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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 TO
FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 0-50626

CYCLACEL PHARMACEUTICALS, INC.

(Exact name of Registrant as Specified in Its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	**91-1707622** (I.R.S. Employer Identification No.)
150 JOHN F. KENNEDY PARKWAY, SHORT HILLS, NJ (Address of principal executive offices)	**07078** (Zip Code)

Registrant's telephone number, including area code: (**973) 847-5955**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

As of May 12, 2006 there were 16,157,953 shares of the registrant's common stock outstanding.

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Explanatory Note

On June 23, 2006, Cyclacel Pharmaceuticals, Inc. (the ‘‘Company’’) discovered that certain transaction costs incurred by Xayte Therapies, Inc. in connection with the completion of the Stock Purchase Agreement with Cyclacel Group plc were omitted from accrued liabilities on completion of the merger with a consequent incorrect allocation of the merger purchase price. The correction of this omission will result in an increase in Goodwill and Accrued liabilities of $825,000. This error was included in the Form 10-Q filed with the Securities and Exchange Commission on May 16, 2006. This amendment on Form 10-Q/A corrects the following line items of the balance sheet, and related notes, by an increase of $825,000: Goodwill; Total assets; Accrued liabilities; Total current liabilities; Total liabilities; and Total liabilities and stockholders' equity.

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PART I. FINANCIAL INFORMATION

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of March 31, 2006 Restated (Unaudited) $000	As of December 31, 2005 (Note 1) $000
ASSETS		
Current assets:		
Cash and cash equivalents	23,707	3,117
Short-term investments	6,918	10,690
Prepaid expenses and other current assets	3,378	3,219
Total current assets	34,003	17,026
Property, plant and equipment (net)	1,950	2,045
Deposits and other assets	259	—
Goodwill	2,749	—
Total assets	38,961	19,071
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	3,152	2,159
Amounts due to Cyclacel Group plc	1,156	10,467
Accrued liabilities	3,400	1,869
Other current liabilities	992	128
Derivative liability	1,842	—
Current portion of other accrued restructuring charges	982	—
Current portion of equipment financing	252	251
Total current liabilities	11,776	14,874
Other accrued restructuring charges, net of current	1,749	—
Equipment financing, net of current	16	78
Other liabilities	28	—
Total liabilities	13,569	14,952
Commitments and contingencies		
Stockholders’ equity:		
Preferred Ordinary shares, 0.1p par value; 21,000,000 shares authorized; Nil and 17,965,835 shares issued and outstanding in 2006 and 2005, respectively. Aggregate liquidation preference of $Nil and $210,954,000 ($11.74 per share) at March 31, 2006 and December 31, 2005, respectively	—	30
Ordinary shares, 0.1p par value; 5,748,428 shares authorized; Nil and 1,871,210 shares issued and outstanding in 2006 and 2005, respectively	—	2
Preferred stock, $0.001 par value; 5,000,000 shares authorized; 2,046,813 and Nil shares issued and outstanding in 2006 and 2005. Aggregate preference in liquidation — $20,673,000 at March 31, 2006	2	—
Common stock, $0.001 par value; 100,000,000 shares authorized; 9,729,419 and Nil shares issued and outstanding in 2006 and 2005, respectively	10	—
Additional paid in capital	148,608	116,063
Accumulated other comprehensive loss	(2,861)	(2,958)
Deficit accumulated during the development stage	(120,367)	(109,018)
Total stockholders’ equity	25,392	4,119
Total liabilities and stockholders’ equity	38,961	19,071

SEE NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the three months ended March 31,		Period from August 13, 1996 (inception) to March 31,
	2006	2005	2006
	$000, except per share and share amounts		
Revenues:			
Collaboration and research and development revenue	95	35	2,854
Grant revenue	56	21	3,377
	151	56	6,231
Operating expenses:(1)			
Research and development	(8,004)	(4,926)	(108,775)
General and administrative	(3,915)	(1,206)	(27,548)
Total operating expenses	(11,919)	(6,132)	(136,323)
Operating loss	(11,768)	(6,076)	(130,092)
Other income (expense):			
Costs associated with aborted 2004 IPO	—	—	(3,550)
Interest income	127	239	6,406
Interest expense	(68)	(20)	(3,730)
Total other income (expense)	59	219	(874)
Loss before taxes	(11,709)	(5,857)	(130,966)
Income tax benefit	(360)	(467)	(10,599)
Net loss	(11,349)	(5,390)	(120,367)
Dividends on Preferred Ordinary shares	(2,827)	(2,953)	(38,122)
Net loss applicable to ordinary shareholders	(14,176)	(8,343)	(158,489)
Net loss per share – basic and diluted	$ (1.81)	$ (1.08)	
Weighted average shares	7,848,918	7,761,453	

(1) Amounts include stock-based compensation, consisting of stock-based compensation expense under SFAS 123R, the amortization of deferred stock-based compensation and the value of options issued to non-employees for services rendered, allocated as follows:

	For the three months ended March 31,		Period from August 13, 1996 (inception) to March 31,
	2006 $000	2005 $000	2006 $000
Research and development	4,546	458	6,412
General and administrative	2,425	132	3,113
	6,971	590	9,525

SEE NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CYCLACEL PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the three months ended March 31,		Period from August 13, 1996 (inception) to March 31,
	2006 $000	2005 $000	2006 $000
Cash flows from operating activities:			
Net loss	(11,349)	(5,390)	(120,367)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	274	373	8,239
Deferred revenue	—	—	(98)
Compensation for warrants issued to non employees	—	—	1,215
Shares issued for IP rights	—	—	446
Loss on disposal of property, plant and equipment	—	—	25
Stock based compensation	6,971	590	9,525
Amortization of issuance costs of Preferred Ordinary "C" shares	—	—	2,517
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(10)	(3)	(2,731)
Accounts payable and other current liabilities	1,778	(440)	6,042
Net cash used in operating activities	(2,336)	(4,870)	(95,187)
Investing activities:			
Purchase of property, plant and equipment	(46)	(18)	(6,049)
Short-term investments on deposit, net of maturities	3,942	2,581	(6,568)
Net cash provided by (used in) investing activities	3,896	2,563	(12,617)
Financing activities:			
Payment of capital lease obligations	(62)	(108)	(3,413)
Proceeds from issuance of ordinary and preferred ordinary shares, net of issuance costs	—	—	90,858
Repayment of government loan	—	—	(455)
Government loan received	—	—	414
Loan received form parent company	—	—	9,103
Proceeds of committable loan notes issued from shareholders	—	—	8,883

