ASSETS TO INVITROGEN

Overview of the Asset Purchase Agreement

This summary highlights selected information contained in this Proposal Two and may not contain all of the information that is important to you regarding Proposal Two. To understand fully the proposed sale of Xcyte's assets and for a more complete description of the legal terms of the sale of Xcyte's assets, you should read carefully the entire description of Proposal Two in this document and the documents that Xcyte has attached as Annexes to this proxy statement, including the asset purchase agreement attached as Annex C.

Description of the Proposed Asset Sale

On December 14, 2005, Xcyte entered into an asset purchase agreement and other related agreements with Invitrogen Corporation. Under the terms of the asset purchase agreement, Xcyte has agreed to sell Xcyte's T cell expansion technology known as the Xcellerate Process, including all related intellectual property, all clinical data generated by Xcyte in the course of six clinical trials of its lead product, specified related documents generated and maintained by Xcyte for purposes of such clinical trials, all related raw materials, and specified equipment and agreements (including licenses to Xcyte), to Invitrogen in exchange for approximately \$5.0 million in cash (subject to a potential purchase price adjustment) and the assumption of specified potential liabilities related to these assets. This purchase price is subject to the adjustment described under "The Asset Purchase Agreement Purchase Price and Purchase Price Agreement". Xcyte will retain all of Xcyte's cash, cash equivalents, certain other non-operating assets, and certain intellectual property unrelated to the Xcellerate Process.

Interests of Xcyte's Directors and Executive Officers in the Proposed Asset Sale (Page 58)

In considering the recommendation of Xcyte's board of directors with respect to the proposed asset sale, you should be aware that some of Xcyte's directors and executive officers have certain interests in the proposed asset sale that may differ from the interests of Xcyte's shareholders generally. Xcyte's board of directors was aware of these interests and considered them, among other factors, in approving and recommending the proposed asset sale.

Closing of the Proposed Asset Sale

Xcyte expects to close the proposed asset sale following the satisfaction or waiver of all of the conditions to each party's obligations under the asset purchase agreement. Xcyte anticipates completion following the special meeting.

No Regulatory Requirements for the Proposed Asset Sale (Page 58)

Xcyte does not require any material regulatory approvals to complete the proposed asset sale.

No Appraisal Rights in Connection with the Proposed Asset Sale (Page 62)

Xcyte's shareholders will not be entitled to appraisal rights in connection with, or as a result of, the proposed asset sale.

Xcyte's Plans Following the Completion of the Proposed Asset Sale

If Xcyte completes the proposed asset sale, Xcyte intends to complete the purchase of all of the outstanding share capital of Cyclacel, as described in this document.

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Xcyte's Reasons for the Proposed Asset Sale

Xcyte's board of directors determined that the proposed asset sale is in the best interests of Xcyte and Xcyte's stockholders after considering a number of factors, including the following factors that weigh in favor of the proposed asset sale:

Xcyte had considered alternatives to the proposed asset sale, including continued development of Xcellerated T cells and had ultimately determined that it could not complete the planned development with its available resources and that alternative development plans were unlikely to be successful in an acceptable timeframe;

the Xcellerate Process would not be part of the product development plans of Xcyte following its purchase of Cyclacel's share capital;

Xcyte had considered other strategic alternatives, including mergers with other companies and other business combinations;

Xcyte was operating its business at a loss and did not have a near-term plan to achieve profitability; and

the value of Xcyte's assets would continue to decline with the passage of time.

In its review of the proposed asset sale, Xcyte's board of directors also considered a number of factors that weigh against the proposed asset sale, including:

the risk that the proposed asset sale might not be completed and the effect of public announcement of the proposed asset sale on the market price of Xcyte common stock; and

the risk that closing of the proposed asset sale may be delayed, resulting in Xcyte incurring more losses and depleting more of Xcyte's cash reserves.

The foregoing list comprises the material factors considered by Xcyte's board of directors in its consideration of the proposed asset sale. In view of the wide variety of factors considered, Xcyte's board of directors did not find it practicable to quantify or otherwise assign relative weight to the specific factors considered. However, after taking into account all of the factors set forth above, both positive and negative, Xcyte's board of directors determined that the proposed asset sale is in the best interests of Xcyte and Xcyte's stockholders and that Xcyte should proceed with the proposed asset sale.

Material United States Federal Income Tax Consequences of the Proposed Asset Sale

The following discussion summarizes the material United States federal income tax consequences to Xcyte of the proposed asset sale. Please see the section entitled "The Stock Purchase Material United States Federal Income Tax Consequences of the Stock Purchase" on page 61 for a discussion of the federal income tax consequences to shareholders of the proposed purchase of all of the outstanding share capital of Cyclacel.

The following discussion is based on the Internal Revenue Code of 1986, as amended, applicable Treasury Regulations, judicial authorities and administrative rulings and practices, all as of the date hereof. The Internal Revenue Service could adopt a position contrary to that presented in the following discussion. In addition, future legislative, judicial or administrative changes or interpretations could adversely affect the accuracy of the statements and conclusions set forth herein. Any such changes or interpretations could be applied retroactively and could affect the tax consequences of the proposed asset sale to Xcyte.

Federal Income Tax Consequences of the Proposed Asset Sale to Xcyte

As a result of the proposed asset sale, Xcyte will sell all of Xcyte's operating assets to Invitrogen in exchange for approximately \$5 million (subject to a potential purchase price adjustment). This amount, plus the amount of certain liabilities assumed by Invitrogen, will be allocated among all of Xcyte's assets that are sold to

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Invitrogen. Xcyte will recognize gain or loss on each of the assets sold in an amount equal to the difference between the sales price allocated to that asset and Xcyte's tax basis in such asset.

Xcyte does not believe the proposed asset sale will result in substantial federal or state corporate income tax liability (including any alternative minimum tax liability) because of losses from operations and the availability of net operating loss carryforwards. However, tax authorities may disagree with Xcyte's determination of Xcyte's available operating losses or Xcyte's allocation of the purchase price among the assets sold, or Xcyte's operating losses could be less than anticipated, which may increase Xcyte's income tax liability as a result of the proposed asset sale.

Anticipated Accounting Treatment of the Proposed Asset Sale

Xcyte will account for the proposed asset sale as a sale of assets and the conveyance of liabilities, in accordance with accounting principles generally accepted in the United States. Because the purchase price for the assets being sold is more than the net book value of the assets, Xcyte will record a gain of approximately \$5 million in 2006 when the asset sale is finalized.

No Regulatory Requirements for the Proposed Asset Sale

Xcyte does not require any material regulatory approvals to complete the proposed asset sale.

No Appraisal Rights in Connection with the Proposed Asset Sale

Xcyte's shareholders will not be entitled to appraisal rights in connection with, or as a result of, the proposed asset sale.

The Asset Purchase Agreement

The following is a description of the material terms of the asset purchase agreement. The following description does not purport to describe all of the terms and conditions of the asset purchase agreement. The full text of the asset purchase agreement is attached to this proxy statement as Annex C and is incorporated herein by reference. You are urged to read the asset purchase agreement in its entirety because it is the legal document that governs the terms and conditions of the proposed asset sale.

Transferred Assets

On December 14, 2005 Xcyte executed an asset purchase agreement with Invitrogen in connection with the proposed asset sale. Xcyte is proposing to sell Xcyte's T cell expansion technology known as the Xcellerate Process by transferring to Invitrogen Xcyte's interest in assets that

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Xcyte owns or licenses in connection with its activities related to the Xcellerate Process. Under the terms of the asset purchase agreement, the transferred assets will include:

specified patents, as well as any patents issuing on or claiming priority to patent applications included in such designated patents, any and all counterpart U.S., international and foreign patents and patent applications of such designated patents, and all reissues, re-examinations, divisionals, renewals, extensions, continuations and continuations-in-part of any such designated patents;

specified trade secrets and confidential information;

specified trademarks, including all goodwill inuring prior to the closing date with respect to such trademarks;

specified agreements and all of its rights pursuant to such agreements;

specified raw materials and inventory;

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clinical data generated by Xcyte in the course of clinical trials, pursuant to an investigational new drug application, that is owned by, and in the possession of, Xcyte in the form in which it exists as of the closing date; and

specified transferred equipment.

Excluded Assets

Under the terms of the asset purchase agreement, Invitrogen will not acquire any of Xcyte's assets other than the transferred assets described above. Specifically, Invitrogen will not acquire:

any of Xcyte's cash, cash equivalents, negotiable instruments, receivables, loans and other amounts owed to Xcyte, bank deposits, securities, and similar items of Xcyte;

any rights to and under insurance policies of Xcyte, including rights of proceeds under these policies;

any confidential personnel records pertaining to any employee, any records prepared in connection with the sale of the transferred assets, any books and records that Xcyte is required by law to retain or that Xcyte determines are necessary or advisable to retain under applicable law, any financial books, records, reports, filings or information, or any information management of Xcyte;

any claim, right or interest of Xcyte in or to any refund, rebate, abatement or other recovery for taxes, together with any interest due thereon or penalty rebate arising therefrom, the basis of which arises or accrues prior to the closing of the asset purchase;

all right, title and interest in and to any licensed know-how, and other intellectual property licensed to Xcyte under any of the material business agreements and transferred agreements or other agreement to which Xcyte is a party, except those rights that may be granted to Invitrogen under the transferred agreements when the transferred agreements are transferred to Invitrogen in accordance with the asset purchase agreement;

all right, title, and interest in and to any intellectual property and technology invented, created, developed, or acquired by Xcyte after the closing date of the asset purchase;

all right, title, and interest to certain patents and patent applications designated by Xcyte; and

any other right, title, interest, asset, property, or other subject matter, material, and document, that is not expressly identified by the asset purchase agreement as a transferred asset.

Assumed Liabilities

Under the terms of the asset purchase agreement, Invitrogen will assume certain liabilities of Xcyte that are related to the transferred assets described above. Invitrogen will only be assuming the following liabilities of Xcyte:

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all liabilities, obligations, and responsibilities arising after the closing under or in connection with specified business agreements and transferred agreements;

all liabilities, obligations, and responsibilities arising from or relating to the transferred assets, or the ownership, possession, use or operation thereof, including those based upon any exploitation of the transferred assets, licensed know-how, or other intellectual property licensed under specified business agreements or transferred agreements, to the extent arising after the closing;

certain permitted encumbrances on the transferred assets;

all liabilities, obligations, and responsibilities associated with filing, prosecuting, maintaining, and preserving the transferred intellectual property, licensed know-how, and other intellectual property and technology licensed under certain of the business agreements and transferred agreements;

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all liabilities, obligations, and responsibilities concerning any of the raw materials and inventory or the transferred equipment, including for maintaining, preserving and protecting such raw materials and inventory and transferred equipment; and

certain other liabilities, obligations and responsibilities designated by the parties.

Purchase Price and Purchase Price Adjustment

In connection with acquiring the assets, Invitrogen will pay Xcyte \$5.0 million in cash and will assume specified potential liabilities. The \$5.0 million in cash is subject to Xcyte's obligation to refund to Invitrogen up to \$1.0 million in the event that certain rights and licenses that are being transferred to Invitrogen are terminated or narrowed in accordance with their terms as a result of certain actions and/or inactions of Xcyte prior to signing the asset purchase agreement and not as a result of actions of Invitrogen. The refund to Invitrogen would be made only to the extent that Invitrogen established that it actually lost sales as a result of such loss of rights and licenses.

Additionally, in an ancillary agreement to the asset purchase agreement, Invitrogen agreed that if Invitrogen or its affiliate receives specified sublicensing revenue in consideration for the grant, or exercise, of specified rights or licenses under intellectual property transferred or licensed to Invitrogen as a result of the asset purchase agreement, and if the total revenue received by Invitrogen and its affiliates from the sources and transactions involving the assets transferred to Invitrogen under the asset purchase agreement, or involving certain products related to such transferred assets, exceeds specified thresholds, then Invitrogen would pay to Xcyte a specified percentage of such sublicensing revenue that exceeds such thresholds. Also, if any agreement is entered into by Invitrogen in the area of chronic lymphocytic leukemia within one year of the closing of the sale of assets to Invitrogen, and if Invitrogen receives revenue under such agreement (or any amendment, restatement, or extension of such agreement) for licensing or selling in the area of chronic lymphocytic leukemia any assets that were transferred or licensed to Invitrogen as a result of the asset purchase agreement, then Xcyte will receive a higher percentage of such licensing and sales revenues, without any threshold required for payment.

Representations and Warranties

Under the asset purchase agreement, Xcyte made certain customary representations and warranties to Invitrogen, including representations and warranties related to:

Xcyte's valid organization and existence and corporate authority to enter into the asset purchase agreement;

absence of any conflict with or violation of Xcyte's organizational documents; absence of any requirement for any filing with, or permit, authorization, consent, or approval of, any governmental entity; and absence of any conflict with, or breach, default, acceleration of, obligations, termination rights, consent requirement, or modification or waiver of any agreement resulting from the asset sale;

as-is sale of specified tangible assets, except to the extent Xcyte was able to transfer warranties that had been provided to Xcyte;

Xcyte's ownership of specified intellectual property rights and technology included among the transferred assets described above, the validity and status of specified intellectual property owned by or licensed to Xcyte, and the compliance of such assets with applicable legal requirements, as well as the right to make available to Invitrogen certain in-licensed assets;

transferability of the specified intellectual property and agreements;

Xcyte's policy regarding employment agreements and absence of violations with respect to such agreements and absence of claims of ownership of intellectual property;

status and delivery of material business agreements and transferred agreements and absence of any breach and notices under such agreements;

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absence of litigation, proceedings, decrees, orders, judgments, infringement, licenses, assignments and other encumbrances in connection with the transferred assets;

certain tax matters relating to the transferred assets; and

the sufficiency of the transferred assets to conduct Xcyte's Xcellerate business in the manner that Xcyte currently conducts it.

Under the asset purchase agreement, Invitrogen made certain customary representations and warranties to Xcyte, including representations and warranties as to the sufficiency of its funds to complete the proposed asset sale.

This description of the representations and warranties is included to provide investors with information regarding the terms of the Asset Purchase Agreement. It is not intended to provide any other factual information about Xcyte or Invitrogen. The assertions embodied in the representations and warranties are subject to qualifications and exceptions. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

Covenants

Under the terms of the asset purchase agreement, Xcyte has agreed that, at all times prior to the completion of the proposed asset sale, Xcyte will:

use its commercially reasonable efforts, and do all things necessary, proper, or advisable, to complete the transactions contemplated by the asset purchase agreement;

use its commercially reasonable efforts to obtain all required authorizations, consents, orders and approvals from governmental entities;

take certain actions during the one month period following the closing date to effect the transfer to Invitrogen of the transferred assets;

file tax returns and make property tax payments with respect to periods prior to the closing;

maintain the confidentiality of Invitrogen's confidential information; and

hold non-transferable assets in trust for the benefit of Invitrogen if consent to the transfer is not obtained and use commercially reasonable efforts to obtain consents and approvals and take actions reasonably requested by Invitrogen in connection therewith.

Xcyte has also agreed that, at all times prior to the completion of the proposed asset sale, Xcyte will not:

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sell, lease, license or dispose of any of the transferred assets described above, other than as may be required to fulfill any obligations under a transferred agreement or material business agreement;

incur or assume any material liabilities or obligations that would constitute an assumed liability of Invitrogen, other than as may be required to fulfill any obligations under any transferred agreements or material business agreements;

mortgage, pledge or subject any transferred asset to an encumbrance that does not exist as of the closing date, other than as may be required to fulfill any obligations under any transferred agreements or material business agreements;

terminate (except pursuant to its terms) or materially modify or amend any transferred agreement; or

agree to take any of the foregoing actions.

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Closing Conditions

Invitrogen's Conditions. Invitrogen's obligation to complete the proposed asset sale is subject to several conditions, including the following:

the accuracy of all of Xcyte's representations and warranties contained in the asset purchase agreement;

Xcyte's performance of all of Xcyte's covenants and obligations under the asset purchase agreement to be performed or complied with by Xcyte prior to the completion of the proposed asset sale;

delivery to Invitrogen by Xcyte of a certificate executed by an authorized officer of Xcyte to the effect that each of the foregoing conditions has been satisfied; and

Xcyte having delivered the remaining ancillary agreements to the asset purchase agreement.

Xcyte's Conditions. Xcyte's obligation to complete the proposed asset sale is subject to several conditions, including the following conditions:

the accuracy of all of Invitrogen's representations and warranties contained in the asset purchase agreement;

Invitrogen's performance in all material respects of all of its covenants and obligations under the asset purchase agreement to be performed or complied with by Invitrogen prior to the completion of the proposed asset sale;

Invitrogen having delivered the remaining ancillary agreements to the asset purchase agreement; and

the completion of an acquisition, or the conditions to the completion of an acquisition having been satisfied or waived, of Xcyte.

Conditions to Both Parties' Obligations. In addition to the conditions listed above, the obligations of both Invitrogen and Xcyte to complete the proposed asset sale are subject to the following conditions:

the expiration or termination of all applicable waiting periods (and any extensions thereof) under the Hart-Scott-Rodino Act, if applicable, and applicable foreign antitrust laws and all approvals required under applicable foreign antitrust law having been obtained;

the absence of any law, rule, regulation, judgment, decree, award, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the proposed asset sale illegal or otherwise prohibiting the completion of the proposed asset sale;

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the affirmative vote of the holders of a majority of the votes represented by the shares of Xcyte common stock entitled to be cast at a special meeting to approve the asset sale; and

Xcyte having obtained any required consents.

Indemnification

Xcyte's Indemnification Obligations. Under the terms of the asset purchase agreement, Xcyte has agreed to indemnify Invitrogen and its affiliates, and their respective officers, directors, stockholders, employees, representatives and agents from and against any and all claims, actions, suits, proceedings, liabilities, obligations, losses, and damages, amounts paid in settlement, costs and expenses (including reasonable attorney's fees, court costs and other out-of-pocket expenses incurred in investigating, preparing or defending the foregoing) incurred or paid by Invitrogen, or any such other party, to the extent arising by reason of or resulting from:

any breach of any of Xcyte's representations or warranties in the asset purchase agreement;

any breach or failure by Xcyte to perform or comply with any of Xcyte's covenants or agreements in the asset purchase agreement or the ancillary agreements to the asset purchase agreement; and

one of the excluded liabilities.

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However, except with respect to a failure to perform a covenant or agreement contained in the asset purchase agreement or an ancillary agreement, Xcyte is not required to indemnify Invitrogen or any other indemnified party described above until such damages exceed five percent (5%) of the purchase price. Xcyte is not required to indemnify Invitrogen for any damages arising more than twelve months from the completion of the proposed asset sale or that exceed 25% of the purchase price (in each case except with respect to a failure to perform a covenant or agreement contained in the asset purchase agreement or an ancillary agreement), nor is Xcyte liable for any indirect, special, punitive, exemplary, reliance or consequential loss or damage arising out of the asset purchase agreement. Xcyte's liability will be net of insurance proceeds or other third party indemnities and any tax savings that reduce the impact of losses. Finally, if the proposed asset sale is completed pursuant to the terms of the asset purchase agreement, the asset purchase agreement provides that Invitrogen's sole and exclusive remedy with respect to any and all claims arising out of or related to the asset purchase agreement will be this right to indemnification.

Invitrogen's Indemnification Obligations. Under the terms of the asset purchase agreement, Invitrogen has agreed to indemnify Xcyte and its affiliates, and their respective officers, directors, stockholders, employees, representatives and agents, from and against all claims, actions, suits, proceedings, liabilities, obligations, losses, and damages, amounts paid in settlement, costs and expenses (including reasonable attorney's fees, court costs and other out-of-pocket expenses incurred in investigating, preparing or defending the foregoing) incurred or paid by Xcyte, or any such other party, to the extent arising by reason of or resulting from:

any breach of any of Invitrogen's representations or warranties in the asset purchase agreement;

any breach or failure by Invitrogen to perform or comply with any of Invitrogen's covenants or agreements in the asset purchase agreement or the ancillary agreements to the asset purchase agreement;

any failure of Invitrogen to pay, perform or otherwise discharge from and against any and all losses to the extent the losses are one of the assumed liabilities, arise by reason of or result from all obligations, responsibilities and liabilities, known or unknown, absolute or contingent, with respect to the transferred assets, the basis of which arises or accrues on or after the closing date; and

any liability assumed by Invitrogen.

However, except with respect to the assumed liabilities, a failure to perform a covenant or agreement contained in the asset purchase agreement or ancillary agreement, and obligations, liabilities, and responsibilities with respect to the transferred assets the basis of which arises or accrues on or after the closing date, Invitrogen is not required to indemnify Xcyte or any other indemnified party described above until such damages exceed five percent (5%) of the purchase price. Invitrogen is not required to indemnify Xcyte for any damages arising more than twelve months from the completion of the proposed asset sale or that exceed 25% of the purchase price (in each case except with respect to the assumed liabilities, a failure to perform a covenant or agreement contained in the asset purchase agreement or ancillary agreement, and obligations, liabilities, and responsibilities with respect to the transferred assets the basis of which arises or accrues on or after the closing date), nor is Invitrogen liable for any indirect, special, punitive, exemplary, reliance or consequential loss or damage arising out of the asset purchase agreement. Invitrogen's liability will be net of insurance proceeds or other third party indemnities and any tax savings that reduce the impact of losses. Finally, if the proposed asset sale is completed pursuant to the terms of the asset purchase agreement, Xcyte's sole and exclusive remedy with respect to any and all claims arising out of or related to the asset purchase agreement will be this right to indemnification.

Termination

The asset purchase agreement may be terminated at any time prior to the closing date:

by mutual written consent of the parties;

by Invitrogen, if Xcyte has breached Xcyte's representations, warranties, or covenants under the asset purchase agreement and has not cured such breach within thirty (30) days of receiving written notice of the breach and the breach would cause certain conditions to not be satisfied;

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by Xcyte, if Invitrogen has breached its representations warranties, or covenants under the asset purchase agreement and has not cured such breach within thirty (30) days of receiving written notice of the breach and the breach would cause certain conditions to not be satisfied;

by either party upon written notice to the other party if the closing has not occurred on or prior to April 30, 2006, unless such party's breach was a principal cause of or resulted in the failure of the closing to occur on or before such date;

by either party if a governmental entity has issued an order, decree or ruling; has enacted, issued, promulgated, enforced or entered any law, rule, regulation, judgment, decree, order or award; or taken any other action (or failed to take an action), in any case having the effect of permanently restraining, enjoining or otherwise prohibiting or making illegal the transactions contemplated by the Asset Purchase Agreement, if the order, decree, ruling or other action is final and nonappealable; and

by either party if Xcyte's stockholders do not approve the proposed asset sale at the special meeting.

Costs and Expenses

Invitrogen and Xcyte are responsible for Xcyte's own costs and expenses incurred by them in connection with the proposed asset sale. However, the parties have agreed that Invitrogen will be responsible for any transfer taxes that are payable in connection with the proposed asset sale.

Required Vote

The approval of the sale of Xcyte's T cell expansion technology and related assets to Invitrogen requires the affirmative vote of holders of shares representing a majority of the outstanding shares of Xcyte common stock entitled to vote at the special meeting.

Because this proposal requires the approval of the holders of a majority of the outstanding shares of Xcyte common stock, a failure to vote on this proposal is effectively a vote against this proposal. Additionally, the substantial completion of the proposed sale of Xcyte's T cell expansion technology is a condition to the completion of the Stock Purchase, and thus a vote against this proposal or a failure to vote on this proposal effectively will be a vote against the Stock Purchase.

XCYTE'S BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL

OF THE PROPOSED SALE OF XCYTE'S T CELL EXPANSION TECHNOLOGY AND RELATED ASSETS TO INVITROGEN.

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PROPOSAL THREE

APPROVAL OF THE EQUITY INCENTIVE PLAN

Overview

Pursuant to the Stock Purchase Agreement, Xcyte has agreed to adopt, and submit to holders of Xcyte common stock for approval, an equity incentive plan under which Xcyte will be able to make equity incentive grants to its officers, employees, directors and consultants. On January 19, 2006, Xcyte's board of directors determined that it is in Xcyte's best interests and the best interests of Xcyte's stockholders to adopt the equity incentive plan described below. Xcyte is asking the holders of Xcyte common stock to approve Xcyte's adoption of the equity incentive plan so that Xcyte can use the equity incentive plan to achieve Xcyte's goals and also receive a federal income tax deduction for certain compensation paid under the equity incentive plan. Xcyte's board of directors has approved the equity incentive plan, subject to stockholder approval. Our executive officers and directors have an interest in this proposal by virtue of their being eligible to receive equity awards under the equity incentive plan, which is attached to this document as Annex D.

On January 19, 2006, Xcyte's board of directors, subject to stockholder approval, adopted the equity incentive plan and reserved 986,120 shares of Xcyte's common stock for issuance thereunder. The reverse stock split contemplated by Proposal Five will not effect the number of shares reserved under the equity incentive plan which will remain at 986,120 shares following the reverse stock split. All shares available for grant under the equity incentive plan may be issued in the form of incentive stock options. As of the date of this document, no options or other awards had been granted pursuant to the equity incentive plan.

In connection with the approval of the equity incentive plan, Xcyte's board of directors also approved, subject to the approval of the equity incentive plan by the holders of Xcyte common stock, the partial termination of Xcyte's 2003 Employee Stock Purchase Plan, Amended and Restated 1996 Stock Option Plan and Amended and Restated 2003 Directors' Stock Option Plan and 2003 Stock Option Plan. As a result of such partial termination, no options will be issued under such plans following the date that the equity incentive plan is approved by holders of Xcyte common stock. However, such partial termination will not affect the rights of holders of stock options outstanding under such stock option plans.

We strongly believe that the approval of the equity incentive plan is essential to our continued success. The board of directors and management believe that equity awards motivate high levels of performance, align the interests of employees and stockholders by giving employees the perspective of an owner with an equity stake in Xcyte, and provide an effective means of recognizing employee contributions to the success of Xcyte. The board of directors and management believe that equity awards are of great value in recruiting and retaining personnel who help Xcyte and its subsidiaries meet their goals, as well as rewarding and encouraging current employees. The board of directors and management believe that the ability to grant equity awards will be important to the future success of Xcyte and its subsidiaries.

Description of the Equity Incentive Plan

General. The purpose of the equity incentive plan is to provide a means by which directors, officers and other employees of Xcyte, its parent and subsidiaries can acquire and maintain ownership in Xcyte, thereby strengthening their commitment to the success of Xcyte and its subsidiaries and their desire to remain employed by Xcyte and its subsidiaries. The equity incentive plan is also intended to attract, employ and retain directors, officers and other employees, to provide such people with additional incentive reward opportunities designed to encourage them to

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enhance the profitable growth of Xcyte and its subsidiaries, and to permit the payment of compensation that qualifies as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended, (Section 162(m)). The equity incentive plan permits the grant of stock options, which may be either incentive stock options or nonstatutory stock options, restricted stock, restricted stock units, performance units, performance shares and stock appreciation rights (each, an Award).

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Administration. The equity incentive plan generally may be administered by Xcyte's board of directors or the compensation committee of the board, in either case referred to as the Administrator. The Administrator may make any determinations deemed necessary or advisable for the equity incentive plan. The compensation committee generally will consist of two or more directors who qualify as non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934, and as outside directors under Section 162(m) (so that the Company is entitled to a federal tax deduction for certain compensation paid under the equity incentive plan). Notwithstanding the foregoing, the Administrator may delegate its authority to administer the equity incentive plan.

Subject to the terms of the equity incentive plan, the Administrator has the sole discretion to select the employees, consultants, and directors who will receive Awards, determine the terms and conditions of Awards (for example, the exercise price and vesting schedule), and interpret the provisions of the equity incentive plan and outstanding Awards. The Administrator may not, however, reprice Awards or exchange Awards for other Awards, cash or a combination thereof, without the approval of the stockholders. The Administrator may also provide that all or a portion of an Award shall be deferred or may approve a deferral election by the Award recipient.

Eligibility. The Administrator selects the employees, consultants, and directors of Xcyte or any parent or subsidiary of Xcyte who will be granted Awards under the equity incentive plan. However, only employees may be granted incentive stock options. The actual number of individuals who will receive Awards cannot be determined in advance because the Administrator has the discretion to select the participants.

Limitations. Section 162(m) of the Code places limits on the deductibility for federal income tax purposes of compensation paid to certain of Xcyte's executive officers. In order to preserve Xcyte's ability to deduct the compensation income associated with options granted to such persons, the equity incentive plan provides that no employee may be granted, in any fiscal year of Xcyte, (1) options to purchase more than 150,000 shares of Xcyte's common stock, (2) stock appreciation rights covering more than 150,000 shares, (3) restricted stock and restricted stock units covering more than 75,000 shares in the aggregate, and (4) performance shares and performance units covering more than 75,000 shares in the aggregate. Notwithstanding this limit, however, in connection with such individual's initial employment with Xcyte, he or she may be granted (1) options to purchase an additional 125,000 shares of Xcyte's common stock, (2) stock appreciation rights covering an additional 125,000 shares, (3) restricted stock and restricted stock units covering an additional 50,000 shares in the aggregate, and (4) performance shares and performance units covering an additional 50,000 shares in the aggregate.

Terms and Conditions of Awards. Each Award is evidenced by an Award agreement between Xcyte and the recipient, and is subject to the terms and conditions determined by the Administrator in accordance with the equity incentive plan.

Stock Options

A stock option is the right to acquire shares of common stock at a fixed exercise price for a fixed period of time. Under the equity incentive plan, the Administrator may grant nonstatutory stock options and/or incentive stock options (which entitle employees, but not Xcyte, to more favorable tax treatment). The Administrator will determine the number of shares covered by each option, subject to the limitations described above.

(a) *Exercise Price.* The exercise price of the shares subject to each option is set by the Administrator but cannot be less than 100% of the fair market value (on the date of grant) of the shares covered by the option. In addition, the exercise price of an incentive stock option must be at least 110% of fair market value if (on the grant date) the participant owns stock possessing more than 10% of the total combined voting power of all classes of stock of Xcyte or any of its subsidiaries. The aggregate fair market value of the shares (determined on the grant date) covered by incentive stock options which first become exercisable by any participant during any calendar year also may not exceed \$100,000.

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(b) *Exercise of Option; Form of Consideration.* The administrator determines when options become exercisable, and may, in its discretion, accelerate the vesting of any outstanding option. The means of payment for shares of common stock issued upon exercise of an option is specified in each option agreement. The equity incentive plan permits payment to be made by cash, check, other shares of Xcyte's common stock (with some restrictions), cashless exercises, a reduction in the amount of Xcyte's liability to the optionee, any other form of consideration permitted by applicable law, or any combination thereof.

(c) *Term of Option.* The term of an option may be no more than ten (10) years from the date of grant; provided, however, that in the case of an incentive stock option granted to a 10% stockholder, the term of the option may be no more than five (5) years from the date of grant. No option may be exercised after the expiration of its term.

(d) *Nontransferability of Options.* Unless otherwise determined by the administrator, options granted under the equity incentive plan are not transferable other than by will or the laws of descent and distribution, and may be exercised during the optionee's lifetime only by the optionee.

(e) *Other Provisions.* The stock option agreement may contain other terms, provisions and conditions not inconsistent with the equity incentive plan as may be determined by the administrator.

Stock Appreciation Rights

Stock appreciation rights are Awards that grant the participant the right to receive an amount equal to (1) the number of shares exercised, times (2) the amount by which Xcyte's stock price exceeds the exercise price. An individual will be able to profit from a stock appreciation right only if the fair market value of the stock increases above the exercise price. Xcyte's obligation arising upon the exercise of a stock appreciation right may be paid in shares or in cash, or any combination thereof, as the Administrator may determine.

Awards of stock appreciation rights may be granted in connection with all or any part of an option or may be granted independently of options. There are 2 types of stock appreciation rights available for grant under the Plan. A tandem stock appreciation right is a stock appreciation right granted in connection with an option that entitles the participant to exercise the stock appreciation right by surrendering to the Company a portion of the unexercised related option. A tandem stock appreciation right may be exercised only with respect to the shares for which its related option is then exercisable. A freestanding stock appreciation right is one that is granted independent of any options.

The Administrator determines the number of stock appreciation rights granted, subject to the limits discussed above. The Administrator sets the terms of stock appreciation rights, except that the exercise price of a tandem stock appreciation right will be equal to the exercise price of the related option and the exercise price of a freestanding stock appreciation rights will not be less than 100% of the fair market value of a share on the grant date. The term of a stock appreciation right may not exceed ten (10) years from the date of grant.

When a tandem stock appreciation right granted in connection with an option is exercised, the related option, to the extent surrendered, will cease to be exercisable. A tandem stock appreciation right which is granted in connection with an incentive stock option (a) will expire no later than the date on which the related option ceases to be exercisable or expires, (b) will be exercisable only when the fair market value of the shares subject to the related incentive stock option exceeds the exercise price of the related option and, (c) the value of the payout with respect to the tandem stock appreciation right may be no more than 100% of the difference between the exercise price of the underlying incentive stock option and the fair market value of the shares subject to the underlying option at the time the tandem stock appreciation rights is exercised. A

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freestanding stock appreciation right, which is granted without a related option, will be exercisable, in whole or in part, at such time as the Administrator will specify in the stock appreciation right Award agreement.

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Restricted Stock and Restricted Stock Units

Awards of restricted stock are shares that vest in accordance with the terms and conditions established by the Administrator. Awards of restricted stock units are shares that vest in accordance with terms and conditions established by the Administrator.

The Administrator may set vesting criteria based upon the achievement of Company-wide, subsidiary-wide, departmental, regional, functional, divisional, business unit or individual goals, applicable federal or state securities laws, or any other basis (including, without limitation, relative to the performance of other corporations or to continued employment or service), applicable federal or state securities or any other basis determined by the Committee. If the Administrator desires that the Award qualify as performance-based compensation under Section 162(m), any restrictions will be based on a specified list of performance goals (see [Performance Goals](#) below for more information). The Administrator will determine the number of shares of restricted stock and the number of restricted stock units granted to any employee, consultant or director, subject to the limitations described above.

Unless the Administrator determines otherwise, shares of restricted stock will be held by the Company until any restrictions on the shares have lapsed. The Administrator may accelerate the time at which any restriction on restricted stock or restricted stock units may lapse or be removed. On the date set forth in the Award agreement, all unvested restricted stock will be forfeited to Xcyte. When the applicable restrictions have lapsed, the recipient of an Award of restricted stock units shall be entitled to receive a payout of the number of restricted stock units as specified in the Award agreement. The Administrator, in its sole discretion, may pay earned restricted stock units in cash, shares, or a combination thereof.

