

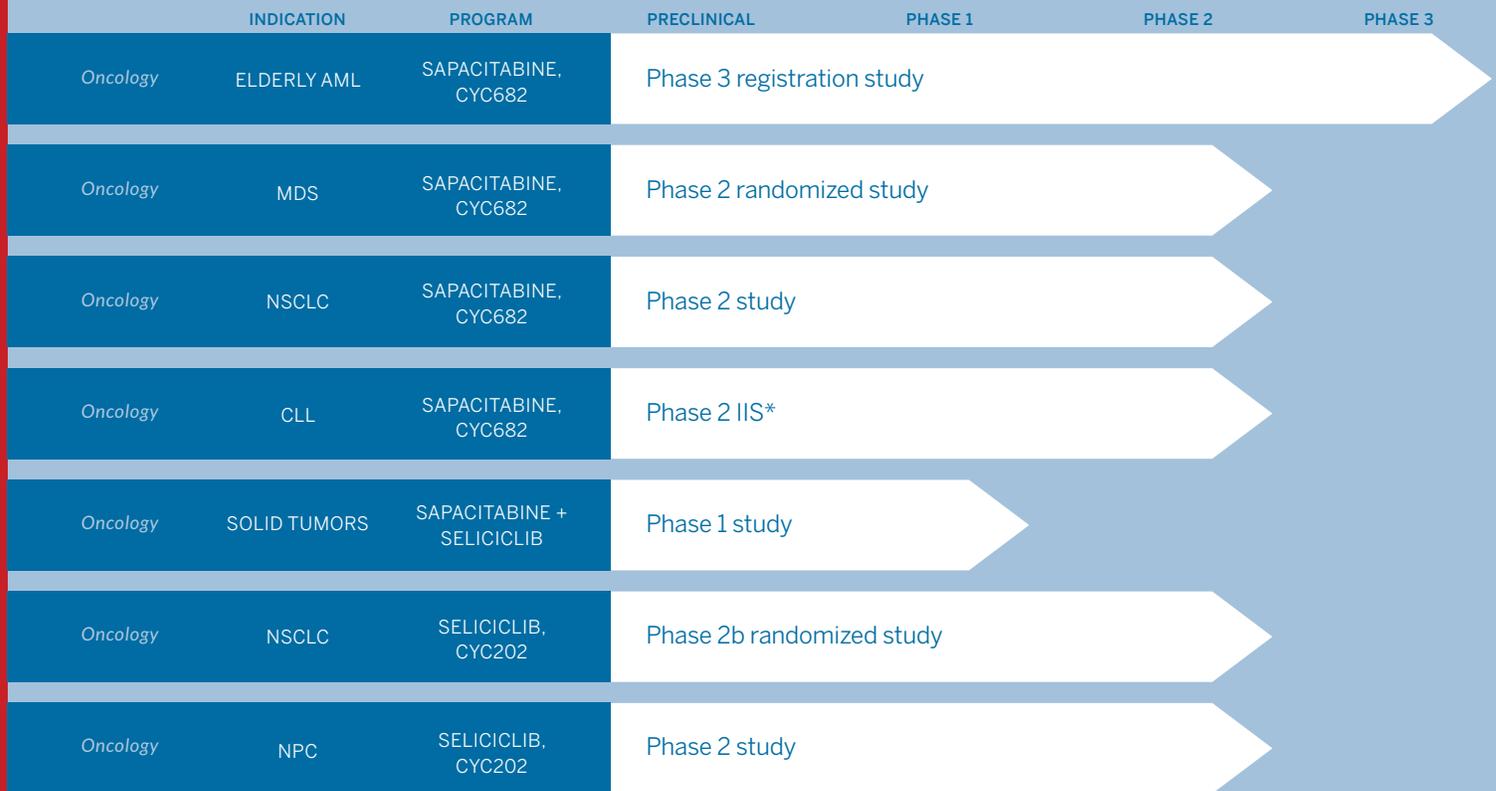
Reaching Out



EXPANDING
THE SEAMLESS
PHASE 3 STUDY
INTO EUROPE

2013

Pipeline



AML = acute myeloid leukemia
MDS = myelodysplastic syndromes
NSCLC = non-small cell lung cancer

CLL = chronic lymphocytic leukemia
NPC = nasopharyngeal cancer

*IIS=Investigator initiated study

2014 Key Milestones

Sapacitabine in AML (SEAMLESS)

- Continue enrollment and expand study into Europe
- Report next periodic DSMB review after approximately 300 patients are enrolled
- Report DSMB interim analysis for futility after 212 events
- Complete enrollment

Sapacitabine in MDS

- Announce design of a randomized, controlled trial in 2nd line MDS following treatment failure of hypomethylating agents

Sapacitabine in Solid Tumors

- Update sapacitabine and seliciclib regimen data in patients with gBRCA mutated solid tumors

Dear Fellow Stockholders,

During 2013 we continued to make progress with the clinical development of oral sapacitabine capsules, our lead drug candidate. This included our SEAMLESS, Phase 3, registration-directed study of sapacitabine in elderly patients with newly diagnosed acute myeloid leukemia (AML), our lead indication, and a Phase 2 study of sapacitabine in older patients with myelodysplastic syndromes (MDS) who have failed front-line treatment. We also reported promising data from a Phase 1 study testing an all-oral regimen of sapacitabine followed by seliciclib

number of enrolling hospitals by offering the SEAMLESS study to European patients with AML.