Loans received from shareholders	—	—	1,645
Cash and cash equivalents assumed on stock purchase	17,915	—	17,915
Short-term investments assumed on stock purchase	3,239	—	3,239
Costs associated with stock purchase	(1,951)	—	(1,951)
Net cash provided by (used in) financing activities	19,141	(108)	126,238
Effect of exchange rate changes on cash and cash equivalents	(111)	(174)	5,273
Net increase (decrease) in cash and cash equivalents	20,701	(2,415)	18,434
Cash and cash equivalents at beginning of period	3,117	7,766	—
Cash and cash equivalents at end of period	23,707	5,177	23,707

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	For the three months ended March 31,		Period from August 13, 1996 (inception) to March 31,
	2006	2005	2006
	$000	$000	$000
Supplemental disclosure of cash flows information:			
Cash received during the period for:			
Interest	364	120	6,472
Taxes	—	2,441	8,833
Cash paid during the period for:			
Interest	(119)	(20)	(862)
Schedule of non-cash transactions			
Acquisitions of equipment purchased through capital leases	—	—	3,470
Issuance of Ordinary shares in connection with license agreements	—	—	592
Issuance of Ordinary shares on conversion of bridging loan	—	—	1,638
Issuance of Preferred Ordinary ‘‘C’’ shares on conversion of secured convertible loan notes and accrued interest	—	—	8,893
Issuance of Preferred Ordinary ‘‘D’’ shares on conversion of convertible loan notes	8,699	—	8,699
Issuance of Ordinary shares in lieu of cash bonus	—	—	164
Deferred stock-based compensation	6,971	590	9,525

SEE NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CYCLACEL PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006
(UNAUDITED)

1. ORGANIZATION OF THE COMPANY

Stock Purchase with Cyclacel Group plc

On March 27, 2006 Xcyte Therapies Inc. (‘‘Xcyte’’) completed a Stock Purchase Agreement (the ‘‘Stock Purchase Agreement’’) with Cyclacel Group plc (‘‘Group’’), a public company organized under the laws of England and Wales in which Xcyte agreed to purchase from Group all of the capital stock of Cyclacel Limited (‘‘Limited’’), a private limited company organized under the laws of England and Wales and a wholly-owned subsidiary of Group (the ‘‘Stock Purchase’’). Under the terms of the Stock Purchase Agreement Xcyte issued 7,761,453 shares of common stock to Group which, after giving effect to the transaction, represented 79.7% of the outstanding shares of Xcyte’s common stock. Limited became Xcyte’s wholly owned subsidiary. Xcyte changed its name to Cyclacel Pharmaceuticals, Inc. (‘‘Cyclacel’’, or the ‘‘Company’’). On March 27, 2006, Group effected 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 has resulted in the distribution of its assets, including the Xcyte common stock it received in the Stock Purchase, to its shareholders and creditors. The transaction has been 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 and Limited will be considered the acquiring company for accounting purposes. Accordingly, the purchase price has been allocated among the fair values of the assets and liabilities of Xcyte, while the historical results of Limited are reflected in the results of the Company.

Cyclacel Pharmaceuticals, Inc. was incorporated in the state of Delaware in 1996 and is headquartered in Short Hills, New Jersey with research facilities located in Dundee, Scotland and Cambridge, England. Cyclacel is a development-stage biopharmaceutical company dedicated to the discovery, development and eventual commercialization of novel, mechanism-targeted drugs to treat human cancers and other serious disorders. As a development stage enterprise, substantially all efforts of the Company to date have been devoted to performing research and development, conducting clinical trials, developing and acquiring intellectual properties, raising capital and recruiting and training personnel.

Asset Purchase Agreement

On March 24, 2006 Xcyte completed an Asset Purchase Agreement (the ‘‘Asset Purchase Agreement’’) with Invitrogen Corporation, a Delaware corporation (‘‘Invitrogen’’), in which Invitrogen agreed to purchase Xcyte’s T cell expansion technology known as the ‘‘*Xcellerate Process*’’ in exchange for $5 million (the ‘‘Asset Sale’’). The purchase price is subject to a post-closing adjustment pursuant to which Xcyte can be required to refund up to $1 million to Invitrogen. The assets subject to the agreement include intellectual property, the clinical data generated by Xcyte in the course of six clinical trials of the lead product, Xcellerated T Cells, as well as raw materials and equipment.

Reverse stock split

On March 16, 2006, Xcyte stockholders approved a one-for-ten reverse stock split of its common stock. The reverse stock split occurred immediately prior to the completion of the Stock Purchase. All information in this report relating to the number of shares, price per share, and per share amounts of common stock are presented on a post-split basis.

Private placement

On April 27, 2006, Cyclacel raised gross proceeds of $45.3 million through a private placement of common stock and common stock purchase warrants. Approximately 6.43 million shares of its

common stock were issued at a price of $7.00 per share. In addition, approximately 2.57 million five-year common stock purchase warrants were issued to the investors granting them the right to purchase our common stock at a price of $7.00 per share. In connection with the private placement, the Company agreed to file a registration statement on Form S-3 to permit the resale of the common stock issued in connection with the transaction and the common stock issuable upon exercise of the warrants.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of March 31, 2006 and for the three months ended March 31, 2006 and 2005 have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations of Cyclacel Pharmaceuticals, Inc. have been included. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These unaudited condensed financial statements should be read in conjunction with the Company's audited financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005 and 2004, the nine months ended December 31, 2003 and the period from August 13, 1996 (inception) to December 31, 2005 included in the Company's Current Report on Form 8-K filed on May 15, 2006. Financial information as of December 31, 2005 has been derived from these audited consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the consolidated financial statements in the periods they are determined to be necessary.