Performance Shares and Performance Units

Performance shares and performance units are Awards that will result in a payment to a participant only if performance goals and/or other vesting criteria established by the Administrator are achieved or the Awards otherwise vest. The applicable performance objectives will be determined by the Administrator, and may be based upon the achievement of goals which may be company-wide, subsidiary-wide, departmental, regional, functional, divisional, business unit or individual goals, applicable federal or state securities laws (including, without limitation, relative to the performance of other corporations or to continued employment or service), applicable federal or state securities or any other basis determined by the Committee. Notwithstanding the foregoing, if the Administrator desires that the Award qualify as performance-based compensation under Section 162(m), any restrictions will be based on a specified list of performance goals (see [Performance Goals](#) below for more information).

The Administrator will determine the number of performance shares and performance units granted to any employee, consultant or director, subject to the limitations described above.

Performance shares have an initial value equal to the fair market value of a share on the date of grant and performance units have an initial value that is established by the Administrator on or before the grant date. Performance shares may be granted to employees, consultants or directors at any time as shall be determined by the Administrator in its sole discretion.

Payment of earned performance units or performance shares shall be made as soon as practicable after the expiration of the applicable performance period. The Administrator, in its sole discretion, may pay such earned Awards in cash, shares, or a combination thereof. On the date set forth in the Award agreement, all unearned or unvested performance shares will be forfeited to the Company.

Performance Goals

Under Section 162(m), the annual compensation paid to our chief executive officer and to each of our other four most highly compensated executive officers may not be deductible to the extent it exceeds \$1 million.

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However, we are able to preserve the deductibility of compensation in excess of \$1 million if the conditions of Section 162(m) are met. These conditions include stockholder approval of the equity incentive plan, setting limits on the number of Awards that any individual may receive and for Awards other than options and stock appreciation rights, establishing performance criteria that must be met before the award actually will vest or be paid.

We have designed the equity incentive plan so that it permits us to pay compensation that qualifies as performance-based under Section 162(m). Thus, the Administrator (in its discretion) may make performance goals applicable to a participant with respect to an Award. At the Administrator's discretion, one or more of the following performance goals may apply (all of which are defined in the equity incentive plan): cash position, earnings per share, net income, operating cash flow, operating income, return on assets, return on equity, return on sales, revenue and total stockholder return. The Performance Goals may differ from participant to participant and from Award to Award.

Any criteria used may be measured, as applicable (1) in absolute terms, (2) in relative terms (including, but not limited to, passage of time and/or against another company or companies), (3) on a per-share basis, (4) against the performance of Xcyte as a whole or a business unit of Xcyte, and/or (5) on a pre-tax or after-tax basis. The Administrator also will adjust any evaluation of performance under a performance goal to exclude (i) any extraordinary non-recurring items, or (ii) the effect of any changes in accounting principles affecting the Company's or a business unit's reported results.

Miscellaneous

Nontransferability. While an Award is subject to restrictions or has not fully vested, the Award generally may not be sold, transferred, pledged, assigned or otherwise alienated.

Termination of Service. If an Award recipient's service relationship with Xcyte terminates for cause (as defined in the equity incentive plan), then any unexercised Award shall terminate immediately upon his or her termination of service. If an Award recipient's service relationship with Xcyte terminates for any reason other than for cause (excluding death or disability), then the recipient generally may exercise the Award, to the extent vested, within thirty (30) days of such termination to the extent that the Award is vested on the date of termination (but in no event later than the expiration of the term of the Award as set forth in the Award agreement). If the recipient dies within three (3) months following such a termination, the Award generally may be exercised, to the extent vested, within 180 days of the recipient's death. If an Award recipient's service relationship with Xcyte terminates due to the his or her death, the Award recipient's personal representative, estate, or the person who acquires the right to exercise the Award by bequest or inheritance, as the case may be, generally may exercise the Award, to the extent the Award was vested on the date of termination, within one (1) year from the date of the recipient's death. If an Award recipient's service relationship with Xcyte terminates due to the his or her death, the recipient's estate, or the person who acquires the right to exercise the option by bequest or inheritance, as the case may be, generally may exercise the Award, to the extent the Award was vested on the date of termination, within one (1) year from the date of the recipient's death. If an Award recipient's service relationship with Xcyte terminates due to the his or her disability, the recipient, the recipient's personal representative, estate, or the person who acquires the right to exercise the Award by bequest or inheritance, as the case may be, generally may exercise the Award, to the extent the Award was vested on the date of termination, within one (1) year from the date of the recipient's termination, or if the recipient dies during such one-year period, within the later of one (1) year from the date of the recipient's termination and 180 days from the recipient's death. In no event may an Award be exercised later than the expiration of the term of the Award as set forth in the Award agreement.

Adjustments Upon Changes in Capitalization. Other than in connection with the reverse stock split described in this document, in the event that Xcyte's common stock changes by reason of any stock split, reverse stock split, stock dividend, merger, reorganization, consolidation, recapitalization, separation, liquidation, repurchase, spin-off, split-up, share combination, reclassification or other similar change in Xcyte's capital

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structure, appropriate adjustments shall be made in the number and class of shares of stock subject to the equity incentive plan, the Section 162(m) limits regarding the per-person limits on the number of Awards that may be granted to a participant in any year and in connection with the participant's initial employment with Xcyte, the number, class and price of shares of stock subject to any Award outstanding under the equity incentive plan.

In the event of a liquidation or dissolution, all outstanding Awards will terminate immediately prior to the consummation of the proposed action, unless the Administrator determines otherwise. The Administrator may, in its sole discretion, provide that each Award recipient shall have the right to exercise all or any part of the outstanding Award, and that the restrictions on other Awards will lapse in full.

In connection with a merger with or into another corporation or a change of control, as defined in the equity incentive plan, each outstanding Award shall be assumed or an equivalent award substituted by the successor corporation. If the successor corporation refuses to assume the Awards or to substitute substantially equivalent awards, the Award will immediately vest and become exercisable as to all of the shares subject to such Award, or, if applicable, the Award will be deemed fully earned and will be paid out prior to the merger or change of control. In addition, if an option, stock appreciation right or right to purchase restricted stock has become fully vested and exercisable in lieu of assumption or substitution, the Committee will provide notice that the option, stock appreciation right or right to purchase restricted stock will immediately vest and become exercisable as to all of the shares subject to such Award and all outstanding options, stock appreciation rights and rights to purchase restricted stock will terminate upon the expiration of such notice period.

Amendment and Termination of the Plan. Xcyte's board of directors may amend, alter, suspend or terminate the equity incentive plan, or any part thereof, at any time and for any reason. However, Xcyte will obtain stockholder approval for any amendment to the equity incentive plan to the extent necessary and desirable to comply with applicable law. Unless terminated earlier, the equity incentive plan shall terminate ten (10) years from the date the equity incentive plan was adopted by Xcyte's board of directors.

Awards to be Granted to Certain Individuals and Groups

The number of Awards (if any) that an employee, consultant, or director may receive under the equity incentive plan is in the discretion of the Administrator and therefore cannot be determined in advance. Our executive officers and directors have an interest in this proposal because they are eligible to receive Awards under the equity incentive plan. No equity awards have been made under the equity incentive plan. We expect that Xcyte will grant equity awards to its executive officers following the completion of the Stock Purchase; however, the precise terms of such awards have not yet been determined.

Material Federal U.S. Income Tax Consequences of the Equity Incentive Plan

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and Xcyte of Awards granted under the equity incentive plan. Tax consequences for any particular individual may be different.

Nonstatutory Stock Options

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No taxable income is recognized when a nonqualified stock option is granted to a participant. Upon exercise, the participant generally will recognize ordinary income in an amount equal to the excess of the fair market value of the shares on the exercise date over the exercise price. Any additional gain or loss recognized upon later disposition of the shares is capital gain or loss. Note that as a result of the American Jobs Creation Act of 2004, nonstatutory stock options granted with an exercise price below the fair market value of the underlying stock may be taxable to participants before exercise of the option. As of the date hereof, how such options will be taxed is unclear.

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Incentive Stock Options

No taxable income is recognized when an incentive stock option is granted or exercised (except for purposes of the alternative minimum tax, in which case taxation is the same as for nonstatutory stock options). If the participant exercises the option and then later sells or otherwise disposes of the shares more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option. Any additional gain or loss will be capital gain or loss.

Stock Appreciation Rights

No taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant generally will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any shares received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units

A participant generally will not have taxable income upon grant unless he or she elects to be taxed at that time. Instead, he or she generally will recognize ordinary income at the time of vesting equal to the fair market value (on the vesting date) of the shares or cash received minus any amount paid for the shares. Note that as a result of the American Jobs Creation Act of 2004, restricted stock units and performance shares may be subject to additional tax if the Award is not granted and administered in compliance with the provisions of the American Jobs Creation Act of 2004.

Tax Effect for Xcyte

Xcyte generally will be entitled to a tax deduction in connection with an Award under the equity incentive plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonqualified stock option). As discussed above, special rules limit the deductibility of compensation paid to our Chief Executive Officer and to each of our four most highly compensated executive officers. However, the equity incentive plan has been designed to permit the Administrator to grant Awards that qualify as performance-based compensation under Section 162(m), thereby permitting Xcyte to receive a federal income tax deduction in connection with such Awards.

The foregoing is only a summary of the effect of U.S. federal income taxation upon us and award recipients with respect to the grant and exercise of Awards under the equity incentive plan. It does not purport to be complete, and does not discuss the tax consequences of the employee s, director s or consultant s death or the provisions of the income tax laws of any municipality, state or foreign country in which the employee, director or consultant may reside.

Required Vote

The approval of the proposed Xcyte equity incentive plan requires the affirmative vote of holders of shares of common stock representing a majority of the shares of Xcyte common stock represented in person or by proxy and entitled to vote at the special meeting at which a quorum is present.

The approval of the issuance of Xcyte common stock in connection with the Stock Purchase is a condition to the completion of the Stock Purchase, and thus a vote against this proposal effectively will be a vote against the Stock Purchase.

XCYTE S BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE APPROVAL OF THE EQUITY INCENTIVE PLAN

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PROPOSAL FOUR

APPROVAL OF AMENDMENT TO XCYTE S

CERTIFICATE OF INCORPORATION

Overview

On December 14, 2005, Xcyte s board of directors adopted a resolution setting forth an amendment to its certificate of incorporation, declaring its advisability and directing that it be submitted to holders of Xcyte common stock at the special meeting. The amendment to the certificate of incorporation is included as Annex E to this document, and is incorporated herein by reference. This amendment would:

change Xcyte s name to Cyclacel Pharmaceuticals, Inc. ; and

provide for mandatory indemnification of Xcyte s directors and officers, and for directors and officers serving as directors, officers, employees or agents of another entity at the request of Xcyte.

Name Change

If approved by Xcyte s stockholders and filed with the Secretary of State of the State of Delaware, the amendment to the certificate of incorporation will effect a change to Xcyte s name from Xcyte Therapies, Inc. to Cyclacel Pharmaceuticals, Inc.

Changes to Indemnification Obligations

Xcyte s certificate of incorporation currently authorizes, but does not require, Xcyte to indemnify and advance expenses to its agents with respect to actions for breach of duty to Xcyte, its stockholders, and others. Xcyte is authorized to provide indemnification of such agents to the fullest extent permitted by law. Pursuant to the amendment of Xcyte s certificate of incorporation, Xcyte will be required to indemnify each of its directors and officers and directors and officers serving as directors, officers, employees or agents of another entity at the request of Xcyte who has been made or threatened to be made a party or is otherwise involved in any action, suit or proceeding (whether civil, criminal, administrative or investigative) by reason of the fact that he or she, or a person of whom he or she is the legal representative, was a director or officer of Xcyte, or was so serving at the request of Xcyte while a director or officer of Xcyte.

Effective Date and Time

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The above proposed amendments to Xcyte's certificate of incorporation are anticipated to become effective as of 12:01 a.m., New York City time on the date of the closing of the Stock Purchase.

Required Vote

The approval of the amendment to Xcyte's certificate of incorporation requires the affirmative vote of holders of a majority of the outstanding shares of Xcyte common stock entitled to vote at the special meeting.

Because this proposal requires the approval of the holders of a majority of the outstanding shares of Xcyte common stock, a failure to vote on this proposal is effectively a vote against this proposal. Additionally, the approval of the amendment to Xcyte's certificate of incorporation is a condition to the completion of the Stock Purchase, and thus a vote against this proposal or a failure to vote on this proposal effectively will be a vote against the Stock Purchase.

**XCYTE'S BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL
OF THE AMENDMENT TO THE CERTIFICATE OF INCORPORATION**

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PROPOSAL FIVE

APPROVAL OF AN AMENDMENT TO XCYTE S

CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT

Overview

On December 14, 2005, Xcyte's board of directors adopted a resolution setting forth a proposed amendment to its certificate of incorporation to effect a reverse stock split of all outstanding shares of Xcyte common stock at an exchange ratio of one-for-ten, declaring its advisability and directing that it be submitted to holders of Xcyte common stock at the special meeting. Holders of Xcyte common stock are now being asked to vote upon this amendment to Xcyte's certificate of incorporation to effect a reverse stock split whereby each ten outstanding shares of Xcyte common stock will be combined into one share of Xcyte common stock. The reverse stock split would reduce the number of outstanding (but not the authorized) shares of Xcyte common stock by a factor of ten. The text of the form of proposed amendment to the certificate of incorporation is attached hereto as Annex E and is incorporated herein by reference.

Except for adjustments that may result from the treatment of fractional shares of common stock as described below, each holder of Xcyte common stock will hold the same percentage of Xcyte's outstanding common stock immediately following the reverse stock split as such stockholder held immediately prior to the reverse stock split, subject to subsequent dilution caused by the shares of Xcyte common stock to be issued in the Stock Purchase. The par value of Xcyte common stock would remain unchanged at \$0.001 per share. The amendment would not change the number of authorized shares of common stock.

Reasons for the Reverse Stock Split

In addition to the fact that Cyclacel Group plc sought an agreement to effect a reverse stock split in connection with the Stock Purchase, the board of directors believes that a reverse stock split may be desirable for a number of reasons. First, Xcyte's board of directors believes that a reverse stock split may enable Xcyte to avoid delisting of Xcyte common stock from the Nasdaq National Market or, if Xcyte's common stock is delisted from the Nasdaq National Market prior to the effective date of the reverse stock split, the reverse stock split may enable Xcyte to become relisted on the Nasdaq National Market. Second, Xcyte's board of directors believes that a reverse stock split could improve the marketability and liquidity of Xcyte common stock.

Nasdaq Listing. On June 6, 2005, Xcyte received a notice from the Nasdaq Stock Market that for 30 consecutive trading days the bid price of its common stock had closed below the minimum \$1.00 per share requirement and, as a result, no longer complied with Nasdaq's continued listing criteria set by Marketplace Rule 4450(a)(5). The letter stated that Xcyte would be provided with 180 calendar days, or until December 5, 2005, to regain compliance. To regain compliance, anytime before December 5, 2005, the bid price of Xcyte common stock must have closed at \$1.00 per share or more for a minimum of ten consecutive business days. Xcyte did not achieve compliance with Marketplace Rule 4450(a)(5) by December 5, 2005, and Nasdaq provided notice that the common stock would be delisted from the Nasdaq National Market. Xcyte appealed Nasdaq's determination and appeared before a Nasdaq Appeals Panel on January 12, 2006. On February 7, 2006, the Nasdaq Appeals Panel granted a continuation of Xcyte's listing on the Nasdaq National Market subject to certain conditions, including the announcement of the consummation of the Stock Purchase and Nasdaq's approval of a new listing application by Xcyte pursuant to Nasdaq's reverse merger rules on or before April 12, 2006.

Additionally, on December 28, 2005, the Nasdaq Stock Market advised Xcyte that it considers the Stock Purchase to be a reverse merger under Nasdaq's Marketplace Rules. Based on this conclusion, Nasdaq has advised Xcyte that upon closing of the Stock Purchase, Xcyte will be required to meet all of the initial inclusion criteria for initial listing on the Nasdaq National Market, including a minimum closing bid price of \$5.00 per share.

Xcyte's board of directors believes that maintaining the listing of Xcyte common stock on the Nasdaq National Market would provide a broader market for the common stock and would facilitate the use of the

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common stock in financing and other transactions. The board of directors approved the reverse stock split proposal partly as a means, if necessary, of increasing the share price of the common stock above \$5.00 per share and to prevent future delisting actions by Nasdaq.

Potential Increased Investor Interest. Xcyte's board of directors also believes that the increased market price of Xcyte common stock expected as a result of implementing a reverse stock split will improve the marketability and liquidity of Xcyte common stock and will encourage interest and trading in Xcyte common stock. Because of the trading volatility often associated with low-priced stocks, many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. Some of those policies and practices may function to make the processing of trades in low-priced stocks economically unattractive to brokers. Additionally, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of Xcyte common stock can result in individual stockholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher. It should be noted that the liquidity of Xcyte common stock may be harmed by the proposed reverse stock split given the reduced number of shares of common stock that would be outstanding after the reverse stock split. Xcyte's board of directors believes, however, that the anticipated higher market price will reduce, to some extent, the negative effects on the liquidity and marketability of Xcyte common stock inherent in some of the policies and practices of institutional investors and brokerage houses described above.

Xcyte's board of directors does not intend for this transaction to be the first step in a series of plans or proposals of a going private transaction within the meaning of Rule 13e-3 of the Securities Exchange Act.

The Reverse Stock Split May Not Result in an Increase in the Per Share Price of Xcyte Common Stock; There Are Other Risks Associated With the Reverse Stock Split

Xcyte's board of directors expects that a reverse stock split of Xcyte common stock will increase the market price of Xcyte common stock so that Xcyte is able to regain compliance with the Nasdaq minimum bid price standard. However, Xcyte cannot be certain whether the reverse stock split would increase the trading price for Xcyte common stock. The history of similar stock split combinations for companies in like circumstances is varied. There is no assurance that:

the trading price per share of Xcyte common stock after the reverse stock split would rise in proportion to the reduction in the number of pre-split shares of common stock outstanding before the reverse stock split;

the reverse stock split would result in a per share price that would attract brokers and investors who do not trade in lower priced stocks; and

the market price per post-split share would either exceed or remain in excess of the \$1.00 minimum bid price as required by Nasdaq or that Xcyte would otherwise meet the requirements of Nasdaq for continued inclusion for trading on Nasdaq.

The market price of Xcyte common stock would also be based on Xcyte's performance and other factors, some of which are unrelated to the number of shares of common stock outstanding. If the reverse stock split is consummated and the trading price of Xcyte common stock declines, the percentage decline as an absolute number and as a percentage of Xcyte's overall market capitalization may be greater than would occur in the absence of the reverse stock split. Furthermore, the liquidity of Xcyte common stock could be adversely affected by the reduced number of shares of common stock that would be outstanding after the reverse stock split.

Table of Contents**Principal Effects of the Reverse Stock Split**

After the effective date of the proposed reverse stock split, each stockholder will own a reduced number of shares of Xcyte common stock. However, the proposed reverse stock split will affect all of Xcyte's stockholders uniformly and will not affect any stockholder's percentage ownership interest in Xcyte (except to the extent that the reverse stock split would result in any of Xcyte's stockholders owning a fractional share as described below). Proportionate voting rights and other rights and preferences of the holders of Xcyte common stock will not be affected by the proposed reverse stock split (except to the extent that the reverse stock split would result in any of Xcyte's stockholders owning a fractional share as described below). For example, a holder of 2% of the voting power of the outstanding shares of Xcyte common stock immediately prior to the reverse stock split would continue to hold approximately 2% of the voting power of the outstanding shares of Xcyte common stock immediately after the reverse stock split. The number of stockholders of record also will not be affected by the proposed reverse stock split (except to the extent that the reverse stock split would result in any of Xcyte's stockholders owning only a fractional share as described below).

Although the proposed reverse stock split will not affect the rights of stockholders or any stockholder's proportionate equity interest in Xcyte, subject to the treatment of fractional shares of common stock, the number of authorized shares of Xcyte common stock will not be reduced. This will increase significantly the ability of Xcyte's board of directors to issue authorized and unissued shares of common stock without further stockholder action. The issuance in the future of such additional authorized shares of common stock may have the effect of diluting the earnings per share and book value per share, as well as the stock ownership and voting rights, of the currently outstanding shares of Xcyte common stock. The effective increase in the number of authorized but unissued shares of Xcyte common stock may be construed as having an anti-takeover effect by permitting, for example, the issuance of shares of common stock to purchasers who might oppose a hostile takeover bid or oppose any efforts to amend or repeal certain provisions of the certificate of incorporation or bylaws of Xcyte.

The following table contains approximate information relating to Xcyte common stock currently and under the proposed amendment based on share information as of January 23, 2006 (in thousands):

	<u>Pre Reverse Split</u>	<u>1-for-10</u>
Authorized	100,000,000	100,000,000
Outstanding	19,672,393	1,967,239

The proposed reverse stock split will reduce the number of shares of common stock available for issuance under Xcyte's 1996 Stock Option Plan, 2003 Stock Plan, 2003 Director's Stock Option Plan and 2003 Employee Stock Purchase Plan in proportion to the exchange ratio selected by Xcyte's board of directors within the limits set forth in this proposal. Xcyte also has certain outstanding stock options to purchase shares of Xcyte common stock. Under the terms of the outstanding stock options, the proposed reverse stock split will effect a reduction in the number of shares of common stock subject to the option at a ratio of one-for-ten and will effect a proportionate increase in the exercise price of such outstanding stock options. In connection with the proposed reverse stock split, the number of shares of Xcyte common stock issuable upon exercise or conversion of outstanding stock options will be rounded to the nearest whole share and no cash payment will be made in respect of such rounding.

If the proposed reverse stock split is implemented, it will increase the number of stockholders of Xcyte who own odd lots of less than 100 shares of Xcyte common stock. Brokerage commission and other costs of transactions in odd lots are generally higher than the costs of transactions of more than 100 shares of common stock.

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Xcyte common stock is currently registered under Section 12(g) of the Securities Exchange Act, and Xcyte is subject to the periodic reporting and other requirements of the Securities Exchange Act. The proposed reverse stock split will not affect the registration of Xcyte common stock under the Securities Exchange Act. If the proposed reverse stock split is implemented, subject to the outcome of the Nasdaq hearing process described

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above, Xcyte common stock will continue to be reported on the Nasdaq National Market under the symbol XCYT until the completion of the Stock Purchase. Subject to completion of the Stock Purchase and the reverse stock split, Xcyte intends to file an initial listing application with the Nasdaq National Market pursuant to Nasdaq's reverse merger rules. See Description of Xcyte Capital Stock Nasdaq National Market Listing beginning on page 196. If such application is accepted, Xcyte anticipates that its common stock will be listed on the Nasdaq National Market under the trading symbol CYCC (although Nasdaq would likely add the letter D to the end of the trading symbol for a period of 20 trading days to indicate that the reverse stock split has occurred).

The proposed reverse stock split will not decrease the number of outstanding shares of Xcyte convertible preferred stock. However, if the reverse stock split is approved and becomes effective, the conversion price of the convertible preferred stock will be proportionately increased, and the conversion rate will be proportionately decreased, to reflect such reverse stock split. Xcyte anticipates that the conversion price of the convertible preferred stock following the reverse stock split will equal approximately \$23.50. Such adjusted conversion price is equivalent to a conversion rate of approximately 0.42553 shares of common stock for each share of convertible preferred stock.

Effective Date and Time

The proposed reverse stock split is anticipated to become effective as of 12:01 a.m., New York City time on the date of the closing of the Stock Purchase. On the effective date, shares of Xcyte common stock issued and outstanding immediately prior thereto will be combined and converted, automatically and without any action on the part of the stockholders, into new shares of common stock in accordance with the reverse stock split ratio of one-for-ten.

Treatment of Fractional Shares of Common Stock

No scrip or fractional shares of common stock would be issued if, as a result of the reverse stock split, a registered stockholder would otherwise become entitled to a fractional share. Instead, Xcyte would pay to the registered stockholder, in cash, the value of any fractional share interest arising from the reverse stock split. The cash payment would equal the fraction to which the stockholder would otherwise be entitled multiplied by the closing sales price of the common stock as of the day immediately prior to the effective date as reported on the Nasdaq National Market. No transaction costs would be assessed to stockholders for the cash payment. Stockholders would not be entitled to receive interest for the period of time between the effective date of the reverse stock split and the date payment is made for their fractional shares of common stock.

If Xcyte's stockholders do not hold sufficient shares of pre-split common stock to receive at least one post-split share of common stock and Xcyte's stockholders want to hold Xcyte common stock after the reverse stock split, Xcyte's stockholders may do so by taking either of the following actions far enough in advance so that it is completed before the reverse stock split is effected:

purchase a sufficient number of shares of common stock so that such stockholder would hold at least that number of shares of common stock in their account prior to the implementation of the reverse stock split that would entitle such stockholder to receive at least one share of common stock on a post-split basis; or

if applicable, consolidate their accounts so that they hold at least that number of shares of common stock in one account prior to the reverse stock split that would entitle them to at least one share of common stock on a post-split basis, common stock held in registered form (that is, shares of common stock held by Xcyte's stockholders in their own name on Xcyte's share register maintained by its transfer agent) and common stock held in street name (that is, shares of common stock held by such stockholder through a bank,

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broker or other nominee) for the same investor would be considered held in separate accounts and would not be aggregated when implementing the reverse stock split. Also, shares of common stock held in registered form but in separate accounts by the same investor would not be aggregated when implementing the reverse stock split.

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After the reverse stock split, then current stockholders would have no further interest in Xcyte with respect to their fractional shares of common stock. A person otherwise entitled to a fractional share interest would not have any voting, dividend or other rights in respect of their fractional interest except to receive the cash payment as described above. Such cash payments would reduce the number of post-split stockholders to the extent that there are stockholders holding fewer than ten pre-split shares of Xcyte common stock. Reducing the number of post-split stockholders, however, is not the purpose for which Xcyte is effecting the reverse stock split.

Stockholders should be aware that, under the escheat laws of the various jurisdictions where stockholders reside, where Xcyte is domiciled and where the funds for fractional shares of common stock would be deposited, sums due to stockholders in payment for fractional shares of common stock that are not timely claimed after the effective time may be required to be paid to the designated agent for each such jurisdiction. Thereafter, stockholders otherwise entitled to receive such funds may have to seek to obtain them directly from the state to which they were paid.

Effect on Non-Registered Stockholder

Non-registered stockholders holding common stock through a bank, broker or other nominee should note that such banks, brokers or other nominees may have different procedures for processing the consolidation than those that would be put in place by Xcyte for registered stockholders, and their procedures may result, for example, in differences in the precise cash amounts being paid by such nominees in lieu of a fractional share. Any stockholder that holds their shares of common stock with such a bank, broker or other nominee is encouraged to contact their nominee if they have questions in this regard.

Exchange of Stock Certificates

As soon as practicable after the effective date, stockholders will be notified that the reverse stock split has been effected. Xcyte anticipates that its transfer agent will act as exchange agent for purposes of implementing the exchange of stock certificates. Holders of pre-reverse split shares of common stock will be asked to surrender to the exchange agent certificates representing pre-reverse split shares of common stock in exchange for certificates representing post-reverse split shares of common stock and payment in lieu of fractional shares of common stock (if any) in accordance with the procedures to be set forth in a letter of transmittal to be sent by us. No new certificates and no payments in lieu of fractional shares of common stock will be issued to a stockholder until such stockholder has surrendered such stockholder's outstanding certificate(s) together with the properly completed and executed letter of transmittal to the exchange agent.

Stockholders should not destroy any pre-split stock certificate and should not submit any certificates until they are required to do so.

Anticipated Accounting Treatment of the Proposed Reverse Stock Split

The par value per share of Xcyte common stock will remain unchanged at \$0.001 per share after the reverse stock split. As a result, on the effective date of the reverse split, the stated capital on Xcyte's balance sheet attributable to Xcyte common stock will be reduced proportionally, based on the exchange ratio of one-for-ten, from its present amount, and the additional paid-in capital account will be credited with the amount by which the stated capital is reduced. The per share common stock net income or loss and net book value will be increased because there will be fewer shares of Xcyte common stock outstanding. Likewise, the conversion rates of convertible preferred stock will decrease; the number of shares issuable upon the exercise of common stock warrants and common stock options will decrease; and the exercise prices of common stock

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warrants and common stock options will increase. Once the reverse stock split becomes effective the accompanying financial statements of Xcyte will be adjusted to retroactively reflect the impact of the reverse stock split. Xcyte does not anticipate that any other accounting consequences would arise as a result of the reverse stock split.

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No Appraisal Rights

Xcyte's stockholders are not entitled to dissenters' or appraisal rights under Delaware corporate law with respect to the proposed amendment to the certificate of incorporation to effect the reverse stock split, and Xcyte will not independently provide its stockholders with any such right.

Material United States Federal Income Tax Consequence of the Reverse Stock Split

The following is a summary of certain material United States federal income tax consequences of the reverse stock split to the holders of Xcyte common stock and does not purport to be a complete discussion of all of the possible federal income tax consequences of the reverse stock split and is included for general information only. Further, it does not address any state, local or foreign income or other tax consequences, nor does it address the tax consequences that may be applicable to particular holders in light of their individual circumstances or to holders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers and tax-exempt entities. The discussion is based on the provisions of the United States federal income tax law as of the date hereof, which is subject to change retroactively as well as prospectively. This summary also assumes that the pre-split shares of common stock were, and the post-split shares of common stock would be, held as a capital asset, as defined in the Internal Revenue Code of 1986, as amended (i.e., generally, property held for investment). The tax treatment of a stockholder may vary depending upon the particular facts and circumstances of such stockholder. Each stockholder is urged to consult with such stockholder's own tax advisor with respect to the tax consequences of the reverse stock split.

Other than the cash payments for fractional shares of common stock discussed above, no gain or loss should be recognized by a stockholder upon such stockholder's exchange of pre-split shares of common stock for post-split shares of common stock pursuant to the reverse stock split. The aggregate tax basis of the post-split shares of common stock received in the reverse stock split (including any fraction of a post-split share deemed to have been received) would be the same as the stockholder's aggregate tax basis in the pre-split shares of common stock exchanged therefor. The stockholder's holding period for the post-split shares of common stock would include the period during which the stockholder held the pre-split shares of common stock surrendered in the reverse stock split. In general, stockholders who receive cash upon redemption of their fractional share interests in the post-split shares of common stock as a result of the reverse stock split would recognize gain or loss based on their adjusted basis in the fractional share interests redeemed.

Xcyte's view regarding the tax consequence of the reverse stock split is not binding on the Internal Revenue Service or the courts. Accordingly, each stockholder should consult with his or her own tax advisor with respect to all of the potential tax consequences to him or her of the reverse stock split.

Required Vote

The approval of the amendment to Xcyte's certificate of incorporation requires the affirmative vote of holders of a majority of the outstanding shares of Xcyte common stock entitled to vote at the special meeting.

Because this proposal requires the approval of the holders of a majority of the outstanding shares of Xcyte common stock, a failure to vote on this proposal is effectively a vote against this proposal. Additionally, the approval of the amendment to Xcyte's certificate of incorporation is a condition to the completion of the Stock Purchase, and thus a vote against this proposal or a failure to vote on this

proposal effectively will be a vote against the Stock Purchase.

**XCYTE S BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL
TO APPROVE AN AMENDMENT TO XCYTE S CERTIFICATE OF INCORPORATION
TO EFFECT THE REVERSE STOCK SPLIT**

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CYCLACEL S BUSINESS

Overview

Cyclacel is a clinical-stage biopharmaceutical company dedicated to the discovery, development and eventual commercialization of novel, mechanism-targeted drugs to treat human cancers and other serious disorders. Cyclacel describes drugs, compounds or molecules as mechanism-targeted if they are designed to affect identified biological processes through known mechanisms and novel if they have been recently discovered using advanced technologies. Cyclacel's core area of expertise is in cell cycle biology, or the processes by which cells divide and multiply. Cyclacel focuses primarily on the discovery and development of orally available anticancer agents that target the cell cycle with the aim of slowing the progression or shrinking the size of tumors, and enhancing quality of life and improving survival rates of cancer patients. Cyclacel has been focused on the cell cycle since our inception. Cyclacel was founded in 1996 by Professor Sir David Lane, a recognized leader in the field of tumor suppressor biology who discovered the p53 protein, which operates as one of the body's own anticancer drugs by inhibiting cell cycle targets. In 1999, Cyclacel was joined by Professor David Glover, a recognized leader in the mechanism of mitosis or cell division who discovered, among other cell cycle targets, the mitotic kinases, Polo and Aurora, enzymes that act in the mitosis phase of the cell cycle. Cyclacel's expertise in cell cycle biology is at the center of its business strategy.

Cyclacel is generating several families of anticancer drugs that act on the cell cycle including Cyclin Dependent kinase (CDK) and Aurora kinase (AK) inhibitors. Although a number of pharmaceutical and biotechnology companies are currently attempting to develop CDK inhibitor drugs, Cyclacel believes that its lead drug candidate, seliciclib, is the only orally available CDK inhibitor drug candidate currently in Phase II trials.

Cyclacel is advancing three of its anticancer drug candidates, seliciclib, sapacitabine and CYC116 through in-house research and development activities. Cyclacel has a further seven novel drug series, five for cancer, one for HIV/AIDS and one for Type 2 Diabetes. In addition, Cyclacel has partnered with Genzyme Corporation certain preclinical stage CDK inhibitors for nephrology or inflammatory kidney disease applications. Taken together, Cyclacel's pipeline covers all four phases of the cell cycle, which it believes will improve the chances of successfully developing and commercializing novel drugs that work on their own or in combination with approved conventional chemotherapies or with other targeted drugs to treat human cancers.

Cyclacel's lead drug candidate, seliciclib, is a novel, orally available CDK inhibitor that has been in multi-center Phase II clinical trials for cancer. Seliciclib has been dosed to approximately 233 subjects. Cyclacel has completed two Phase I trials that enrolled 24 healthy volunteers and three Phase I trials that enrolled a total of 84 cancer patients testing different doses and schedules. The primary toxicities observed were of a non-hematological nature including asthenia or weakness, elevation of liver enzymes, hypokalemia or decreased potassium levels, nausea and vomiting and elevation in creatinine. Although these trials were designed to test safety rather than efficacy of seliciclib given alone as monotherapy in patients with solid tumors who failed multiple previous treatments, several of these patients appeared to have benefited from seliciclib treatment. These included two non-small cell lung cancer patients with stable disease for 14 and over 18 months whose cancer had previously progressed on four different chemotherapy combinations and a patient with hepatocellular or liver cancer who experienced a partial response after failing four different treatment regimens.