Following the recent European launch of decitabine, the drug used as control in SEAMLESS, we began preparations for expanding the study into Europe. We were very encouraged to find out that over 100 European hospitals expressed interest in joining the study. We expect to open about 80 of these, resulting in approximately tripling the number of participating clinical sites. The European part of the study is now open and we have enrolled our first European patients.

for any indication until late 2012 when European regulators approved it for AML based on an exploratory analysis showing a trend in DACO-016. Although these events were ultimately favorable for the SEAMLESS study design, they resulted in a delay in offering the study to European patients until after decitabine was launched in the EU. SEAMLESS is being conducted under a Special Protocol Assessment (SPA) agreement with the FDA, and the FDA also designated sapacitabine as an orphan drug for both AML and MDS. Based on similar orphan designations in the EU, we have also received protocol assistance from European regulators on the SEAMLESS design.

The substantial increase in US and EU trial centers to a total of approximately 120 will accelerate SEAMLESS accrual. Based on the European expansion, we estimate completion of enrollment around the end of this year and topline data next year.

in patients with solid tumors. Durable anticancer activity was observed in patients carrying gBRCA mutations with breast, ovarian and pancreatic cancer, corroborating preclinical evidence of activity in ovarian cancer published during the year. Looking to forthcoming sapacitabine-related milestones, we are working hard to complete enrollment in SEAMLESS, design a randomized, controlled study in MDS and continue development in solid tumors.

Sapacitabine in AML

At the time of this writing, enrollment in SEAMLESS has reached approximately 60%. All patients in the study thus far were recruited from approximately 39 US hospitals. Our primary objective during the year was to significantly increase the

During the year, the study's independent Data Safety Monitoring Board (DSMB) conducted its third review of available data. As with previous reviews, the DSMB found no safety or efficacy concerns and recommended that the study should continue as planned.

Decitabine availability in the US versus the European Union (EU) presented a challenge. In the US decitabine was approved in 2006 for MDS. However, it failed to gain US Food and Drug Administration (FDA) approval for AML after a Phase 3 trial, called DACO-016, did not meet its primary endpoint. Nevertheless decitabine is used "off-label" to treat patients with AML, enabling us to offer it to US patients electing to enroll in SEAMLESS. In Europe decitabine was not approved

Sapacitabine in MDS

Turning to MDS, Phase 2 data reported at the 2013 American Society of Hematology (ASH) Annual Meeting showed a one year survival outcome at 38% with a near doubling of expected median survival of older patients with MDS after treatment failure of hypomethylating agents (HMA). These patients have a poor prognosis and to our knowledge there is no other drug in late-stage development for this indication. Following the ASH data, we are planning a randomized, controlled trial (RCT) of sapacitabine in this underserved patient population. This represents an attractive opportunity, but there are several challenges that need to be carefully considered before designing an RCT. We expect to disclose our plans for this second indication of sapacitabine after consulting with US and European clinical, regulatory and statistical experts and completing feasibility surveys.

We expect that the US & EU clinical trial network of SEAMLESS could be leveraged to also run an RCT in MDS. Most of the European centers we are now opening to accelerate SEAMLESS enrollment also treat MDS patients. Certain of the investigators have participated in pivotal studies with HMAs as frontline therapies for MDS. With funds in place for the RCT in MDS from existing resources and a capital raise in early 2014, we are looking forward to developing sapacitabine in this important indication.

Sapacitabine in Solid Tumors

In addition to our work with sapacitabine in hematological malignancies, we continue to explore sapacitabine with our collaborators in solid tumors and in particular as a potential treatment for patients with gBRCA-deficient cancers. Such patients carry an inherited, mutated form of the BRCA 1 or BRCA 2 gene in their germ line and their cancers are deemed to be incurable. In the spring at the 104th Annual Meeting of the American Association for Cancer Research (AACR), Dr. Geoffrey Shapiro, M.D., Director, Early Drug Development, Dana-Farber Cancer Institute and Associate Professor, Department of Medicine, Harvard Medical School, presented updated data from an open label, single arm, Phase 1 escalation trial of sapacitabine and seliciclib, our Cyclin Dependent Kinase (CDK) inhibitor. This all-oral treatment regimen was sequentially-administered in heavily-pretreated patients with advanced solid tumors. Of 38 patients with incurable solid

tumors and adequate organ function enrolled, 16 were found to be gBRCA mutation carriers. Four patients with gBRCA mutated, breast, ovarian and pancreatic cancers achieved confirmed partial responses with promising durability, with the longest lasting more than 78 weeks. Stable disease of 12 weeks or more was observed in eight additional patients, including two with gBRCA mutated ovarian and breast cancers, lasting 64 weeks and 21 weeks respectively. The AACR Annual Meeting Program Committee selected this study for inclusion at a press conference highlighting major developments reported during the 2013 AACR.

In a parallel development in the autumn Cyclacel collaborators from the Northern Institute for Cancer Research at Newcastle University presented updated data at an AACR conference in ovarian cancer. The data showed that sapacitabine is active against a majority of ovarian cancers based on biopsy samples taken from patients, including resistant tumors.