Foreign currency and currency translation

Monetary assets and liabilities in foreign currencies are translated into pounds sterling, the Company’s functional currency, at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into pounds sterling at the rate of exchange ruling at the balance sheet date. Transaction gains and losses are recognized in operating expenses within the Statement of Operations.

These financial statements are presented in U.S. dollars. Translation of balance sheet data from pounds sterling to U.S. dollars is made at the exchange rate ruling at the balance sheet date. Translation of operating statement and cash flow amounts is made at the average exchange rate for the period. Translation gains and losses are recognized within ‘‘Accumulated other comprehensive income (loss).’’

Stock-based Compensation

On January 1, 2006, the Company adopted Financial Accounting Standards Board Statement (‘‘FASB’’), Statement No. 123R, ‘‘Share-Based Payment’’ (‘‘SFAS 123R’’). SFAS 123R requires the Company to measure all share-based payment awards, including those with employees, granted after,

or that were unvested as of, January 1, 2006 at fair value. Under SFAS 123R, the fair value of stock options and other equity-based compensation must be recognized as expense in the statements of operations over the requisite service period of each award.

The Company adopted SFAS 123R using the modified prospective method of transition. Accordingly, the Company has recognized stock-based compensation expense of $6,971,000 for the three months ended March 31, 2006, in respect of outstanding share-based awards previously granted under Cyclacel Group plc’s (a) the Cyclacel Limited Share Option Plan (‘‘1997 Plan’’), (b) the Cyclacel Limited 2000 Employees’ Share Option Scheme under the Enterprise Management Incentive Scheme (‘‘2000 Plan’’) and (c) the Cyclacel Group Plc Discretionary Share Option Plan (‘‘Discretionary Plan’’) and restricted stock issued to certain directors, officers and former director. This compensation expense is based on the fair values and attribution methods that were previously disclosed in the Company’s prior period financial statements.

Prior to January 1, 2006, the Company applied the intrinsic value-based method of accounting for share-based payment transactions with our employees, as prescribed by Accounting Principles Board (‘‘APB’’) Opinion No. 25, ‘‘Accounting for Stock Issued to Employees’’ (‘‘APB No. 25’’) and related interpretations including Financial Accounting Standards Board Statement Interpretation (‘‘FIN’’) No. 44, ‘‘Accounting for Certain Transactions Involving Stock Compensation-An Interpretation of APB Opinion No. 25’’ Under the intrinsic value method, compensation expense was recognized only if the current market price of the underlying stock exceeded the exercise price of the share-based payment award as of the measurement date (typically the date of grant). Statement of Financial Accounting Standards No. 123, ‘‘Accounting for Stock-Based Compensation,’’ (‘‘SFAS 123’’) established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As permitted by SFAS 123 and by Statement of Financial Accounting Standards No. 148, ‘‘Accounting for Stock-Based Compensation – Transition and Disclosure’’, the Company

disclosed on a pro forma basis the net income and earnings per share that would have resulted had it adopted SFAS 123 for measurement purposes.

Short-term Investments, Cash and Cash Equivalents

The Company invests surplus cash in bank term deposits, having a maturity period of between one day and one year. These deposits can be terminated early at a nominal cost. Accordingly, all cash resources with original maturity of three months or less have been classified as cash and cash equivalents and those with original maturity of more than three months as short-term investments. The Company also invests excess cash in highly liquid debt instruments of financial institutions and corporations with strong credit ratings and in United States government obligations. The Company has established guidelines relative to diversification and maturities that maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

The Company has evaluated its investments in accordance with the provisions of SFAS No. 115, ‘‘Accounting for Certain Investments in Debt and Equity Securities.’’ Based on such evaluation, management has determined that all of the investment securities are properly classified as available-for-sale. Based on the Company’s intent, its investment policies and its ability to liquidate debt securities, the Company classifies such short-term investment securities within current assets. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported as a separate component of stockholders’ equity as accumulated other comprehensive income (loss). The amortized cost basis of debt securities is periodically adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included as a component of interest income or interest expense. The amortized cost basis of securities sold is based on the specific identification method and all realized gains and losses are recorded as a component within other income (expense).

The Company reviews the carrying values of its investments and writes down such investments to estimated fair value by a charge to the statements of operations if the severity and duration of a decline in the value of an investment is considered to be other than temporary. The cost of securities sold or purchased is recorded on the settlement date.

At March 31, 2006 the excess of historical cost over the fair value of our short-term investments is immaterial.

Long-Lived Assets

In accordance with SFAS No. 144, ‘‘Accounting for Impairment or Disposal of Long-Lived Assets,’’ the Company assesses its long-lived assets, such as property and equipment and intangible assets other than goodwill, for potential impairment when there is a change in circumstances that indicates carrying values of assets may not be recoverable. Such long-lived assets are deemed to be impaired when the undiscounted future cash flows expected to be generated by the asset (or asset group) are less than the asset’s carrying amount. Any required impairment loss would be measured as the amount by which the asset’s carrying value exceeds its fair value, and would be recorded as a reduction in the carrying value of the related asset and a charge to operating expense.