Seliciclib was shown in a further Phase I study sponsored and conducted by independent investigators to have clinical antitumor activity in patients with nasopharyngeal cancer, measured as a decrease in the size of primary tumor and involved lymph nodes, as well as an increase in tumor cell deaths by biomarker analyses. Four Phase II trials have been conducted in cancer patients to evaluate the tolerability and antitumor activities of seliciclib alone or in combination with standard chemotherapies used in the treatment of advanced non-small cell lung cancer or breast cancer. Interim data from two Phase II open label studies of a total of 54 patients with non-small cell lung cancer suggest that seliciclib treatment did not aggravate the known toxicities of standard first and second-line chemotherapies nor appear to cause unexpected toxicities,

although these trials were not designed to provide statistically significant comparisons. The combination of seliciclib with standard dose of capecitabine

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was not well tolerated in patients with advanced breast cancer. The Phase II trial of seliciclib as monotherapy for the treatment of hematological cancers has been closed for accrual and Cyclacel expects to report final data within 2006.

Based on Cyclacel's observations of tolerability and antitumor activity of seliciclib in the clinical trials conducted to date, the oral availability of seliciclib, the recommendation of a non-small cell lung cancer expert panel, and regulatory and marketing considerations, Cyclacel intends to evaluate seliciclib as stand-alone therapy in patients with non-small cell lung cancer and plan to commence a multi-center Phase IIb randomized clinical trial in the United States in early 2006. Cyclacel has retained worldwide rights to commercialize seliciclib.

Cyclacel's second drug candidate, sapacitabine, is an orally available prodrug of CNDAC, which is a novel nucleoside analog, or a compound with a structure similar to a nucleoside. A prodrug is a compound that has a therapeutic effect after it is metabolized within the body, and CNDAC has a significantly longer residence time in the blood when it is produced in the body through metabolism of sapacitabine than when it is given directly. Cyclacel in-licensed sapacitabine from Sankyo Co., Ltd. Like CDK inhibitors, nucleosides work through cell cycle inhibition, though they do so at a different phase of the cell cycle. A number of nucleoside drugs, such as gemcitabine, are in wide use as conventional chemotherapies. Preclinical results from independent investigators reported that sapacitabine was superior to gemcitabine and 5-FU, another widely used chemotherapy, both in terms of extending survival and blocking metastases to the liver in animal models of cancer. Two Phase I studies of sapacitabine have been completed by Sankyo in the United States, evaluating 87 patients in refractory solid tumors. A Phase Ib dose escalation clinical trial is currently in progress in the United States for the treatment of patients with advanced malignancies with approximately 30 patients enrolled to date. Preliminary results from this trial were reported at the meeting of the American Society of Clinical Oncology in May 2005. The primary toxicity was reversible myelosuppression. Sapacitabine will enter an additional Phase I clinical trial in advanced leukemias and myelodysplastic syndromes in the first quarter of 2006. Cyclacel currently expects to start Phase II evaluation in 2006. Cyclacel has retained worldwide rights to commercialize sapacitabine with the exception of Japan where Sankyo has a right of first refusal to market the drug under terms to be negotiated.

Cyclacel has selected CYC116 as a lead development candidate from its Aurora kinase inhibitor program. In this program, several compounds have demonstrated efficacy by oral administration in hematological and solid tumor models with a mechanism consistent with inhibition of the target. Cyclacel expects to file an Investigational New Drug application, or IND, in 2006 and commence Phase I clinical development soon thereafter. Cyclacel has retained worldwide rights to commercialize CYC116.

To enhance its development efforts, Cyclacel is making extensive use of biomarkers in all of the clinical programs to study the effects of its drugs in the blood and tissues of patients. Biomarkers are proteins or other substances whose presence in the blood and tissues can serve as an indicator of specific cell processes. For example, in the seliciclib clinical trials, Cyclacel is working with a biomarker of apoptosis, a type of cell death. Although biomarkers are the focus of great interest within the scientific community and the FDA has issued for comment a draft guidance document that encourages submission of biomarker data, such data are not currently accepted by the FDA or other regulatory authorities as a basis for approval of drug candidates. Cyclacel nonetheless believes that biomarkers serve a useful purpose in helping to evaluate at an early stage in clinical trials whether drug candidates cause their intended effects in patients through their assumed mechanisms and whether it should continue to invest in their development. Biomarker data from early clinical trials may also enable Cyclacel to design subsequent trials more efficiently and to monitor patient compliance with trial protocols. Biomarkers may also be informative for designing improved next generation drugs working with similar mechanisms. Cyclacel believes that in the longer term biomarkers may allow the selection of patients more likely to respond to its drugs for clinical trial and marketing purposes and increase the benefit to patients.

Cyclacel expects that in the future its drug programs will increasingly result from the application of a proprietary genes-to-drugs approach, originating through the use of genomic technology from its Polgen division to identify appropriate gene targets and progressing by means of structure-based design techniques

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through to the development stage. This approach is exemplified by Cyclacel's Aurora Kinase and Plk, or Polo-like kinase, inhibitor programs. Fundamentally, Cyclacel's approach to drug discovery and development aims to improve on the ability to select promising drug targets at an early stage so as to decrease attrition rates during the later, more expensive stages of drug development, allowing Cyclacel to progress through the drug discovery and development process more quickly and efficiently and thus enhancing the chances of successfully commercializing drugs. To this end, Cyclacel has assembled a set of sophisticated discovery and development technologies, together with personnel who are highly skillful in making use of these technologies.

Cyclacel's main research facility is located in Dundee, Scotland where structure-based drug design and development programs are carried out. This is also the location of the corporate headquarters. Cyclacel has a second research facility located in Cambridge, England. This is the location of Cyclacel's Polgen division, which is focused on discovering the function of new cancer genes and validating their use as drug discovery targets. The medical and regulatory function is based in an administrative office in Short Hills, New Jersey. Following the Stock Purchase Cyclacel's corporate headquarters will be based in Short Hills, New Jersey.

Cyclacel's Business Strategy

Focus on the cell cycle and cancer

Cyclacel is and intends to remain strongly focused on the development of novel, cell cycle-based therapies for the treatment of cancer, for a number of reasons:

Cyclacel's core area of expertise is in cell cycle biology and its scientists include recognized leaders in this field. In addition, the senior management has extensive experience in research, preclinical and clinical development, sales and marketing. Thus, Cyclacel believes that it is well placed to exploit the significant opportunities that this area offers for new drug discovery and development.

The novel, mechanism-targeted cell cycle drugs Cyclacel is developing are designed to be highly selective in comparison to conventional chemotherapies, potentially inducing death in cancer cells while sparing most normal cells which may give rise to fewer side-effects.

Cyclacel believes that it is the only company with an orally available CDK inhibitor drug candidate in Phase II clinical trials and that, with a deep pipeline of other anticancer drug candidates in clinical or preclinical development, Cyclacel believes it is currently well positioned to realize some of the market potential of such drugs.

Seek to develop anticancer drug candidates in all phases of the cell cycle and multiple compounds for particular cell cycle targets.

In selecting potential anticancer drug candidates, Cyclacel targets mechanisms related to all phases of the cell cycle and develops multiple compounds for each of its cell cycle targets. In this way, Cyclacel believes this maximizes the chances of successfully developing anticancer drugs while minimizing the business consequences of the failure of any one drug candidate. In the longer term, Cyclacel believes that novel cell cycle drugs acting at different phases of the cell cycle may be shown to operate synergistically among themselves, which could offer significant commercial potential. Moreover, if Cyclacel can obtain regulatory approval of one of its anticancer drug candidates, there would be opportunities to initiate combination trials involving that drug and one of its other drug candidates, with an expectation of improved sales of the approved drug and enhance Cyclacel's cancer treatment franchise.

Cyclacel's proprietary genes-to-drugs approach to identify drug candidates efficiently

Cyclacel expects that future drug programs will increasingly result from the application of its proprietary technologies ranging from gene discovery to drug development, or genes-to-drugs approach. This approach relies on genomic technology from Cyclacel's Polgen division and on a set of sophisticated drug discovery and structure-based drug design technologies to identify novel drug candidates. Cyclacel believes that by devoting resources initially to enrich its target selection process, efforts can be focused on targets that have a higher

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probability of yielding successful candidates. In this way, Cyclacel aims to progress through the drug discovery and development process more quickly and efficiently, decreasing attrition rates during the later, more expensive stages of drug development and enhancing the chances of successfully commercializing novel drugs.

Exploit Cyclacel's biomarker strategy to optimize drug development

Cyclacel intends to continue to use an understanding of biomarkers to improve and accelerate its clinical development of drug candidates. Cyclacel believes that biomarkers help in the evaluation of whether drug candidates are having their intended effects through their assumed mechanisms at an early stage, before committing the resources required to conduct extensive mid- to late-stage clinical trials. Biomarker data from early clinical trials may also enable the more efficient design of subsequent trials and enhance monitoring of patient compliance with trial protocols. Biomarkers may also be informative for Cyclacel's efforts to discover improved next generation drugs working with similar mechanisms. Cyclacel believes that biomarkers may in the longer term allow the selection of patients more likely to respond to its drugs, although Cyclacel is not yet in a position to do so.

Selectively enter into partnering arrangements while developing Cyclacel's own sales and marketing capability

Cyclacel retains all marketing rights to the compounds associated with the current clinical stage drug programs. To optimize Cyclacel's commercial return, it intends both to enter into selected partnering arrangements and to develop its sales and marketing capability initially by retaining co-promotion rights. Generally, Cyclacel will seek to develop compounds through the Phase II proof of efficacy stage before seeking a partner. Cyclacel may be prepared to enter into partnering arrangements earlier in connection with drug programs outside the current anticancer core competency.

Cyclacel's Drug Candidate Pipeline

The table below summarizes Cyclacel's current clinical and preclinical programs.

Program	Indication	Development Status	Planned Activities	Target	Cell Cycle Mechanism
<i>Oncology Programs</i>					
Seliciclib, formerly CYC202	Non-small cell lung cancer	Two Phase II combination clinical trials	File IND and commence randomized Phase IIb single-agent clinical trials in the second quarter of 2006. Data of combination trials to be reported in 2006	CDK	G1/S checkpoint and others
	B-cell hematological malignancies	One Phase II single agent clinical trial	Data to be reported in 2006	CDK	G1/S

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Sapacitabine, formerly CYC682	Cancer	Phase Ia clinical trials completed; Phase Ib trial in progress	Commence Phase Ib clinical trials in advanced leukemias in first quarter of 2006; start Phase II evaluation in 2006	DNA polymerase	checkpoint and others S phase
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Program	Indication	Development Status	Planned Activities	Target	Cell Cycle Mechanism
CYC116	Cancer	Preclinical	File IND in the fourth quarter of 2006	Aurora kinase	Mitosis
CDK Inhibitors, Second Generation	Cancer	Preclinical		CDK	G1/S checkpoint and others
Clotrimazole Analogs	Cancer	Preclinical		Cyclin expression blocker	G1 phase
Plk Inhibitors	Cancer	Preclinical		Plk	G2/M checkpoint
Hdm2 Inhibitors	Cancer	Preclinical		Hdm2	G1 phase
Cyclin Binding Groove Inhibitors	Cancer	Preclinical		Cyclin binding groove	G1 phase
<i>Non-oncology Programs</i>					
Cell Cycle Inhibitors	Inflammatory Kidney Diseases	Preclinical (Phase I trials completed with seliciclib)		CDK	G1/S checkpoint and others
Cell Cycle Inhibitors	HIV/AIDS	Preclinical		CDK	Several
GSK-3 Inhibitors	Type 2 Diabetes	Preclinical		GSK-3	N/A

Cyclacel's Programs in Oncology***Seliciclib***

Cyclacel's lead drug candidate, seliciclib, is a Cyclin Dependent kinase (CDK) inhibitor that is believed to cause cancer cell death by inducing apoptosis in tumor cells. Cyclacel's preclinical studies suggested that seliciclib would provide significant therapeutic benefits in combination with approved cytotoxic drugs and in monotherapy. Phase I clinical trials have identified the doses of seliciclib which can be given to cancer patients with tolerable toxicity and appear to allow enough seliciclib to reach the patient's bloodstream to have a potential effect on tumors. Four Phase II trials have been conducted in cancer patients to evaluate the tolerability and antitumor activities of seliciclib alone or in combination with standard chemotherapies used in the treatment of advanced non-small cell lung cancer or breast cancer. Interim data from two Phase II open label studies of a total of 54 patients with non-small cell lung cancer suggest that seliciclib treatment did not aggravate the known toxicities of standard first-and second-line chemotherapies or appear to cause unexpected toxicities, although these trials were not designed to provide statistically significant comparisons. The combination of seliciclib with standard dose of capecitabine was not well tolerated in patients with advanced breast cancer. The Phase II trial of seliciclib as monotherapy for the treatment of hematological cancers has been closed for accrual and Cyclacel expect to report final data with 2006.

Seliciclib is orally available and one of few anticancer compounds that can be taken by mouth. Oral dosing is more convenient for patients, reduces the costs of treatment and allows greater flexibility in the dosing. In addition, because seliciclib acts on the cell cycle to induce death in cancer cells while sparing most normal cells, Cyclacel believes it may have an improved therapeutic advantage over conventional anticancer drugs.

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Cancer remains a major life-threatening disease in the United States. In 2004, 563,700 people were expected to die from cancer in the United States. An estimated 173,770 new cases of lung and bronchus cancer, 15,270 new cases of multiple myeloma, 33,440 new cases of leukemia of which 8,190 are chronic lymphocytic leukemia, and 62,250 new cases of lymphoma, of which 54,370 are non-Hodgkin's lymphoma, including 2,200 with mantle cell lymphoma, and 7,880 Hodgkin's disease, were forecast.

Scientific Background

Selaciclib inhibits several CDK enzymes by blocking the binding site for adenosine triphosphate, or ATP. Blocking ATP binding stops CDK enzymes from activating proteins required for the completion of the cell cycle. This leads to apoptosis in cancer cells. Cyclacel has shown in preclinical tests that selaciclib selectively inhibits its target CDK enzymes, without affecting closely-related, non-target enzymes. Cyclacel has also shown that selaciclib is active in cell lines resistant to conventional chemotherapy.

Selaciclib is a low molecular weight compound with a relatively simple structure and so exhibits the chemical characteristics of other compounds that have been successfully developed as drugs. Its manufacture is relatively inexpensive, requiring a three-step chemical synthesis.

Clinical Trials

The following table provides information with respect to the clinical trials that have been conducted to date with selaciclib in which approximately 233 patients have been dosed.

Trial	Subjects	Methodology	Key Findings
Phase I: pharmacokinetics (2001)	5 patients with cancer who had failed multiple chemotherapies	Single escalating daily doses 50mg, 100mg, 200mg.	Well-tolerated and absorbed when taken by mouth.
Phase I: pharmacokinetics and tolerability (2001 and 2002)	24 healthy volunteers in 2 separate trials each with 12 patients	Single escalating daily doses 50mg, 100mg, 200mg, 400mg, 800mg. Cross over bioavailability study.	Well-tolerated and absorbed when taken by mouth. Elevated liver enzymes were noted in one volunteer.
Phase I: safety (2003)	22 patients with cancer who had failed multiple chemotherapies (21 treated)	Two doses daily, seven days out of 21.	Dose limiting toxicities were non-hematological. One out of 21 patients achieved stable disease for four or more months.
Phase I: tolerability (2003)	57 patients with cancer who had failed multiple chemotherapies (56 treated)	Two doses daily, five days out of 21 or 10 days out of 21 or three days out of 14 or three doses daily for 3 days out of 14.	Out of 56 patients: 6 patients achieved stable disease for four or more months of which 2 non-small cell lung cancer patients had stable disease for 14 and over 18 months, respectively.

1 hepatocellular cancer patient
achieved partial response.

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Trial	Subjects	Methodology	Key Findings
Phase I: monotherapy for biomarker assessment (ongoing): investigator sponsored	16 patients with nasopharyngeal cancer	Two doses daily of 400mg or 800mg each on days 1-3 and days 8-12.	<p>Tumors sampled before dosing with seliciclib and 12 days after seliciclib dosing for biomarker analyses. Preliminary data from 13 patients treated at a dose with minimal toxicities:</p> <p>7 patients had greater than 25% reduction in cervical lymph nodes 1 patient had shrinkage of primary tumor and 4 patients had a reduction in Epstein-Barr Virus copy counts, a marker of disease burden: tumor necrosis was seen in tumor biopsy samples after seliciclib dosing</p>
Phase IIa: combination (closed)	16 patients with breast cancer (14 treated)	Two doses daily of 600mg or 800mg each on days 1-5 of 21 day cycle, in combination with two doses daily of capecitabine by mouth of 1000 or 1250mg/m ² on days 2-15 of first cycle and 1-14 subsequently.	<p>Study closed earlier than intended as seliciclib treatment in combination with capecitabine was not well tolerated at dose levels studied. Preliminary data from evaluation of 14 patients:</p> <p>2 partial response.</p> <p>5 with stable disease.</p>
Phase II: monotherapy (closed to accrual)	38 patients (37 treated) with B-cell hematological malignancies (B-cell chronic lymphocytic leukemia, mantle cell lymphoma, multiple myeloma)	Two doses daily of 1600mg each on days 1-3 of 14 day cycle as a single agent.	<p>Trial has enrolled a total of 38 patients distributed nearly equally among the three diseases. Preliminary data from evaluation of these patients:</p> <p>1 with partial response</p> <p>17 with stable disease</p>
Phase IIa: combination (closed to accrual)	47 patients with non-small cell lung cancer	Two doses daily of 400mg or 800mg or 1200mg each on days 1-4, 8-11 and 15-18 of each 21 day cycle, in combination with 1000mg/m ² gemcitabine by infusion on days 5 and 12 with 75mg/m ² cisplatin by infusion on day 5.	<p>Two doses daily of 800mg is recommended Phase II close for combining with gemcitabine and cisplatin. Preliminary data showed that 38 patients were entered at the 800mg dose level and among these 38 patients</p> <p>9 with partial response</p> <p>8 with stable disease</p>

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Trial	Subjects	Methodology	Key Findings
Phase IIa: combination (current)	7 patients with non-small cell lung cancer	Two doses daily of 1600mg each on days 2-4 of each 21 day cycle, in combination with a one hour infusion of 75mg/m ² of docetaxel on day 1 of each cycle.	Trial terminated after 7 patients because of slow recruitment rate. Preliminary data from evaluation of 5 patients: 1 with partial response 4 with stable disease.
Extension study (current)	5 patients who received benefit in previous trials and opted to remain on seliciclib treatment	Dose as per the initial clinical trial the patient was originally entered into	5 patients have been enrolled from the Phase II B-cell hematological malignancies monotherapy trial (two with myeloma and three with B-CLL, one of the myeloma patients has been reported to have a partial response).

As indicated above, Cyclacel has undertaken several Phase I trials with seliciclib to evaluate safety, tolerability and pharmacokinetics in both single and multiple doses in a total of 106 subjects, consisting of 24 healthy volunteers and 82 heavily pre-treated cancer patients who failed multiple chemotherapies. Although these Phase I trials were not designed to test efficacy and do not support any conclusion with respect to efficacy, a number of patients with solid tumors such as adenomatous of unknown primary, adrenal, liver, non-small cell lung, ovarian, parotid and thymoma, appeared to have benefited from disease stabilization with seliciclib treatment. Overall, out of a total of 77 cancer patients in Phase I trials that were administered with multiple seliciclib doses, 7 patients were assessed with stable disease over four months or longer, with two non-small cell lung cancer patients stable for 14 and over 18 months, after failing four different prior treatment regimens. In addition, one patient with liver cancer was assessed as a partial response after several cycles of seliciclib following failure of four different treatment regimens.

Investigators observed dose limiting toxicities of asthenia, elevated liver enzymes, hypokalemia or lowered potassium levels and nausea and vomiting. These toxicities appeared to increase with dose and duration of dosing and were reversible after dosing ceased. However, their mechanisms are not yet fully understood.

Seliciclib is also being evaluated in an investigator-sponsored trial as a single agent in patients with nasopharyngeal cancer (NPC), a cancer thought to be associated with Epstein - Barr virus (EBV) infection. The primary objective of this trial was to determine in vivo cellular effects of seliciclib on NPC, specifically on cell cycle regulation and apoptosis. The drug was well tolerated at the twice daily dose of 400mg. Tumor samples were obtained before dosing with seliciclib and 12 days after for biomarker analyses. Preliminary data from 13 patients treated at 400mg dose level showed that 7 patients had greater than 25% reduction in cervical lymph nodes, one patient had shrinkage of primary tumor and 4 patients had a reduction in EBV copy number, a marker of disease burden. In addition, tumor necrosis was seen in tumor biopsy samples after seliciclib dosing.

Cyclacel has conducted four open label Phase II trials of seliciclib as a single agent or in combination with standard chemotherapies, undertaken under the guidelines of the U.K. Medicines and Healthcare products Regulatory Agency and other regulatory authorities. Cyclacel expects to report final data from these studies in 2006.

In order to assist Cyclacel's plans for further development of seliciclib as a treatment for non-small cell lung cancer, it convened an expert panel of five lung cancer clinical experts in June 2005. After reviewing available

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data on seliciclib the panel recommended the commencement of a Phase II trial of single agent seliciclib in patients with advanced non-small cell lung cancer, preferable using a randomized study design to compare seliciclib as a single agent against best supportive care. Based on its observations of tolerability and antitumor activity in the clinical trials conducted to date, the oral availability of seliciclib, the recommendations of the non-small cell lung cancer expert panel, regulatory and marketing considerations, Cyclacel plans to evaluate seliciclib as stand-alone therapy in patients with non-small cell lung cancer, file an IND and commence a multi-centre Phase IIb randomized clinical trial in the United States in the second quarter of 2006.

Biomarker Program

Cyclacel's seliciclib biomarker program is founded on a well-developed understanding of the cellular effects of this compound. The aim of this program is to identify specific biomarkers that will allow Cyclacel to measure and predict seliciclib's action in individual patients with respect to drug activity, toxicity and tumor response and, in the longer term, assist in patient selection. Statistical analysis is carried out on multiple samples from individual patients but the overall number of patients is not sufficient to carry out formal statistical analysis on groups.

Seliciclib is known to cause cancer cell death by inducing apoptosis in tumor cells. Cyclacel is currently studying a specific cancer cell death or apoptotic biomarker. Analyzing blood samples drawn from 48 patients treated with seliciclib in its Phase I trials, Cyclacel observed statistically significant changes in the levels of this biomarker in 29 individuals (using a non-paired unequal variance Student T test). In some cases there was also a correlation of these biomarker test results with clinical benefit as observed by the Phase I and Phase II investigators.

By correlating these findings with similar data collected with an alternative cancer cell death biomarker Cyclacel was able to establish a dose-response relationship for both tests and the doses of seliciclib administered to patients in Phase I and Phase II clinical trials. Cyclacel believes that this demonstration of a pharmacodynamic relationship supports a recommendation of a clinical dose for further seliciclib clinical trials.

Sapacitabine

Cyclacel's second drug candidate, sapacitabine, is an orally available novel nucleoside analog. Nucleoside drugs work by inhibiting the S phase of the cell cycle. A number of nucleoside drugs such as gemcitabine are in widespread use as conventional chemotherapies for the treatment of solid cancers as are cytarabine analogs for the treatment of blood cancers. Independent investigators at the Roswell Park Cancer Institute in Buffalo, New York, reported preclinical data showing that sapacitabine was superior to gemcitabine or 5-FU, another widely used chemotherapy, both in terms of extending survival and blocking metastases to the liver. Two Phase I studies of sapacitabine have been completed by Sankyo, and a third Phase Ib clinical trial initiated by Cyclacel is currently in progress in the United States for the treatment of patients with advanced malignancies. Sapacitabine will enter a Phase I clinical trial in patients with advanced leukemias and myelodysplastic syndromes in the first quarter of 2006.

In addition to offering potentially greater efficacy than other nucleoside analogs, sapacitabine can be taken by mouth, whereas most conventional nucleoside drugs must be administered by injection. Oral dosing is more convenient for patients, reduces the costs of treatment and allows greater flexibility in terms of dosing. Side-effects associated with sapacitabine are generally comparable to those associated with conventional nucleoside chemotherapies, such as gemcitabine. There are three classes of anticancer agents on the market that are analogous to sapacitabine: fluorouracil analogs, like capecitabine and 5-FU; 2 deoxycytidine analogs, like cytarabine and gemcitabine, the market leading nucleoside analog; and purine analogs, like 6-mercaptopurine. In 2004, sales for Roche's capecitabine brand, Xeloda, were \$431 million, and for Eli Lilly's gemcitabine brand, Gemzar, \$1.2 billion.

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Scientific Background

Sapacitabine is a prodrug of the novel nucleoside CNDAC (2--cyano-2--deoxy-arabinofuranosylcytosine). A prodrug is a compound that has a therapeutic effect after it is metabolized within the body. CNDAC has a significantly longer residence time in the blood when it is produced in the body through metabolism of sapacitabine than when it is given directly. CNDAC is activated by deoxycytidine kinase enzymes and is inactivated by cytidine deaminase, both of which are enzymes found in abundance in certain tumor tissues. Sapacitabine's chemical structure contains a feature designed to protect the drug from degradation by cytidine deaminase while still benefiting from the activating effect of deoxycytidine kinase. This same feature increases availability of sapacitabine by mouth.

Activation of sapacitabine leads to inhibition of the enzyme DNA polymerase. This disrupts the replication of DNA during the S phase of the cell cycle, inducing cell arrest and apoptosis. Sapacitabine also appears to have a secondary beneficial mechanism. By imitating a DNA molecule which the cell includes in a DNA strand, sapacitabine induces spontaneous DNA strand breaking resulting in termination of the DNA chain and cell death by apoptosis.

Clinical Trials

Sapacitabine has been the subject of two Phase I studies in the United States conducted by Sankyo to explore safety and pharmacokinetics. The two completed trials have treated 87 patients with a variety of cancers, who were dosed by mouth either three or five days per week for four weeks of a six week cycle. Overall, 12 patients were assessed with stable disease and were on study for 4 months or longer. One patient with a gastrointestinal stromal sarcoma (GIST) cancer, a form of sarcoma, remained on sapacitabine treatment for over 4 years with stable disease. A further patient with ovarian cancer experienced a minor response. Dose limiting toxicities were myelosuppression including leukopenia and neutropenia, thrombocytopenia, neutropenic fever and sepsis. One patient died of apnea in the setting of myelosuppression and the death was considered possibly drug-related. Cyclacel is currently conducting a Phase Ib clinical trial in the United States to assess dose and schedule variations and to establish bioequivalence of a new formulation which is different from that used in the previous Phase I trials. Cyclacel is dosing patients with sapacitabine twice daily on days 1-14 of a 21 day schedule. Thirty patients have been dosed to date of which eight have received the new formulation. Myelosuppression remains the major dose limiting toxicity in this trial. One patient died due to septic candidemia in the setting of grade 4 febrile neutropenia and thrombocytopenia. Cyclacel plans to initiate under its current IND an open label Phase I clinical trial in patients with advanced leukemia and myelodysplastic syndromes in the first quarter of 2006. This study will establish a recommended dose and examine the safety and tolerability of sapacitabine in this patient population. In addition, Cyclacel intends to characterize the pharmacodynamic effect of sapacitabine in leukemia cells, to evaluate the relationship between sapacitabine dose and its effect in leukemia cells and to correlate the effect in leukemia cells with clinical response.

Biomarker Program

To enhance its development efforts, Cyclacel is developing biomarkers for use in the sapacitabine clinical trials. Cyclacel has obtained data from preclinical *in vivo* studies in which microarray profiling of the entire human genome from 47 tumor xenografts suggests that the expression levels of a set of five genes can predict tumor response to sapacitabine with greater than 90% accuracy. If the data is favorable, Cyclacel may seek to design a Phase II trial in which data would be collected that distinguishes among patient groups, or cohorts, based on the different gene expression profiles. If Cyclacel can then establish a correlation between this data and response to sapacitabine in the Phase II trial, this would inform the design of a pivotal Phase III trial exploiting these findings that is more likely to succeed, smaller in size and less expensive to conduct than would otherwise be the case.

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Cyclacel also intends to analyze biomarkers to assess the efficacy of sapacitabine in inducing cell death in cancer cells. Cyclacel's preliminary data suggest that sapacitabine-induced cell death can be detected with the same biomarkers being used in the seliciclib trials.

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Aurora Kinase Inhibitors

Aurora kinases are a family of serine/threonine protein kinases that are only expressed in actively dividing cells and are crucial for the process of cell division or mitosis. These kinases are often found to be overexpressed in breast, colon, pancreatic and bladder tumors. Recent genetic evidence suggests that the human Aurora A kinase gene is linked to cancer susceptibility. As important regulators of both genomic integrity and cell cycle progression in cancer cells the Aurora kinases represent an attractive target for anticancer drug development.

Cyclacel has identified a series of compounds acting through inhibition of Aurora kinases which are being developed for oncology therapeutic applications. Several compounds have demonstrated efficacy by oral administration in hematological and solid tumor models with a mechanism consistent with inhibition of the target. Cyclacel has selected CYC116, an orally available drug, as its clinical development candidate from the Aurora kinase inhibitor program. Preclinical studies including safety, toxicology and metabolism, sufficient for an investigational new drug application, or IND, are underway for this drug candidate. Cyclacel currently plans to file an IND and initiate Phase I trials of CYC116 in the fourth quarter of 2006.

Other Oncology Programs

Second Generation CDK Inhibitors

Cyclacel has discovered over 600 novel CDK inhibitors that are members of a different chemical family than seliciclib. Based on their observed properties in preclinical tests, Cyclacel believes that these second-generation compounds may prove to be even more potent anticancer agents than seliciclib. Certain of these compounds selectively inhibit individual CDK targets and some multiple CDKs at picomolar concentrations, which means that they are much more potent than publicly disclosed CDK inhibitors. Several are orally available, inhibit tumor growth *in vivo* and appear to act upon the cell cycle by inducing apoptosis in cancer cells.

Clotrimazole Analogs

Cyclacel has licensed from Lorus Therapeutics, Inc. a group of compounds based on CYC381, an orally available analog of clotrimazole, a commonly used antifungal drug. Investigators at Harvard Medical School observed that clotrimazole analogs exhibit anticancer activity by inhibiting internal calcium channels in cells and blocking the expression of important cell cycle targets called cyclins. Extensive preclinical testing prior to Cyclacel's licensing CYC381 suggested that it may be active in slowing the progression of several solid tumors *in vivo*. CYC381 is a racemic mixture or a combination of two different chemicals, called enantiomers, which cannot be easily separated. It is often not clear whether a chemical or biological response is attributable to one or more than one enantiomer and consequently it can be difficult to obtain regulatory approval to test in humans drugs that are racemic mixtures. Cyclacel succeeded in separating the two enantiomers of CYC381 and established that they are not chemically interchangeable. Before progressing into further development Cyclacel must reproduce evidence of anticancer activity by one or more enantiomers with that reported by others before Cyclacel in-licensed CYC381.

Plk Inhibitors

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Cyclacel's Polo-like kinase, or Plk, inhibitor program targets the mitotic phase of the cell cycle with the objective of identifying potent and selective compounds which inhibit Plk1, a kinase active during mitosis. Inhibition of Plk1 results in cell cycle arrest at the G2/M checkpoint and induces apoptosis in cancer cells. Cyclacel's Plk inhibitor program represents the first target gene that has emerged through the target validation process at Cyclacel's Polgen division and progressed to the drug discovery and chemistry stage. Because little was known about the nature and structure of Plk1, and because Plk has never been crystallized, Cyclacel relied on advanced computer modeling and software-based design techniques to identify a series of compounds which selectively inhibit Plk.

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Hdm2 Inhibitors

One of the key cell cycle regulatory proteins is p53. When active, p53 causes cell arrest at the G1/S checkpoint, inducing apoptosis in cancer cells. Under normal circumstances, p53 is held in an inactive form by binding to another regulatory protein, Hdm2. In this program, Cyclacel is investigating ways of disrupting the interaction between Hdm2 and p53, thus activating p53. Through virtual screening technologies, Cyclacel has identified two small molecule groups capable of breaking the binding between p53 and Hdm2.

Cyclin Binding Groove Inhibitors

The activity of CDK can be inhibited by two methods, either by blocking the ATP site, as is the case with seliciclib, or by inhibiting the substrate binding site on the cyclin protein. Preventing the cyclin from binding results in cell cycle arrest and induces apoptosis in cancer cells. Cyclacel is currently investigating the development of such cyclin binding groove inhibitors, continuing a program that was the subject of a two-year collaboration with AstraZeneca that concluded in mid-2003. Cyclacel retains all of the intellectual property associated with this program upon its conclusion.

Non-oncology Programs

Cell Cycle Inhibitors in Inflammatory Kidney Disease

Preclinical results from several independent investigators suggest that cell cycle inhibitors such as seliciclib may also have a therapeutic benefit in the treatment of patients with inflammatory kidney diseases, which are sometimes referred to as glomerulonephritis. Glomerulonephritis encompasses a number of different kidney diseases, which are classified either according to the likely cause of inflammation, such as a viral infection, or whether the main pathological finding is abnormal cell proliferation or tissue scarring. Because seliciclib acts to arrest the progress of the cell cycle, Cyclacel believes it may be particularly effective in treating those forms of glomerulonephritis characterized by excessive cell proliferation. The most common forms of these are IgA nephritis and lupus nephritis.

Investigators from New York University, working with collaborators from Columbia University, Mount Sinai and Roswell Park Cancer Institute, reported that seliciclib slowed down or reversed collapsing glomerulopathy, one of the most severe forms of kidney failure. Nephrologists or kidney specialists at the University of Washington in Seattle and at the University of London separately reported statistically significant results showing that seliciclib reduced proliferation of kidney cells, reduced protein levels in the urine and reduced the number of crescent-shaped cells, a marker of prognosis of the eventual course of kidney disease. Investigators from Mount Sinai Hospital in New York reported that seliciclib was effective in a model of HIV-associated nephritis, or HIVAN. Nephrologists at an Italian university reported statistically significant evidence that seliciclib prolonged survival in a model of lupus nephritis.

In addition to Phase I testing of seliciclib in healthy volunteers discussed in the *Seliciclib* section above, Cyclacel initiated a Phase IIa clinical trial to examine the effect of seliciclib in patients with IgA nephritis. A total of five patients were dosed with seliciclib every day for 28 consecutive days. Two patients completed dosing without problems, but in three patients liver enzyme elevations indicating possible hepatic toxicities were observed by day 14, two of which were classed as serious adverse events under the trial protocol. The hepatotoxicity resolved after cessation of drug dosing. This study was stopped prematurely due to safety concerns regarding the hepatic toxicity in this patient population. Consultation with outside liver specialists was obtained. The mechanisms underlying the observed hepatotoxicity are not known

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from the available information and experimental results. It was recommended that future trials in nephritis patients should consider intermittent dosing provided that the intermittent dosing is efficacious in animal models.

Cyclacel has recently entered into an evaluation and option agreement with Genzyme Corporation under which Genzyme is evaluating two preclinical stage CDK inhibitors for development as drugs for renal disease. (see Collaboration and Other Agreements).