Sapacitabine Exclusivity

We are pursuing a broad intellectual property strategy providing us with a strong foundation to achieve our clinical and commercial objectives for sapacitabine and our other assets. During the year the US Patent and Trademark Office issued multiple patents extending the market exclusivity of sapacitabine to at least 2030. The patents claim, among others, methods of use of sapacitabine for the treatment of AML and MDS, including the dosing regimen used in

SEAMLESS, methods of treating cancer comprising sapacitabine together with DNA methyltransferase inhibitors, including azacitidine and decitabine, and combination treatment with sapacitabine and histone deacetylase (HDAC) inhibitors of various cancers. The patents enhance sapacitabine's intellectual property estate, supplement existing composition of matter, dosing regimen and combination treatment patent protection and support US and EU market exclusivity.

Pipeline Programs

We have allocated limited resources to our earlier stage pipeline. Nevertheless we have advanced our early-stage assets supported by government grants and collaborations. During the year investigators at Newcastle University were awarded approximately \$1.5 million by the UK's Medical Research Council for a clinical trial to evaluate whether seliciclib, our oral CDK inhibitor, currently in clinical development as an anticancer drug, can be repurposed to treat rheumatoid arthritis (RA). Based on our clinical data in solid tumors, the investigators believe that seliciclib's mechanism of action and oral administration route may be of benefit in treating patients with RA who do not respond to existing treatments. Targeting proliferating fibroblasts with seliciclib, is a novel approach to treating RA, and may be useful when existing treatments fail.

We continued to progress investigational new drug (IND)-directed preclinical development of CYC065, a novel, orally available, second generation, CDK

inhibitor, supported by a grant award of approximately \$1.9 million from the UK Government's Biomedical Catalyst. There is a strong preclinical rationale for the use of CYC065 as a stratified medicine, or matching the treatment with tumor genetics and other disease features selected on the basis of clinical biomarkers. Preclinical data suggest that CYC065 may be useful as a treatment for orphan diseases with a high unmet medical need, including certain adult, infant and pediatric leukemias.

Separately during 2013, we received a grant award of approximately \$3.7 million from the UK Government's Biomedical Catalyst to complete IND-directed preclinical development of CYC140. CYC140 is a novel, orally available, small molecule targeting Polo-Like Kinase 1 (Plk) that was discovered by Cyclacel scientists. Plk plays an important role in regulating mitosis or cancer cell division and was first described by Prof. David Glover, Cyclacel's Chief Scientist.

Financial Condition & Other Developments

During 2013, we strengthened our cash position in preparation for the expansion of the SEAMLESS study into Europe. In May 2013, we completed an underwritten offering for net proceeds of approximately \$19 million. We also raised net proceeds of approximately \$9 million under our common stock purchase agreements with Aspire Capital Fund, LLC. Aspire has committed to purchase up to \$18 million of our common stock from time to time as

directed by us depending on market price and other factors. We continued to improve our balance sheet by converting approximately 0.9 million shares of preferred stock into approximately 1.7 million shares of common stock. As a result, approximately 0.3 million shares of preferred stock remain outstanding. We received \$5.5 million from Celgene Corporation for the sale to Celgene of four Cyclacel romidepsin-related patents and the dismissal of all claims in the related patent litigation.

At the end of the year, we had \$31.1 million in cash and cash equivalents. We expect these cash resources will be sufficient to fund operations beyond the readout of the SEAMLESS trial.

2014 Outlook

Our major goals for 2014 are:

SAPACITABINE IN AML (SEAMLESS)

- **Continue enrollment and expand study into Europe**
- **Report next periodic DSMB review after approximately 300 patients are enrolled**
- **Report DSMB interim analysis for futility after 212 events**
- **Complete enrollment**

SAPACITABINE IN MDS

- **Announce design of a randomized, controlled trial in 2nd line MDS following treatment failure of hypomethylating agents**

SAPACITABINE IN SOLID TUMORS

- **Update sapacitabine and seliciclib regimen data in patients with gBRCA mutated solid tumors**

ADVANCE OUR PIPELINE

- **Support investigator-initiated studies of seliciclib in RA and sapacitabine in chronic leukemia**
- **File IND for CYC065 CDK inhibitor and continue preclinical development of CYC140 Plk1 inhibitor**

The Cyclacel team has worked hard to advance our development programs and in particular SEAMLESS enrollment. We are excited by the acceleration of the study into Europe and the interest expressed by a large number of European investigators. Although AML is our highest priority, we have made strides in other indications, including MDS and solid tumors, and have obtained non-dilutive grant funding to support advancement of our pipeline. The year ahead promises to be exciting, and in particular the prospect of completing enrollment in SEAMLESS and disclosing our plans for a randomized, controlled trial in MDS. Our team is dedicated to improving the lives of patients and building long-term value for our shareholders. Thank you for your continued support of our efforts.



Spiro Rombotis

President and Chief Executive Officer

For over a decade Cyclacel has been dedicated to the understanding of the biology of the cancer cell cycle and translating advances in this area of science into novel therapeutics to benefit cancer patients. We have acquired extensive clinical experience with cell cycle modulating agents, in both hematological malignancies and solid tumors. We are proud to have expanded our AML Phase 3 study into Europe after enrolling more than half of the study in the US. Building on these achievements, we are planning to develop sapacitabine for a second indication as a treatment for older patients with MDS after failure of frontline agents.