Revenue Recognition

Revenues are earned from collaborative agreements and amounts invoiced to customers in respect of goods supplied. The Company recognizes revenue when persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the fee is fixed and determinable; and collectability is reasonably assured. Determination of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered are based on management’s judgments regarding the fixed nature of the fee charged for research performed and milestones met, and the collectability of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Research and development revenues, which are earned under agreements with third parties for contract research and development activities, are recorded as the related expenses are incurred. Milestone payments are non-refundable and recognized as revenue when earned, as evidenced by achievement of the specified milestones and the absence of ongoing performance obligations. Any amounts received in advance of performance are recorded as deferred revenue. None of the revenues recognized to date are refundable if the relevant research effort is not successful.

Grant revenues from government agencies and private research foundations are recognized as the related qualified research and development costs are incurred, up to the limit of the prior approval funding amounts. Grant revenues are not refundable.

Government grants in respect of capital expenditure are deferred and released to revenue over the estimated useful lives of the related assets by equal annual instalments.

Clinical Trials Accounting

All of the Company’s clinical trials are performed by contract research organizations (‘‘CROs’’) and participating clinical trial sites. Some CROs bill monthly for services performed, and others bill based upon milestones achieved. For the latter, the Company accrues clinical trial expenses based on the services performed each period. Costs of setting up clinical trial sites for participation in the trials are expensed immediately as research and development expenses. Clinical trial site costs related to patient enrollment are accrued as patients are entered into the trial reduced by any initial payment made to the clinical trial site when the first patient is enrolled.

Research and Development Expenditures

Research and development expenses consist primarily of costs associated with the Company’s product candidates, upfront fees, milestones, compensation and other expenses for research and development personnel, supplies and development materials, costs for consultants and related contract research, facility costs, amortization of purchased technology and depreciation. Expenditures relating to research and development are expensed as incurred.

Leased Assets

The costs of operating leases are charged to operations on a straight-line basis over the lease term.

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a capital lease. The asset is recorded in the balance sheet as an asset and is depreciated in accordance with the above depreciation policies. The capital elements of future lease payments are recorded as liabilities and the interest is charged to operations over the period of the lease.

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Credit is taken in the accounting period for research and development tax credits, which will be claimed from H. M. Revenue and Customs, the United Kingdom's taxation and customs authority, in respect of qualifying research and development costs incurred in the same accounting period.

Comprehensive Income (Loss)

In accordance with SFAS No. 130, ''*Reporting Comprehensive Income*,'' all components of comprehensive income (loss), including net income (loss), are reported in the financial statements in the period in which they are recognized. Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non owner sources. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments, are reported, net of any related tax effect, to arrive at comprehensive income (loss).

Fair value of financial instruments

Financial instruments, including cash and cash equivalents and payables, are recorded at cost, which approximates fair value based on the short-term maturities of these instruments. Short term investments are carried at fair value, which is determined based on quoted market prices.

Derivative financial instruments

The terms of the Company's November 2004 convertible preferred stock offering include a dividend make-whole payment feature. This feature is considered to be an embedded derivative and is recorded at fair value in accordance with Statement of Financial Accounting Standards No. 133, ''Accounting for Derivative Instruments'' (''SFAS 133''). The derivative liability is reduced for make-whole payments triggered upon conversion of the preferred stock as well as dividends declared by the Company, if any, on the convertible preferred stock. The changes in the fair value of the derivative financial instrument are included in other income (expense) in each reporting period.

Operating leases

The Company recognizes lease expense on a straight-line basis over the initial lease term. The Company has operating leases on property and equipment expiring at various dates through 2010. For leases that contain rent holidays or escalation clauses, we recognize rent expense on a straight-line basis and record the difference between the rent expense and rental amount payable as deferred rent. The deferred rent is amortized over the terms of the leases as an addition to, or reduction of, rent expense.

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Commitments and Contingencies

The Company has contractual obligations on leases of office and manufacturing space as follows (in thousands):

Years Ending December 31,	Operating Leases
For the remainder of 2006	$ 1,585
2007	1,757
2008	1,805
2009	1,855
2010	1,710
Total	$ 8,712

Rent expense, which includes lease payments related to the Company's research and development facilities and corporate headquarters and other rent related expenses, was $153,000 and $231,000 for the three-months ended March 31, 2005 and 2006 respectively.

In October 2000, the Company entered into a 25-year lease for our research and development facility in Dundee, U.K. The Company also leases a second research facility at the Babraham Research Campus, Cambridge, U.K. The Company entered into this 5-year lease in August 2005. There is an option to terminate the lease on July 31, 2007 at a cost to the Company of $104,000.

Additionally, the Company currently leases a total of approximately 52,100 square feet of space at two Xcyte facilities. The Company leases approximately 11,600 square feet of office space in Seattle, Washington, with monthly payments of approximately $19,000. The lease on this space expires in August 2006, and the Company does not plan to renew the lease. The Company also leases approximately 40,500 square feet of space in Bothell, Washington, with monthly payments of approximately $80,000. The initial lease term on this space expires December 2010, and the Company has options to renew until December 2020. Under the terms of the lease, the Company also has rights to negotiate for further expansion space in the building. However, activities were discontinued at the Bothell facility during the third quarter of 2005 and the Company is exploring options for the future of this facility.

The Company has recognized a restructuring charge of $2.7 million, equal to the estimated fair value of the liability remaining under this leased manufacturing facility. The liability is computed as the present value of the difference between the remaining lease payments due less the estimate of net sublease income and expenses. Market conditions for subleasing space in Bothell are currently considered poor primarily due to an overabundance of available space. Accretion expense related to the liability was recorded commencing in October 2005. This represents the Company's best estimate of the fair value of the liability as determined under SFAS No. 146, ''Accounting for Costs Associated with Exit or Disposal Activities.'' Subsequent changes in the

liability due to accretion, or changes in estimates of sublease assumptions, etc. will be recognized as adjustments to restructuring charges in future periods.

The Company records payments of rent related to the Bothell facility as a reduction in the amount of the accrued restructuring liability. Accretion expense is recognized due to the passage of time, which is also reflected as a restructuring charge. Based on our current projections of estimated sublease income and a discount rate of 7.8%, the Company expects to record additional accretion expense of approximately $423,000 over the remaining term of the lease.