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CDK Inhibitors in Virology

Cell cycle inhibitors may be useful in the treatment of viral diseases to the extent that drugs can be developed that prevent the replication of virus-infected host cells and cause their death by apoptosis while sparing most uninfected cells. If this is proven in humans, cell cycle inhibitors may have significant potential in this area, as they do not interfere with viruses and are less likely to induce viral resistance, a major cause of failure in antiviral drugs that attack the virus itself. There has been extensive discussion in the scientific literature regarding the application of CDK inhibitors in virology. Several publications by independent investigators suggest that roscovitine, the chemical precursor of seliciclib, has activity in preclinical models of infection by cytomegalovirus, or CMV, the cause of retinitis in the eye; Herpes Simplex Virus, or HSV, the cause of genital herpes; HIV, the cause of HIV/AIDS; and Varicella Zoster Virus, the cause of shingles and chickenpox. Cyclacel is interested in the commercial opportunity that cell cycle inhibitors present in virology, particularly HIV/AIDS, and believes that it has more potent and more specific drugs than roscovitine in its compound libraries.

Cyclacel is investigating a number of compounds in this program, some of which appear to be highly active against HIV in biological tests and induce antiviral effects that may be as or more potent than many existing HIV/AIDS therapeutic agents. Moreover, Cyclacel has hypothesized that cell cycle inhibitor drug therapies may be less prone to cause the emergence of drug resistant HIV/AIDS, although prolonged clinical testing would be required to test this hypothesis. Cyclacel intends to progress this program through collaboration with groups who are specialized in anti-viral research.

GSK-3 Inhibitors in Type 2 Diabetes

Glycogen Synthase Kinase-3, or GSK-3, inhibition is an essential element in the body's regulation of blood sugar. GSK-3 regulates the glycogen synthase enzyme that indirectly controls glucose levels. Insulin controls the regulation of energy conversion and storage by interacting with its receptor which results in the activation of PI-3 kinase that in turn inhibits GSK-3. In adult onset or Type 2 Diabetes, GSK-3 is not inhibited because the insulin receptor is not operating properly. As a result, Cyclacel believes that GSK-3 inhibitor drugs may be suitable for development as Type 2 Diabetes therapies. The structures of GSK-3 and CDK are very similar. In Cyclacel's cancer programs, it was desirable to discover highly specific CDK inhibitors that do not inhibit GSK-3. Cyclacel's work in this area prompted the investigation of highly specific GSK-3 inhibitors that do not inhibit CDK.

Cyclacel has identified four chemical families of GSK-3 inhibitors some of which are potent at picomolar concentrations, representing the most potent GSK-3 inhibitor compounds disclosed in the literature. Importantly, while all other disclosed GSK-3 inhibitors lead to accumulation of beta-catenin, a protein associated with tumor growth, three out of four of Cyclacel's GSK-3 inhibitor families do not induce beta-catenin accumulation. This is an important characteristic, as Cyclacel would expect patients to take this type of drug on an on-going basis. Cyclacel has selected two lead compounds from this series, both of which have achieved proof-of-concept in a standard model of diabetes, demonstrating stimulation of glycogen synthase, improvement in glucose tolerance and regulation of triglycerides. Cyclacel intends to progress this program through collaboration with groups who are specialized in diabetes research.

Cyclacel's Drug Discovery and Design Process

Cyclacel expects that in the future drug programs will increasingly be based on proprietary genes-to-drugs approach to drug discovery and design. This approach relies on genomic technology from Cyclacel's Polgen division to identify gene targets, which are then progressed by means of structure-based design techniques through to the development stage.

Fundamentally, this approach to drug discovery and design aims to improve Cyclacel's ability to select promising drug targets in the early stages of the process so as to decrease compound attrition rates during the later, more expensive stages of drug development. Cyclacel is devoting more resources initially to enrich the

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target selection process, so that efforts are focused on targets that have a higher probability of yielding successful drug candidates, progressing through the drug discovery and design process more quickly and efficiently and enhancing its chances of successfully commercializing drugs. To this end, Cyclacel has assembled an integrated suite of sophisticated discovery and design technologies, together with personnel who are highly skillful in making use of these technologies.

As exemplified by Cyclacel's Aurora kinase and Plk inhibitor programs, the genes-to-drugs discovery and design strategy would typically involve the following steps:

Identification and Validation of Target Genes

The active ingredients in drugs act by binding to or affecting specific molecules, referred to as the target of that drug. Cyclacel's Polgen division carries out target discovery and validation studies using RNA interference, or RNAi, techniques. These techniques are used to understand the function of different genes and identify which genes and related proteins and enzymes are involved in specific biological processes in the cell cycle, such as mitosis. Cyclacel is one of few companies that have an RNAi library for each gene in a full model genome from which to derive targets. Cyclacel's Polgen division has a library of more than 100 genes that have been identified as being involved in mitosis using our RNAi library and its high throughput microscopy scanning equipment. Targets that appear to be associated with relevant processes are validated by identifying whether the genes and related proteins and enzymes correspond to specific diseases. This may include, for example, determining whether the genes and related proteins are over-expressed, or are more common in cancer cells than in normal cells. Through this initial identification and validation process, Cyclacel seeks to identify which molecular targets to inhibit with potential drug candidates.

Solution of the Structure of a Target

In order to develop drugs that bind to or affect the genes and proteins identified by Cyclacel's Polgen technology, Cyclacel seeks to understand the structure of these targets through in-house structure-based drug design expertise. This is initially accomplished by means of X-ray crystallography technology. This involves obtaining highly purified samples of the target protein which are then crystallized. High-resolution X-rays are employed, both in-house and at outside vendors, in order to define the 3-dimensional structure of the protein. Cyclacel's team has defined or solved over 20 crystal structures of its drugs docked into their active sites. The pattern observed when the X-ray beam is scattered is then used to map the relationship of each atom in the protein in order to define the structure of the target. At this point, Cyclacel may sometimes use magnetic resonance spectroscopy techniques, both in-house and at outside vendors, to further refine protein structure.

Virtual Screening

Once defined, the 3-dimensional structure of a target protein is coded into a computer, as are 3-dimensional structures of thousands of small molecules. Cyclacel's LIDAEUS software and other similar programs allow the sifting through large collections of small molecules in various combinations to determine which molecules or compounds bind to our targets. Such large-scale testing is referred to as virtual screening. Using complex computational algorithms, the software virtually screens tens of thousands of small molecules in order to find small molecules most likely to fit into a selected site on the target protein. Results from these screens determine which compounds Cyclacel will focus on to optimize potential drug candidates. While other software is available for similar large-scale testing, Cyclacel's LIDAEUS software has been optimized for the kinase enzymes that are central to its cell cycle research.

Enzyme Assays

The molecules determined by Cyclacel's virtual screening as most likely to bind to or affect the relevant target proteins and enzymes are then purchased in physical form, biologically validated and screened in

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Cyclacel's laboratory through a series of enzyme assays or tests. These tests measure whether the compound can affect or interfere with the target enzyme function. Cyclacel employs Fluorescence technology for some of these tests to determine which compounds inhibit the target enzymes without affecting closely-related, non-target enzymes. Through this process compounds can be selected which most likely inhibit the target protein without having undesirable, or toxic, effects on similar targets.

Medicinal Chemistry

Promising compounds, or hits, identified through the enzyme assay process are then used to design other similar, but more effective, compounds through the process of medicinal chemistry. For example, if multiple compounds have similar success in targeting enzymes, a core chemical structure may be common to all of them. That core chemical structure is used as a starting point to create variants that optimize therapeutic effects, such as target potency, oral availability and low toxicity. The aim of the medicinal chemistry process is to produce a clinical candidate compound that has the desired physical attributes of a drug. These drug design criteria include potency against the target enzyme, causing cancer cell death in laboratory tests, sufficient absorption and half-life and inhibition of tumor growth in model systems.

Development

After Cyclacel's design criteria are met through medicinal chemistry, drug candidates are moved into preclinical and clinical development. Integral to Cyclacel's preclinical investigation and clinical development is the use of biomarkers which assist in recording the effect of its target compounds and drug candidates on cell cycle activity.

As noted earlier, Cyclacel's Plk inhibitor program represents the first target gene that has emerged through the target validation process at Cyclacel's Polgen division and progressed to the drug discovery and chemistry stage. The compounds Cyclacel is working with in its preclinical and research programs have also progressed through one or more of the phases described above. For example, the compounds in Cyclacel's second-generation CDK inhibitor program for cancer were identified using structure-based design techniques, as were some compounds in Cyclacel's virology program. Molecular modeling has played a key role in the development of both Cyclacel's cyclin binding groove and Hdm2 inhibitor programs.

Manufacturing

Cyclacel does not own or operate manufacturing facilities for the production of clinical or commercial quantities of any of its research compounds. Cyclacel relies on, and expects to continue to rely on, third parties for the manufacture of its drug candidates or products that it may develop.

Cyclacel synthesizes cGMP quality active pharmaceutical ingredients, or API, by means of various manufacturers. Final drug form is manufactured in appropriately regulated premises. Each contract research organization has the responsibility to supply research compounds for Cyclacel's clinical trials to the limit of the existing contractual agreements.

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To date, Cyclacel's suppliers have synthesized sufficient API and final drug form to support the ongoing needs of Cyclacel's clinical trials and development in progress. Cyclacel believes that these contractors have the capability to meet foreseeable supply needs of its research compounds and meet the FDA and other regulatory agency requirements in the United Kingdom and the rest of the European Union, including compliance with the FDA's good manufacturing practices and comparable regulatory requirements.

In the event any contractor is unable or unwilling to ensure supply of sufficient quantities of Cyclacel's research compounds, Cyclacel has ongoing secondary arrangements whereby an alternative supplier could be contracted to ensure program continuity.

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Patents, Proprietary Technology and Collaborations

Cyclacel considers intellectual property rights to be vital and use a variety of methods to secure, protect and evaluate these rights. These include:

Ownership and enforcement of patent rights

Patent applications covering Cyclacel's own inventions in fields that Cyclacel considers important to its business strategy

License agreements with third parties granting Cyclacel rights to patents in fields that are important to its business strategy

Invention assignment agreements with Cyclacel's employees and consultants

Non-compete agreements with Cyclacel's employees and consultants

Confidentiality agreements with Cyclacel's employees, consultants, and others having access to its proprietary information

Standard policies for the maintenance of laboratory notebooks to establish priority of Cyclacel's inventions

Freedom to use studies from patent counsel

Material transfer agreements

Trademark protection

Patents and Patent Strategy

The table below summarizes the U.S. patents that Cyclacel owns as of January 19, 2006.

Patent No.	Description	Issue Date	Expiry Date
US 6,221,873	Seliciclib and a related derivative	April 24, 2001	March 4, 2018
US 6,242,201	PCNA binding agents, useful in the treatment of hyperproliferative disorders	June 5, 2001	November 3, 2015
US 6,472,507	Penetratin drug conjugates for cellular delivery	October 29, 2002	July 2, 2019
US 6,465,199	Binding assays	October 15, 2002	February 26, 2019

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US 6,531,479	CYC400 compounds	March 11, 2003	March 29, 2021
US 6,569,833	P16 peptides, useful in the treatment of hyperproliferative disorders	May 27, 2003	September 23, 2016
US 6,613,878	Fen 1 peptides	September 2, 2003	May 2, 2016
US 6,656,696	Binding assays	December 2, 2003	February 26, 2019
US 6,670,144	Binding assays	December 30, 2003	February 26, 2019
US 6,699,854	CYC400 compounds	March 2, 2004	March 29, 2021
US 6,703,395	Selaciclib and a related derivative	March 9, 2004	March 4, 2018
US 6,808,874	Binding assays	October 26, 2004	June 7, 2020
US 6,828,106	Binding assays	December 7, 2004	February 26, 2019
US 6,852,906	Binding assays	February 8, 2005	November 15, 2020
US 6,943,026	Antitumor vector constructs and methods	September 13, 2005	October 2, 2016
US 6,962,792	Assay and medical use of cyclin binding compounds	August 11, 2005	May 8, 2017

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The table below summarizes the U.S. patents under which Cyclacel holds licenses.

Patent No.	Licensors	Description	Issue Date	Expiry Date
US 6,316,456	CNRS	2, 6, 9 substituted purine derivatives, including seliciclib	November 13, 2001	November 29, 2016
US 5,888,762	CNRS	Cell delivery molecules, including Penetratin	March 30, 1999	March 30, 2016
US 6,080,724	CNRS	Penetratin variants	June 27, 2000	October 4, 2016
US 5,691,319	Sankyo	Antitumor pyrimidine nucleoside derivatives, including sapacitabine	November 25, 1997	November 25, 2014
US 5,616,567	Sankyo	Antitumor pyrimidine nucleoside derivatives including CNDAC (active form of sapacitabine)	April 1, 1997	April 1, 2014
US 5,654,420	Sankyo	Process for preparing CNDAC	August 5, 1997	August 5, 2014
US 6,908,906	Sankyo	Crystal form of sapacitabine	June 21, 2005	February 6, 2022
US 6,534,497	Nuchem	Substituted 11 phenyl dibenzazepine compounds, including CYC381	March 18, 2003	November 20, 2017
US 6,028,103	Nuchem	Substituted triaryl methane compounds	February 22, 2000	March 20, 2016
US 6,800,658	Nuchem	Substituted indole compounds	October 5, 2004	November 20, 2017
US 6,063,921	Johnson Matthey	Synthesis of 11 aryl 5,6 dihydro 11H dibenzazepines, including CYC381	May 16, 2000	November 20, 2017
US 6,201,120	Johnson Matthey	Synthesis of 11 aryl 5,6 dihydro 11H dibenzazepines, including CYC381	March 13, 2001	November 20, 2017
US 5,702,908	Cancer Research Technology	Agents which interfere with the binding of MDM2 to human p53, assays for said agents	December 30, 1997	December 30, 2014
US 5,770,377	Cancer Research Technology	Agents which interfere with the binding of MDM2 to human p53, assays for said agents	June 23, 1998	June 23, 2015
US 6,153,391	Cancer Research Technology	Agents which interfere with the binding of MDM2 to human p53, assays for said agents	November 28, 2000	November 28, 2017
US 6,140,058	Cancer Research Technology	P53 mutants	October 31, 2000	October 31, 2017
US 6,492,116	Cancer Research Technology	Assay which allows the identification of compounds which inhibit binding of MDM2 and p53	December 10, 2002	September 10, 2016

In addition to its U.S. patents, Cyclacel owns nine patents that were granted by the European Patent Office, or EPO, for designated European countries, and 16 issued patents in other countries. The European granted patents expire between 2015 and 2022. In addition to the licenses Cyclacel holds in patents issued in the United States, Cyclacel holds licenses under 61 issued patents worldwide, 12 granted by the EPO for designated European

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countries and 49 issued in other countries. The licensed European granted patents expire between 2011 and 2021. Cyclacel's patent strategy is to file patents on compounds and technologies in countries and jurisdictions that it considers important to its business. Cyclacel usually files first in the United Kingdom and then extends its applications to other countries through the Patent Cooperation Treaty. In some cases, Cyclacel files directly in the United States. Cyclacel gives priority to obtaining substance of matter claims in the United States, the European Patent Office, Japan and other important countries if such protection is available. Cyclacel prefers substance of matter claims because they give Cyclacel rights in its compounds themselves, and not merely in a particular use of the compounds. In addition to substance of matter claims, Cyclacel seeks coverage for medical uses, combination therapies, pharmaceutical forms of Cyclacel's compounds and synthetic routes where available and appropriate. Claims covering combination therapies and pharmaceutical forms can be valuable because the therapeutic effect of pharmaceuticals used in the anticancer field is often enhanced when individual therapeutics are used in particular combinations. The availability of protection in these areas can, however, vary from jurisdiction to jurisdiction and combination claims are particularly difficult to obtain for many inventions. Cyclacel owns patent applications pending in the United States, 34 before the European Patent Office, 16 pending PCT applications still in the international application phase, and over one hundred pending patent applications in other countries. Seven of this last group of pending patent applications were first filed, and have an earliest priority date, within the last twelve months. No assurances can be given that patents will issue with respect to the pending applications, nor that the claims will provide equivalent coverage in all jurisdictions. Under the terms of Cyclacel's agreements with several universities and research institutions, Cyclacel also has the right to apply for patents in the name of those universities and institutions for inventions in which license rights are held. This gives Cyclacel the ability to control the prosecution of patents that directly relate to business strategy. In addition to the pending patents applications referred to above that Cyclacel owns, there are 64 pending patent applications worldwide to which Cyclacel has a license or an option to take a license.

Cyclacel's patent filings for the second-generation CDK inhibitor research program exemplify its patent strategy. Out of over 600 compounds under investigation in this program, Cyclacel has filed patent applications seeking substance of matter protection that may be roughly grouped into 12 patent families. Of these, Cyclacel has made a European application designating all European Patent Convention member states and direct national filings in the United States, Japan and several additional countries covering the compounds that Cyclacel believes to be the most promising from a commercial standpoint. Cyclacel has made additional Patent Cooperation Treaty filings covering derivative compounds, medical uses and related technology. The first patent application from the family of compound patents has resulted in the issuance of two U.S. patents with substance of matter claims covering a specific genus of compounds showing activity in its preclinical and research programs. Although issuance of a substance of matter claim in the United States is an indication that other countries may grant similar protection, the pending applications may not result in additional patent protection.

Cyclacel holds patents to several technology-based systems, including families of patents covering its Fluorescence fluorescent assay techniques and the drug delivery system Penetratin. Cyclacel has filed a portfolio of patents claiming the use of over one hundred specific genes as drug targets based on the identification of their function in mitosis.

Since publications in the scientific or patent literature often lag behind actual discoveries, Cyclacel is not certain of being first to make the inventions covered by each of its pending patent applications or the first to file those patent applications. Generally, patent applications in the United States are maintained in secrecy for a period of 18 months or more, which increases the uncertainty Cyclacel faces. Moreover, the patent positions of biotechnology and pharmaceutical companies are highly uncertain and involve complex legal and factual questions. As a result, Cyclacel cannot predict the breadth of claims allowed in biotechnology and pharmaceutical patents, or their enforceability. To date, there has been no consistent policy regarding the breadth of claims allowed in biotechnology patents. Third parties or competitors may challenge or circumvent Cyclacel's patents or patent applications, if issued. Because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that before Cyclacel commercializes any of its products, any related patent may expire, or remain in existence for only a short period following commercialization, thus reducing any advantage of the patent and the commercial opportunity of the product.

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If patents are issued to others containing valid claims that cover Cyclacel's compounds or their manufacture or use, Cyclacel may be required to obtain licenses to these patents or to develop or obtain alternative technology. Cyclacel is aware of several pending patent applications, and understands that others may exist, that could support claims that, if granted, would cover various aspects of its developmental programs, including in some cases its lead drug candidate, seliciclib, particular uses of that compound, sapacitabine or other therapeutic candidates, or gene sequences and techniques that Cyclacel uses in the course of its research and development. Based on Cyclacel's review of the published applications, Cyclacel believes that it is unlikely that a valid claim would be issued that covered seliciclib. In addition, Cyclacel understands that other applications exist relating to uses of seliciclib and sapacitabine that are not part of its current clinical programs for those compounds. Although Cyclacel intends to continue to monitor these applications, it is not possible to predict whether these claims will ultimately be allowed or if they were allowed what their breadth would be. In addition, Cyclacel may need to commence litigation to enforce any patents issued to Cyclacel or to determine the scope and validity of third-party proprietary rights. Litigation would create substantial costs. If competitors prepare and file patent applications in the United States that claim technology that Cyclacel also claims, Cyclacel may have to participate in interference proceedings in the U.S. Patent and Trademark Office to determine which invention has priority. These proceedings could result in substantial costs, even if the eventual outcome is favorable to Cyclacel. An adverse outcome in litigation could subject Cyclacel to significant liabilities to third parties and require it to seek licenses of the disputed rights from third parties or to cease using its technology, even a therapeutic product, if such licenses are unavailable or too expensive.

Licenses

Several of Cyclacel's programs are based on technology licensed from others. Cyclacel's breach of an existing license or failure to obtain a license to technology required to develop, test and commercialize Cyclacel's products may seriously harm Cyclacel's business.

Seliciclib

Cyclacel has entered into an agreement with Centre National de Recherche Scientifique, or CNRS, and Institut Curie that grants it worldwide rights under the patents jointly owned by CNRS, Institut Curie and the Czech Institute of Experimental Botany covering the seliciclib compound. The effective date of the agreement is February 1, 2002. The license grants exclusive rights in the fields of auto-immune diseases, cardiovascular diseases, dermatological diseases, infectious diseases, inflammatory diseases, and proliferative diseases, including cancer. Non-acute chronic diseases of the central nervous system, neurological diseases and diseases of the peripheral nervous system are specifically excluded. The license runs for the term of the patents in each country, or for ten years from the first commercial sale in each country, whichever is later. Under the agreement, Cyclacel paid an up-front fee. Cyclacel also made yearly payments and milestone payments until the patents covering the seliciclib compound, particular uses of the compound, and particular derivatives of the compound were published as granted in either the United States or Europe which took place in 2001 and 2003, respectively. Milestones are also paid on the first commercialization of a product that consists of a new chemical entity that is covered by one of the licensed patents. Cyclacel pays royalties based on its net sales of products covered by the patents. Royalties are payable on a country-by-country basis for the term of patent protection in each country or ten years from the first commercial sale of royalty-bearing products in that country, whichever is later. Royalties are payable on net sales. Net sales are defined as the gross amount invoiced by Cyclacel or by Cyclacel's affiliates for the products, less normal trade discounts, credits for returned products, taxes and shipping charges. There is one royalty rate for products that are covered by valid licensed patent claims and a second, lower royalty rate for all other products that require a license under the licensed patents. The royalties payable under the agreement are reduced if Cyclacel is required to pay royalties with respect to patents other than the ones licensed under this agreement and the total amount of royalties that Cyclacel is required to pay exceeds a fixed percentage amount. The amount of reduction depends on the amount by which Cyclacel's total royalties exceed the fixed amount. Cyclacel must also pay a portion of sublicensing revenues. The portion of sublicensing revenues that Cyclacel is required to pay is reduced if Cyclacel has taken the sublicensed product into human clinical trials. Although the license permits Cyclacel to grant sublicenses, Cyclacel cannot assign the license without the

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consent of the CNRS and Institut Curie, which may not be unreasonably withheld. Under the agreement, assignment is defined to include many transactions of the type that Cyclacel might wish to pursue, such as a merger or an acquisition by another company, as well as certain takeovers. This restriction may prevent Cyclacel from pursuing attractive business opportunities. Moreover, the occurrence of a majority takeover or a similar transaction that Cyclacel may be unable to control could cause a default under the license agreement, which could lead to its termination.

Cyclacel has also purchased from the Czech Institute of Experimental Botany patents and patent applications covering the use of seliciclib and related compounds. The issued patents are in the United States and Australia. Under the purchase agreement, Cyclacel will pay royalties to the Czech Institute upon sales of products covered by those patents, but only if there are no royalties paid by Cyclacel to CNRS for those sales under the license agreement with CNRS and Institut Curie covering seliciclib that is described above.

Patents covering the seliciclib compound are owned jointly by the Czech Institute and CNRS. The patents have been issued in the United States and Europe and expire in 2016. It may be possible to extend the term of a patent in the United States or Europe for up to five years to the extent it covers the seliciclib compound upon regulatory approval of that compound in the United States or Europe, but there is no assurance that Cyclacel will be able to obtain any such extension. Under agreements between CNRS and the Czech Institute, CNRS has the exclusive right to enter into license agreements covering the patents. The agreement reserves to both CNRS and the Czech Institute certain rights, including the right to patent improvements and to use the patents for internal research purposes.

Sapacitabine

Cyclacel has entered into a license agreement with Sankyo Co., Ltd. of Japan with respect to patents and patent applications covering the sapacitabine compound and patent applications claiming polymorphic forms of sapacitabine and methods for its preparation and use as well as related know-how and materials. The agreement has a commencement date of September 10, 2003. The issued patents for the sapacitabine compound cover the United States, the European Patent Office, Japan and 20 other countries. These patents expire between 2012 and 2014. It may be possible to extend the term of a patent in the United States or Europe for up to five years to the extent it covers the sapacitabine compound upon regulatory approval of that compound in the United States or Europe, but there is no assurance that Cyclacel will be able to obtain any such extension. The license grants Cyclacel the exclusive right to exploit and sublicense the sapacitabine compound and any other products covered by the patents and patent applications owned by Sankyo. The license originally was subject to certain third party rights related to certain countries but the license has been extended and is now worldwide. The license agreement also grants Cyclacel nonexclusive, sublicensed rights in CNDAC, both the precursor compound and initial metabolite of sapacitabine. Cyclacel is under an obligation to use reasonable endeavors to develop a product and Cyclacel has agreed to pay Sankyo an up-front fee, reimbursement for Sankyo's enumerated expenses, milestone payments and royalties on a country-by-country basis. Under this agreement, aggregate milestone payments totaling \$11.7 million could be payable subject to achievement of all the specific contractual milestones and Cyclacel's decision to continue with these projects. The up-front fee and certain past reimbursement have been paid. Royalties are payable in each country for the term of patent protection in the country or for ten years following the first commercial sale of licensed products in the country, whichever is later. Royalties are payable on the net sales. Net sales are defined as the gross amount invoiced by Cyclacel or its affiliates or licensees, less discounts, credits, taxes, shipping and bad debt losses. The agreement extends from its commencement date to the date on which no further amounts are owing under it. If Cyclacel wishes to appoint a third party to develop or commercialize a sapacitabine-based product in Japan, within certain limitations, Sankyo must be notified and given a right of first refusal to develop and/or commercialize in Japan. In general, the license may be terminated by Cyclacel for technical, scientific, efficacy, safety, or commercial reasons on six months notice (twelve if after launch of sapacitabine-based product) or by either party for material default. On termination, if Sankyo wishes to acquire an exclusive license to sapacitabine intellectual property developed by Cyclacel during the term of the license, Sankyo may notify Cyclacel and the parties will meet to negotiate commercial terms in good faith. If agreement cannot be reached, the terms of the exclusive license are to be determined by an expert.

Table of Contents***Clotrimazole Analogs and CYC381***

Cyclacel has entered into a license agreement with NuChem Pharmaceuticals, Inc. and its parent Lorus Therapeutics, Inc. with respect to Cyclacel's license of patents and patent applications covering the CYC381 compound in the United States, the European Patent Office, Japan and other countries, as well as related know-how, materials and technology. The effective date of the agreement is September 22, 2003. Patents containing substance of matter claims covering the compound have been issued in the United States, Australia, New Zealand, Singapore and China. These patents and patent applications if and when granted will expire in 2017 and 2018. It may be possible to extend the term of a patent in the U.S. or Europe for up to five years to the extent it covers the CYC381 compound upon regulatory approval of that compound in the U.S. or Europe, but there is no assurance that Cyclacel will obtain any such extension.

The license grants Cyclacel worldwide rights in the technology owned by and licensed to NuChem related to a class of compounds including CYC381 and two other chemical classes of compounds that might have similar effects. The license is limited to the diagnosis and treatment of cancer (including leukemias), Kaposi's sarcoma and actinic keratosis. To the extent that the patents and related technology are owned by or exclusively licensed to NuChem, the license is exclusive. It is nonexclusive for patents and technology that are nonexclusively licensed to NuChem. Cyclacel has the right to sublicense these patents and technology to others. Improvements to the licensed patents are owned by NuChem and licensed back to Cyclacel. On termination, NuChem may obtain, on commercially reasonable terms, a license of the results of the research and development that Cyclacel performs on CYC381. Cyclacel is responsible for prosecution, maintenance and defense of the licensed patents, including all associated costs. NuChem co-owns certain of the patents with Harvard University and Ion Pharmaceuticals and Harvard University retains certain rights to use the patents for research purposes. No warranty is given under the agreement as to the validity of the licensed patents or that any of the NuChem IP can be practiced or exploited without infringing other patents. Cyclacel is obligated to use commercially reasonable efforts to develop and commercialize the patents. The agreement extends from its commencement date to the date on which no further amounts are owing under it. The agreement may be terminated by Cyclacel for convenience after September 2004 on four months' notice, by either party if the other defaults, and by NuChem if Cyclacel does not actively pursue the licensed technology. Cyclacel paid NuChem an up-front fee. Cyclacel agreed to make milestone and royalty payments on a country-by-country basis and to pay NuChem a portion of any sublicensing fees it receives.

Cyclacel has entered into a license agreement with Johnson Matthey Pharmaceutical Materials, Inc. with respect to U.S. and European Patent Office patents as well as patent applications pending in Japan and certain other jurisdictions that claim the synthetic route for CYC381. The effective date of the agreement is September 1, 2003. These patents and applications if and when granted will expire between 2017 and 2018. The license grants Cyclacel the exclusive worldwide right to manufacture and sell products under the Johnson Matthey patents. The license includes the right to sublicense. Cyclacel paid an up-front fee and agreed to make minimum annual payments, including with respect to each sublicense and to pay a royalty on the net cost of goods manufactured under the license. Cyclacel also agreed to give Johnson Matthey the right to bid for any contract to manufacture products under the license. The license runs for the term of the patents. Cyclacel may terminate the license for convenience, and either party may terminate it for the default of the other.

Other License Agreements***Hdm2 Inhibitor Program***

Cancer Research Technology Limited, a wholly-owned subsidiary of Cancer Research UK, has licensed patents to Cyclacel, that relate to the p53 protein and our Hdm2 inhibitor program. The effective date of the agreement is October 23, 2002. Cyclacel's license is exclusive in defined fields, including the interaction between p53 and Mdm2 and the development of molecules for the activation of p53 in therapeutic, prophylactic and diagnostic applications, except that another party retains nonexclusive rights in some of these patents. Cyclacel an up-front amount. The license includes the right to grant sub-licenses. The license term runs until the

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last of the licensed patents expires or ten years from the first marketing of the product in the EU, whichever is later. Cyclacel agreed to make annual payments, milestone payments and royalty payments based on sales of products covered by the licensed patents. Cyclacel also has certain development obligations under the license including using all reasonable endeavors to obtain regulatory and other approvals.

LIDAEUS Software

Cyclacel has licensed the current version of the LIDAEUS software from the University of Edinburgh for a term lasting at least until 2006. The commencement date of the agreement is December 1, 2001. Under the license, Cyclacel owns all improvements Cyclacel makes in the software and has the perpetual right to use these improvements which are also licensed to the University subject to certain restrictions. Cyclacel also has the right to obtain trademark rights in the name LIDAEUS. The University retains a right to use the software to provide services to third parties and to use it for research purposes including commercial research, other than in certain limited areas. On termination for a party's breach or insolvency all licenses granted under the agreement continue, provided that those granted by the terminating party become non-exclusive. On termination of the associated Research Agreement which occurred on October 14, 2005, for Cyclacel's convenience, licenses granted to Cyclacel by the University become non-exclusive and licenses granted by Cyclacel to the University become free of restrictions and sub-licensable.

Option Agreements***Cancer Research/University of Cambridge/Professor David Glover***

Cyclacel has entered into an option agreement with Cancer Research Technology Limited (formerly Cancer Research Ventures Limited) relating to research of Professor David Glover of the University of Cambridge that is funded by Cancer Research UK. The effective date of this agreement is November 5, 2001. This agreement grants Cyclacel an exclusive option to obtain exclusive, world-wide, royalty-bearing licenses in the field of diagnostic and therapeutic products covering patents, patent applications and know-how resulting from research funded by Cancer Research and supervised by Professor Glover that relates to the genome of *Drosophila melanogaster*. The option must be exercised within a period of time following Cyclacel's receipt of notice of particular inventions. The optioned rights could assist Cyclacel in identifying genes involved in mitosis that could be used as targets for small molecule drug design. This agreement also grants Cyclacel a non-exclusive license to non-patentable know-how resulting from research funded by Cancer Research and supervised by Professor Glover that relates to the genome of *Drosophila melanogaster*. On launch of a product the grant becomes exclusive but is subject to the right of Cancer Research Ventures and the University of Cambridge to use the know how for research purposes. Cyclacel paid an up-front fee for the option, but any licenses granted on exercise would be subject to further payments. The agreement extends until terminated by either party. Either party may terminate the agreement with respect to the rights granted to it under the agreement. Cancer Research Ventures Limited may terminate should Cyclacel contest the secret or substantial nature of its licensed know-how. In addition, either party may terminate it for the default of the other.

Cancer Research Technology Limited

Cyclacel has also entered into an option agreement with Cancer Research Technology Limited (formerly Cancer Research Campaign Technology Limited), which is a wholly owned subsidiary of Cancer Research UK. The effective date of the agreement is September 10, 1997. The option relates to inventions funded by Cancer Research in a field consisting of therapeutics based on specific identified gene expressions and their relation to the cell cycle. Under the agreement Cyclacel has the right to require Cancer Research to assign or exclusively license to Cyclacel the relevant intellectual property in the defined field. Although Cancer Research agrees to attempt not to unduly encumber its rights in the field, Cyclacel's rights are subject to any encumbrances on Cancer Research's rights. The option must be exercised within a period of time following Cyclacel's receipt of notice of particular inventions. The option is also subject to royalty-sharing or other arrangements made by

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Cancer Research but no other payments remain owing. Cancer Research retains the right to use the intellectual property for research purposes. The option agreement expired on September 10, 2005.

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Collaboration and Other Agreements

Altana

In 2005, Cyclacel entered into a research agreement with Altana Pharma whereby Cyclacel will use knowledge of targets in mitosis and the proprietary RNA interference platform to help Altana define the molecular targets of its drug candidates. Under the terms of the agreement, Altana will provide research funding and will be liable for a technology access fee should any of the molecular targets fall under, Cyclacel intellectual property.

AstraZeneca

In 2001, Cyclacel entered into a collaborative program with AstraZeneca targeting small molecule inhibitors of the cyclin binding groove in the CDK2/Cyclin A complex. The collaboration ended in March 2003. Under the terms of the agreement, all program intellectual property was assigned to Cyclacel. AstraZeneca received a non-exclusive, royalty-free license in the program intellectual property to research, develop and commercialize program compounds outside the agreement's field of use and to carry out internal research. Cyclacel has no further financial obligations under the agreement and is free to exploit know-how and develop products in the agreement's field of use.

