XCYTE THERAPIES INC
Form S-4
January 23, 2006
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As filed with the Securities and Exchange Commission on January 23, 2006

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

Under

The Securities Act of 1933

XCYTE THERAPIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**2834**	**91-1707622**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

1124 Columbia Street, Suite 130

Seattle, Washington 98104

(206) 262-6200

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

Robert L. Kirkman

President and Chief Executive Officer

Xcyte Therapies, Inc.

1124 Columbia Street, Suite 130

Seattle, Washington 98104

(206) 262-6200

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

Copies to:

Patrick Schultheis, Esq.	**Spiro G. Rombotis**	**Daniel P. Cunningham, Esq.**
Burke F. Norton, Esq.	**Chief Executive Officer**	**Allen & Overy LLP**
Wilson Sonsini Goodrich & Rosati	**Cyclacel Group plc**	**1221 Avenue of the Americas**
Professional Corporation	**James Lindsay Place,**	**New York, New York 10020**
701 Fifth Avenue, Suite 5100	**Dundee Technopole**	**(212) 610-6300**
Seattle, WA 98104	**Dundee DD1 5JJ, United Kingdom**	
(206) 883-2500	**+44 1382 206 062**	

Approximate date of commencement of proposed sale to the public: Upon completion of the Stock Purchase described herein.

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

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

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

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, $0.001 par value	87,654,203	Not Applicable	$8,900,000	$953

(1) Based upon the estimated maximum number of shares of common stock, $0.001 par value per share, of Xcyte Therapies, Inc., that are expected to be issued in connection with the transactions described herein, assuming 19,672,393 shares of Xcyte common stock are outstanding immediately prior to the completion of the transactions described herein.

(2) Estimated solely for purposes of calculation of the registration fee in accordance with Rule 457(f)(2) of the Securities Act of 1933, as amended, based upon the aggregate book value of Cyclacel share capital computed as of September 30, 2005, the latest practicable date prior to the date of filing of this registration statement. Cyclacel is a private company and no market exists for its share capital.

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

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The information in the accompanying document is not complete and may be changed. Xcyte may not sell its securities pursuant to the proposed transactions until the Registration Statement filed with the Securities and Exchange Commission is effective. The accompanying document is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, January 23, 2006

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 , on , 2006 at local time, at which Xcyte 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 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 , 2006 and is first being mailed to stockholders of Xcyte on or about , 2006.

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XCYTE THERAPIES, INC.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON , 2006

To the Stockholders of Xcyte Therapies, Inc.:

We will hold a special meeting of holders of Xcyte Therapies, Inc. common stock at , on , 2006 at 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.

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 , 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

, 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 , 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 202.

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 of this document.

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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.

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?

A: Subject to satisfaction waiver of all conditions, we expect to complete the Stock Purchase promptly 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 63.

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 74.

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 at a.m. local time on , 2006. Record holders of Xcyte common stock as of the record date for the special meeting (, 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 202.

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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 202. 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

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, we believe Cyclacel s 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 186.

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 63)

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;

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 78.

Termination of the Stock Purchase Agreement (see page 69)

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

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 70)

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 65)

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 72)

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 171)

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, each of whom is currently a director of Cyclacel Group plc, one other director to be designated by 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 57)

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.

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 60)

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 56)

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 , 2006 the last trading day prior to the date of this document, Xcyte common stock closed at $ per share.

You should obtain current market quotations.

Regulatory Matters (see page 56)

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 60)

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 195)

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.

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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)	

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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For the year ended December 31, 2004

	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

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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 140. 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 financial statements, prepared in accordance with U.S. generally accepted accounting principles, 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 financial statements included elsewhere in this document. 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 December 31,	Year Ended December 31,	Nine Months Ended September 30,		Period From August 13, 1996 (Inception) to September 30,
	2001	2002	2003	2003	2004	2004	2005	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 September 30,
	2001	2002	2003	2003	2004	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

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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 178 of this document 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
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
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

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

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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 of this document.

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
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
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)

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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. The Nasdaq Appeals Panel has not rendered a decision. The potential delisting of Xcyte common stock will be stayed until the Nasdaq Appeals Panel makes a determination.

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

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

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

Date	Xcyte Common Stock
December 14, 2005	$ 0.32
, 2006	$

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 186. 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 57.