Pursuant to an Asset Purchase Agreement with Invitrogen, Invitrogen agreed to purchase Xcyte's T Cell expansion technology in exchange for $5 million. The purchase price is subject to a post-closing adjustment pursuant to which the Company can be required to refund up to $1 million to Invitrogen.

On July 28, 2005, Group signed a convertible Loan Note Instrument consituting convertible unsecured loan notes. On July, 28, 2005, it entered into a Facility Agreement with Scottish Enterprise, as lender, whereby Scottish Enterprise subscribed for £5 million ($8.8 million) of the convertible loan notes. Upon the completion of the Stock Purchase, the convertible loan notes held by Scottish

Enterprise converted into 1,231,527 preferred ‘‘D’’ shares in satisfaction of all amounts owed by Group under the convertible loan notes. The number of preferred ‘‘D’’ shares that Scottish Enterprise received was calculated by dividing the principal amount outstanding under the loan note by £4.06. Scottish Enterprise retains the ability it had under the Facility Agreement to receive a cash payment should the research operations in Scotland be significantly reduced. However, Cyclacel will guarantee the amount potentially due to Scottish Enterprise which will be calculated as a maximum of £5 million less the market value of the shares held (or would have held in the event they dispose of any shares) by Scottish Enterprise at the time of any significant reduction in research facilities during the period ending on July 28, 2010.

Recent accounting pronouncements

In March 2004, the EITF reached a consensus on EITF 03-1, ‘‘The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.’’ EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS 115 and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. In November 2005, the FASB approved the issuance of FASB Staff Position No. 115-1 and FAS 124-1, ‘‘The Meaning of Other-Than-Temporary Impairment and it as Application to Certain Investments.’’ The FSP addresses when an investment is considered impaired, whether the impairment is other-than-temporary and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary. The FSP is effective for reporting periods beginning after December 15, 2005 with earlier application permitted. For Cyclacel, the effective date was the first quarter of 2006. The adoption of this accounting principle did not have a significant impact on our financial position or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, ‘‘Exchanges of Nonmonetary Assets – an Amendment of APB Opinion No. 29.’’ This statement amends APB 29 to eliminate an exception to the fair value measurement principle for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions of this statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 and were effective for the Company beginning in the third quarter of fiscal 2005. The adoption of this accounting principle did not have a significant impact on our financial position or results of operations.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, ‘‘Accounting Changes and Error Corrections.’’ This statement replaces APB 20 cumulative effect accounting with retroactive restatement of comparative financial statements. It applies to all voluntary changes in accounting principle and defines ’’retrospective application’’ to differentiate it from restatements due to incorrect accounting. The provisions of this statement are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and has become effective for the Company in 2006. The adoption of this accounting principle did not have a significant impact on our financial position or results of operations.

3. Merger

On March 27, 2006 Xcyte completed the Stock Purchase Agreement with Group for a transaction to be accounted for as a purchase under accounting principles generally accepted in the United States. The Stock Purchase was approved by Xcyte shareholders on March 16, 2006 and Group shareholders on March 27, 2006. Under the terms of the transaction, Xcyte issued 7,761,453 shares of its common stock for all of Limited’s outstanding shares of common stock. For accounting purposes, the transaction is considered a ‘‘reverse merger’’ under which Limited is considered the acquirer of Xcyte. Accordingly, the purchase price was allocated among the fair values of the assets and liabilities of

Xcyte, while the historical results of Limited are reflected in the results of the combined company. The 1,967,966 shares of Xcyte common stock outstanding, the 2,046,813 preferred stock outstanding and the outstanding Xcyte options, are considered as the basis for determining the consideration in the reverse merger transaction. Based on the outstanding shares of Group capital stock on March 27, 2006, each share of Group preferred stock was exchanged for approximately 0.37 shares of Xcyte common stock.

Each Limited and Group stock option and warrant that was not converted prior to the consummation of the Stock Purchase was cancelled and there were no outstanding Limited or Group options and warrants on closing.

Merger Purchase Price

The consolidated financial statements reflect the merger of Limited with Xcyte as a reverse merger wherein Limited is deemed to be the acquiring entity from an accounting perspective. Under the purchase method of accounting, Xcyte’s outstanding shares of common and preferred stock were valued using the average closing price on Nasdaq of $4.38 (as adjusted for the reverse stock split) and $3.72 per share for common stock and preferred stock, respectively, for the two days prior to through the two days subsequent to the announcement of

the transaction date of December 15, 2005. There were 1,967,967 shares of common stock and 2,046,813 shares of preferred stock outstanding as of March 27, 2006. The fair values of the Xcyte outstanding stock options were determined using the Black-Scholes option pricing model with the following assumptions: stock price of $4.38 (as adjusted for the reverse stock split), volatility of 0.97; risk-free interest rate of 4.0%; and an expected life of three months.

The purchase price is summarized as follows (in thousands):

Fair value of Xcyte outstanding common stock	$ 8,620
Fair value of Xcyte outstanding preferred stock	7,618
Fair value of Xcyte outstanding stock options	17
Estimated merger costs	1,951
Total purchase price	$ 18,206

Merger Purchase Price Allocation

The purchase price allocation is as follows (in thousands):

Current assets	$ 21,267
Property, plant and equipment	108
Other assets	259
Current liabilities	(4,400)
Non-current liabilities	(1,777)
Goodwill	2,749
	$ 18,206

On June 23, Cyclacel Pharmaceuticals, Inc. discovered that certain transaction costs incurred by Xcyte Therapies, Inc. in connection with the completion of the Stock Purchase Agreement with Cyclacel Group plc were omitted from accrued liabilities on completion of the merger with a consequent incorrect allocation of the amounts allocated to Current liabilities and Goodwill in the Merger Purchase Price Allocation. The correction of this omission results in a restatement of the purchase price allocation included in the Form 10-Q filed with the Securities and Exchange Commission on May 16, 2006. Current liabilities are increased by $825,000 from the previously disclosed $3,575,000 to $4,400,000. Goodwill is increased by $825,000 from the previously disclosed $1,924,000 to $2,749,000. There is a corresponding correction to the following line items of the balance sheet by an increase of $825,000: Goodwill; Total Assets; Accrued Liabilities; Total Current liabilities; and Total Liabilities and stockholders' equity.