Cancer Research UK/Institute of Cancer Research

Cyclacel has entered into a collaboration agreement with Cancer Research UK's subsidiary, Cancer Research Technology Limited, and the Institute of Cancer Research. The effective date of this agreement is April 26, 1999. This agreement relates primarily to back-up compounds from Cyclacel's CYC200 series and certain molecules from Cyclacel's CYC300 program, the latter of which has been designated as an out-licensing candidate. Rights in the results of the collaboration are jointly owned, but the agreement grants Cyclacel the exclusive right of commercial exploitation in exchange for milestone and royalty payments. The other parties retain the right to use the results for research purposes. Cyclacel may sublicense its rights, but they may not be assigned without the other parties' consent. Cyclacel has filed a number of pending patent applications on inventions arising from the collaboration. As of September 30, 2005 Cyclacel owns one granted European patent, three patents granted in other countries, five pending United States applications, three pending European applications and 21 other pending applications. These applications cover seliciclib analogs and biomarkers that are potentially relevant to the seliciclib project. The agreement runs for the term of the patents, or ten years from the first commercial sale, whichever is later.

Genzyme Corporation

In 2005, Genzyme signed an exclusive option to license two preclinical stage CDK inhibitors from Cyclacel for further development in renal diseases and certain related conditions. During the term of this option, Genzyme will carry out preclinical evaluation of these compounds in models of certain renal disease and may pursue a license and collaboration agreement with the objective of commercialization of Cyclacel's compounds.

U.K. Department of Trade and Industry Grant

Cyclacel holds a grant from the U.K. Department of Trade and Industry covering work carried out in collaboration with the Department of Genetics of Cambridge University. The effective date of the grant is May 31, 2001. This program covers the screening of the entire genome of *drosophila melanogaster* using RNAi technology, which aids Cyclacel in research to identify genes involved in mitosis and use them as targets for small molecule drug design. Under this grant, Cyclacel holds, as does the University, all rights necessary to exploit the results of its work under the grant. Cyclacel is required to use reasonable efforts to exploit the results by December 31, 2009, and Cyclacel can be required to return payments made under the grant if it does not do so.

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Other Intellectual Property Rights

In addition to patents, Cyclacel seeks to protect its proprietary information as trade secrets. Trade secrets are difficult to protect, and the degree of protection varies from one jurisdiction to another. There can be no assurance that the agreements Cyclacel uses to protect trade secrets will provide meaningful protection, that these agreements will not be breached, that Cyclacel will have an adequate remedy for any such breach, or that Cyclacel's trade secrets will not otherwise become known or independently developed by a third party.

Miscellaneous

Cyclacel is using a variety of technologies in its drug discovery efforts to screen for future targets or potential targets, and inhibitors of them. Exemplary technologies include RNAi for use in knockdown assays and assays to protein targets allowing the screening of small molecule inhibitors potentially relevant to the cell cycle for a variety of applications. Patent applications covering these technologies are pending in various jurisdictions, and it is currently unclear whether and to whom patents will be granted and the scope of any claims that may be issued. If a patent is granted to another it may be necessary for Cyclacel to either obtain a license or discontinue use of this technology.

In some cases, Cyclacel has used assays in jurisdictions other than the jurisdictions where the assays or components of them are patented. It is Cyclacel's understanding that under current principles of law for these jurisdictions, Cyclacel is free to use the information resulting from the assays even where they are patented. However, the law in this area is still evolving and it is possible that a contrary result could arise in one or more jurisdictions.

There are pending a number of patent applications that claim gene sequences that include some of the sequences that Cyclacel is considering as biomarkers of seliciclib. In some cases these sequences are among a large number of sequences claimed by the patent applicants. In general, it is Cyclacel's understanding that in such circumstances it is unlikely that claims will ultimately be allowed for particular sequences that are included among the many claimed. However, no assurance can be given that such a claim would not ultimately issue.

Competition

The biotechnology and biopharmaceutical industries are rapidly changing and highly competitive. Cyclacel is seeking to develop and market drug candidates that will compete with other products and therapies that currently exist or are being developed. Other companies are actively seeking to develop products that have disease targets similar to those Cyclacel is pursuing. Cyclacel faces competition from many different sources, including commercial, pharmaceutical and biotechnology companies, academic institutions, government agencies and private and public research institutions. Many of Cyclacel's competitors have significantly greater financial, manufacturing, marketing and drug development resources than Cyclacel does. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Cyclacel's commercial opportunity will be reduced or eliminated if Cyclacel's competitors develop and commercialize products that are safer, more effective, have fewer side effects or are less expensive than any products that Cyclacel may develop. In addition, competitors compete in the areas of recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies and technology licenses.

Cyclacel believes that it is currently the only company that has an orally available CDK-specific agent in Phase II clinical trials. Cyclacel believes that several companies are developing drugs targeting cancer that may compete with Cyclacel's candidates. In particular, Cyclacel

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believes that Astex, AstraZeneca, Eisai, Kyowa Hakko, Pfizer, Schering AG and Sunesis are developing CDK inhibitors in early stage clinical trials in cancer patients and others, including Johnson & Johnson and Roche have, or recently had, agents in clinical or preclinical stages that may interact with CDKs, the enzymes that are the target of Cyclacel's lead drug candidate and certain of Cyclacel's research programs. Although Aventis, a predecessor of Sanofi-Aventis, had previously

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announced that it has ceased Phase II development of alvocidib or flavopiridol, a CDK inhibitor, Cyclacel believes that the National Cancer Institute's Cancer Therapy Evaluation Program is continuing to enroll patients in a Phase II trial and that Sanofi-Aventis has reinitiated development of alvocidib in Phase III clinical trials in patients with chronic leukemias. Several pharmaceutical and biotechnology companies have nucleoside analogs on the market or in clinical trials for oncology indications, including Chiron, Eli Lilly and GlaxoSmithKline. A number of companies are pursuing discovery and research activities in each of the other areas that are the subject of Cyclacel's research and drug development programs. Cyclacel believes that AstraZeneca, Merck, jointly with Vertex and Nerviano Medical Sciences, have commenced Phase I clinical trials of Aurora Kinase inhibitors in patients with advanced cancers. Several companies have reported selection of Aurora kinase inhibitor candidates for development, including Millennium, Rigel and Sunesis and may have started or are expected to start clinical trials within the next twelve months. Cyclacel believes that Chiron, Eli Lilly, GlaxoSmithKline, Novartis and Novo Nordisk have reported selection of GSK-3 inhibitor candidates for development in type 2 diabetes, Alzheimer's and stroke indications and Boehringer Ingelheim and Onconova of Plk inhibitors for oncology indications.

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**CYCLACEL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with Cyclacel's financial statements and related notes included elsewhere in this document. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Cyclacel's actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those set forth under "Risk Factors" and elsewhere in this document.

Overview

This summary highlights key information contained elsewhere in this document. It may not contain all of the information that is important to you. You should read the entire document carefully, including the "Risk Factors" section and the financial statements and related notes set out in this prospectus.

Cyclacel is a clinical-stage biopharmaceutical company dedicated to the discovery, development and eventual commercialization of novel, mechanism-targeted drugs to treat human cancers and other serious disorders. Cyclacel's core area of expertise is in cell cycle biology, or the processes by which cells divide and multiply. Cyclacel focuses primarily on the discovery and development of orally available anticancer agents that target the cell cycle with the aim of slowing the progression or shrinking the size of tumors, and enhancing quality of life and improving survival rates of cancer patients. Cyclacel has been focused on the cell cycle since its inception. Cyclacel was founded in 1996 by Professor Sir David Lane, a recognized leader in the field of tumor suppressor biology who discovered the p53 protein, which operates as one of the body's own anticancer drugs by inhibiting cell cycle targets. In 1999, Cyclacel was joined by Professor David Glover, a recognized leader in the mechanism of mitosis or cell division who discovered, among other cell cycle targets, the mitotic kinases, Polo and Aurora, enzymes that act in the mitosis phase of the cell cycle. Cyclacel's expertise in cell cycle biology is at the center of its business strategy.

Cyclacel is advancing three of its anti-cancer drug candidates, seliciclib, sapacitabine and CYC116 through in-house research and development efforts. Cyclacel's lead drug candidate, seliciclib, is a novel, orally available CDK inhibitor that has been currently in multi-center Phase II clinical trials for cancer. Seliciclib has been dosed in approximately 233 subjects. Cyclacel has completed recruitment in four open label Phase II trials conducted in Europe. Cyclacel expects to report final data in 2006. Cyclacel plans to commence a multi-center Phase IIb randomized clinical trial in the United States with seliciclib as stand-alone therapy in patients with non-small cell lung cancer in 2006. Cyclacel's second most advanced drug candidate, sapacitabine, has completed two Phase I studies evaluating 87 patients in refractory solid tumors. A Phase Ib dose escalation clinical trial is currently in progress for the treatment of patients with advanced malignancies with approximately 30 patients enrolled. A Phase I clinical trial in certain leukemias expected to commence in the first quarter of 2006 and Phase II evaluation is expected to commence in 2006. Cyclacel is also developing CYC116, an Aurora kinase inhibitor, for the treatment of cancer, of which it expects to commence Phase I clinical development in 2006. Cyclacel has worldwide rights to commercialize seliciclib, sapacitabine and CYC116 and its business strategy is to enter into selective partnership arrangements with these programs. Cyclacel has seven further novel drug series, five for cancer, one for HIV/AIDS and one for Type 2 Diabetes.

Cyclacel has incurred net losses since inception as it has devoted substantially all of its resources to research and development, including clinical trials. As of September 30, 2005, Cyclacel's accumulated deficit was approximately \$104.4 million. Cyclacel expects to incur substantial and continued losses for the next several years as it:

continues to develop seliciclib, sapacitabine, CYC116 and other of our drug candidates currently in development;

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applies for regulatory approvals;

commercializes its drug candidates, if any, that receive regulatory approval;

continues to expand its research and development program, biomarker program and further develop its proprietary drug discovery technologies;

acquires or in-licenses products, technologies or businesses that are complementary to its own;

establishes sales and marketing capabilities; and

incurs general and administrative expenses.

To date, Cyclacel has not generated any product revenue, and has financed its operations and internal growth primarily through private placements of equity securities, licensing revenue, interest on investments, government grants and research and development tax credits. Cyclacel has received proceeds from the issuances of equity interests of \$103.5 million since its inception in August 1996, including \$8.6 million in the year ended December 31, 2004, and \$28.2 million in the nine months ended December 31, 2003. Cyclacel has also received \$3.3 million from government grants and \$9.8 million from research and development tax credits since its inception. Cyclacel expects to elect to receive a United Kingdom research and development tax credit of \$1.5 million for the nine months ended September 30, 2005. Since its inception, Cyclacel has generated significant losses. Cyclacel expects its net losses to increase primarily related to its clinical trial activities.

Cyclacel management believes that Cyclacel's currently available cash and cash equivalents and short-term investments will provide sufficient funds to enable it to meet its ongoing working capital requirements at least through August 31, 2006. If Cyclacel is unable to raise further funds prior to that date, it may be required to delay, reduce the scope of, or eliminate one or more of its development programs or obtain funds through collaborative arrangements with others which may require Cyclacel to relinquish rights to certain of its product candidates, or products that it would otherwise seek to develop or commercialize itself. Cyclacel's ability to continue as a going concern beyond August 2006 is dependent on its ability to access further cash resources through the successful conclusion of one of the following scenarios:

The consummation of the Stock Purchase Agreement with Xcyte would give Cyclacel access to Xcyte's cash resources and would enhance Cyclacel's ability to conclude further partnering arrangements with pharmaceutical and/or biotechnology companies; or

If the Stock Purchase by Xcyte does not complete, Cyclacel would be dependent on the ability of its parent company, Cyclacel Group plc, to raise sufficient funds to fund the operations of the group for the foreseeable future. Cyclacel Group plc would seek to raise such funds through a further private or public funding round or in undertaking a cash generative corporate transaction. In addition, Cyclacel would undertake to raise further funds through revenue deals with commercial partners in the form of collaboration or services agreements.

However, there is no assurance that the proposed transaction with Xcyte will be completed or that Cyclacel Group plc's subsequent efforts to raise additional private or public funding will be successful. If these efforts are unsuccessful there is uncertainty as to whether the funds available to Cyclacel would be sufficient to allow it to continue in operational existence for the foreseeable future and to meet its liabilities as they fall due.

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These conditions raise substantial doubt about the Cyclacel's ability to continue as a going concern. While Cyclacel is presently uncertain as to the outcome of these conditions, Cyclacel believes that sufficient funding to meet its ongoing working capital requirements will be provided through the successful conclusion of one of the above scenarios.

There is a risk that any drug discovery and development program may not produce revenue. Moreover, because of uncertainties inherent in the conduct and regulation of drug discovery and development, including those factors described under "Risk Factors", Cyclacel may not be able to successfully develop and commercialize any of its drug candidates.

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The successful development of Cyclacel's drug candidates is highly uncertain. Cyclacel cannot estimate with certainty or know the exact nature, timing and estimated costs of the efforts necessary to complete the development of its drug candidates or the date of completion of these development efforts. Cyclacel cannot estimate with certainty any of the foregoing due to the numerous risks and uncertainties associated with developing its drug candidates, including:

the uncertainty of the timing of completion of patient recruitment and enrollment in future Phase III clinical trials;

the possibility of delays in the collection and analysis of clinical trial data;

the uncertainty of clinical trial results;

extensive governmental regulation in the United States, the European Union and elsewhere for approval of new therapies; and

the uncertainty related to commercial scale manufacturing of its drug candidates.

If Cyclacel fails to complete the development of its drug candidates in a timely manner, it could have a material adverse effect on Cyclacel's operations, financial position and liquidity. In addition, any failure by Cyclacel to obtain, or any delay in obtaining, regulatory approvals could have a material adverse effect on its results of operations. A further discussion of the risks and uncertainties associated with completing Cyclacel's projects on schedule, or at all, and certain consequences of failing to do so are set forth in the section entitled "Risk Factors."

Cyclacel intends to pursue selective strategic alliances, primarily when its drug candidates enter into Phase IIb clinical trials, to enable it to maintain and increase its current financial and operational capacity. These collaborations may include joint marketing or promotion arrangements of its products or the granting of exclusive marketing rights to its collaborators in exchange for up-front fees, milestone payments and royalties on future sales, if any. In addition, in the future Cyclacel intends to build its sales force in order to market one or more of its drug candidates on its own or with a co-promotion partner. Additionally, Cyclacel seeks to in-license research programs from third parties where they are complementary to its programs. Cyclacel thus has in-licensed two programs, sapacitabine from Sankyo Co., Ltd. and clotrimazole analogs, or compounds similar in structure to clotrimazole, from Lorus Therapeutics, Inc.

Cyclacel's fiscal year end since inception was March 31. Beginning December 31, 2003, Cyclacel changed its fiscal year end to December 31, and going forward it will report on a calendar year basis.

Research and Development

The clinical development, manufacturing, selling and marketing of new drugs are subject to extensive regulation by the FDA and other regulatory authorities in the United States, the European Union and elsewhere. These regulations vary from country to country, but as a general matter require the premarket demonstration of safety and efficacy for specific indications of use, post-marketing surveillance for product safety, and compliance with manufacturing and promotional standards. Obtaining premarket approval is expensive and is a complex, lengthy and uncertain process. During the development process, subsequent investigations may fail to support or substantiate the findings of earlier trials, including lack of efficacy or safety, thereby delaying, limiting or even preventing regulatory approval.

Cyclacel is currently conducting two Phase II trials of its lead drug candidate seliciclib, as combination therapy for the treatment of non-small cell lung cancer. Cyclacel would expect to commence a randomized Phase IIb study in patients with advanced non-small cell lung cancer in 2006 comparing seliciclib given as a single agent to best supportive care. If results from this study were favorable, Cyclacel would consider progressing to a Phase III trial (subject to, among other things, the cost of such a study). Cyclacel expects that it will take several

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years before it can commercialize seliciclib, if at all. Accordingly, Cyclacel cannot reasonably estimate when and to what extent seliciclib will generate revenues or material net cash flows, which may vary widely depending on numerous factors, including the effectiveness and safety profile of the drug, market acceptance, and then-prevailing reimbursement policies, competition and other market conditions. Cyclacel currently funds all research and development costs associated with seliciclib. Cyclacel generally expects to determine whether and to what extent it will seek partnering arrangements after developing its compounds through the Phase II proof of efficacy stage. If Cyclacel were to enter into a partnering arrangement, its expenditures relating to research and development of seliciclib might decrease significantly.

Cyclacel is currently conducting a Phase Ib clinical trial for sapacitabine. The clinical trial program for sapacitabine may proceed for several years, and Cyclacel will not be in a position to generate any revenues or material net cash flows from the drug candidate unless and until the program is successfully completed, regulatory approval is achieved and a drug is commercialized. Sapacitabine is at an early a stage of development and it is therefore difficult for Cyclacel to predict when this may occur, if at all. If Cyclacel were to enter into a partnering arrangement in relation to sapacitabine, its net expenditures relating to research and development of this drug candidate might decrease significantly.

Cyclacel expects to commence clinical development of its next drug candidate, CYC116, for the treatment of cancer in late 2006. Cyclacel has five further programs in cancer, one in HIV/AIDS and one in Type 2 Diabetes. In addition, Cyclacel has partnered with Genzyme certain of our preclinical stage CDK inhibitors for nephrology or kidney disease applications. As with its other drug candidates, these programs are at too early a stage of development for Cyclacel to predict if and when it will be in a position to generate any revenues or material net cash flows from drug candidates, if at all. Cyclacel currently funds all research and development costs associated with its preclinical and research programs. Cyclacel anticipates that its expenditures relating to research and development of its preclinical and research programs will increase significantly as it advances drug candidates into clinical development.

Since Cyclacel became operational, it has focused on drug discovery and development programs, with particular emphasis on orally available anticancer agents. Research and development expenses, before the cost of amortizing employee stock-based compensation, represented 86.2%, 84.9% and 77.0% of Cyclacel's total operating expenses for the nine months ended December 31, 2003, year ended December 31, 2004 and the nine months ended September 30, 2005 respectively. Research and development expenses primarily include:

compensation of personnel associated with research activities, including consultants and contract research;

screening and identification of drug candidates;

supplies and materials;

preclinical studies, including toxicology studies;

clinical trials, including consultants and clinical research organizations;

continued advancement of Cyclacel's biomarker program and its technology platforms, including Polgen;

facilities costs; and

depreciation of equipment.

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The following table provides information with respect to Cyclacel's research and development expenditures:

	Year ended March 31, 2003	Nine months ended December 31, 2003	Year ended December 31, 2004	Nine months ended September 30, 2005 (unaudited)	Period from August 13, 1996 (inception) to September 30, 2005 (unaudited)
			(in thousands)		
Seliciclib	\$ 6,877	\$ 3,611	\$ 6,626	\$ 3,844	\$ 29,317
Sapacitabine		551	2,069	1,805	4,425
CYC116	469	854	2,321	3,989	7,633
Second Generation CDK Inhibitors Research Program	4,597	2,683	2,810	283	14,823
Other Current Research Programs	5,276	3,122	3,382	511	19,123
Research Programs (Discontinued)					1,995
Other Costs Related to Research and Development Management and Exploratory Research	2,269	1,753	2,527	1,502	14,583
Non-Program-Specific Indirect Costs	603	684	597	161	5,125
Total Research and Development Expenses	\$ 20,091	\$ 13,258	\$ 20,332	\$ 12,095	\$ 97,024

Amounts attributed to projects and programs include both direct and indirect costs such as allocated overhead and costs of facilities.

Cyclacel does not believe that the historical costs associated with its lead drug candidates, seliciclib and sapacitabine, are indicative of the future costs associated with these drug candidates, which are currently in Phase II and Phase Ib clinical trials, respectively. Future development of these drug candidates would necessarily involve more extensive clinical trials than have been conducted to date, and ultimately efforts to market and commercialize these drug candidates, involving substantial additional costs relative to Cyclacel's historical levels of expenditure on these drug candidates. In addition, Cyclacel does not believe that historical costs associated with one drug candidate would be indicative of future costs for any other candidate in the same stage of development due to a number of factors, including the costs of manufacturing the drug candidate, the numbers of patients required to be enrolled in clinical trials in order to obtain relevant results and different development approaches and trial protocols that may be required depending upon the nature of any given drug candidate and the specific indications for which it is being developed.

Clinical development timelines and associated costs vary widely depending on how Cyclacel chooses to allocate its expenditures among its research and drug discovery programs. Cyclacel is currently focused on advancing seliciclib, sapacitabine and CYC116 drug candidates for cancer. Cyclacel anticipates, however, that it will make ongoing decisions on the continued development and funding of existing and future research and development projects in response to the scientific and clinical success of each drug candidate and technology, as well as an ongoing assessment of market potential.

Cyclacel cannot easily predict the costs it will incur in connection with obtaining regulatory approvals for its drug candidates. Completion dates and completion costs are difficult to estimate, varying widely for each of its drug candidates and technologies. Acquiring regulatory approvals requires significant expenditure. To the extent that Cyclacel fails to obtain regulatory approvals in a timely manner, its research and development costs may increase.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and other related costs for employees in executive and operational functions. Other significant costs include costs related to accounting and legal services,

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particularly legal services associated with Cyclacel's intellectual property, as well as facilities costs not otherwise included in research and development expenses.

Stock-based Compensation

In connection with the grant of share options under Cyclacel's Employees' Share Option Scheme and Share Option Plan, Cyclacel records deferred share-based compensation as a component of shareholder's (deficit)/equity. Deferred stock-based compensation for options granted to employees is the difference between the fair value of ordinary shares on the date such options were granted and their exercise price.

Cyclacel operates a number of share option plans, which provide the opportunity to all eligible individuals to participate in the potential growth and success of Cyclacel. In May 1997, Cyclacel adopted the Cyclacel Limited Share Option Plan (1997 Plan), which was approved by a shareholders' resolution in May 1997. Under this plan, any person who is a director or employee of Cyclacel is eligible to be granted options to purchase ordinary shares in Cyclacel. In general, options granted under the 1997 Plan may not be exercised before the third anniversary of the date of grant and may not be exercised later than the tenth anniversary of the date of grant. In February 2001, Cyclacel adopted the Cyclacel Limited 2000 Employees' Share Option Scheme under the Enterprise Management Incentive Scheme (2000 Plan), which was approved by shareholders' resolution in December 2000. Under this plan any person who is a director (other than a non executive director) or employee of Cyclacel is eligible to be granted options to purchase shares in Cyclacel.

Options granted under the 2000 Plan may not be exercised more than ten years after the date of grant and, to the extent not exercised by that time, the option shall lapse immediately. Options generally vest and become fully exercisable over a three year period. Shares can be issued upon exercise of options under the terms of these employee share option plans up to a maximum of 12.5% of the issued share capital immediately following the closure of the series D funding round in November 2003.

On April 23, 2004, new options over 1,782,770 ordinary shares were granted under the above plans to employees at an exercise price of \$2.66 (£1.50) per share, of which 415,508 would only be exercisable upon the achievement of certain corporate performance criteria. Subsequent to the issuance of the 415,508 options, Cyclacel concluded that the corporate performance criteria were inappropriate and these criteria were waived. Prior to the grant of 1,782,770 options, 598,692 existing options, with higher exercise prices, were surrendered by these employees. The new options will become exercisable in equal tranches on the first, second and third anniversaries of the date of grant, the earliest option exercise date being April 23, 2005 and the expiration date April 23, 2014. The reasons for this event were that the surrendered options, many of which had already vested, had an exercise price significantly in excess of the current fair value of an ordinary share. Therefore the issue of these new options was undertaken to retain existing employees and enable them to share in Cyclacel's future success.

The 598,692 options that were replaced and the 415,508 options that were only exercisable upon the achievement of certain corporate performance criteria are accounted for in accordance with the guidance on the modification of stock-based compensation plans. This results in a stock based compensation charge being accrued by Cyclacel over the period from April 23, 2004 to June 30, 2004.

As a consequence of the reorganization which occurred on June 30, 2004, the 1997 and 2000 share option plan rules were amended to provide that the options granted under the plans were, with effect from the reorganization, deemed to be exercisable over the ordinary shares in Cyclacel Group plc and not Cyclacel.

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No further options were granted under the 1997 Plan or the 2000 Plan. Up to June 30, 2004, these awards were accounted for by Cyclacel in accordance with the provisions for variable compensatory plans as set out in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). From July 1, 2004, these awards have been accounted for by Cyclacel Group plc in accordance with the provisions for variable compensatory plans as set out in APB 25. As the options are related to individuals employed by

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Cyclacel, the stock-based compensation charge related to these options has been allocated to Cyclacel from Cyclacel Group plc.

On July 1, 2004, Cyclacel Group plc adopted a new option plan, (the Cyclacel Group plc Discretionary Share Option Plan), a new SAYE plan, (the Cyclacel Group plc Restricted Share and Co Investment Plan) and a new restricted share and co investment plan, (the Cyclacel Group plc Restricted Share and Co Investment Plan). Cyclacel refers to these plans collectively as the New Share Plans. The New Share Plans replace the 1997 Plan and the 2000 Plan. One Cyclacel employee has received grants of options under the New Share Plans. The stock-based compensation charge related to these options has been allocated to Cyclacel from Cyclacel Group plc.

Cyclacel recorded amortization of deferred stock-based compensation for options granted to employees of \$305,000, \$217,000, \$279,000, \$(414,000) and \$179,000 for the year ended March 31, 2003, the nine months ended December 31, 2003, the year ended December 31, 2004 and the nine months ended September 30, 2004 and 2005, respectively. Cyclacel has recorded \$3,067,000 of deferred share-based compensation for the period from inception through September 30, 2005, of which \$2,375,000 has been allocated to Cyclacel from Cyclacel Group plc and charged through the intercompany account.

Interest and Other Income and Expense

Interest and other income and expense consist primarily of interest earned on cash, cash equivalents and short-term investments, net of interest expense and amortization of issuance costs of the preferred C shares.

Research and Development Tax Credits

Cyclacel has elected to take advantage of U.K. corporation tax legislation, which allows companies to apply to convert tax losses into research and development tax credits, which are then repaid in cash to the applicant. Cyclacel has received \$9.8 million of research and development tax credits in respect of the period April 1, 2002 to September 30, 2005. Cyclacel expects to elect to receive a research and development tax credit of \$1.5 million for the nine months ended September 30, 2005.

Results of Operations

Comparison of nine months ended September 30, 2005 and September 30, 2004

Revenues

Revenues decreased \$0.2 million, from \$0.5 million for the nine month period ended September 30, 2004 to \$0.3 million for the nine month period ended September 30, 2005. This decrease was primarily attributable to the completion of program work on which government grants were received.

Research and Development Expenses

Research and development expenses decreased \$2.9 million from \$15.0 million for the nine-month period ended September 30, 2004 to \$12.1 million for the nine-month period ended September 30, 2005. This decrease was primarily a reflection of reduced costs on the completion of recruitment in Cyclacel's seliciclib Phase IIa clinical trials and a deliberate strategy to reduce expenses and focus resources on oncology development programs. Of the \$15.0 million of expenses in the nine month period ended September 30, 2004, Cyclacel incurred \$4.7 million, \$1.6 million, \$1.1 million and \$7.6 million in respect of drug candidate seliciclib, drug candidate sapacitabine, Aurora kinase program and research activities, respectively. Of the \$12.1 million of expenses in the nine month period ended September 30, 2005, Cyclacel incurred \$3.8 million, \$1.8 million, \$4.0 million and \$2.5 million in respect of drug candidate seliciclib, drug candidate sapacitabine, Aurora kinase program and research activities, respectively. Cyclacel's stock-based compensation expense increased from a credit of \$0.3 million in the nine-month period ended September 30, 2004 to an expense of \$0.1 million in the

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nine-month period ended September 30, 2005. This increase was related to the reversal of compensation expense in the nine-month period ended September 30, 2004 following the decision to abort the initial public offering in 2004.

General and Administrative Expenses

General and administrative expenses increased \$1.1 million from \$2.5 million for the nine-month period ended September 30, 2004 to \$3.6 million for the nine-month period ended September 30, 2005. This increase was primarily due to increased intellectual property maintenance fees and other related costs of \$0.5 million and costs related to financing activities of \$0.5 million. Stock-based compensation expense increased from a credit of \$0.1 million in the nine-month period ended September 30, 2004 to an expense of \$0.1 million in the nine-month period ended September 30, 2005. This increase was related to the reversal of compensation expense in the nine-month period ended September 30, 2004 following the decision to abort the initial public offering in 2004.

In the nine months ended September 30, 2004, Cyclacel incurred expenditure of \$3.3 million related to activities associated with the aborted initial public offering in 2004.

Interest and Other Income and Expense

Interest and other income and expense decreased \$0.5 million, from \$1.1 million for the nine month period ended September 30, 2004 to \$0.6 million for the nine month period ended September 30, 2005. This decrease was primarily attributable to lower average balances of cash, cash equivalents and investments in 2005.

Research and Development Tax Credits

Research and development tax credits decreased \$0.4 million from \$1.9 million for the nine month period ended September 30, 2004 to \$1.5 million for the nine month period ended September 30, 2005. This decrease was a reflection of the lower research and development expenditure in the period ended September 30, 2005.

Comparison of the year ended December 31, 2004 and nine months ended December 31, 2003

Revenues

Revenues increased \$0.4 million from \$0.5 million for the nine month period ended December 31, 2003 to \$0.9 million for the year ended December 31, 2004. Collaboration revenue increased from \$Nil in 2003 to \$0.1 million in 2004 due to the collaboration with Corgentech, Inc. in 2004. Grant revenue from various government grant awards increased from \$0.5 million in 2003 to \$0.8 million in 2004 as Cyclacel continued to receive grant awards for projects initiated in 2003 and received \$0.3 million on a new project commenced in 2004.

Research and Development Expenses

Research and development expenses increased \$7.0 million from \$13.3 million for the nine month period ended December 31, 2003 to \$20.3 million for the year ended December 31, 2004. This rate of expenditure on our research and development programs has increased in 2004 compared to 2003 as Cyclacel has progressed its lead drug candidate, seliciclib, through Phase IIa, commenced Phase I clinical trials with sapacitabine having entered into collaboration with Sankyo in 2003, and increased its expenditure on the Aurora kinase (CYC116) program. Of the \$13.3 million of expenses in the nine month period ended December 31, 2003, Cyclacel incurred \$3.6 million, \$0.6 million, \$0.9 million, and \$8.2 million in respect of drug candidate seliciclib, drug candidate sapacitabine, Aurora kinase (CYC116) program and research activities, respectively. Of the \$20.3 million of expenses in the year ended December 31, 2004, Cyclacel incurred \$6.6 million, \$2.1 million, \$2.3 million and \$9.3 million in respect of drug candidate seliciclib, drug candidate sapacitabine, Aurora kinase program (CYC116) and research activities, respectively. Cyclacel's stock-based compensation expense increased from an

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expense of \$0.2 million in the nine-months ended December 31, 2003 to an expense of \$0.3 million in the year ended December 31, 2004.

General and Administrative Expenses

General and administrative expenses increased \$1.5 million from \$2.1 million for the nine month period ended December 31, 2003 to \$3.6 million for the year ended December 31, 2003. The increase in 2004 compared to 2003 was primarily due to an expansion of Cyclacel's patent portfolio with the related costs of maintaining its intellectual property increased by \$1.0 million, increased facility costs of \$0.1 million and a \$0.2 million increase in salary expense. Stock-based compensation expense was \$Nil million in the nine months ended December 31, 2003 and the year ended December 31, 2004.

For the year ended December 31, 2004, Cyclacel incurred expenditure of \$3.6 million related to activities associated with the aborted initial public offering in 2004.

Interest and other income and expense

Interest and other income and expense increased \$2.9 million from a net expense of \$1.6 million for the nine month period ended December 31, 2003 to a net income of \$1.3 million for the year ended December 31, 2004. Interest income increased \$1.0 million from 2003 to 2004 due to higher average balances of cash, cash equivalents and investments in 2004 following the series D financing which closed in January 2004 raising \$36.9 million. Other expense decreased from \$2.0 million in 2003 to \$0.1 million. This decrease was due to the writing off of issuance costs of the preferred C shares of \$1.9 million in 2003 with no charge in 2004 as all preferred C shares were canceled in 2003 as part of the series D financing.

Research and development tax credits

Research and development tax credits increased \$1.0 million from \$1.5 million for the nine-month period ended December 31, 2003 to \$2.5 million for the year ended December 31, 2004. This increase was a reflection of the higher level of research and development expenditure in 2004 compared to 2003.

Comparison of the nine months ended December 31, 2003 and the year ended March 31, 2003

Revenues

Revenues decreased \$1.7 million from \$2.2 million for the year ended March 31, 2003 to \$0.5 million for the nine months ended December 31, 2003. Collaboration revenue decreased \$1.3 million for the year ended March 31, 2003 to \$Nil for the nine months ended December 31, 2003. The decrease in collaboration revenue was attributable to the collaboration with AstraZeneca, which concluded in the nine-month period ended

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December 31, 2003. Grant revenues decreased \$0.4 million from \$0.9 million in the year ended March 31, 2003 to \$0.5 million in the nine months ended December 31, 2003 as grant related expenditure reduced.

Research and Development Expenses

Research and development expenses decreased \$6.7 million from \$19.8 million for the year ended March 31, 2003 to \$13.1 million for the nine months ended December 31, 2003. This rate of research and development expenditure has decreased in the nine-month period ended December 31, 2003 compared to the year ended March 31, 2003, primarily due to a deliberate strategy to reduce expenses. Of the \$19.8 million of expenses in the year ended March 31, 2003, Cyclacel incurred \$6.9 million, \$0.0 million, \$0.5 million and \$12.4 million in respect of drug candidate seliciclib, drug candidate sapacitabine, Aurora kinase (CYC116) program and research activities, respectively. Of the \$13.1 million of expenses in the nine-month period ended December 31, 2003, Cyclacel incurred \$3.6 million, \$0.6 million, \$0.9 million, and \$8.0 million in respect of drug candidate seliciclib, drug candidate sapacitabine, Aurora kinase (CYC116) program and research activities, respectively.

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Stock-based compensation was \$0.2 million in both the year ended March 31, 2003 and the nine months ended December 31, 2003.

General and Administrative Expenses

General and administrative expenses decreased \$0.4 million from \$2.5 million for the year ended March 31, 2003 to \$2.1 million for the nine months ended December 31, 2003. Although costs were comparable between the year ended March 31, 2003 and the nine months ended December 2003, an additional \$0.2 million of advisor costs were incurred in the nine months to December 31, 2003 compared to the year ended March 31, 2003. Stock-based compensation decreased \$0.1 million from \$0.1 million in the year ended March 31, 2003 to \$NIL in the nine months ended December 31, 2003.

Interest and other income and expense

Interest and other income and expense decreased \$2.2 million from a net income of \$0.6 million for the year ended March 31, 2003 to a net expense of \$1.6 million for the nine months ended December 31, 2003. Interest and other income decreased from \$1.0 million in the year ended March 31, 2003 to \$0.4 million in the nine months ended December 31, 2003. This decrease was primarily attributable to lower average balances of cash, cash equivalents and investments in 2003. Other expense increased from \$0.5 million in the year ended March 31, 2003 to \$2.0 million in the nine months ended December 31, 2003. This increase was primarily due to the writing off of issuance costs of the preferred C shares of \$1.9 million in the nine months ended December 31, 2003 compared to \$0.3 million in year ended March 31, 2003.