Myelodysplastic Syndromes or MDS is a form of blood cancer in which the bone marrow malfunctions. Scientifically, MDS is a clonal disease of ineffective hematopoiesis with cytopenias in peripheral blood and risk of progressing or “transforming” into Acute Myeloid Leukemia or AML.

Patients with high risk MDS are treated with a hypomethylating agent (HMA) drug as frontline therapy. Typically this is azacitidine, less frequently it may be decitabine. In accordance with the azacitidine label, only 6% of patients achieve complete remission or CR, suggesting that CR is a poor surrogate endpoint for evaluating survival. Independently of whether they respond or not to HMAs, nearly all patients eventually relapse or experience disease progression despite HMA therapy.

In healthy people or patients responding to front line therapy, the normal state or complete remission, respectively, is

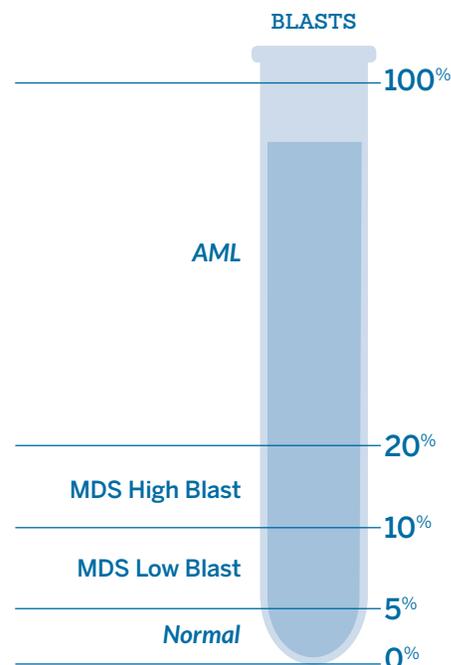
defined as immune cells, white blood cells and platelets at normal levels, and blasts or cancer cells amounting to 5% or less of the bone marrow. The World Health Organization’s or WHO’s definition of MDS is blasts or cancer cells amounting to between 6 and 19% of the bone marrow. Blasts at or above 20% is defined as the boundary of leukemia or AML. An older classification, called the FAB or French American British system, demarcated leukemia or AML as blasts at or above 30%. For this historical reason, the azacitidine label as front-line therapy for high risk MDS is blasts below 30%.

Within these boundaries of MDS defined by blast level, it is desirable to further distinguish between two subgroups: low blast or 6-9% and high blast or 10-19% per WHO or 10-29% per FAB. Different treatment strategies may be beneficial for each of these two subgroups.

Low blast patients typically have low blood counts. In other words, they have a low level of cancer cells but also low levels of immunity. An aggressive myeloablative strategy may not be desirable for these patients. There are too few cancer cells to kill and the myeloablative treatment may result in increased infections by further worsening dangerously low levels of blood counts. These patients are generally offered supportive care and their median survival tends to be around 8 months.

High blast patients may have faster disease progression and a risk of transforming into AML, a leukemia with median survival in elderly patients of 3.5 months, if left untreated. There is no effective therapy for high blast patients

after HMA failure. Median survival for high blast patients is around 5 months which is considerably shorter than low blast patients.



Sapacitabine Phase 2 MDS data summary presented at a poster during the 2013 American Society of Hematology (ASH) Annual Meeting and Exposition

Median overall survival for each of three arms is approximately 9.7 months for Arm G, 9.7 months for Arm H and 7.6 months for Arm I. The median overall survival for all three arms is approximately 8.6 months. One-year survival is 38% for Arm G, 24% for Arm H and 33% for Arm I. To date, 9 patients have responded (2 CRs, 2 CRp, and 5 major HIs): 19% for Arm G, 10% for Arm H and 14% for Arm I. Time to response is 1 to 4 cycles. Median number of cycles was 3 with a range of 1 to over 23. Thirty patients received 4 or more cycles. Additionally, 23 patients achieved stable disease lasting longer than 16 weeks. The thirty-day mortality from all causes is 5% in each of the three arms. Ten patients (approximately 16%) are still alive.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

Commission file number 00-50626

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.)

200 Connell Drive
Suite 1500
Berkeley Heights, New Jersey
(Address of principal executive
offices)

07922
(Zip Code)

Registrant's telephone number, including area code: **(908) 517-7330**

Securities registered under Section 12(b) of the Exchange Act:

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|------------------------------------|--|
| Common Stock, \$0.001 par value | The NASDAQ Stock Market LLC |
| Preferred Stock, \$0.001 par value | The NASDAQ Stock Market LLC |

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K .

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

[Do not check if a smaller reporting company]

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate), as of June 30, 2013 (based upon the closing sale price of \$2.95 of such shares on The NASDAQ Global Market on June 30, 2013) was \$51,061,987.

As of March 24, 2014, there were 19,819,332 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference into the following parts of the Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K is incorporated from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on or about May 22, 2014.