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Pro Forma Results of Operations

The results of operations of Xcyte are included in Cyclacel's condensed consolidated financial statements from the date of the business combination transaction as of March 27, 2006. The following table presents pro forma results of operations and gives effect to the business combination transaction as if the business combination was consummated at the beginning of the period presented. The unaudited pro forma results of operations are not necessarily indicative of what would have occurred had the business combination been completed at the beginning of the retrospective periods or of the results that may occur in the future.

	Three months ended March 31	
	2006	2005
	$000	$000
Revenues	$ 5,151	$ 72
Loss before taxes	(9,457)	(13,088)
Net loss applicable to ordinary shareholders	(14,751)	(15,574)
Net loss per share-basic and diluted	$ (1.88)	$ (2.01)
Weighted average shares	7,848,918	7,761,453

4. Amounts due to Cyclacel Group plc

Prior to the completion of the Stock Purchase, Cyclacel Limited was a wholly owned subsidiary of Cyclacel Group plc. The amounts outstanding of $1,156,000 and $10,467,000 as of March 31, 2006 and December 31, 2005, respectively, are a result of intercompany transactions which occurred prior to the completion of the Stock Purchase. In connection with the members' voluntary liquidation of Cyclacel Group plc the amounts due from Cyclacel Limited as of March 27, 2006 were waived except for $1,156,000, the balance outstanding at March 31, 2006, which represents amounts due to certain advisors in connection with the Stock Purchase and the members' voluntary liquidation. Cyclacel Pharmaceuticals, Inc. will settle the outstanding amounts and as a consequence eliminate the balance due to Cyclacel Group plc.

5. Stock Based Compensation

Accounting Policy

On January 1, 2006, the Company adopted ''SFAS 123R''. SFAS 123R requires the Company to measure all share-based payment awards, including those with employees, granted after, or that were unvested as of, January 1, 2006 at fair value. Under FAS 123R, the fair value of stock options and other equity-based compensation must be recognized as expense in the statements of operations over the requisite service period of each award.

The Company adopted SFAS 123R using the modified prospective method of transition. Accordingly, stock-based compensation expense of $6,971,000 has been recognizedfor the three months ended March 31, 2006, in respect of outstanding share-based awards previously granted under (a) the Cyclacel Limited Share Option Plan (''1997 Plan''), (b) the Cyclacel Limited 2000 Employees' Share Option Scheme under the Enterprise Management Incentive Scheme (''2000 Plan'') and (c) the Cyclacel Group Plc Discretionary Share Option Plan (''Discretionary Plan'') and restricted stock issued to certain directors, officers and former director. The compensation expense recognized is based on the fair values and attribution methods that were previously disclosed in the Company's prior period financial statements.

Prior to January 1, 2006, the Company applied the intrinsic value-based method of accounting for share-based payment transactions with its employees, as prescribed by APB No. 25, and related interpretations including FIN No. 44. Under the intrinsic value method, compensation expense was recognized only if the current market price

of the underlying stock exceeded the exercise price of the share-based payment award as of the measurement date (typically the date of grant). SFAS 123

established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As permitted by SFAS 123 and by SFAS 148, the Company disclosed on a pro forma basis the net loss and loss per share that would have resulted had it adopted FAS 123 for measurement purposes.

Had compensation expense been recognized for stock-based compensation plans in accordance with SFAS No. 123, the Company would have recorded the following net loss and net loss per share amounts for the three months ended March 31, 2005(in thousands):

Net loss:	
As reported	$ (8,222)
Add: Employee stock based compensation expense included in reported net loss, net of related tax effects	590
Deduct: Total employee stock based compensation expense determined under the fair value method for all awards, net of related tax effects	(757)
Pro forma	$ (8,389)
Basic and diluted loss per common share:	
As reported	$ (0.41)
Pro forma	$ (0.42)

Stock-Based Compensation Arrangements

Prior to the Stock Purchase Group operated a number of share option plans, which provided the opportunity to all eligible individuals, including employees of Cyclacel, to participate in the potential growth and success of Group . These were (a) the ‘‘1997 Plan’’, (b) the ‘‘2000 Plan’’, (c) ‘‘SEIP’’, (d) the Discretionary Plan, (e) the Cyclacel Group Plc Savings Related Share Option Plan (‘‘Savings Plan’’) and (f) the Cyclacel Group Plc Restricted Share and Co Investment Plan (‘‘Co-Investment Plan), collectively referred to as the ‘‘Cyclacel Plans’’. Options have only been issued under the 1997 Plan, the 2000 Plan, the Discretionary Plan and the SEIP.

Similarly Xcyte operated a number of share option plans, (a) the Amended and Restated 2003 Directors’ Stock Option Plan (‘‘2003 Directors’ Plan’’), (b) the Amended and Restated 1996 Stock Option Plan (‘‘1996 Plan’’) and (c) the 2003 Stock Plan (‘‘2003 Plan’’), collectively referred to as the ‘‘Xcyte Plans’’.

The completion of the Stock Purchase, the asset sale to Invitrogen and the members’ voluntary liquidation of Group variously caused an acceleration of vesting of options according to the terms of each of the Plans as described below.