Research and development tax credits

Cyclacel received research and development tax credits of \$4.4 million for the year ended March 31, 2003 related to claims of \$0.9 million, \$1.6 million and \$1.9 million for the fiscal years ended March 31, 2001, 2002 and 2003, respectively. Cyclacel received research and development tax credits of \$1.5 million for the nine months ended December 31, 2003.

Liquidity and Capital Resources

Since its inception, Cyclacel has not generated any significant product revenue and has relied primarily on the proceeds from sales of equity securities to finance its operations and internal growth. Additional funding has come through interest on investments, licensing revenue, government grants and research and development tax credits. Cyclacel has incurred significant losses since its inception. As of September 30, 2005, Cyclacel had an accumulated deficit of \$104.4 million.

The following table summarizes our issuances of equity interests for cash, excluding executive and employee compensation, primarily preferred shares, through September 30, 2005:

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Series	Date	Number of shares	Gross Proceeds
			(in thousands)
A	May 1997	625,000	\$ 4,099
B (First Closing)	May 1999	1,092,939 ⁽¹⁾	\$ 8,109
B (Second Closing)	August 1999	840,336	\$ 6,432
C	June 2001	4,554,251 ⁽²⁾	\$ 48,031
D (First Closing)	November 2003	4,088,427	\$ 28,228
D (Second Closing)	January 2004	1,162,068	\$ 8,646

(1) Includes 220,751 ordinary shares issued on conversion of bridging loans.

(2) Includes 835,794 preferred C shares issued on conversion of 8% secured convertible loan notes.

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Cyclacel has also received \$3.3 million in government grants since its inception and \$9.8 million in research and development tax credits. Cyclacel expects to elect to receive a research and development tax credit of \$1.5 million for the nine-month period ended September 30, 2005.

At September 30, 2005, Cyclacel had cash and cash equivalents and short-term investments of \$18.9 million as compared to \$26.1 million at September 30, 2004. This higher balance at September 30, 2004 was primarily due to the receipt of net proceeds of \$36.9 million related to the issue and sale of preferred D shares. Short-term investments decreased from \$24.3 million at September 30, 2004 to \$13.6 million at September 30, 2005. Cash and cash equivalents increased from \$4.3 million at December 31, 2003 to \$7.8 million at December 31, 2004 due to the funds received from the series D financing offset by additional operating losses and capital equipment purchases.

Net cash used in operating activities decreased \$4.6 million from \$15.5 million in the nine months ended September 30, 2004 to \$10.9 million in the nine months ended September 30, 2005. This decrease was due to the reduction in operating losses and working capital movements. Net cash used in operating activities increased \$5.2 million from \$14.4 million in the nine months ended December 31, 2003 to \$19.6 million in the year ended December 31, 2004. This increase was primarily due to additional operating losses. Net cash used in operating activities decreased \$1.3 million from \$15.7 million in the year ended March 31, 2003 to \$14.4 million in the nine months ended December 31, 2003. This decrease was due to lower operating losses offset by deferred revenue.

Net cash provided by investing activities decreased \$5.1 million from \$5.3 million in the nine months ended September 30, 2004 to \$0.2 million in the nine months ended September 30, 2005. Net cash used in investing activities increased \$43.5 million from \$(27.9) million in the nine months ended December 31, 2003 to \$15.6 million in the year ended December 31, 2004. Net cash used in investing activities decreased \$36.2 million from \$8.3 million in the year ended March 31, 2003 to \$(27.9) million in the nine months ended December 31, 2003. Cyclacel's investment activities in these periods consisted primarily of the investment of proceeds from the sales of preferred shares.

Net cash provided by financing activities increased \$1.3 million from \$7.7 million in the nine months ended September 30, 2004 to \$9.0 million in the nine months ended September 30, 2005. Net cash provided by financing activities decreased \$19.8 million from \$26.7 million in the nine months ended December 31, 2003 to \$6.9 million in the year ended December 31, 2004. Net cash provided by financing activities increased \$27.6 million from \$(0.9) million in the year ended March 31, 2003 to \$26.7 million in the nine months ended December 31, 2003. Cyclacel's financing activities in these periods consisted primarily of the issuance of preferred shares.

On July 28, 2005, Cyclacel Group plc signed a convertible Loan Note Instrument constituting convertible unsecured loan notes. On July 28, 2005, it signed as borrower, a Facility Agreement with Scottish Enterprise, as lender, whereby Scottish Enterprise subscribed for £5 million (\$8.8 million) of the convertible loan notes. Upon the completion of the transaction, the convertible loan notes held by Scottish Enterprise will convert into 1,231,527 preferred D shares in satisfaction of all amounts owed by Cyclacel Group plc under the convertible loan notes. The number of preferred D shares of Scottish Enterprise will receive will be calculated by dividing the principal amount outstanding under the loan note by £4.06 or such lesser amounts as equals the Conversion Rate applicable to the holders of Cyclacel Group plc Preferred D shares under the articles of association. Scottish Enterprise will retain the ability they had under the Facility Agreement to receive a cash payment should the research operations in Scotland be significantly reduced. However, Cyclacel will guarantee the amount potentially due to Scottish Enterprise which will be calculated as a maximum of £5 million less the market value of the shares held (or would have held in the event they dispose of any shares) by Scottish Enterprise at the time of any significant reduction in research facilities during the period ending on July 28, 2010. The intercompany balance between Cyclacel Group plc and Cyclacel will be canceled on Cyclacel assuming the guarantee.

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Cyclacel was also a party to a long-term debt instrument, a government loan of \$441,000 that bore interest at 5% per annum, which was wholly repaid in November 2005. As of September, 2005, Cyclacel had contractual obligations, relating to its facilities and equipment leases as follows:

Contractual obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(in thousands)				
Capital lease obligations	\$ 745	\$ 356	\$ 389	\$	\$
Operating lease obligations	\$ 5,119	\$ 668	\$ 1,836	\$ 1,836	\$ 779
Purchase obligations	\$ 2,976	\$ 2,976	\$	\$	\$
Long term debt	\$ 482	\$ 482	\$	\$	\$
	\$ 9,322	\$ 4,482	\$ 2,225	\$ 1,836	\$ 779

Cyclacel also currently has a number of contractual arrangements with its partners under which milestone payments totaling \$23.4 million would be payable subject to achievement of all the specific contractual milestones and its decision to continue with these projects. Under these contractual arrangements, Cyclacel makes annual payments that do not and will not exceed \$0.1 million.

Disclosure about Market Risk

Cyclacel's exposure to market risk is limited to interest income sensitivity, which is affected by changes in the general level of U.K. interest rates, particularly because the majority of its investments are in short-term investments. The primary objective of Cyclacel's investment activities is to preserve principal while at the same time maximizing the income it receives without significantly increasing risk. Cyclacel's investment portfolio is subject to interest rate risk and will fall in value in the event market interest rates increase. Due to the short duration of its investment portfolio, Cyclacel believes an immediate 10% change in interest rates would not be material to its financial condition or results of operations. Cyclacel does not have any foreign currency or derivative financial instruments.

Critical Accounting Policies

Cyclacel's discussion and analysis of its financial condition and results of operations are based on its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Cyclacel to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. Cyclacel reviews its estimates on an ongoing basis. Cyclacel bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. While Cyclacel's significant accounting policies are described in more detail in the notes to its financial statements included in this document, Cyclacel believes the judgments and estimates required by the following accounting policies to be critical in the preparation of its financial statements.

Revenue Recognition

Revenues are earned from collaborative agreements and amounts invoiced to customers in respect of goods supplied. Cyclacel recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin, or SAB, No. 101, Revenue Recognition in Financial Statements, as amended by SAB Nos. 101A, 101B and 104. SAB No. 101 requires that four basic criteria must be met before revenue can be recognized: persuasive evidence an arrangement exists; delivery has occurred or services have been rendered; the fee is fixed and determinable; and collectibility is reasonably assured. Determination of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered are based on management's

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judgments regarding the fixed nature of the fee charged for research performed and milestones met, and the collectibility of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Research and development revenues, which are earned under agreements with third parties for contract research and development activities, are recorded as the related expenses are incurred. Milestone payments are non-refundable and recognized as revenue when earned, as evidenced by achievement of the specified milestones and the absence of ongoing performance obligations. Any amounts received in advance of performance are recorded as deferred revenue. None of the revenues recognized to date are refundable if the relevant research effort is not successful.

Stock-based Compensation

Cyclacel accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees* , Statement of Financial Accounting Standards No. 123 (SFAS No. 123), *Accounting for Stock-Based Compensation* and complies with the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123* . Under APB 25, compensation expense is based on the difference, if any, on the date of grant, between the estimated fair value of its ordinary shares and the exercise price. SFAS No. 123 defines a fair value based method of accounting for an employee stock option or similar equity investment.

Cyclacel accounts for equity instruments issued to non employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods, or Services* .

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CYCLACEL LIMITED

(A Development Stage Company)

REPORT OF INDEPENDENT AUDITORS

The Board of Directors

Cyclacel Limited

We have audited the balance sheets of Cyclacel Limited (a development stage company) at December 31, 2003 and 2004, and the related statements of operations, shareholders' equity (deficit) and cash flows for the year ended March 31, 2003, the nine months ended December 31, 2003, the year ended December 31, 2004 and the period from August 13, 1996 (inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cyclacel Limited (a development stage company) at December 31, 2003 and 2004 and the results of its operations and its cash flows for the year ended March 31, 2003, the nine months ended December 31, 2003, the year ended December 31, 2004 and the period from August 13, 1996 (inception) to December 31, 2004, in conformity with United States generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Cyclacel Limited (a development stage company) will continue as a going concern. As discussed more fully in Note 1 to the financial statements, the ability of the Company to continue as a going concern is dependent on its ability to access further cash resources through the completion of the proposed purchase of the whole of the issued share capital of the Company by Xcyte Therapies, Inc. and from future collaboration agreements. However, if the proposed transaction with Xcyte Therapies, Inc. does not complete, the Company's ability to continue as a going concern is dependent on the ability of Cyclacel Group plc, its parent company, to raise further funds through a combination of equity issuances or debt arrangements and to commit that such funds will be made available to the Company. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ ERNST & YOUNG LLP

London, England

January 23, 2006

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****BALANCE SHEETS**

	December 31,		September 30,
	2003	2004	2005
	\$000	\$000	(unaudited) \$000
ASSETS			
Current assets:			
Cash and cash equivalents	4,335	7,766	5,264
Short-term investments	29,345	15,152	13,595
Prepaid expenses and other current assets	5,360	4,846	2,772
	39,040	27,764	21,631
Total current assets	39,040	27,764	21,631
Property, plant and equipment (net)	3,760	3,412	2,200
	42,800	31,176	23,831
Total assets	42,800	31,176	23,831
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of Government loan		482	441
Accounts payable	2,354	2,528	1,369
Amounts due to parent company		2,196	10,938
Accrued liabilities	1,292	1,177	1,649
Other current liabilities	182	161	129
Current portion of equipment financing	829	311	251
	4,657	6,855	14,777
Total current liabilities	4,657	6,855	14,777
Equipment financing, net of current	50	368	146
Government loan, net of current	445		
	5,152	7,223	14,923
Total liabilities	5,152	7,223	14,923
Commitments and contingencies			
Shareholders' equity (deficit):			
Preferred Ordinary shares:			
Preferred Ordinary \$0.10 par value:			
Authorized: 21,000,000 at December 31, 2003 and 2004 and September 30, 2005			
Issued and outstanding: 16,742,691 at December 31, 2003 and 17,965,835 at December 31, 2004 and September 30, 2005. Aggregate liquidation preference of \$182,454,000 (\$10.90 per share) at December 31, 2003, \$223,617,000 (\$12.45 per share) at December 31, 2004 and \$213,119,000 (\$11.86 per share) at September 30, 2005			
	28	30	30
Ordinary shares:			
Ordinary shares, 0.10 par value:			
Authorized: 5,748,428 at December 31, 2003 and 2004 and September 30, 2005			

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Issued and outstanding: 1,546,432 at December 31, 2003 and 1,871,210 at December 31, 2004 and September 30, 2005	2	2	2
Deferred shares, 0.1p par value:			
Authorized: 7,051,572 at December 31, 2003 and 2004 and September 30, 2005			
Issued and outstanding: 6,792,541 at December 31, 2003 and nil at December 31, 2004 and September 30, 2005	10		
Additional paid in capital	109,564	116,063	116,063
Deferred stock-based compensation	(132)		
Accumulated other comprehensive loss	(3,596)	(1,172)	(2,808)
Deficit accumulated during the development stage	(68,228)	(90,970)	(104,379)
	<u> </u>	<u> </u>	<u> </u>
Total shareholders' equity	37,648	23,953	8,908
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	42,800	31,176	23,831
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****STATEMENTS OF OPERATIONS**

	Year ended		Period from		Nine months ended		Period from
	ended		August 13,		September 30,		August 13, 1996
	ended		1996				(inception) to
	March 31,	December 31,	December 31,	December 31,	2004	2005	September 30,
	2003	2003	2004	2004	(unaudited)	(unaudited)	2005
	\$000	\$000	\$000	\$000	\$000	\$000	(unaudited)
							\$000
Revenues:							
Collaboration and research and development revenue	1,250	8	102	2,514	100	168	2,682
Grant revenue	941	504	823	3,210	407	118	3,328
	<u>2,191</u>	<u>512</u>	<u>925</u>	<u>5,724</u>	<u>507</u>	<u>286</u>	<u>6,010</u>
Operating expenses:							
Research and development	(20,091)	(13,258)	(20,332)	(84,929)	(15,010)	(12,095)	(97,024)
General and administrative	(2,597)	(2,142)	(3,554)	(18,344)	(2,330)	(3,656)	(22,000)
	<u>(22,688)</u>	<u>(15,400)</u>	<u>(23,886)</u>	<u>(103,273)</u>	<u>(17,340)</u>	<u>(15,751)</u>	<u>(119,024)</u>
Operating loss	(20,497)	(14,888)	(22,961)	(97,549)	(16,833)	(15,465)	(113,014)
Other income (expense):							
Costs associated with aborted 2004 IPO							
			(3,550)	(3,550)	(3,348)		(3,550)
Interest income	1,028	430	1,425	5,392	1,141	604	5,996
Interest expense	(470)	(2,005)	(112)	(3,602)	(90)	(54)	(3,656)
	<u>558</u>	<u>(1,575)</u>	<u>(2,237)</u>	<u>(1,760)</u>	<u>(2,297)</u>	<u>550</u>	<u>(1,210)</u>
Total other income (expense)							
Loss before taxes	(19,939)	(16,463)	(25,198)	(99,309)	(19,130)	(14,915)	(114,224)
Income tax benefit	4,397	1,486	2,456	8,339	1,930	1,506	9,845
	<u>(15,542)</u>	<u>(14,977)</u>	<u>(22,742)</u>	<u>(90,970)</u>	<u>(17,200)</u>	<u>(13,409)</u>	<u>(104,379)</u>
Net loss	(15,542)	(14,977)	(22,742)	(90,970)	(17,200)	(13,409)	(104,379)
Dividends on Preferred shares	(4,654)	(4,425)	(11,053)	(23,420)	(8,136)	(8,910)	(32,330)
	<u>(20,196)</u>	<u>(19,402)</u>	<u>(33,795)</u>	<u>(114,390)</u>	<u>(25,336)</u>	<u>(22,319)</u>	<u>(136,709)</u>
Net loss applicable to ordinary shareholders	(20,196)	(19,402)	(33,795)	(114,390)	(25,336)	(22,319)	(136,709)

See accompanying notes

Table of Contents**CYCLACEL LIMITED**

(A Development Stage Company)

STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT)

	Preferred		Ordinary		Deferred		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Deferred compensation	Deficit accumulated during development stage	Total
	D shares	Ordinary shares	Deferred shares								
	No.	\$000	No.	\$000	No.	\$000					
On incorporation, August 13, 1996			1								
Subdivision into shares of \$0.0015 each, August 1996			999								
Issue of shares for cash, at par, September 1996		959,000		1							1
Translation adjustment								(4)			(4)
Loss for the period										(290)	(290)
Comprehensive loss for the period											(294)
Balance at March 31, 1997		960,000		1				(4)		(290)	(293)
Issue of shares for cash, at \$6.56 per share, May 1997		625,000		1		4,098					4,099
Issue of shares for IP rights agreement, May 1997		40,000				262					262
Issue of shares for cash, at \$6.56 per share, August 1997		25,000				159					159
Expense of share issues						(41)					(41)
Deferred stock-based compensation						2,002		(2,002)			
Amortization of deferred stock-based compensation								302			302
Translation adjustment								55			55
Loss for the year										(2,534)	(2,534)
Comprehensive loss for the year											(2,479)

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Balance at March 31, 1998	1,650,000	2	6,480	51	(1,700)	(2,824)	2,009
Exercise of share options for cash, at par, July 1998	4,792						
Amortization of deferred stock-based compensation					406		406
Translation adjustment				11			11
Loss for the year						(3,964)	(3,964)
Comprehensive loss for the year							(3,953)
Balance at March 31, 1999	1,654,792	2	6,480	62	(1,294)	(6,788)	(1,538)

See accompanying notes

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT) (contd)**

	Preferred		Ordinary		Deferred		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Deferred compensation	Deficit accumulated during development stage	Total
	D shares	shares	shares	shares							
	No.	\$000	No.	\$000	No.	\$000					
Issue of shares for cash at \$7.42, May 1999			872,188		1		6,470				6,471
Issue of shares on conversion of bridging loan, May 1999			220,751		1		1,637				1,638
Issue of shares in lieu of cash bonus, May 1999			22,075				164				164
Issue of shares for research & development agreement, May 1999			55,188				409				409
Issue of shares for cash at \$7.65, August 1999			840,336		2		6,430				6,432
Exercise of share options for cash at \$7.28, September 1999			5,519				40				40
Expense of share issues							(186)				(186)
Deferred stock-based compensation							167		(167)		
Amortization of deferred stock-based compensation									433		433
Translation adjustment								(194)			(194)
Loss for the year										(5,686)	(5,686)
Comprehensive loss for the year											(5,880)
Balance at March 31, 2000			3,670,849		6		21,611	(132)	(1,028)	(12,474)	7,983
Deferred stock-based compensation							294		(294)		
Amortization of deferred stock-based compensation									275		275
Translation adjustment								(466)			(466)
Loss for the year										(10,382)	(10,382)

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Comprehensive loss for the year									(10,848)
Balance at March 31, 2001	3,670,849	6	21,905	(598)	(1,047)	(22,856)	(2,590)		

See accompanying notes

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT) (contd)**

	Preferred		Ordinary		Deferred		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Deferred compensation	Deficit accumulated during development stage	Total
	D shares	shares	shares	shares							
	No.	\$000	No.	\$000	No.	\$000					
Exercise of share options for cash at par, April 2001			3,050								
Exercise of share options for cash at par, April 2001			46,950								
Issue of shares for cash at \$10.64, June 2001			13,282								
Exercise of share options for cash at \$6.04, July 2001			17,500			106					106
Issue of shares for IP rights agreement at \$11.42, November 2001			16,000			183					183
Fair value of warrants issued to shareholders, August and December 2001						1,215					1,215
Deferred stock-based compensation						363		(363)			
Amortization of deferred stock-based compensation								672			672
Translation adjustment								191			191
Loss for the year										(14,853)	(14,853)
Comprehensive loss for the year											(14,662)
Balance at March 31, 2002			3,767,631	6		23,772	(407)	(738)		(37,709)	(15,076)
Exercise of share options for cash at \$5.84, May 2002			2,000			12					12
Deferred stock-based compensation						(84)		84			
Amortization of deferred stock-based								305			305

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compensation

Translation adjustment				(1,846)				(1,846)
Loss for the year							(15,542)	(15,542)
Comprehensive loss for the year								(17,388)
Balance at March 31, 2003	3,769,631	6	23,700	(2,253)	(349)	(53,251)		(32,147)

See accompanying notes

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CYCLACEL LIMITED

(A Development Stage Company)

STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT) (contd)

	Preferred Ordinary		Ordinary shares		Deferred shares		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Deferred compensation	Deficit accumulated during development stage	Total
	D shares										
	No.	\$000	No.	\$000	No.	\$000	\$000	\$000	\$000	\$000	\$000
Exercise of share options for cash at \$7.17, April 2003			15,957				114				114
Exercise of share options for cash at \$6.65, October 2003			100								
Conversion of Ordinary and Preferred C Ordinary shares to Deferred Shares, November 2003			(2,251,572)	(4)	6,792,541	10	58,142				58,148
Bonus issue of shares, November 2003	12,666,580	21					(21)				
Issue of shares for cash at \$6.90, November 2003	4,076,111	7	12,316				28,221				28,228
Expense of share issues							(592)				(592)
Amortization of deferred stock-based compensation									217		217
Translation adjustment								(1,343)			(1,343)
Loss for the period										(14,977)	(14,977)

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Comprehensive loss for the period											(16,320)
Balance at December 31, 2003	16,742,691	28	1,546,432	2	6,792,541	10	109,564	(3,596)	(132)	(68,228)	37,648
Issues of shares for cash at \$7.44, January 2004	1,162,068	2					8,644				8,646
Expense of share issue							(105)				(105)
Exercise of share options for cash at par, April 2004			46,875								
Exercise of share options for cash at par, June 2004			25,000								
Issue of share for cash at \$7.34, June 2004			1								
Exercise of share warrants for cash at par, June 2004	61,076										
Conversion of deferred shares to ordinary shares, June 2004			252,902		(252,902)						
Buy-back of deferred shares at \$0.015, June 2004					(6,539,639)	(10)	10				

See accompanying notes

Table of Contents**CYCLACEL LIMITED**

(A Development Stage Company)

STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT) (contd)

	Preferred D shares		Ordinary shares		Deferred shares		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Deferred compensation	Deficit accumulated during development stage	Total
	No.	\$000	No.	\$000	No.	\$000					
Elimination of deferred stock-based compensation on the acquisition of Cyclacel Limited by Cyclacel Group plc							(2,050)		132		(1,918)
Translation adjustment								2,424			2,424
Loss for the year										(22,742)	(22,742)
Comprehensive loss for the year											(20,318)
Balance at December 31, 2004	17,965,835	30	1,871,210	2			116,063	(1,172)		(90,970)	23,953
Translation adjustment (unaudited)								(1,636)			(1,636)
Loss for the period (unaudited)										(13,409)	(13,409)
Comprehensive loss for the period (unaudited)											(15,045)
Balance at September 30, 2005 (unaudited)	17,965,835	30	1,871,210	2			116,063	(2,808)		(104,379)	(8,908)

See accompanying notes

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****STATEMENTS OF CASH FLOWS**

	Year ended March 31,	Nine months ended December 31,	Year ended December 31,	Period from August 13, 1996 (inception) to December 31,	Nine months ended September 30,		Period from August 13, 1996 (inception) to September 30,
	2003	2003	2004	2004	2004	2005	2005
	\$000	\$000	\$000	\$000	(unaudited) \$000	(unaudited) \$000	(unaudited) \$000
Operating activities:							
Net loss	(15,542)	(14,977)	(22,742)	(90,970)	(17,200)	(13,409)	(104,379)
Adjustments to reconcile net loss to net cash used in operating activities:							
Depreciation and amortization	1,474	1,133	1,543	6,643	1,155	1,037	7,680
Deferred revenue	(1,328)			(98)			(98)
Compensation for warrants issued to non employees				1,215			1,215
Shares issued for IP rights				446			446
Loss on disposal of property, plant and equipment			2	25	2		25
Share-based compensation	305	217	279	2,888	(414)	179	3,067
Amortization of issuance costs of Preferred Ordinary C shares	338	1,925		2,517			2,517
Changes in operating assets and liabilities:							
Prepaid expenses and other current assets	(1,932)	(1,808)	913	(3,895)	801	1,740	(2,155)
Accounts payable and other current liabilities	974	(875)	372	3,519	157	(408)	3,111
Net cash used in operating activities	(15,711)	(14,385)	(19,633)	(77,710)	(15,499)	(10,861)	(88,571)
Investing activities:							
Purchase of property, plant and equipment	(819)	(111)	(210)	(5,739)	(200)	(72)	(5,811)
Short-term investments on deposit, net of maturities	9,120	(27,770)	15,827	(13,518)	5,465	281	(13,237)
Net cash provided by (used in) investing activities	8,301	(27,881)	15,617	(19,257)	5,265	209	(19,048)

See accompanying notes

Table of Contents**CYCLACEL LIMITED**

(A Development Stage Company)

STATEMENTS OF CASH FLOWS (contd)

	Year ended March 31,	Nine months ended December 31,	Year ended December 31,	Period from August 13, 1996 (inception) to December 31,	Nine months ended September 30,		Period from August 13, 1996 (inception) to September 30,
	2003	2003	2004	2004	2004	2005	2005
					(unaudited)	(unaudited)	(unaudited)
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financing activities:							
Payments of capital lease obligations	(838)	(716)	(965)	(3,057)	(826)	(235)	(3,292)
Proceeds from issuance of ordinary and preferred ordinary shares, net of issuance costs	(27)	27,441	7,902	90,858	8,494		90,858
Loans received				10,942		9,224	20,166
Net cash provided by (used in) financing activities	(865)	26,725	6,937	98,743	7,668	8,989	107,732
Effect of exchange rate changes on cash and cash equivalents	3,073	3,328	510	5,990	82	(839)	5,151
Net increase (decrease) in cash and cash equivalents	(8,275)	(15,541)	2,921	1,776	(2,566)	(1,663)	113
Cash and cash equivalents, beginning of period	21,750	16,548	4,335		4,335	7,766	
Cash and cash equivalents, end of period	16,548	4,335	7,766	7,766	1,851	5,264	5,264
Supplemental cash flow information:							
Cash received during the period for:							
Interest (net)	1,240	259	1,349	4,727	245	567	5,294
Taxes	2,549		3,844	6,392	3,820	2,473	8,865
Schedule of non-cash transactions							
Acquisitions of equipment purchased through capital leases	524	384	706	3,470	701		3,470
Issuance of Ordinary shares in connection with license agreements				592			592

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Issuance of Ordinary shares on conversion of bridging loan				1,638			1,638
Issuance of Preferred Ordinary C shares on conversion of secured convertible loan notes and accrued interest				8,893			8,893
Issuance of Ordinary shares in lieu of cash bonus				164			164
Deferred stock-based compensation	305	217	279	2,888	(414)	1,179	3,067

See accompanying notes

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CYCLACEL LIMITED

(A Development Stage Company)

NOTES TO THE FINANCIAL STATEMENTS

(Information as of September 30, 2005 and for the nine months ended

September 30, 2004 and 2005 is unaudited)

1 Formation and Business of the Company

Organization

Cyclacel Limited (the Company or Cyclacel) was incorporated in Great Britain on August 13, 1996 as Intercede 1190 Limited with an authorized share capital of £1,000 and issued share capital of £1. The Company changed its name to Ecdysis Limited on September 10, 1996, and was renamed Cyclacel Limited on October 25, 1996. On June 30, 2004, in a corporate reorganization as preparation for a public listing all of the issued and outstanding Preferred Ordinary D shares, Ordinary shares and Deferred shares of Cyclacel Limited were acquired by Cyclacel Group Limited in an exchange of shares. Cyclacel shareholders received an equivalent number of Preferred Ordinary D shares, and Ordinary shares in Cyclacel Group Limited. On 1 July 2004, Cyclacel Group Limited re-registered as a public limited company and changed its name to Cyclacel Group plc. Cyclacel remains a wholly owned subsidiary of Cyclacel Group plc.

On July 28, 2005, Cyclacel Group plc issued £5 million (\$8.8 million) of convertible loan notes to Scottish Enterprise. The net proceeds of \$8.6 million were loaned to the Company to fund its operating activities.

The principal activity of the Company is research and development of therapeutics for cancer and other serious diseases. Through September 30, 2005, the Company, operating from research facilities in Dundee, Scotland and Cambridge, England, has been primarily engaged in conducting research, developing drug candidates, recruiting personnel and raising capital.

The Company has not yet generated substantial revenues from its operations. Accordingly, through the date of these financial statements, the Company is considered to be in the development stage.

The Company's fiscal year end since incorporation was March 31. However, the Company changed its fiscal year end to December 31 during 2003 in anticipation of an initial public offering and this resulted in shortening of the March 31, 2004 fiscal year to the nine-month period ended December 31, 2003.

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The accompanying financial statements include an allocation of all the costs associated with the employees, executive directors and Board of Directors of Cyclacel Group plc. These costs include directors' compensation, Board fees and associated expenses, and share option compensation charges. All of the allocations in the accompanying financial statements are based on assumptions that we believe are reasonable under the circumstances. As a consequence of the reorganization which occurred on June 30, 2004, options granted by the Company became exercisable over ordinary shares in Cyclacel Group plc. As a result, the deferred compensation and additional paid-in capital of \$1.8 million related to the stock-based compensation plans were eliminated and transferred to Cyclacel Group plc by the creation of an amount payable by the Company. Subsequent stock-based compensation costs of \$397,000 and \$180,000 have been allocated to the Company for the six months ended December 31, 2004 and the nine months ended September 30, 2005, respectively.

Need to Raise Additional Capital

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred significant net losses and negative cash flows since its inception. At December 31, 2004 and September 30, 2005, the Company had an accumulated deficit of \$90,970,000 and \$104,379,000, respectively.

As of January 23, 2006, on the basis of forecast cash flows of the Company, the directors believe that the currently available cash and cash equivalents and short-term investments will provide sufficient funds to enable

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CYCLACEL LIMITED

(A Development Stage Company)

NOTES TO THE FINANCIAL STATEMENTS (contd)

(Information as of September 30, 2005 and for the nine months ended

September 30, 2004 and 2005 is unaudited)

the business to meet its obligations at least through August 31, 2006. If the Company is unable to raise further funds prior to that date, it may be required to delay, reduce the scope of, or eliminate one or more of its development programs or obtain funds through collaborative arrangements with others which may require the Company to relinquish rights to certain of its product candidates, or products that it would otherwise seek to develop or commercialize itself.

The ability of the Company to continue as a going concern beyond August 2006 is dependent on its ability to access further cash resources through the successful conclusion of one of the following scenarios:

On December 15, 2005 Cyclacel Group plc and Xcyte Therapies, Inc. (Xcyte) entered into a stock purchase agreement (the Stock Purchase Agreement) whereby the entire share capital of Cyclacel would be acquired by Xcyte for which Cyclacel Group plc will receive newly issued common stock of Xcyte. The consummation of the Stock Purchase Agreement would give the Company access to Xcyte's cash resources and would enhance the Company's ability to conclude further partnering arrangements with pharmaceutical and/or biotechnology companies; or

If the Stock Purchase by Xcyte does not complete, the Company will be dependent on the ability of its parent company, Cyclacel Group plc, to raise sufficient funds to fund the operations of the group for the foreseeable future. Cyclacel Group plc would seek to raise such funds through a further private or public funding round or in undertaking a cash generative corporate transaction. In addition, the Company would undertake to raise further funds through revenue deals with commercial partners in the form of collaboration or services agreements.

However, there is no assurance that the proposed transaction with Xcyte will be completed or that Cyclacel Group plc's subsequent efforts to raise additional private or public funding will be successful. If these efforts are unsuccessful there is uncertainty as to whether the funds available to the Company would be sufficient to allow it to continue in operational existence for the foreseeable future and to meet its liabilities as they fall due.

While the directors are presently uncertain as to the outcome of the matters mentioned above, they believe that sufficient funding to meet its ongoing working capital requirements will be provided through the successful conclusion of one of the above scenarios. Accordingly, the directors believe it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

2 Summary of Significant Accounting Policies

The financial information contained in these financial statements does not constitute statutory accounts as defined in section 240 of the Companies Act 1985, as amended, of Great Britain. Statutory accounts for the years ended December 31, 2004, for the nine months ended December 31, 2003 and for the year ended March 31, 2003 on which the auditors' reports were unqualified and did not contain a statement under section 237(2) or (3) of that Act have been delivered to the Registrar of Companies for England and Wales.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the

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CYCLACEL LIMITED

(A Development Stage Company)

NOTES TO THE FINANCIAL STATEMENTS (contd)

(Information as of September 30, 2005 and for the nine months ended

September 30, 2004 and 2005 is unaudited)

reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Unaudited Interim Results

The accompanying balance sheet as of September 30, 2005, the statements of operations and cash flows for the nine months ended September 30, 2004 and 2005, and period from August 13, 1996 (inception) to September 30, 2005, and the statement of shareholders' equity (deficit) for the nine months ended September 30, 2005 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments necessary to present fairly the Company's financial position as of September 30, 2005, and results of operations and cash flows for the nine months ended September 30, 2004 and 2005. The financial data and other information disclosed in these notes to financial statements related to the nine-month periods are unaudited. The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the year ended December 31, 2005 or for any other interim period or for any other future year.

Concentration of Credit Risk and Other Risks and Uncertainties

Financial instruments which potentially subject the Company to concentrations of risk consist principally of cash and cash equivalents, short-term investments and accounts receivable. The Company's cash and cash equivalents are invested in deposits with five major banks in the United Kingdom. Deposits in these banks may exceed the amount of insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash, cash equivalents, short-term investments and accounts receivable. The Company believes its established guidelines for investment of its excess cash maintain safety and liquidity through its policies on diversification and investment maturity.

The Company does not perform an ongoing credit evaluation of its customers' financial conditions and generally does not require collateral to secure accounts receivable. The Company's exposure to credit risk, associated with non-payment is affected principally by conditions or occurrences within its customers' operations. The Company historically has not experienced any losses relating to accounts receivable from its primary customer. \$700,000 (56%) of the Company's revenues for the year ended March 31 2003 were derived from one customer. The arrangements with this primary customer came to a conclusion during the nine months ended December 31, 2003.

Drug candidates developed by the Company may require approvals or clearances from the U.S. Food and Drug Administration (FDA) or other international regulatory agencies prior to commercialized sales. There can be no assurance that the Company's drug candidates will receive any

of the required approvals or clearances. If the Company was denied approval or clearance or such approval was delayed, it may have a material adverse impact on the Company.

Foreign currency and currency translation

Monetary assets and liabilities in foreign currencies are translated into pounds sterling, the Company's functional currency, at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into pounds sterling at the rate of exchange ruling at the balance sheet date. Transaction gains and losses are recognized in operating expenses within the Statement of Operations.