TABLE OF CONTENTS

PART I

| | | |
|----------|---------------------------|----|
| Item 1. | Business | 1 |
| Item 1A. | Risk Factors | 16 |
| Item 1B. | Unresolved Staff Comments | 39 |
| Item 2. | Properties | 39 |
| Item 3. | Legal Proceedings | 40 |
| Item 4. | Mine Safety Disclosures | 40 |

PART II

| | | |
|----------|--|----|
| Item 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 40 |
| Item 6. | Selected Financial Data | 40 |
| Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 41 |
| Item 7A. | Quantitative and Qualitative Disclosures About Market Risk | 53 |
| Item 8. | Financial Statements and Supplementary Data | 54 |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 96 |
| Item 9A. | Controls and Procedures | 96 |
| Item 9B. | Other Information | 97 |

PART III

| | | |
|----------|--|----|
| Item 10. | Directors, Executive Officers and Corporate Governance | 97 |
| Item 11. | Executive Compensation | 97 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 97 |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | 98 |
| Item 14. | Principal Accountant Fees and Services | 98 |

PART IV

| | | |
|----------|--|----|
| Item 15. | Exhibits and Financial Statement Schedules | 98 |
|----------|--|----|

PART I

Item 1. Business

The following Business Section contains forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain risks, uncertainties and other factors including the risk factors set forth in Part I, Item 1A of this Annual Report on Form 10-K. In this report, “Cyclacel,” the “Company,” “we,” “us,” and “our” refer to Cyclacel Pharmaceuticals, Inc.

General

Cyclacel is a pioneer company in the field of cell cycle biology with a vision to improve patient healthcare with orally available innovative medicines. Our goal is to develop and commercialize small molecule drugs that target the various phases of cell cycle control for the treatment of cancer and other serious diseases, particularly those of high unmet medical need.

Our strategy is to build a diversified biopharmaceutical business focused in hematology and oncology based on a development pipeline of novel drug candidates. 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 property, raising capital and recruiting and training personnel.

Drug Candidates

The cell cycle, the biological process by which cells progress and divide, lies at the heart of cancer. In normal cells, the cell cycle is controlled by a complex series of signaling pathways by which a cell grows, replicates its DNA and divides. This process also includes mechanisms to ensure errors are corrected, and if not, the cells commit suicide or apoptosis. In cancer, as a result of genetic mutations, this regulatory process malfunctions, resulting in uncontrolled cell proliferation.

We have generated several families of anticancer drugs that act on the cell cycle including sapacitabine, seliciclib, and CYC065. We believe that these drug candidates are differentiated in that they are orally-available and interact with unique target profiles and mechanisms and have the potential to treat multiple cancer indications.

Our lead candidate, sapacitabine, is an orally-available prodrug of CNDAC, which is a novel nucleoside analog, or a compound with a structure similar to a nucleoside. A prodrug is a compound that has a therapeutic effect after it is metabolized within the body. CNDAC has a significantly longer residence time in the blood when it is produced in the body through metabolism of sapacitabine than when it is given directly. Sapacitabine acts through a novel mechanism whereby it interferes with DNA synthesis and repair by causing single-strand DNA breaks (SSBs) which can induce arrest of the cell division cycle at the G2/M checkpoint. During subsequent rounds of replication SSBs are converted to double-strand DNA breaks which may be repaired by the homologous recombination (HRR) pathway, or, if unrepaired, result in cell death. A number of nucleoside drugs, such as gemcitabine and cytarabine, also known as Ara-C, both generic drugs, are in wide use as conventional chemotherapies. Both sapacitabine and its major metabolite, CNDAC, have demonstrated potent anti-tumor activity in both blood and solid tumors in preclinical studies. In a liver metastatic mouse model, sapacitabine was shown to be superior to gemcitabine and fluorouracil, or 5-FU, two widely used nucleoside analogs, in delaying the onset and growth of liver metastasis. We hold the worldwide rights to commercialize sapacitabine, except for Japan, for which Daiichi Sankyo Co., Ltd., or Daiichi Sankyo, has a right of first negotiation.

The U.S. Food and Drug Administration, or FDA, and the European Medicines Agency, or EMA, have designated sapacitabine as an orphan drug for the treatment of both Acute Myeloid Leukemia, or AML, and Myelodysplastic Syndromes, or MDS.

We are currently evaluating sapacitabine in a Phase 3 study being conducted under a Special Protocol Assessment, or SPA, with the FDA for the front-line treatment of AML in the elderly. We are also exploring sapacitabine in Phase 2 studies for MDS, non-small cell lung cancer, or NSCLC, and chronic lymphocytic leukemia, or CLL and in a Phase 1 study in solid tumors in combination with seliciclib, another of our drug candidates. Sapacitabine has been evaluated in over 900 patients to date.

In our second development program we are evaluating cyclin dependent kinase, or CDK, inhibitors. CDKs are involved in cancer cell growth, metastatic spread and DNA damage repair. Seliciclib, our lead CDK inhibitor, selectively inhibits a spectrum of enzyme targets - CDK2/E, CDK2/A, CDK7 and CDK9 - that are central to the process of cell division and cell cycle control. In breast and lung tumors overexpression of cyclin E is associated with poor prognosis and drug resistance. Resistant breast and lung tumor cell lines overexpressing cyclin E are resensitized to apoptotic cell killing by seliciclib. NSCLC cell lines with Ras-activating mutations,

such as KRAS and NRAS, have been found to be sensitive to seliciclib-induced apoptosis. Seliciclib will also be evaluated in an investigator- initiated clinical study to treat rheumatoid arthritis, or RA, supported by an approximately \$1.5 million grant from the UK's Medical Research Council. Enabled by the clinical development experience in solid tumors, investigators believe that seliciclib's mechanism of action and oral administration route may be of benefit in treating patients with RA. To date, seliciclib has been evaluated in approximately 450 patients in several Phase 1 and 2 studies and has shown signs of anti-cancer activity. We have retained worldwide rights to commercialize seliciclib. Seliciclib has completed a Phase 2B randomized study in third-line NSCLC and is currently undergoing a study in solid tumors in combination with our own drug candidate, sapacitabine.