Acceleration of Options

Cyclacel Plans

The vesting of all options granted pursuant to the 1997 Plan, 2000 Plan and Discretionary Plan were accelerated on the members’ voluntary liquidation of Cyclacel Group plc. As a result of this acceleration, any holder of options granted pursuant to these Plans had the right to exercise one hundred percent (100%) of the options held by such holder pursuant to such plan. However, prior to the completion of the Stock Purchase and liquidation of Cyclacel Group plc all Cyclacel employees waived their rights to exercise any options held by them. The number of options of common stock that would have become fully vested as a result of the accelerated vesting provisions of the Plans was 1,369,757. However, as the liquidation of Cyclacel Group plc was probable at the time the options were waived and the liquidation caused the acceleration of the vesting of the options the previously unrecognized compensation costs associated with these awards has been charged as employee compensation in this period. Options granted pursuant to the Senior Executive Incentive Plan only became vested on occurrence of certain trigger events and there were no provisions for an acceleration of vesting on liquidation. Directors benefiting from this plan waived their rights to any options held by them. Accordingly, as the options had never vested no compensation charged

associated with these awards has been charged as employee expense in this period. Concurrently, in connection with the waiver of options held by employees and directors under the Cyclacel plans certain directors and officers were issued with restricted stock as detailed below. There were no Cyclacel common stock options outstanding on completion of the stock purchase or liquidation of Group.

Xcyte Plans

The vesting of all options granted pursuant to the 2003 Directors’ Plan accelerated immediately upon the closing of the Stock Purchase and the asset sale to Invitrogen. As a result of this acceleration, any holder of options granted pursuant to the 2003 Directors Plan had the right to exercise one hundred percent (100%) of the options held by such holder pursuant to such plan. The number of options of common stock that became fully vested as a result of the accelerated vesting provisions of the Plan was 5,281.

The vesting of 25% of the unvested options granted pursuant the 1996 Plan accelerated immediately upon the closing of the Stock Purchase and the asset sale to Invitrogen pursuant to the terms of the 1996 Plan. As a result of this acceleration, any holder of options granted pursuant to the 1996 Plan had the right to exercise 25% of all unvested options held by such holder under the plan. The number of options of common stock that became fully vested as a result of the accelerated vesting provisions of the Plan was 17,431.

The vesting of up to 25% of the total options granted under any award pursuant to the 2003 Plan accelerated immediately upon the closing of the Stock Purchase and the asset sale to Invitrogen pursuant to the terms of the 2003 Plan. As a result of this acceleration, any holder of options under the 2003 Stock Plan had the right to exercise the lesser of 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 12 months of the closing of the transaction will have the right to exercise the lesser of an additional 25% of the options granted to such holder under the 2003 Plan award or all remaining unvested options granted to the holder under the award pursuant to such plan, for a total of 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 the common stock that became fully vested as a result of the accelerated vesting provisions of the Plan was 21,779.

On March 16, 2006, Xcyte stockholders approved the adoption of an equity incentive plan, the 2006 Stock Option and Equity Award Plan (''2006 Plan''), under which Cyclacel, following the acquisition in March 2006, is now able to make equity incentive grants to its officers, employees, directors and consultants. There are 986,120 shares of Cyclacel common stock reserved for issue under the equity incentive plan. As of the date of this report, no options or other awards had been granted pursuant to the equity incentive plan.

In connection with the approval of the equity incentive the holders of Xcyte common stock approved the partial termination of Xcyte's 2003 Employee Stock Purchase Plan, Amended and Restated 1996 Stock Option Plan, Amended and Restated 2003 Directors' Stock Option Plan and 2003 Stock Option Plan. As a result of such partial termination, no options will be issued under such plans. However, such partial termination will not affect the rights of holders of stock options outstanding under such stock option plans.

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A summary of activity for the options under the Cyclacel Plans for the three months ended March 31, 2006 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Balance as of January 1, 2006	3,188,390	$ 1.21	8.49	5.43
Granted	—	—	—	—
Exercised	—		—	—
Expired	—	—	—	—
Cancelled/forfeited	(3,188,390)	1.21	8.49	5.43
Balance as of March 31, 2006	—	$ —	—	$ —
Vested and unvested expected to vest at March 31, 2006	—	$ —	—	$ —
Vested and exercisable at March 31, 2006	—	$ —	—	$ —

In the first quarter of 2006 prior to the completion of the Stock Purchase, 1,750,000 shares of Cyclacel Group plc preferred stock was granted to certain directors,officers and a former director. These shares converted to 648,412 shares of restricted common stock on completion of the Stock Purchase. Because the shares granted are not subject to additional future vesting or service requirements, the stock-based compensation expense of $5,180,000 recorded in the first quarter of 2006 constitutes the entire grant-date fair value of this award, and no future period charges will be recorded. The stock is restricted only in that it cannot be sold for a specified period of time. There are no vesting requirements. The fair value of the stock granted was $7.99 per share based on the market price of the Company's common stock on the date of grant. There were no discounts applied for the effects of the restriction, since the value of the restriction is considered to be de minimis. Certain of the restricted stock was issued as a replacement for the previously held stock based compensation awards and the incremental fair value of the restricted stock over the original award at the date of replacement has been charged during the period. Of the $5,181,000 charge $3,165,000 was reported as a component of research and development expense and $2,016,000 was reported as a component of general and administrative expense.

There was no cash received from stock option exercises for the three months ended March 31, 2006. No income tax benefits would have been recorded if there had been stock option exercises. FAS 123R prohibits recognition of tax benefits for exercised stock option until such benefits are realized. As we presently have tax loss carry forwards from prior periods and expect to incur tax losses in 2006, we would not be able to benefit from the deduction for exercised stock option in the current reporting period.

Cash used to settle equity instruments granted under share-based payment arrangements amounted to $0 during all periods presented.