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

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. The Nasdaq Appeals Panel has not rendered a decision. The potential delisting of Xcyte common stock will be stayed until the Nasdaq Appeals Panel makes a determination.

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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 15g-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 186.

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.

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.

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.

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 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 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

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.

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.

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 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

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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, Millenium 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.

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;

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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.

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

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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 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.

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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.

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

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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, l estimates, could, would, will, may, can and similar expressions identify forward-looking statements. These forward-looking statements ar 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 of this document.

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THE STOCK PURCHASE

Described in this section and the section entitled The Stock Purchase Agreement beginning on page 61 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 24th 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.

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.

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

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,

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

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

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 57 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 Interests of Certain Directors, Officers and Affiliates on page 57.

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 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:

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 we 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
	Low	Mean	Median	High	Cyclacel
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)

	Selected European Companies				Equity Value and Enterprise Value Implied by consideration paid in the Stock Purchase for
	Low	Mean	Median	High	Cyclacel
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

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/II Biotech M&A Transactions. SG Cowen & Co., LLC reviewed the financial terms, to the extent publicly available, of selected Phase I/II 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.
Aptamera, Inc./Antisoma plc

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

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
	Low	Mean	Median	High	Cyclacel
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

(US$ in millions)	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

(US$ in millions)				
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

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

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 in the calendar quarter of 2006. 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

After the completion of the Stock Purchase, Cyclacel Group plc intends to effect a members voluntary liquidation in accordance with its memorandum and articles of association and the applicable laws of England and Wales. In connection with this liquidation, Cyclacel Group plc would distribute all of its assets to its shareholders and creditors. The primary asset to be distributed would be the shares of Xcyte common stock issued to it in the Stock Purchase, although Cyclacel Group plc expects to have sufficient cash on hand to pay its creditors. This liquidation requires the approval of at least 75% of Cyclacel Group plc s outstanding share capital

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and 75% of its preferred shares voting as a separate class. After the completion of the liquidation, the shareholders of Cyclacel Group plc will become holders of the shares of Xcyte common stock issued in the Stock Purchase. Cyclacel Group plc has agreed, under the Stock Purchase Agreement, to complete the liquidation as soon as reasonably possible after the Stock Purchase.

The board of directors of Cyclacel Group plc has convened an extraordinary general meeting to be held on , 2006, at which a resolution to put the company into a members voluntary liquidation and appoint a liquidator for this purpose will be proposed to its shareholders. Prior to such meeting, the directors of Cyclacel Group plc will be required to swear a declaration as to the company s solvency.

Once the liquidator has been appointed by the shareholders, there will then follow a period of 30 days during which the liquidator will invite creditors of the company to prove any debts so that they may be satisfied prior to the distribution of the company s assets to its shareholders. It is also expected that completion of the Stock Purchase will occur during this period, upon which Cyclacel Group plc will be issued shares of common stock of Xcyte.

Once the 30 day period has expired, it is expected that the liquidator will distribute the Xcyte shares of common stock held by Cyclacel Group plc to the holders of the preferred shares in Cyclacel Group plc in accordance with the relevant provisions of the company s memorandum and articles of association relating to the distribution of assets on a winding up. A further extraordinary general meeting of Cyclacel Group plc shareholders will then be held, at which the liquidator will report back to the shareholders to confirm that the distribution has occurred. Cyclacel Group plc will then be dissolved after a further period of three months.

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

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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 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, 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.

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

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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 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.

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, each of whom is currently a director of Cyclacel Group plc and one additional individual to be designated by Cyclacel Group plc.

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Senior Executive Incentive Plan and Other Equity Awards

Each of Dr. Judy Chiao, Dr. Robert Jackson, Mr. Paul McBarron and Mr. Spiro Rombotis, each of whom is an executive officer of Cyclacel, and non-executive directors Sir John Banham and Dr. 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:

Name	Preferred Shares
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

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. Chiao, Dr. Jackson, Mr. McBarron and Mr. 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:

Name	Ordinary Share Equivalents
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 determined, 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.

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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

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.

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 estimated purchase price will be allocated to the Xcyte net tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values as of the completion of the proposed transaction. A final determination of the purchase price and the estimated fair values will be based on the actual Xcyte net tangible and intangible assets acquired and liabilities assumed as of the date of 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

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