Our second generation CDK inhibitor, CYC065, is a highly selective inhibitor of CDKs targeting CDK2, CDK5 and CDK9 enzymes. CYC065 has increased anti-proliferative potency and improved pharmaceutical properties compared to seliciclib. Independent investigators have reported that CYC065 reverses resistance in breast cancer cells that have become resistant to trastuzumab. Investigational new drug (IND)-enabling studies with CYC065 are in progress supported by a \$1.9 million grant from the Biomedical Catalyst of the United Kingdom government.

In addition to these development programs, in our polo-like kinase (PLK) inhibitor program, we have discovered CYC140 and other potent and selective small molecule inhibitors of PLK1, a kinase active during cell division, targeting the mitotic phase of the cell cycle. PLK was discovered by Professor David Glover, our Chief Scientist. We have received a grant award of approximately \$3.7 million from the Biomedical Catalyst of the United Kingdom government to complete IND-directed preclinical development of CYC140.

We currently retain virtually all marketing rights worldwide to the compounds associated with our drug programs. To optimize our commercial return, we intend to enter into selected partnering arrangements.

Lead Development Programs

Our pipeline and expertise in cell cycle biology

Our core area of expertise is in cell cycle biology and we focus primarily on the development of orally-available anticancer agents that target the cell cycle with the aim of slowing the progression or shrinking the size of tumors, and enhancing the quality of life and improving survival rates of cancer patients.

We have retained rights to commercialize our clinical development candidates and our business strategy is to enter into selective partnership arrangements with these programs.

Oncology Development Programs

We have generated several families of anticancer drugs that act on the cell cycle, including nucleoside analogues, CDK inhibitors, PLK inhibitors and Aurora Kinase/vascular endothelial growth factor, or AK/VEGFR2, inhibitors. In our development programs, we have been an early adopter of biomarker analysis to help evaluate whether our drug candidates are having their intended effect through their assumed mechanisms at different doses and schedules. Biomarkers are proteins or other substances whose presence in the blood can serve as an indicator or marker of diseases. Biomarker data from early clinical trials may also enable us to design subsequent trials more efficiently and to monitor patient compliance with trial protocols. For example, we reported that sapacitabine efficacy is enhanced in tumor cells that are defective in homologous recombination DNA repair. In another example, we reported that sensitivity to our PLK1 inhibitor CYC140 correlated with protein 53, or p53 status, in a panel of esophageal cancer cell lines, which could be used as a predictive biomarker in clinical trials to identify responders. We believe that in the longer term biomarkers may allow the selection of patients more likely to respond to our drugs in clinical trials and increase the benefit to patients.

Although a number of pharmaceutical and biotechnology companies are currently attempting to develop nucleoside analogues, CDK inhibitors, PLK inhibitors and AK and/or VEGFR inhibitor drugs, we believe that our drug candidates, are differentiated in that they are orally-available and demonstrate unique target profiles and mechanisms. For example, we believe that our sapacitabine is the only orally-available nucleoside analogue presently being tested in Phase 3 trials in previously untreated AML and in Phase 2 for high risk MDS.

Research and Development Pipeline

The following table summarizes our currently active clinical and preclinical programs.

| Program | Indication | Development Status | Target | Cell Cycle Mechanism |
|-----------------------------------|------------------------------------|--|----------------|-----------------------------|
| <i>Oncology</i> | | | | |
| Sapacitabine, CYC682 | Elderly AML | Phase 3 registration study on-going | DNA polymerase | G2 and S phase |
| Sapacitabine, CYC682 | MDS | Phase 2 randomized trial on-going | DNA polymerase | G2 and S phase |
| Sapacitabine, CYC682 | NSCLC | Phase 2 trial closed to accrual | DNA polymerase | G2 and S phase |
| Sapacitabine, CYC682 | CLL | Phase 2 randomized trial. Investigator-initiated study | DNA polymerase | G2 and S phase |
| Sapacitabine + Seliciclib | Cancer | Phase 1 trial on-going | | |
| CDK inhibitor, Seliciclib, CYC202 | NSCLC | Phase 2b randomized trial. Trial closed to accrual | CDK2, 7, 9 | G1/S checkpoint and others |
| Seliciclib, CYC202 | NPC | Phase 2 randomized trial. Trial closed to accrual | CDK2, 7, 9 | G1/S checkpoint and others |
| CYC065 | Cancer | Preclinical | CDK2, 5, 9 | G1/S checkpoint and others |
| CYC140 | Cancer | Preclinical | PLK | G2/M checkpoint |
| <i>Other therapeutic areas</i> | | | | |
| Seliciclib, CYC202 | Autoimmune & Inflammatory Diseases | Phase 2 randomized trial. Investigator-initiated study | CDK | G1/S checkpoint and others |

Market opportunity in hematology

Cancer remains a major life-threatening disease in the United States with approximately 3.2 million people afflicted by cancer and approximately 1.4 million new cases of cancer diagnosed every year.