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CYCLACEL LIMITED

(A Development Stage Company)

NOTES TO THE FINANCIAL STATEMENTS (contd)

(Information as of September 30, 2005 and for the nine months ended

September 30, 2004 and 2005 is unaudited)

These financial statements are presented in U.S. dollars. Translation of balance sheet data from pounds sterling to U.S. dollars is made at the exchange rate ruling at the balance sheet date. Translation of operating statement and cash flow amounts is made at the average exchange rate for the period. Translation gains and losses are recognized within Accumulated other comprehensive income/(loss).

Cash and Cash Equivalents

Cash equivalents are stated at cost, which equates to market value. The Company considers all highly liquid investments with an original maturity of three months or less at the time of initial deposit to be cash equivalents.

Short-term Investments

The Company invests its surplus cash in bank term deposits, having a maturity period of between one day and one year. These deposits can be terminated early at a nominal cost. Accordingly, all cash resources with original maturity of three months or less have been classified as cash and cash equivalents and those with original maturity of more than three months as short-term investments.

Fair Value of Financial Instruments

For financial instruments consisting of cash and cash equivalents, short-term investments, accounts payable and accrued liabilities included in the Company's financial statements, the carrying amounts are reasonable estimates of fair value due to their short maturities. Based on borrowing rates currently available to the Company, the carrying value of the equipment financing lines approximate fair value.

Property, Plant and Equipment

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Property, plant and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, which are generally three to five years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the related assets, typically fifteen years. Upon sale or retirement of assets, the costs and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Impairment of Long-lived Assets

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews long-lived assets, including property, plant and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Under SFAS No. 144, an impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Through December 31, 2004 and up until September 30, 2005 there have been no such impairments.

Revenue Recognition

Revenues are earned from collaborative agreements and amounts invoiced to customers in respect of goods supplied. The Company recognizes revenue when persuasive evidence of an arrangement exists; delivery has

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CYCLACEL LIMITED

(A Development Stage Company)

NOTES TO THE FINANCIAL STATEMENTS (contd)

(Information as of September 30, 2005 and for the nine months ended

September 30, 2004 and 2005 is unaudited)

occurred or services have been rendered; the fee is fixed and determinable; and collectability is reasonably assured. Determination of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered are based on management's judgments regarding the fixed nature of the fee charged for research performed and milestones met, and the collectability of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Research and development revenues, which are earned under agreements with third parties for contract research and development activities, are recorded as the related expenses are incurred. Milestone payments are non-refundable and recognized as revenue when earned, as evidenced by achievement of the specified milestones and the absence of ongoing performance obligations. Any amounts received in advance of performance are recorded as deferred revenue. None of the revenues recognized to date are refundable if the relevant research effort is not successful.

Grant revenues from government agencies and private research foundations are recognized as the related qualified research and development costs are incurred, up to the limit of the prior approval funding amounts. Grant revenues are not refundable.

Government grants in respect of capital expenditure are deferred and released to revenue over the estimated useful lives of the related assets by equal annual installments.

Clinical Trials Accounting

All of the Company's clinical trials are performed by contract research organizations (CROs) and participating clinical trial sites. Some CROs bill monthly for services performed, and others bill based upon milestones achieved. For the latter, the Company accrues clinical trial expenses based on the services performed each period. Costs of setting up clinical trial sites for participation in the trials are expensed immediately as research and development expenses. Clinical trial site costs related to patient enrollment are accrued as patients are entered into the trial reduced by any initial payment made to the clinical trial site when the first patient is enrolled.

Research and Development Expenditures

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Research and development expenses consist primarily of costs associated with the Company's product candidates, upfront fees, milestones, compensation and other expenses for research and development personnel, supplies and development materials, costs for consultants and related contract research, facility costs, amortization of purchased technology and depreciation. Expenditures relating to research and development are expensed as incurred.

Patent Costs

Costs relating to prosecution are charged to operations as incurred as recoverability of such expenditure is uncertain.

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CYCLACEL LIMITED

(A Development Stage Company)

NOTES TO THE FINANCIAL STATEMENTS (contd)

(Information as of September 30, 2005 and for the nine months ended

September 30, 2004 and 2005 is unaudited)

Leased Assets

The costs of operating leases are charged to operations on a straight-line basis over the lease term.

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a capital lease. The asset is recorded in the balance sheet as an asset and is depreciated in accordance with the above depreciation policies. The capital elements of future lease payments are recorded as liabilities and the interest is charged to operations over the period of the lease.

Pension Costs

The Company operates a defined contribution pension plan. Contributions are charged to the operating statement as they become payable in accordance with the rules of the plan.

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Credit is taken in the accounting period for research and development tax credits, which will be claimed from H. M. Revenue and Customs, the United Kingdom's taxation and customs authority, in respect of qualifying research and development costs incurred in the same accounting period.

Stock-based Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB 25). Under APB 25, compensation expense is based on the difference, if any, on the date of grant of the option, between the estimated fair value of the Company's ordinary shares and the exercise price of the option.

The Company accounts for equity instruments issued to non employees in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, and Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods, or Services*. SFAS No. 123 defines a fair value based method of accounting for an employee stock option or similar equity investment.

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****NOTES TO THE FINANCIAL STATEMENTS (contd)****(Information as of September 30, 2005 and for the nine months ended****September 30, 2004 and 2005 is unaudited)**

The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS 123 to stock based employee compensation arrangements:

	Year ended March 31,	Nine months ended December 31,	Year ended December 31,	Nine months ended September 30,	
	2003	2003	2004	2004	2005
	\$000	\$000	\$000	\$000	\$000
Net loss applicable to Ordinary shareholders, as reported	(20,196)	(19,402)	(33,795)	(25,336)	(22,319)
Add: Stock-based employee compensation included in reported loss	305	217	279	(414)	179
Less: Total stock-based employee compensation determined under fair value based method for all awards	(1,150)	(791)	(2,979)	(2,118)	(1,652)
Adjusted net loss	(21,041)	(19,976)	(36,495)	(27,868)	(23,792)

The fair value of each option granted is estimated on the date of grant using the Black Scholes option valuation model with the following weighted average assumptions:

	Year ended March 31,	Nine months ended December 31,	Year ended December 31,	Nine months ended September 30,	
	2003	2003	2004	2004	2005
Risk free interest rate	3.72%		4.3%	4.1%	
Expected life (in years)	5.46		3.5	3.5	
Volatility	90%		90%	90%	
Dividend yield	0.00%		0.00%	0.00%	

Based on the above assumptions, the weighted average estimated fair values of options granted were \$8.84 per share for the year ended March 31, 2003, and \$5.61 for the year ended December 31, 2004, and the nine months ended September 30, 2004.

The employee stock-based compensation charge for the period from August 13, 1996 (inception) to December 31, 2004 of \$2,887,000 was allocated \$2,161,000 and \$726,000 to research and development and general and administrative, respectively. The employee stock-based compensation charge for the period from August 13, 1996 (inception) to September 30, 2005 of \$3,067,000 was allocated \$2,265,000 and \$802,000 to research and development and general and administrative, respectively. Stock-based compensation charges (credit) of \$244,000, \$174,000, \$291,000, \$(286,000) and \$104,000 were allocated to research and development for the years ended March 31, 2003, the nine months ended December 31, 2003, the year ended December 31, 2004 and the nine months ended September 30, 2004 and 2005, respectively. Stock-based compensation charges (credits) of \$61,000, \$43,000, \$(12,000), \$(128,000) and \$76,000 were allocated to general and administrative for the years ended March 31, 2003, the nine months ended December 31, 2003, the year ended December 31, 2004 and the nine months ended September 30, 2004 and 2005, respectively.

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CYCLACEL LIMITED

(A Development Stage Company)

NOTES TO THE FINANCIAL STATEMENTS (contd)

(Information as of September 30, 2005 and for the nine months ended

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Comprehensive Income (Loss)

In accordance with SFAS No. 130, *Reporting Comprehensive Income*, all components of comprehensive income (loss), including net income (loss), are reported in the financial statements in the period in which they are recognized. Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non owner sources. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments, are reported, net of any related tax effect, to arrive at comprehensive income (loss).

Recent Accounting Pronouncements

In December 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment*, or SFAS No. 123R, which is a revision of SFAS No. 123, and supersedes APB Opinion 25. SFAS 123R requires all share-based payments to employees and directors, including grants of stock options, to be recognized in the statement of operations based on their fair values, beginning with the first annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB Opinion 25's intrinsic value method.

Under SFAS 123R, the Company must determine the appropriate fair value model and related assumptions to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include modified prospective and modified retrospective adoption alternative. Under the modified retrospective method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the modified retrospective method would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company plans to adopt SFAS 123R using the modified-prospective method. As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and expects that the adoption of SFAS 123R will have a significant impact on the Company's results of operations. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on the levels of share-based payments granted in the future. However, had the Company adopted SFAS 123R in prior periods, the impact would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net loss under Stock-based Compensation above. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement may reduce net operating cash flows and increase net financing cash flows in periods after adoption.

3 Significant Contracts

Licensing and Research Agreements

The Company has entered into licensing agreements with academic and research organizations. Under the terms of these agreements, the Company has received licenses to technology and patent applications. The Company is required to pay royalties on future sales of product employing the technology or falling under claims of patent applications. Additional payments are due if the Company sublicenses the technology or patent applications or if the Company achieves predefined milestones.

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****NOTES TO THE FINANCIAL STATEMENTS (contd)****(Information as of September 30, 2005 and for the nine months ended****September 30, 2004 and 2005 is unaudited)**

In respect of Licensing Agreements, additional payments of \$23.3 million would be payable if the Company achieves predefined milestones subject to achievement of all the specific contractual milestones and the Company's decision to continue with these projects. Under these agreements the Company makes annual payments that do not and will not exceed \$0.1 million.

Clinical Collaborations

At December 31, 2004, the Company had entered into a number of agreements with clinical research organizations (CROs) based at various universities and hospitals. The maximum annual amount payable on any of the existing contracts is approximately \$0.8 million and the annual aggregate cost is approximately \$1.7 million. The contracts vary in length with the last to expire/conclude in June 2006.

4 Cash and Cash Equivalents

The following is a summary of cash and cash equivalents at December 31, 2003 and 2004, and September 30, 2005:

	<u>December 31,</u>		<u>September 30,</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Cash	756	560	3,501
Deposits with original maturity of less than three months	3,579	7,206	1,763
	<u>4,335</u>	<u>7,766</u>	<u>5,264</u>

5 Prepaid Expenses and Other Current Assets

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The following is a summary of prepaid expenses and other current assets at December 31, 2003 and 2004, and September 30, 2005:

	December 31,		September 30,
	2003	2004	2005
	\$000	\$000	\$000
Research and development tax credit	3,730	2,583	1,439
Sales tax receivable	373	755	519
Prepayments	892	922	586
Other current assets	365	586	228
	5,360	4,846	2,772

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****NOTES TO THE FINANCIAL STATEMENTS (contd)****(Information as of September 30, 2005 and for the nine months ended****September 30, 2004 and 2005 is unaudited)****6 Property, Plant and Equipment**

Property, plant and equipment consisted of the following:

	Useful lives in years	December 31,		September 30,
		2003	2004	2005
		\$000	\$000	\$000
Leasehold improvements	Life of lease (15 yrs)	462	511	480
Research and laboratory equipment	3 to 5 yrs	7,602	8,331	7,540
Office equipment and furniture	3 to 5 yrs	1,159	1,174	1,090
		9,223	10,016	9,110
Less: accumulated depreciation and amortization		(5,463)	(6,604)	(6,910)
		3,760	3,412	2,200

The depreciation and amortization of property, plant and equipment amounted to \$1,474,000, \$1,133,000, \$1,543,000, \$1,155,000 and \$1,037,000 for the year ended March 31, 2003, the nine months ended December 31, 2003, the year ended December 31, 2004 and the nine months ended September 30, 2004 and 2005, respectively. These charges include depreciation of assets held under capital leases.

Depreciation and amortization expense for the period from inception (August 13, 1996) through to December 31, 2004 and to September 30, 2005 were \$6,643,000 and \$7,680,000, respectively. Included in property, plant and equipment are assets under capital lease obligations with an original cost of \$3,421,000, \$3,853,000 and \$3,690,000 as of December 31, 2003 and 2004, and September 30, 2005, respectively. Accumulated depreciation on assets under capital leases was \$1,664,000, \$1,884,000 and \$2,294,000, respectively.

7 Government Loan

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The amounts outstanding under the Government loan are as follows:

	December 31,		September 30,
	2003	2004	2005
	\$000	\$000	\$000
Current liabilities		482	441
Noncurrent liabilities	445		
	445	482	441

The Government loan of \$441,000 (£250,000) had an interest rate of 7% per annum and was wholly repayable on September 16, 2003. The loan was renegotiated during the period ended December 31, 2003 with the repayment date being extended to January 31, 2005, together with an amended interest rate of 5% per annum from November 1, 2003. The loan was repaid in full on November 16, 2005 and the floating charge over certain of the Company's assets was canceled.

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****NOTES TO THE FINANCIAL STATEMENTS (contd)****(Information as of September 30, 2005 and for the nine months ended****September 30, 2004 and 2005 is unaudited)****8 Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consisted of the following:

	December 31,		September 30,
	2003	2004	2005
	\$000	\$000	\$000
Accounts payable	2,354	2,528	1,369
Amounts due to parent company		2,196	10,938
Accrued liabilities	1,292	1,177	1,649
Other current liabilities	182	161	129
	3,828	6,062	14,085

Amounts due to parent company represent transactions between the Company and Cyclacel Group plc being (1) an intercompany loan of \$8,562,000 and (2) costs allocated by Cyclacel Group plc to Cyclacel Ltd related to stock-based compensation accrued in Cyclacel Group plc. On July 28, 2005, Cyclacel Group plc issued £5 million (\$8.8 million) of convertible loan notes. The cash received was transferred to the Company and is being utilized by the Company to fund its operating activities. Costs of \$252,000 associated with issuing the loan notes were paid by the Company and have been recharged to Cyclacel Group plc.

As a consequence of the reorganization which occurred on June 30, 2004, options granted by the Company became exercisable over ordinary shares in Cyclacel Group plc. As a result, the deferred compensation and additional paid-in capital of \$1.8 million related to the stock-based compensation plans were eliminated and transferred to Cyclacel Group plc by the creation of an amount payable by the Company. Subsequent stock-based compensation costs of \$397,000 and \$180,000 have been allocated to the Company for the six months ended December 31, 2004 and the nine months ended September 30, 2005, respectively.

9 Related Party Transactions

Private Placement

Cancer Research Technology Limited (CRT), formerly Cancer Research Campaign Technology Limited (CRCT) owned 494,973 ordinary shares of 1p each, which represented 2.6% of the Company's outstanding shares, at December 31, 2003.

License and Option Agreement

The Company has license and option agreements with CRT covering several technologies and research tools. The latest of these agreements terminated on September 10, 2005. CRT retains rights to materials and intellectual property outside the relevant fields, and for non-commercial research.

Fees Paid to Shareholders

Up to June 30, 2004, when Cyclacel was acquired by Cyclacel Group Limited in an exchange of shares, Cyclacel paid fees to shareholders for the services and expenses of their directors appointed to the Company. From July 1, 2004 these services were provided to Cyclacel Group plc and the fees were payable by Cyclacel Group plc.

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****NOTES TO THE FINANCIAL STATEMENTS (contd)****(Information as of September 30, 2005 and for the nine months ended****September 30, 2004 and 2005 is unaudited)**

Since July 1, 2004 all of these fees have been allocated to the Company based on assumptions that we believe are reasonable under the circumstances. We believe these allocations are indicative of the costs that Cyclacel would have incurred if it had operated on a standalone basis or as an entity independent of Cyclacel Group plc.

	Year ended March 31,	Nine months ended December 31,	Year ended December 31,	Nine months ended September 30,	
	2003	2003	2004	2004	2005
	\$000	\$000	\$000	\$000	\$000
Merlin Venture Limited	20	15	22	17	19
Cancer Research Technology Limited, formerly Cancer Research Campaign Technology Limited	9				
Kleinwort Benson Life Science Partnership	20	10			
Invesco	38	23	22	16	17

The following fees were outstanding at the period end.

	December 31,		September 30,
	2003	2004	2005
	\$000	\$000	\$000
Merlin Venture Limited	5	6	5
Kleinwort Benson Life Science Partnership	32		
Invesco	55	82	91

Noble Grossart Limited charged fees of \$79,000 for the provision of services in relation to the raising of new funds during the year ended December 31, 2004.

Services provided by CXR Biosciences Limited

CXR Biosciences Limited (Dundee, Scotland, U.K.), a contract research organization, charged costs for research services of \$917,000, \$447,000, \$175,000, \$171,000 and \$1,000 for the year ended March 31, 2003, the nine months ended December 31, 2003, the year ended December 31, 2004, and the nine months ended September 30, 2004 and 2005, respectively. As of December 31, 2003 and December 31, 2004, September 30, 2004 and September 30, 2005 the company owed CXR Biosciences \$1,000, \$1,000, \$Nil and \$Nil, respectively. On August 14, 2003, Mr. Rombotis, the Company's Chief Executive Officer, acquired as part of a private equity financing approximately 2% of the equity of CXR Biosciences.

10 Commitments

Licensing and Research Agreements

The Company has entered into various research, license and collaboration agreements to support its research and development activities. At December 31, 2004 and September 30, 2005, the Company had no financial commitments under these agreements which were unconditional on future performance.

Through December 31, 2004 and September 30, 2005, the Company had no minimum royalty commitments under licensing and research agreements.

Table of Contents**CYCLACEL LIMITED****(A Development Stage Company)****NOTES TO THE FINANCIAL STATEMENTS (contd)****(Information as of September 30, 2005 and for the nine months ended****September 30, 2004 and 2005 is unaudited)***Leases*

In October 2000, the Company entered into a 25 year lease for its new corporate headquarters and research and development facility in Dundee, U.K. The Company also leases a second research facility at the Babraham Research Campus, Cambridge, U.K. The Company entered into this 5 year lease in August 2005. There is an option to terminate the lease on July 31, 2007 at a cost to the Company of \$104,000.

Rent expense, which includes lease payments related to the Company's corporate headquarters and research and development facility and other rent related expenses, was \$395,037, \$344,172, \$603,588, \$452,382 and \$422,590 for the year ended March 31, 2003, the nine months ended December 31, 2003, the year ended December 31, 2004 and the nine months ended September 30, 2004 and 2005, respectively.

As at December 31, 2004 and at September 30, 2005, the Company had \$3,853,000 and \$3,083,772, respectively, of property, plant and equipment financed through long-term obligations. The obligations under the equipment leases are secured by the equipment financed, bear interest at a weighted average rate of 7.2% and are due in monthly and quarterly installments through May 2007.

Annual future minimum payments are as follows at December 31, 2004:

	Capital leases	Operating leases
	\$000	\$000
2005	356	668
2006	300	918
2007	89	918
2008		918
2009		918
Thereafter		779
	745	5,119
Less amount representing interest	(66)	

Present value of future minimum lease payments	679
Less current portion	(311)
	<u>368</u>

Purchase Obligations

The Company had minimum purchase obligations of \$2,976,000 at December 31, 2004 in respect of clinical trials falling due during the year ended December 31, 2005.

11 Contingencies

In the ordinary course of business the Company may be subject to legal proceedings and claims. The Company is not currently subject to any legal proceedings.

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CYCLACEL LIMITED

(A Development Stage Company)

NOTES TO THE FINANCIAL STATEMENTS (contd)

(Information as of September 30, 2005 and for the nine months ended

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12 Shareholders Equity (Deficit)

Preferred Ordinary D shares

In November 2003, 4,076,111 Preferred Ordinary D shares of 0.1p each were issued at \$6.90 for cash consideration of \$28,143,248. There was an associated bonus issue of 12,666,580 Preferred Ordinary D shares of 0.1p each given to existing Preferred Ordinary C shareholders and Ordinary shareholders who participated in the D funding round on a basis of 1:4 and 1:3, respectively, by way of capitalization of part of the additional paid in capital. This was the first closing of two rounds. In January 2004, the Company issued a further 1,162,068 Preferred Ordinary D shares at \$7.44 per share to new investors for net cash proceeds of \$8,646,000 being the second and final closing of the series D funding round. In June 2004, the Company issued a further 61,076 Preferred Ordinary D shares of 0.1p each on the exercise of certain warrants to existing shareholders for net cash proceeds of \$110.

Under the Reorganization and Share Exchange Agreement of June 30, 2004 the Preferred Ordinary D shares of 0.1p each in Cyclacel Limited were exchanged for Preferred Ordinary D shares of 1p each in Cyclacel Group plc.

Winding up

Upon the winding up of the Company, Preferred Ordinary D shareholders are, after all liabilities have been paid, entitled to the greater of:

(i) the subscription price per share multiplied by 1.5 together with a sum equal to a fixed cumulative preferential dividend of 8% per annum compounded quarterly; or

(ii) the *pro-rata* share of the proceeds between the Ordinary shareholders and the Preferred Ordinary D shareholders, as if the Preferred Ordinary D shares had been converted.

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After such payments, the balance of such assets shall be distributed among the ordinary shareholders in proportion to the amounts paid up.

The aggregate liquidation preference of the Preferred Ordinary D shares at December 31, 2003 and 2004 and September 30, 2005 was \$182,454,000 (\$10.90 per share), \$223,617,000 (\$12.45 per share) and \$213,119,000 (\$11.86 per share), respectively. The accumulated dividends at December 31, 2003 and 2004 and September 30, 2005 were \$1,113,000, \$12,824,000 and \$20,248,000, respectively.

Conversion

The Preferred Ordinary D shares may at any time, at the option of the holder, be converted into Ordinary shares at the rate of one Ordinary share for every Preferred Ordinary D share.

Voting

Preferred Ordinary D shares and Ordinary shares rank *pari passu* as regards voting rights.

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CYCLACEL LIMITED

(A Development Stage Company)

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(Information as of September 30, 2005 and for the nine months ended

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Warrants for Preferred Ordinary D shares

On August 31, 2000, the Company issued warrants to loan-note holders to subscribe for shares in the Company. In June 2001, these warrants became exercisable immediately over 62,685 Preferred Ordinary C shares at a price of \$10.64 (£7.53) per share and expire upon the earlier of ten years from the date of original issuance, the listing of the Company's ordinary shares or the sale of substantially all of the Company's assets. In November 2003, all Preferred Ordinary C shares were converted to deferred shares and these warrants became exercisable over 116,260 Preferred Ordinary D shares at a price of \$6.90 (£4.06) per share. These were immediately exercisable and expire upon the earlier of ten years from the date of original issuance, the listing of the Company's ordinary shares or the sale of substantially all of the Company's assets. The warrants were assigned a fair value of \$588,000 which was recognized upon issuance. These warrants have not been exercised. Under the Reorganization and Share Exchange Agreement of June 30, 2004 all of the above warrants are exercisable over shares in Cyclacel Limited which will then be exchanged for shares in Cyclacel Group plc. Pursuant to the Stock Purchase Agreement dated December 15, 2005 between Xcyte and Cyclacel Group plc the shareholders agreed an amendment to the warrant instruments such that the warrants became directly exercisable over Preferred Ordinary D shares in Cyclacel Group plc.

In June 2001, the Company issued warrants to existing shareholders to subscribe for a total of 61,076 Preferred Ordinary C shares. In November 2003, these warrants became exercisable over 61,076 Preferred Ordinary D shares at a price of \$0.0015 (£0.001) per share. The warrants were immediately exercisable and will expire upon the earlier of ten years from the date of original issuance or the sale of the whole of the issued share capital to a third party. The warrants were assigned a fair value of \$627,000 which was recognized upon issuance. All 61,076 warrants were exercised in June 2004.

Ordinary shares

Holders of ordinary shares of 0.1p each are entitled to one vote per share on all matters to be voted upon by the shareholders of the Company. Subject to the preferences that may be applicable to any outstanding shares of Preferred Ordinary D shares, the holders of ordinary shares are entitled to receive notably such dividends, if any, as may be declared by the Board of Directors. No dividends have been declared to date.

Under the Reorganization and Share Exchange agreement of June 30, 2004, the Ordinary Shares of 0.1p each in Cyclacel Limited were exchanged for Ordinary Shares of 1p each in Cyclacel Group plc.

Warrants for Ordinary Shares

In 1999, the Company issued warrants to existing shareholders to subscribe for a total of 23,500 Ordinary shares in the Company, exercisable upon the sale or listing of the Company. The subscription prices are \$0.0015 (0.1p) per share for 16,000 shares and 90% of the sale or listing price for 7,500 shares. The warrants are exercisable upon a listing or a sale of substantially all of the Company's assets and until 30 days after such an event. Under the Reorganization and Share Exchange Agreement of 30 June 2004, the warrants are exercisable over ordinary shares in Cyclacel Limited which will then be exchanged for ordinary shares in Cyclacel Group plc.

Pursuant to the Stock Purchase Agreement dated December 15, 2005 between Xcyte and Cyclacel Group plc the shareholders agreed an amendment to the warrant instruments such that the warrants became directly exercisable over ordinary shares in Cyclacel Group plc.

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(Information as of September 30, 2005 and for the nine months ended

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Deferred Shares

In November 2003, as part of the series D funding round, 2,251,572 Ordinary shares of 0.1p each and 4,540,969 Preferred Ordinary C shares of 0.1p each were converted into 6,792,541 Deferred shares of 0.1p each. During the year ended December 31, 2004, the deferred shares were repurchased for a nominal sum of 1p per holding.

The Deferred shares had the following rights and were subject to the following restrictions:

a) on a return of capital on winding up or otherwise, the holders of Deferred shares shall in that capacity only be entitled to receive an amount equal to the par value thereof and only after payment in respect of each Ordinary share and Preferred Ordinary D share (collectively referred to as paid up shares) the amount paid up thereon plus \$17,750,000 (£10,000,000) per paid up share and the Deferred shares shall not otherwise entitle their holders to receive or participate in any way in any profits or assets of the Company; and

b) the Deferred shares shall not entitle their holders to receive notice of or attend or vote at any general meetings of the Company or participate in any pre-emptive offer on issue or transfer of any shares under these articles.

Share Option Plans

Cyclacel operates a number of share option plans, which provide the opportunity to all eligible individuals to participate in the potential growth and success of the Company. In May 1997, the Company adopted the Cyclacel Limited Share Option Plan (1997 Plan), which was approved by a shareholders resolution in May 1997. Under this plan, any person who is a Director or employee of the Company is eligible to be granted options to purchase Ordinary shares in the Company. In general, options granted under the 1997 Plan may not be exercised before the third anniversary of the date of grant and may not be exercised later than the tenth anniversary of the date of grant. In February 2001, the Company adopted the Cyclacel Limited 2000 Employees Share Option Scheme under the Enterprise Management Incentive Scheme (2000 Plan), which was approved by shareholders resolution in December 2000. Under this plan any person who is a Director (other than a non executive Director) or employee of the Company is eligible to be granted options to purchase shares in the Company.

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Options granted under the 2000 Plan may not be exercised more than ten years after the date of grant and, to the extent not exercised by that time, the Option shall lapse immediately. Options generally vest and become fully exercisable over a three year period. Shares can be issued upon exercise of options under the terms of the Company's employee share option plans up to a maximum of 12.5% of the issued share capital immediately following the closure of the series D funding round in November 2003.

On April 23, 2004, new options over 1,782,770 ordinary shares were granted under the 1997 plan and the 2000 plan to employees at an exercise price of \$2.66 (£1.50) per share of which 415,508 would only be exercisable upon the achievement of certain corporate performance criteria. Subsequent to the issuance of the 415,508 options the Company concluded that the exit related performance criteria were inappropriate and the options were modified to remove the exit valuation criteria. Prior to the grant of 1,782,770 options, 598,692 existing options, with higher exercise prices, were surrendered by these employees. The new options will become exercisable in equal tranches on the first, second and third anniversaries of the date of grant, the earliest option exercise date being April 23, 2005 and the expiration date April 23, 2014.

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The reasons for this event were that the surrendered options, many of which had already vested, had an exercise price significantly in excess of the current fair value of an ordinary share. Therefore the issue of these new options was undertaken to retain existing employees and enable them to share in the future success of the company.

The 598,692 options that were replaced and the 415,508 options that were only exercisable upon the achievement of certain corporate performance criteria are accounted for in accordance with the guidance on the modification of stock-based compensation plans. This results in a stock based compensation charge being accrued by Cyclacel Limited over the period from April 23, 2004 to June 30, 2004.

As a consequence of the reorganization which occurred on June 30, 2004, the 1997 Plan and 2000 Plan rules were amended to provide that the options granted under the plans were, with effect from the reorganization, deemed to be exercisable over the ordinary shares in Cyclacel Group plc and not Cyclacel Limited.

No further options were granted under the 1997 Plan or the 2000 Plan. Up to June 30, 2004 these awards will be accounted for by Cyclacel in accordance with the provisions for variable compensatory plans as set out in Accounting Principles Board Option No. 25, *Accounting for Stock Issued to Employees* (APB 25). From July 1, 2004, these awards have been accounted for by Cyclacel Group plc in accordance with the provisions for variable compensatory plans as set out in APB 25. As the options are related to individuals employed by Cyclacel, the stock based compensation charge related to these options will be allocated to Cyclacel from Cyclacel Group plc.

On July 1, 2004 Cyclacel Group plc adopted a New Option Plan, (the Cyclacel Group Plc Discretionary Share Option Plan), a New SAYE Plan, (the Cyclacel Group Plc Savings Related Share Option Plan) and a New Restricted Share and Co Investment Plan, (the Cyclacel Group Plc Restricted Share and Co Investment Plan). We refer to these plans collectively as the New Share Plans. The New Share Plans replace the 1997 Plan and the 2000 Plan. One Cyclacel limited employee has received grants of options under the New Option Plan. The stock based compensation charge related to these options have been allocated to Cyclacel from Cyclacel Group plc. No options have been awarded under the other plans.

New Option Plan

Options may be granted to selected employees and directors of the group at the discretion of the remuneration committee. The exercise price will not be less than the higher of the middle market quotation for an Ordinary share on the day preceding the date of grant, or the average of such

quotations for the three days preceding the date of grant, and the nominal value of the ordinary shares.

Limits to the number of shares over which options may be granted are as follows:

in any ten year period not more than 10% of the issued Ordinary share capital may be issued or issuable under the New Option Plan or any other employees share scheme; and

in any ten year period not more than 5% of the issued Ordinary share capital may be issued or issuable under the New Option Plan or any discretionary share scheme.

Options will normally be exercisable between three and ten years following the date of grant provided any specified performance target has been satisfied.

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(Information as of September 30, 2005 and for the nine months ended

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A member of senior management, employed by Cyclacel Limited, was granted an option over 90,000 ordinary shares at an exercise price of \$2.66 (£1.50) per share in December 2004. These awards will be accounted for by Cyclacel Group plc in accordance with the provisions for variable compensatory plans as set out in APB 25 and the associated charge allocated to Cyclacel Limited.

Senior Executive Incentive Plan

Mr. Rombotis, the chief executive officer, was granted rights to receive an option to acquire additional ordinary shares in Cyclacel Limited following successful completion by the Company of an initial public offering and listing on a major stock exchange (the original Incentive Option).

The terms of the original Incentive Option were agreed as part of Mr. Rombotis 's original contract of employment with Cyclacel limited dated August 1, 1997, and reflected in an appendix thereto. On July 17, 2004, Cyclacel Group plc entered into an employment contract with Mr. Rombotis 's and granted an amended Incentive Option (the amended Incentive Option).

The principal terms of the original Incentive Option, as agreed pursuant to Mr. Rombotis 's original contract of employment in August 1997 are as follows:

Mr. Rombotis was initially to receive an option to acquire 200,000 ordinary shares in Cyclacel Limited at an exercise price of 0.1 pence per share. The number of shares under the option would be subject to adjustment depending on the valuation of the company immediately following successful completion of an initial public offering on a major stock exchange (including the London Stock Exchange or Nasdaq) (the Relevant Valuation). Depending on the Relevant Valuation, this adjustment could have resulted in Mr. Rombotis receiving an option over shares equivalent to up to 7.5% of the share capital of Cyclacel Limited on a fully diluted basis (subject to reduction to reflect certain shares and options already held by him at the relevant time). Following a listing on a major stock exchange, the option would be exercisable in three equal tranches on the first, second and third anniversaries of the major stock market listing.

The original Incentive Option would have lapsed seven years after the date of its grant.

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The principal terms of the amended Incentive Option granted pursuant to the Senior Executive Incentive Plan (which now replaces the right agreed pursuant to Mr. Rombotis' s original contract of employment in 1997) are as follows:

Mr. Rombotis has a right to acquire 1,720,903 ordinary shares in Cyclacel Group plc at an exercise price of 1 pence per share.

The amended Incentive Option will become exercisable by Mr. Rombotis only following successful completion of the Offering or another listing of part of the ordinary share capital of Cyclacel Group plc on a major stock exchange (including the London Stock Exchange or Nasdaq) or on a sale or change of control of Cyclacel Group plc prior to any such listing and only if Mr. Rombotis remains in employment with the Cyclacel Group (and has not given or been given notice to leave) at the time of exercise (unless Mr. Rombotis has been dismissed without cause).

Provided that Mr. Rombotis remains in employment with the Cyclacel Group, the amended Incentive Option will become exercisable in equal tranches on the first, second and third anniversaries of the

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closing of the offering. The amended Incentive Option will also be exercisable in full on any change of control of Cyclacel Group plc pursuant to a general offer following the closing of this Offering.

The amended Incentive Option will lapse on the earlier of the cessation of employment of Mr. Rombotis with the Cyclacel Group and the tenth anniversary of its grant in June 2004.

The original Incentive Option over 200,000 ordinary shares (as agreed pursuant to Mr. Rombotis's original contract of employment in August 1997) has been accounted for by Cyclacel in accordance with the provisions for variable compensatory plans set out in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). The stock-based compensation charge has been accrued over the expected period to July 16, 2004, being seven years from August 1, 1997, and has been adjusted during each subsequent period to reflect changes in the fair value of the ordinary shares. Following the decision to abort the 2004 IPO, all of the compensation charges in Cyclacel in the nine-month period ended September 30, 2004 and year ended December 31, 2004 were reversed.

The amended Incentive Option granted pursuant to the Senior Executive Incentive Plan (which replaced the rights agreed pursuant to Mr. Rombotis's original contract of employment in August 1997) is also accounted for in accordance with the guidance on the modification of stock based compensation plans. No compensation charge has been accrued in the financial statements of Cyclacel Group plc in respect of this arrangement as it is not considered probable that there will be a successful completion of an offering or the listing of part the ordinary share capital on a major stock exchange (including the London Stock Exchange or Nasdaq) or on a sale or change of control Cyclacel Group plc prior to any such listing.