6. Stockholders' Equity

Reverse Stock Split and Issue of Common Stock in Connection with the Stock Purchase Agreement

In March 2006, the Board of Directors and stockholders of the Company approved an amendment to the Company's eighth amended and restated certificate of incorporation (as amended, the ''Restated Certificate'') effecting a 1-for-10 reverse stock split of common stock, (the ''Reverse Stock Split''). All issued and outstanding common stock and per share amounts contained in the financial statements have been retroactively adjusted to reflect this stock split.

In March 2006, in connection with the Stock Purchase Agreement the Company issued 7,761,453 shares of common stock to Cyclacel Group plc which represented 79.7% of the outstanding shares of the Company's common stock.

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Equity Incentive Plan

In January 2006, the Board of Directors adopted and in March 2006, the stockholders approved the Equity Incentive Plan (the''Plan''). The Company has reserved a total of 986,120 shares of common stock for issuance under the Plan plus any options granted under the Company's predecessor plans that expire unexercised or are repurchased by the Company pursuant to the terms of such options. As of March 31, 2006, no shares have been issued under this plan.

Private Placement

On April 27, 2006 the Company entered a definitive agreement to raise approximately $45.3 million in a private placement of approximately 6.43 million units, each unit consisting of one share of common stock and a warrant to purchase 0.40 shares of common stock, at a purchase price of $7.05 per unit. The purchase price for the shares and the exercise price for the warrants, which have a seven-year term, will be $7.00 per share, the closing bid price for the Company's common stock on April 26, 2006. Investors in the financing will pay $0.125 per warrant

or an additional $0.05 for each share underlying the warrants. The Company will issue approximately 6.43 million shares of common stock and warrants to purchase approximately 2.57 million shares of common stock. The closing of the private placement, which was subject to certain conditions, occurred on May 1, 2006.

The shares of common stock offered and sold by the Company in this private placement have not been registered under the Securities Act of 1933, as amended (the ''Securities Act''), or state securities laws and may not be offered or sold in the United States without registration with the Securities and Exchange Commission (''SEC'') or an applicable exemption from registration requirements. It was agreed with the participating investors to file a registration statement with the SEC covering resale of the shares of common stock in the private placement.

Amounts Receivable from Directors and Officers

In connection with the issue of Group Preferred D shares to certain directors and officers in March 2006 prior to the Stock Purchase the Company was obliged to withhold payroll taxes of $248,000 and remit this amount to the UK tax authorities. As this is a non-cash item the taxes cannot be withheld from the payment but must be recovered from the employee. Under the UK Income and Taxes Act these payroll taxes are recoverable from the individuals by June 27, 2006. The amount is included in Prepaid Expenses and Other Current Assets.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report, including particularly the sections entitled ''Risk Factors'' and ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical fact, included in this report regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans and objectives of management are forward-looking statements. The words ''anticipate,'' ''believe,'' ''estimate,'' ''expect,'' ''hope,'' ''intend,'' ''may,'' ''plan,'' ''project,'' ''will,'' ''would'' and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this report, particularly in the ''Risk Factors'' section, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, in-licensing transactions, joint ventures or investments we may make. We do not assume any obligation to update any forward-looking statements.

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.
We maintain disclosure controls and procedures, as such term is defined in SEC Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Executive Vice-President of Finance, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Executive Vice-President of Finance, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Executive Vice-President of Finance concluded that our disclosure controls and procedures were not effective at the reasonable assurance level.

(b) Changes in Internal Control Over Financial Reporting.
Certain transaction costs incurred by Xcyte Therapies, Inc. in connection with the completion of the Stock Purchase Agreement with Cyclacel Group plc were omitted from accrued liabilities on completion of the merger with a consequent incorrect allocation of the merger purchase price. This error was included in the unaudited financial statements for the three month period ended March 31, 2006 included in Form 10-Q filed with the Securities and Exchange Commission on May 16, 2006. Our Chief Executive Officer and Executive Vice-President of Finance have evaluated whether any change in our internal control over financial reporting, as such term is defined under Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, occurred during our most recent fiscal quarter covered by this report that has materially affected, or is likely to materially affect, our internal control over financial reporting. Based on their evaluation, our Chief Executive Officer and Executive Vice-President of Finance concluded that there has been no change in our internal control over financial reporting during our most recent fiscal quarter covered by this report that has materially affected, or is likely to materially affect, our internal control over financial reporting. We are in the process of determining the additional steps necessary to strengthen our purchase accounting process.

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PART II. OTHER INFORMATION

Item 6. Exhibits

3.3.1	Certificate of Incorporation (effecting name change to Cyclacel Pharmaceuticals, Inc.)*
31.1	Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a) As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a) As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Previously filed.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in Short Hills, New Jersey, on July 7, 2006.

CYCLACEL PHARMACEUTICALS, INC.

Dated: July 7, 2006

By: /s/ Paul McBarron
Paul McBarron
Chief Operating Officer and Executive Vice President, Finance

EXHIBIT 31.1

Certification of President and Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Spiro Rombotis, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Cyclacel Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 7, 2006

/s/ Spiro Rombotis
Spiro Rombotis
President and Chief Executive Officer

EXHIBIT 31.2

Certification of Executive Vice President, Finance
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Paul McBarron, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Cyclacel Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 7, 2006

/s/ Paul McBarron
Paul McBarron
Chief Operating Officer and
Executive Vice President, Finance

EXHIBIT 32.1

Certification of Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Cyclacel Pharmaceuticals, Inc. (the ''Company'') hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q/A of the Company for the quarterly period ended March 31, 2006 (the ''Report'') fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 7, 2006

/s/ Spiro Rombotis
Spiro Rombotis
President and Chief Executive Officer

EXHIBIT 32.2

Certification of Executive Vice President, Finance
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Cyclacel Pharmaceuticals, Inc. (the ''Company'') hereby certifies, to such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q/A of the Company for the quarterly period ended March 31, 2006 (the ''Report'') fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 7, 2006

/s/ Paul McBarron
Paul McBarron
Chief Operating Officer and
Executive Vice President, Finance