Acute myeloid leukemia is a cancer of the blood cells that progresses rapidly and if not treated, could be fatal in a few months. AML is generally a disease of older people and is uncommon before the age of 40. The average age of a patient with AML is about 67 years. According to the American Cancer Society approximately 44,000 cases of leukemia are diagnosed annually in the United States of which about 15,000 are classified as AML of which about half are elderly aged 70 years or older. Nearly 9,000 deaths are caused by this cancer each year in the United States. A review of The University of Texas MD Anderson Cancer Center's historical experience with front-line intensive induction chemotherapy for AML patients aged 70 years or older demonstrated that while 45% achieved a complete remission, median overall survival was only 4.6 months and was associated with a 4-week death rate of 26% and a 8-week death rate of 36%.

Myelodysplastic syndromes, or MDS, is a family of clonal myeloid neoplasms, or malignancies of the blood, caused by the failure of blood cells in the bone marrow to develop into mature cells. Patients with MDS typically suffer from bone marrow failure and cytopenias, or reduced counts of platelets, red and white blood cells. The exact incidence and prevalence of MDS are unknown because it can go undiagnosed and a national survey canvassing both hospitals and office practitioners has not been completed. Some estimates place MDS incidence at 15,000 to 20,000 new cases each year in the US alone with some authors estimating incidence as high as 46,000. Literature suggests that there is a rising incidence of MDS as the age of the population increases with the majority of patients aged above 60 years. Patients currently receive hypomethylating agents as first-line treatment. There is no approved therapy for second-line treatment.

Sapacitabine

Sapacitabine (previously known as CYC682) is an orally-available nucleoside analogue. Both sapacitabine and CNDAC, its major metabolite, have demonstrated potent anti-tumor activity in preclinical studies. Sapacitabine is an orally-available prodrug of CNDAC, which is a novel nucleoside analog, or a compound with a structure similar to a nucleoside. A prodrug is a compound that

has a therapeutic effect after it is metabolized within the body. CNDAC has a significantly longer residence time in the blood when it is produced in the body through metabolism of sapacitabine than when it is given directly. Sapacitabine acts through a novel mechanism whereby the compound interferes with DNA synthesis through the incorporation of CNDAC into DNA during replication or repair, triggering a β -elimination reaction and leading to the formation of SSBs, which can activate the G2 checkpoint transcription coupled nucleotide excision repair, or TC-NER. During subsequent rounds of replication, SSBs are converted to double-strand breaks (DSBs); these can be repaired by the homologous recombination repair (HRR) pathway, or, if unrepaired, result in cell death.

We are currently exploring sapacitabine in both hematological cancers and solid tumors and over 900 patients have received sapacitabine in Phase 1, 2 and 3 studies.

Hematological Cancers

Randomized Phase 3 pivotal trial, SEAMLESS, as a front-line treatment in elderly patients aged 70 years or older with newly diagnosed AML who are not candidates for intensive induction chemotherapy

The SEAMLESS study is being conducted under an SPA agreement that Cyclacel reached with the FDA. SEAMLESS builds on promising one year survival observed in elderly patients aged 70 years or older with newly diagnosed AML or AML in first relapse enrolled in a Phase 2 study of single agent sapacitabine.

The SEAMLESS study is chaired by Hagop M. Kantarjian, M.D., Chairman and Professor, Department of Leukemia, The University of Texas MD Anderson Cancer Center, Houston, Texas. SEAMLESS is a multicenter, randomized, Phase 3 study comparing two treatment arms. In Arm A, sapacitabine is administered in alternating cycles with decitabine and in Arm C decitabine is administered alone. The primary efficacy endpoint is overall survival and the study is designed to demonstrate an improvement in overall survival. Approximately 242 patients per arm, or a total of 485 patients from approximately 100 centers in the United States and Europe, will be enrolled. The SEAMLESS study is designed to have a 90% probability of detecting a 27.5% difference in overall survival and a prespecified interim analysis for futility will be performed and reviewed by the Data Safety Monitoring Board, or DSMB. In addition, the DSMB will periodically convene to review data for safety or efficacy from each approximately 100 patients enrolled.

In November 2013, the DSMB met and recommended that the study should continue as planned after reviewing available data from 212 randomized patients. The DSMB noted that no safety or efficacy concerns were identified. Results from an on-going, multicenter, Phase 1/2 clinical trial examining the safety and efficacy of oral sapacitabine administered sequentially with decitabine, the same treatment regimen as Arm A in SEAMLESS, was reported during a poster session at the 2012 American Society of Hematology, or ASH, Annual Meeting in Atlanta, Georgia. Forty-six patients were treated with alternating cycles of sapacitabine and decitabine. Median age was 77 years (range 70-90). Thirty-three patients (72%) were 75 years or older. Median overall survival was 238 days, or approximately 8 months. The number of patients still alive at 3 months was 38 (83%), at 6 months 30 (65%), at 12 months 16 (35%) and at 18 months 12 (26%). Sixteen patients (35%) survived 1 year or longer. Among 33 patients who were 75 years or older, median overall survival was 263 days, or approximately 9 months, and 1-year survival was 36%. Nineteen patients (41%) responded with 10 complete responses (CRs), 4 partial responses (PRs) and 5 major hematological improvements (HIs). Median time to response was 2 cycles, i.e., one cycle of decitabine and one cycle of sapacitabine (range 1-10). Twenty-seven patients (59%) received 5 or more cycles of treatment. Two dose-limiting toxicities (DLT) were observed (lung infection/sepsis, typhlitis). Thirty-day mortality from all causes was 4%. Sixty-day mortality from all causes was 13% with one death from typhlitis considered to be possibly related to decitabine by investigator assessment.