A summary of the share option activity and related information is as follows:

	Number of Options Outstanding	Weighted average exercise price
Balance at April 1, 2002	743,674	\$ 4.48
Granted	177,000	11.65
Exercised	(2,000)	6.19
Canceled	(4,500)	11.17
Balance at March 31, 2003	914,174	6.25
Exercised	(16,057)	7.45

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Canceled	(10,600)	8.59
	<hr/>	
Balance at December 31, 2003	887,517	7.01
Granted	3,643,673	1.46
Exercised	(71,875)	0.002
Canceled	(880,892)	7.42
	<hr/>	
Balance at December 31, 2004	3,578,423	1.52
Canceled	(378,533)	2.77
	<hr/>	
Balance at September 30, 2005	3,199,890	1.25
	<hr/>	

As a consequence of the reorganization which occurred on June 30, 2004, options granted by the Company over its ordinary shares became exercisable over ordinary shares in Cyclacel Group plc.

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The following table summarizes information about options outstanding at December 31, 2004:

Options outstanding			Options exercisable	
Exercise price	Exercise price	Number outstanding	Weighted Average remaining contractual life	Number exercisable
£	\$			
0.01	0.02	1,720,903	9.50	
1.50	2.89	1,469,937	9.37	
4.53	8.87	5,000	6.17	5,000
4.76	9.17	4,050	6.17	4,050
		3,199,890	9.43	9,050

The options above were granted under Cyclacel share option plans. However, following the reorganization on June 30, 2004, all outstanding options became exercisable over ordinary shares in Cyclacel Group plc.

13 Pension Plans

The Company operates a defined contribution group personal pension plan for substantially all of its employees. Company contributions to the plan totaled \$177,720, \$145,889 and \$206,035 in the year ended March 31, 2003, the nine months ended December 31, 2003, and the year ended December 31, 2004, respectively. Company contributions to the plan totaled \$166,157 and \$144,789 in the nine months ended September 30, 2004 and 2005, respectively.

14 Taxes

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The Company has made a taxable loss in each of the operating periods since incorporation. The income tax credits of \$4,397,000, \$1,486,000, \$2,456,000, \$1,930,000 and \$1,506,000 for the year ended March 31, 2003, the nine months ended December 31, 2003, the year ended December 31, 2004 and the nine months ended September 30, 2004 and 2005, respectively, represent U.K. research and development tax credits receivable against such expenditures in the United Kingdom.

A reconciliation of the (benefit) provision for income taxes with the amount computed by applying the statutory corporation tax rate of 30% to loss before income taxes is as follows:

	Year ended March 31,	Nine months ended December 31,	Year ended December 31,	Nine months ended September 30,	
	2003	2003	2004	2004	2005
	\$000	\$000	\$000	\$000	\$000
Loss before income taxes	(19,939)	(16,463)	(25,198)	(19,130)	(14,915)
Income tax expense computed at statutory corporation tax rate	(5,982)	(4,939)	(7,558)	(5,738)	(4,474)
Disallowed expenses and non-taxable income	906	2,506	4,326	3,261	2,076
Depreciation in excess of capital allowances	7	149	190	124	131
Other temporary differences				1	
Adjustments in respect of prior periods	(2,549)				
Tax losses	5,069	2,284	3,043	2,353	2,268
Research and development tax relief	(2,310)	(1,857)	(3,071)	(2,414)	(1,883)
Research and development tax credit rate difference	462	371	614	483	376
	<u>(4,397)</u>	<u>(1,486)</u>	<u>(2,456)</u>	<u>(1,930)</u>	<u>(1,506)</u>

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Significant components of the Company's deferred tax assets are shown below:

	<u>December 31,</u>		<u>September 30,</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Deferred tax assets (liabilities):			
Net operating loss carryforwards	16,411	20,985	21,269
Depreciation and amortization	(643)	(377)	(220)
	<u>15,768</u>	<u>20,608</u>	<u>21,049</u>
Total net deferred tax assets	15,768	20,608	21,049
Valuation allowance for deferred tax assets	(15,768)	(20,608)	(21,049)
	<u> </u>	<u> </u>	<u> </u>
Net deferred taxes	<u> </u>	<u> </u>	<u> </u>

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and tax purposes. A valuation allowance has been established, as realization of such assets is uncertain.

The Company has, subject to agreement with the H.M. Revenue and Customs, the following tax losses and accumulated tax losses available for carry forward against future operations, which under U.K. tax laws do not expire:

	<u>December 31,</u>		<u>September 30,</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Accumulated tax losses	45,700	70,800	72,000

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MANAGEMENT FOLLOWING THE STOCK PURCHASE

Executive Officers and Directors

Resignation of Xcyte's Current Executive Officers and Directors

Pursuant to the Stock Purchase Agreement, it is contemplated that all of Xcyte's current executive officers and directors (other than Dr. Christopher Henney) will resign immediately prior to the completion of the Stock Purchase.

Executives Officers and Directors of Xcyte Following the Stock Purchase

Xcyte's board of directors is currently comprised of seven directors and is divided into three classes, with each class serving a staggered three-year term. Following the Stock Purchase, the board of directors of Xcyte will continue to be classified into three classes, with each class serving staggered three-year terms.

Following the completion of the Stock Purchase, the board of directors is expected to be comprised of seven members:

five of the directors will be designated by Cyclacel Group plc, who will be Spiro Rombotis, Paul McBarron, Dr. David U Prichard, Sir John Banham and Professor Gordon McVie;

one of the directors will be designated by Xcyte, who will be Christopher Henney; and

one of the directors will be designated by Xcyte and Cyclacel Group plc, who will be mutually agreed upon by Xcyte and Cyclacel Group plc.

Messrs. Henney and McBarron would be in the class of directors whose term expires at the 2006 annual meeting of stockholders. Sir John Banham and Professor Gordon McVie would be in the class of directors whose term expires at the 2007 annual meeting of stockholders. Messrs. Rombotis and U Prichard would be in the class of directors whose term expires at the 2008 annual meeting of stockholders.

The following table lists the names and ages as of January 23, 2006 and positions of the individuals who are expected to serve as directors and executive officers of Xcyte upon completion of the Stock Purchase:

Directors

<u>Name</u>	<u>Age</u>	<u>Position</u>
Spiro Rombotis	48	President and Chief Executive Officer; Director
Paul McBarron	45	Executive Vice President, Finance and Chief Operating Officer; Secretary and Director
Sir John Banham	65	Director
Dr. Christopher Henney	64	Director
Dr. David U Prichard	58	Chairman; Director
Professor Gordon McVie	60	Director

Executive Officers

<u>Name</u>	<u>Age</u>	<u>Position</u>
Dr. Robert Jackson	62	Senior Vice President and Chief Scientific Officer
Dr. Judy Chiao	45	Vice President, Clinical Development and Regulatory Affairs
Dr. Robert Westwood	62	Vice President, Chemistry and Preclinical Development
Gill Christie	48	Director, Human Resources
Dr. Susan Davis	41	Associate Director, Business Development
Professor David Glover	57	Chief Scientist, Polgen Division

Table of Contents**Directors**

Spiro Rombotis. Mr. Rombotis joined Cyclacel in August 1997 and has over 23 years of experience with pharmaceutical and biotechnology companies. He was previously Vice President of International Operations and Business Development, Managing Director, Europe and Director, Japanese joint venture, at The Liposome Company, Inc. Mr. Rombotis also served as Vice President of Pharmaceuticals for Central and Eastern Europe and as Director of International Marketing at Bristol-Myers Squibb Company. He was Head of European Marketing and Sales and Head of Corporate Development at Centocor, Inc. as well as working in Business Development at Novartis AG. He holds a B.A. from Williams College and an M.B.A. and Master's degree in Hospital Management with honors, from the Kellogg Graduate School of Management where he serves on the Kellogg Biotech Advisory Board.

Paul McBarron. Mr. McBarron joined Cyclacel in January 2002 with 13 years of experience as a financial executive with several pharmaceutical companies. Since 1996 he was a senior member of the finance team at Shire Pharmaceuticals plc, where he held the positions of Director of Corporate Finance and Group Financial Controller. He joined Shire when it was an emerging public company employing less than 100 people. He was previously employed in various financial positions at Sterling Drug and SmithKline Beecham and qualified as a chartered accountant with Ernst & Young.

David U Prichard, Ph.D. Dr. U Prichard joined the Board of Directors of Cyclacel Group plc in May 2004. He is currently President of Druid Consulting LLC, a pharmaceutical and biotechnology-consulting firm, providing customized services to life sciences clients in the United States and Europe. He is also a Venture Partner of Care Capital LLC (Princeton) and Red Abbey Venture Partners (Baltimore) private equity providers. Previously, he was Chief Executive Officer of 3-Dimensional Pharmaceuticals, Inc. from 1999 to 2003. In addition, he held a variety of positions within the pharmaceutical and biotechnology industries, including, President and Chairman of Research and Development for SmithKline Beecham Pharmaceuticals; Executive Vice President and International Research Director, and a Member of the Board of Zeneca Pharmaceuticals; General Manager, Research Department, ICI Pharmaceuticals, and Vice President Biomedical Research, ICI Pharmaceuticals; and Senior Vice President and Scientific Director for Nova Pharmaceutical Corporation. He is a director of Invitrogen Corporation, SR Pharma, BioAdvance (Philadelphia), the Life Sciences Research Foundation in Baltimore, Maryland, Lynx Therapeutics and Ben Franklin Technology Partners of Southeastern Pennsylvania. He is a Non-executive Chairman of Oxagen. He is also Chairman of the Board of Directors for the Pennsylvania Biotechnology Association. From 1992 to 1997 he was a member of the board of the Biotechnology Industry Organization (BIO). He received a B.Sc. in Pharmacology from University of Glasgow in 1970 and a Ph.D. in Pharmacology from University of Kansas in 1975.

Sir John Banham. Sir John Banham is currently Chairman of Spacelabs Healthcare, Inc. and Chairman-designate of Johnson Matthey plc, senior non-executive director of AMVESCAP plc and non-executive director of Merchant Trust plc. He is past Director General of the Confederation of British Industry (CBI) and past Chairman of Whitbread plc, Geest plc, ECI Partners LLP, Tarmac plc and Kingfisher plc. His public sector appointments comprise first Controller of the Audit Commission and first Chairman of the Local Government Commission for England. He was formerly Honorary Treasurer of the United Kingdom's Cancer Research Campaign prior to its merger with Imperial Cancer Research. He is a graduate of Cambridge University in Natural Sciences and has honorary degrees from a number of British universities.

Christopher S. Henney, Ph.D., D.Sc. Dr. Henney has served as one of the Xcyte's directors since March 2005, and will continue on as director of the combined company after the Stock Purchase. Previously, Dr. Henney co-founded three major publicly held U.S. biotechnology companies, Immunex, ICOS and Dendreon, and held executive positions at each company. From 1995 to January 2003, Dr. Henney was Chairman and Chief Executive Officer of Dendreon Corporation. Dr. Henney currently serves as director of Biomira, Inc. and Bionomics Ltd, each a public biotechnology company. Dr. Henney received a Ph.D. in experimental pathology from the University of Birmingham and a D.Sc. from the same university for contributions to the field of immunology.

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Professor Gordon McVie, D.Sc. (Hon), MBChB, MRCP, M.D., FRCP, FRCPS, FmedSci. Professor McVie is currently Chief Executive Officer and a director of Cancer Intelligence Limited, a cancer consulting company, former Joint Director General of Cancer Research UK and former Director General of the Cancer Research Campaign. Previously, he was Clinical Research Director at the Netherlands Cancer Institute in Amsterdam. From 1976 to 1979 he was the first NHS Consultant Medical Oncologist in Scotland at The Cancer Research Campaign Unit in Glasgow. He is the European editor of JNCI (Journal of the National Cancer Institute) and Senior Consultant to the European Institute of Oncology, Milan, Italy. He has authored five books and over 200 research papers.

Executive Officers

Judy Chiao, M.D. Dr. Chiao joined Cyclacel in December, 2004. She was previously Vice President, Oncology Clinical Research and Development at Aton Pharma Inc, a wholly owned subsidiary of Merck & Co. Prior to Aton's acquisition by Merck she was responsible for leading the clinical development of SAHA, a histone deacetylase inhibitor, in Phase II development for hematologic and solid tumor indications. She was a Senior Medical Reviewer, Division of Oncology Drug Products, Center for Drug Evaluation and Research, U.S. Food and Drug Administration, where she was the agency's primary reviewer for a range of oncology drugs and regulatory subjects. She also presented the FDA's views in several New Drug Application reviews at Oncology Drug Advisory Committees. She earned her Bachelor of Science in Chemistry (*summa cum laude*) at Columbia University, New York, and received her medical degree from Harvard Medical School. Her internship and residency in internal medicine was carried out at Columbia-Presbyterian Medical Center, New York and she held a Research Fellowship in Molecular Pharmacology at Sloan Kettering Institute for Cancer Research and a Clinical Fellowship in Hematology/Oncology at Memorial Sloan Kettering Cancer Center both in New York City. She has also been a member of a number of FDA related working groups and has also been a Core Member of the Pharsight-FDA Cooperative Research and Development Agreement (CRADA) on clinical trial simulation and population pharmacokinetic analysis software for drug development.

Gill Christie. Ms. Christie joined Cyclacel in January 2001. She was previously Human Resources Manager with Axis-Shield plc (formerly Shield Diagnostics) and a lecturer in Human Resource Management at Abertay University, Dundee. Before gaining an M.Sc. in Human Resource Management from Abertay University, she held scientific posts in Medical Microbiology at Ninewells Hospital, Unilever Research Laboratories and Unipath Ltd.

Susan Davis, Ph.D. Dr. Davis joined Cyclacel in September 2000. She was previously Business Development Manager, Fluorescence Ltd.; Group Leader Screening, RiboGene, Inc. (now Questcor Pharmaceuticals, Inc.) where she played a key role in HTS-centered anti-infective research collaborations with Abbott Pharmaceuticals and Dainippon; and Project Leader, Biochemical Research, Sandoz Chemicals Ltd. She holds a Ph.D. in Biochemistry from the University of Kent at Canterbury and a B.Sc. in Applied Biology from the University of Wales.

Professor David Glover, FRSE. Professor Glover joined Cyclacel in November 1999. He is Arthur Balfour Professor of Genetics and Chairman in the Department of Genetics at the University of Cambridge. He is also Director of Cancer Research UK Cell Cycle Genetics Research Group. He was previously Professor of Molecular Genetics at the University of Dundee and Professor and Head of Biochemistry at Imperial College, London. Professor Glover discovered and named the Polo and Aurora mitotic protein kinases and co-ordinated the former European Drosophila Genome Project, the European academic consortium contributing to sequencing the fruit fly genome. He is a member of the European Molecular Biology Oncology and has authored over 200 publications and patents.

Robert Jackson, Ph.D. Dr. Jackson joined Cyclacel in January 2001 as Executive Director, Research and Development. He previously was the Director of Research and Development and a member of the Board of Directors at Celltech Group plc. He was also the Executive Director of Research and Development, the Chief

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Operating Officer and a member of the Board of Directors at Chiroscience Group plc, which was acquired by Celltech in 1999. Before these appointments, he was Vice President of Research and Development at Agouron Pharmaceuticals, Inc., and headed cancer research at DuPont Pharmaceuticals and Warner-Lambert Company. He holds a B.A. from the University of Cambridge and a Ph.D. from the University of London, Institute of Cancer Research.

Robert Westwood, Ph.D. Dr. Westwood joined Cyclacel in July 2000. He is former Professor of Bioorganic Chemistry at the University of Hull and Director of the Institute for Chemistry in Industry. He spent 25 years at Aventis Pharma (Hoechst Marion Roussel) most recently as Head of Immunology Research in Paris and Director of Research, HMR in Denham, U.K. where he was responsible for biotech collaborations with Vertex Pharmaceuticals, Inc. and Ariad Pharmaceuticals, Inc.

Executive Compensation and Option Grants

None of the individuals who will serve as executive officers following the Stock Purchase (including Spiro Rombotis, Paul McBarron, Dr. Robert Jackson, Dr. Judy Chiao, Gill Christie, Dr. Susan Davis, Professor David Glover and Dr. Robert Westwood) were employed by Xcyte during the fiscal years ended 2005, 2004 or 2003. As a result, Xcyte did not pay any compensation to such individuals. Additionally, none of such individuals hold options to purchase stock of Xcyte.

Compensation of Directors

Non-employee directors receive a director fee from Xcyte for their services as members of the Board of Directors and any committee of the Board of Directors in the amount of an annual retainer of \$20,000, plus \$1,000 for each board meeting attended in person, \$500 for each board meeting attended via teleconference or videoconference, and \$500 for each committee meeting attended. They are reimbursed for certain customary business expenses in connection with attending Board and committee meetings. The Chairman of Xcyte's Board also receives an additional \$60,000 annual retainer for his service as Chairman.

Xcyte has also granted non-employee directors options to purchase shares of Xcyte common stock. In March 2005, in connection with his election to the Board of Directors, Dr. Henney was granted an option to purchase 10,000 shares of Xcyte common stock under the 2003 Stock Plan. In addition, in March 2005, in connection with his election to the Board of Directors as Chairman, Dr. Henney was granted an option to purchase 200,000 shares of Xcyte common stock under the 2003 Stock Plan. This option vests monthly over a three-year period from the date of grant.

On October 4, 2005, Xcyte approved the execution of an Acquisition Bonus Agreement with Christopher S. Henney, Ph.D., D.Sc., chairman of Xcyte's board of directors. Pursuant to this agreement, upon the completion of the Stock Purchase or any other merger, acquisition or change of control of Xcyte, Xcyte will pay Dr. Henney a bonus in an amount equal to \$250,000 for his service as chairman in connection therewith, less applicable withholding taxes.

Agreements with Executive Officers Following the Stock Purchase

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Xcyte has not entered into employment agreements with any of the individuals who will act as executive officers of Xcyte following the Stock Purchase. However, the following individuals currently have service and employment agreement arrangements with Cyclacel Group plc or Cyclacel as described below. Following the Stock Purchase, Xcyte expects to enter into new employment agreements with Mr. Rombotis and Mr. McBarron. The terms of these agreements have not yet been finally determined, but will be determined through negotiation between Mr. Rombotis and Xcyte and Mr. McBarron and Xcyte following the Stock Purchase. Xcyte expects that each of the other individuals listed below will enter into a new employment agreement with Cyclacel and Xcyte on substantially the same, or similar, terms as those described below.

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The following executive directors have service agreements with Cyclacel Group plc, which are dated July 1, 2004 and provide as follows:

Spiro Rombotis is Cyclacel Group plc's Chief Executive Officer. His service agreement is terminable by either party giving 12 months' notice in writing. If he leaves Cyclacel Group plc as a good leaver within the first 12 months following its inclusion for quotation on the Nasdaq National Market and at the end of his notice period, despite his best endeavors he has failed to secure alternative employment reasonably suitable to his abilities and experience, Cyclacel Group plc will pay him 12 monthly payments equivalent to one twelfth of his annual salary and benefits as at the date of termination of his employment. He receives an annual salary of £220,225 (\$388,212). At Cyclacel Group plc's absolute discretion, he is entitled to an annual bonus. On the achievement by Cyclacel Group plc of a listing on the London Stock Exchange or similar major stock market or completion of a transaction similar to that currently contemplated he is entitled to a bonus of \$185,000. This bonus payment is in addition to his entitlement under the Senior Executive Incentive Plan. He is entitled to membership in a medical insurance scheme (providing cover for his spouse and children under 18), permanent health insurance, life insurance and director's liability insurance. In addition he receives an annual car allowance of £9,000 (\$15,865). He is eligible to join Cyclacel Group plc's Group Personal Pension Scheme under which Cyclacel Group plc matches individual contributions up to a maximum of six percent of salary subject to statutory limits. He is entitled to 25 days' holiday in addition to such statutory or public holidays as Cyclacel Group plc may specify each year.

Paul McBarron is Cyclacel Group plc's Chief Financial Officer (Principal Financial and Accounting Officer) and Cyclacel Group plc Secretary. His service agreement is terminable by either party giving six months' notice in writing. He receives an annual salary of £151,598 (\$267,236). At Cyclacel Group plc's absolute discretion, he is entitled to an annual bonus. On the achievement by Cyclacel Group plc of a listing on the London Stock Exchange or similar major stock market or completion of a transaction similar to that currently contemplated he is entitled to a bonus of \$100,000. This bonus payment is in addition to his entitlement under the Senior Executive Incentive Plan. He is entitled to membership in a medical insurance scheme (providing cover for his spouse and children under 18), permanent health insurance, life insurance and directors liability insurance. In addition he receives an annual car allowance of £8,000 (\$14,102). He is eligible to join Cyclacel Group plc's Group Personal Pension Scheme under which Cyclacel Group plc matches individual contributions up to a maximum of six percent of salary subject to statutory limits. He is entitled to 25 days' holiday in addition to such statutory or public holidays as Cyclacel Group plc may specify each year.

Dr. Robert Jackson is Cyclacel Group plc's Chief Scientific Officer. His service agreement is terminable by either party giving six months' notice in writing. He receives an annual salary of £146,088 (\$257,524). At Cyclacel Group plc's absolute discretion, he is entitled to an annual bonus. Upon completion of this transaction Dr. Jackson will be entitled to a bonus of \$75,000. He is entitled to membership in a medical insurance scheme (providing cover for his spouse and children under 18), permanent health insurance, life insurance and director's liability insurance. In addition he receives an annual car allowance of £8,000 (\$14,102). He is eligible to join Cyclacel Group plc's Group Personal Pension Scheme under which Cyclacel Group plc matches individual contributions up to a maximum of six percent of salary subject to statutory limits. He is entitled to 25 days' holiday in addition to such statutory or public holidays as Cyclacel Group plc may specify each year.

The following non-executive directors have agreed terms of appointment with Cyclacel Group plc which are dated July 1, 2004 and provide as follows. Following the Stock Purchase, Xcyte will initially compensate directors in the manner it currently does; however, following the Stock Purchase, it may implement changes in such policies.

Sir John Banham is Cyclacel Group plc's non-executive Chairman. His appointment letter states that he will be appointed for an initial period of three years, although his appointment may be terminated by either party giving the other three months' notice in writing. He is required to provide his services to Cyclacel Group plc for 24 days per year. He receives an annual fee of £25,000 (\$44,070). His reasonable expenses are reimbursed by Cyclacel Group plc.

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Dr. David U Prichard is an independent non-executive director of Cyclacel Group plc. His appointment letter states that he will be appointed for an initial period of three years, although his appointment may be terminated by either party giving the other one month's notice in writing. He is required to provide his services to Cyclacel Group plc for 10 days per year. He receives an annual fee of \$17,500 and in addition, he receives \$750 for attendance in person at each Board meeting and \$375 for telephone attendance at each Board meeting and committee meeting that he is required to attend that is not on the same date as a Board meeting. His reasonable expenses are reimbursed by Cyclacel Group plc.

Professor Sir David Lane is a non-executive director of Cyclacel Group plc. His appointment letter states that he will be appointed for an initial period of two years, although his appointment may be terminated by either party giving the other one month's notice in writing. He is required to provide his services to Cyclacel Group plc for 12 days per year. He receives an annual fee of £10,000 (\$17,628) and in addition, he receives £330 (\$581) for attendance in person at each Board meeting and £165 (\$291) for telephone attendance at each Board meeting and committee meeting that he is required to attend that is not on the same date as a Board meeting. His reasonable expenses are reimbursed by Cyclacel Group plc.

U.S. dollar amounts are presented solely for your convenience in this section at the rate of £1.00 = \$1.76280, the noon buying rate in The City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York on September 30, 2005. These translated amounts should not be construed as representations that the pounds sterling amounts could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

Related Party Transactions of Cyclacel Management and 5% Stockholders

On October 4, 2005, Xcyte approved the execution of an Acquisition Bonus Agreement with Christopher S. Henney, Ph.D., D.Sc., chairman of Xcyte's board of directors. Pursuant to this agreement, upon the completion of the Stock Purchase or any other merger, acquisition or change of control of Xcyte, Xcyte will pay Dr. Henney a bonus in an amount equal to \$250,000, less applicable withholding taxes.

Cancer Research/Cambridge University/Professor David Glover

Cyclacel has entered into an option agreement with Cancer Research Ventures Limited relating to research of Professor David Glover of the University of Cambridge that is funded by Cancer Research UK. This agreement grants Cyclacel an exclusive option to obtain exclusive, world-wide, royalty-bearing licenses in the field of diagnostic and therapeutic products covering patents, patent applications and know-how resulting from research funded by Cancer Research and supervised by Professor Glover that relates to the genome of *drosophila melanogaster*. The option must be exercised within a period of time following Cyclacel's receipt of notice of particular inventions. The optioned rights could assist Cyclacel in identifying genes involved in mitosis that could be used as targets for small molecule drug design. This agreement also grants Cyclacel a nonexclusive license to know-how resulting from research funded by Cancer Research and supervised by Professor Glover that relates to the genome of *drosophila melanogaster*. Cancer Research Ventures and the University retain the right to use the intellectual property for research purposes. Cyclacel paid an up-front fee and agreed to make annual payments during the option term. Cyclacel may terminate the option for convenience and either party may terminate it for the default of the other.

Cancer Research Technology Limited

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Cyclacel has also entered into an option agreement with Cancer Research Technology Limited (formerly Cancer Research Campaign Technology Limited), which is a wholly owned subsidiary of Cancer Research UK. The option relates to inventions funded by Cancer Research in a field consisting of therapeutics based on specific identified gene expressions and their relation to the cell cycle. This agreement is related to work done in the academic laboratory of Professor David Lane. Under the agreement Cyclacel has the right to require Cancer

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Research to assign or exclusively license to Cyclacel the relevant intellectual property in the defined field. Although Cancer Research agrees to attempt not to unduly encumber its rights in the field, Cyclacel's rights are subject to any encumbrances on Cancer Research's rights. The option must be exercised within a period of time following Cyclacel's receipt of notice of particular inventions. The option is also subject to royalty-sharing or other arrangements made by Cancer Research but no other payments remain owing. The option agreement expires in 2005.

CXR Biosciences Limited

CXR Biosciences Limited (Dundee, Scotland, UK), a contract research organization, charged costs for research services of \$917,000, \$447,000, \$175,000, \$171,000 and \$1,000 for the year ended March 31, 2003, the nine months ended December 31, 2003, the year ended December 31, 2004, and the nine months ended September 30, 2004 and 2005, respectively. As of March 31, 2003, December 31, 2003 and December 31, 2004, September 30, 2004 and September 30, 2005 the company owed CXR Biosciences \$63,000, \$1,000, \$1,000, \$Nil and \$Nil respectively. On August 14, 2003 Mr. Rombotis acquired as part of a private equity financing approximately 2% of the equity of CXR Biosciences. Mr. Rombotis does not participate in Cyclacel's purchasing decisions with regard to CXR Biosciences which are subject to competitive tender from multiple vendors.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined balance sheet as of September 30, 2005 and the unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2005 and the year ended December 31, 2004 give effect to the proposed Stock Purchase by Xcyte and give effect to certain capitalization transactions of Cyclacel coincident with the Stock Purchase. The pro forma information is based on the historical consolidated financial statements of Xcyte and Cyclacel after giving effect to the proposed combination using the purchase method of accounting, and applying the estimates, assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information.

The total estimated purchase price, calculated as described in Note A to this unaudited pro forma condensed combined financial information, is allocated to the net tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values as of the completion of the transaction. For accounting purposes, Cyclacel is considered to be acquiring Xcyte. Accordingly, the purchase price is allocated among the fair values of the assets and liabilities of Xcyte. A final determination of these estimated fair values will be based on the actual net tangible and intangible assets acquired and liabilities assumed as of the date of completion of the transaction. A final determination of the purchase price will be based on the fair values of Xcyte common stock, Xcyte preferred stock and Xcyte stock options outstanding as of the date of completion of the transaction.

As described in Note C to this unaudited pro forma condensed combined financial information, coincident with the Stock Purchase, Cyclacel will restructure certain debts including the forgiveness of intercompany debt with Cyclacel Group plc, which had a balance of \$10,938,000 as of September 30, 2005.

For pro forma purposes, we combined the unaudited balance sheet of Xcyte as of September 30, 2005 with the unaudited balance sheet of Cyclacel as of September 30, 2005 as if the proposed transaction had occurred on September 30, 2005. We combined the unaudited statement of operations of Xcyte for the nine months ended September 30, 2005 with the unaudited statement of operations of Cyclacel for the nine months ended September 30, 2005 and we combined the statement of operations of Xcyte for the year ended December 31, 2004 with the statement of operations of Cyclacel for the year ended December 31, 2004 as if the proposed transaction had occurred on January 1, 2004.

The unaudited pro forma condensed combined financial information has been prepared by Xcyte and Cyclacel management for illustrative purposes and is not intended to represent the condensed combined financial position or results of operations in future periods or what the results actually would have been had Xcyte and Cyclacel been a combined company during the specified periods. The unaudited pro forma condensed combined financial information and accompanying notes should be read in conjunction with (i) the Cyclacel historical financial statements and notes thereto for the year ended December 31, 2004 and the nine months ended September 30, 2005 included elsewhere herein, and (ii) the historical financial statements for the year ended December 31, 2004 and notes thereto included in Xcyte's Annual Report on Form 10-K for the year ended December 31, 2004 and the historical financial statements for the nine months ended September 30, 2005 included in Xcyte's Quarterly Report on Form 10-Q, in each case, filed with the Securities and Exchange Commission and incorporated herein by reference and attached hereto as Annex F and Annex G, respectively.

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as of September 30, 2005

(in thousands)

	<u>Cyclacel Historical</u>	<u>Xcyte Historical</u>	<u>Pro Forma Adjustments</u>	<u>Note B</u>	<u>Note C</u>	<u>Pro Forma Combined</u>
Assets						
Current assets:						
Cash and cash equivalents	\$ 5,264	\$ 14,020	\$			\$ 19,284
Short-term investments	13,595	12,702				26,297
Acquired technology held for sale			5,000	(1)		5,000
Prepays and other current assets	2,772	647				3,419
	<u>21,631</u>	<u>27,369</u>	<u>5,000</u>			<u>54,000</u>
Total current assets	21,631	27,369	5,000			54,000
Property, plant and equipment, net	2,200	1,877	(97)	(2)		3,980
Goodwill			4,815	(3)		4,815
Other non-current assets		949	(71)	(4)		646
			(232)	(5)		
	<u>\$ 23,831</u>	<u>\$ 30,195</u>	<u>\$ 9,415</u>		<u>\$</u>	<u>\$ 63,441</u>
Liabilities and Shareholders Equity						
Accounts payable	\$ 1,369	\$ 882	\$			\$ 2,251
Accrued and other current liabilities	1,778	1,306	400	(6)		5,009
			1,525	(7)		
Amounts due to parent	10,938				\$ (10,938)	
Derivative liability		2,282				2,282
Other accrued restructuring charges		886	77	(8)		963
Current portion of deferred revenue		47	(47)	(9)		
Current portion of equipment financings	251	2,987				3,238
Current portion of government loan	441					441
	<u>14,777</u>	<u>8,390</u>	<u>1,955</u>		<u>(10,938)</u>	<u>14,184</u>
Total current liabilities	14,777	8,390	1,955		(10,938)	14,184
Other accrued restructuring charges, less current portion		1,793				1,793
Deferred revenue, less current portion		727	(727)	(9)		
Equipment financings, less current portion	146	1,027				1,173
Other liabilities		62				62
Shareholders equity:						
Preferred stock	30	2				32
Common stock, \$.001 par value	2	19	(19)	(10)		101
			99	(11)		
Additional paid-in capital	116,063	170,540	(170,540)	(10)	10,938	143,688
			(99)	(11)		
			(2)	(10)		
			26,383	(10)		
Deferred stock compensation		(329)	329	(10)		
Accumulated other comprehensive loss	(2,808)	(23)	23	(10)		(2,808)
Accumulated deficit	(104,379)	(152,013)	152,013	(10)		(104,379)

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Total shareholders' equity	8,918	18,196	8,187	10,938	46,229
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	\$ 23,831	\$ 30,195	\$ 9,415	\$	\$ 63,441
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS****Nine Months Ended September 30, 2005****(in thousands, except per share amounts)**

	<u>Cyclacel Historical</u>	<u>Xcyte Historical</u>	<u>Pro Forma Adjustments</u>	<u>Note B</u>	<u>Pro Forma Combined</u>
Revenues:					
R&D collaboration	\$ 168	\$ 4	\$ (4)	(13)	\$ 168
Grant and license income	118	35			153
Total revenues	286	39	(4)		321
Operating expenses					
Research and development	12,095	13,549	(31)	(14)	25,613
General and administrative	3,656	6,135	(22)	(14)	9,769
Provision for asset impairment and other restructuring costs		6,454			6,454
Total operating expenses	15,751	26,138	(53)		41,836
Loss from operations	(15,465)	(26,099)	49		(41,515)
Other income (expense):					
Interest income	604	756			1,360
Interest expense	(54)	(242)			(296)
Change in valuation of derivative		(240)			(240)
Loss on sale of equipment		(5)			(5)
Other income (expense), net	550	269			819
Loss before taxes	(14,915)	(25,830)	49		(40,696)
Income tax benefit	1,506				1,506
Net loss	(13,409)	(25,830)	49		(39,190)
Dividends	(8,910)				(8,910)
Net loss applicable to common shareholders	\$ (22,319)	\$ (25,830)	\$ 49		\$ (48,100)
Basic and diluted net loss per common share		\$ (1.31)			\$ (0.49)
Shares used in calculation of basic and diluted net loss per common share		19,643	78,890	(12)	98,533

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS****for the Year Ended December 31, 2004****(in thousands, except per share amounts)**

	<u>Cyclacel Historical</u>	<u>Xcyte Historical</u>	<u>Pro Forma Adjustments</u>	<u>Note B</u>	<u>Pro Forma Combined</u>
Revenues:					
R&D collaboration	\$ 102	\$ 27	\$ (27)	(13)	\$ 102
Grant and license income	823	35			858
Total revenues	925	62	(27)		960
Operating expenses:					
Research and development	20,332	19,698	(46)	(14)	39,984
General and administrative	3,554	6,876	(4)	(14)	10,426
Total operating expenses	23,886	26,574	(50)		50,410
Loss from operations	(22,961)	(26,512)	23		(49,450)
Other income (expense):					
Interest income	1,425	421			1,846
Interest expense	(112)	(12,770)			(12,882)
Costs in association with proposed IPO	(3,550)				(3,550)
Change in valuation of derivative		(727)			(727)
Other income (expense), net	(2,237)	(13,076)			(15,313)
Loss before taxes	(25,198)	(39,588)	23		(64,763)
Income tax benefit	2,456				2,456
Net loss	(22,742)	(39,588)	23		(62,307)
Dividends	(11,053)	(8,973)			(20,026)
Net loss applicable to common shareholders	\$ (33,795)	\$ (48,561)	\$ 23		\$ (82,333)
Basic and diluted net loss per common share		\$ (3.90)			\$ (0.90)