Phase 2 randomized clinical trial in elderly patients with AML previously untreated or in first relapse

In December 2007, we initiated an open-label, multicenter, randomized Phase 2 clinical trial of oral sapacitabine in 60 elderly patients with AML aged 70 or older who are previously untreated or in first relapse. The Phase 2 study, led by Dr. Kantarjian, had a primary endpoint of 1-year survival rate of three dosing schedules of sapacitabine in elderly patients with previously untreated or first relapsed AML. Secondary objectives were to assess complete remission, or CR, partial remission, or PR, duration of CR or CRp, or major hematological improvement and their corresponding durations, transfusion requirements, number of hospitalized days and safety. The study uses a selection design with the objective of identifying a dosing schedule among three different arms, A. 200 mg twice daily for seven days every 3-4 weeks, B. 300 mg twice daily for seven days every 3-4 weeks, and C. 400 mg twice daily for three days per week for two weeks every 3-4 weeks, which produces a better one year survival rate in the event that all three dosing schedules are active.

In November 2012, the results from the Phase 2 study were published in The Lancet Oncology, demonstrating the safety and efficacy of sapacitabine in this patient population. The Phase 2 study enrolled and treated between December 27, 2007 and April 21, 2009, a total of 105 patients aged 70 years or above with untreated or first relapse AML. The median age of patients was 77 years (range 70—91). The group was comprised of a randomized cohort of 60 patients and an expanded, non-randomly assigned cohort

enrolling a further 45 patients. Of the 105 patients, 86 were previously untreated and 19 in first relapse. Approximately 50% of patients had AML de novo and 50% had AML preceded by antecedent hematological disorder (AHD), such as MDS or myeloproliferative disease, or treatment-related AML. All but one enrolled patients had intermediate or unfavorable cytogenetics. The randomized cohort of patients were randomly assigned to one of three dosing schedules: 200 mg twice a day for 7 days (group A); 300 mg twice a day for 7 days (group B); and 400 mg twice a day for 3 days each week for 2 weeks (group C). All schedules were given in 28 day cycles. The 3-day dosing schedule in group C was selected for further clinical development in elderly patients with untreated AML. This decision was based on the schedule's overall efficacy profile, which included a 1-year survival rate of 30%, median overall survival of 213 days and durable complete remissions (CRs) in 25% of patients. The median overall survival of patients from all groups who achieved CR was 525 days (95% C.I. 192—798). The most common grade 3—4 adverse events regardless of causality were anemia, neutropenia, thrombocytopenia, febrile neutropenia and pneumonia. Seven deaths were thought to be probably or possibly related to sapacitabine treatment. Approximately 31% of all patients received sapacitabine for at least 4 cycles.

Randomized Phase 2 clinical trial in older patients with MDS as a second-line treatment

In September 2008, we advanced sapacitabine into an open-label, multi-center, randomized Phase 2 trial as a second-line treatment in patients aged 60 or older with intermediate-2 or high-risk MDS after treatment failure of front-line hypomethylating agents, such as azacitidine and/or decitabine. The Phase 2 study randomized 63 patients aged 60 years or older with MDS of intermediate-2 (n=52) or high-risk (n=11) classification by the International Prognostic Scoring System, or IPSS, at study entry to receive sapacitabine every 4 weeks on one of 3 dosing schedules: 200 mg twice daily for 7 days (Arm G), 300 mg once daily for 7 days (Arm H), or 100 mg once daily for 5 days per week for 2 weeks (Arm I). The primary efficacy endpoint of the study is 1-year survival with the objective of identifying a dosing schedule that produces a better 1-year survival rate in the event that all three dosing schedules are active. All patients in the study progressed after receiving azacitidine, decitabine, or both agents. Secondary objectives are to assess the number of patients who have achieved CR or CRp, PR, hematological improvement and their corresponding durations, transfusion requirements, number of hospitalization days and safety.

In December 2013 at the 2013 American Society of Hematology, or ASH, Meeting and Exposition in New Orleans, Louisiana, we announced new, primary endpoint data from an ongoing, open-label, multicenter, randomized Phase 2 trial of oral sapacitabine capsules in older patients with myelodysplastic syndromes after treatment failure of front-line hypomethylating agents, such as azacitidine and/or decitabine. The median overall survival for each arm was approximately 9.7 months for Arm G, 9.7 months for Arm H, and 7.6 months for Arm I. The median overall survival for all three arms was approximately 8.6 months. One-year survival was 38% for Arm G, 24% for Arm H, and 33% for Arm I. Nine patients had responded (2 CRs, 2 CRp, and 5 major HIs): 19% for Arm G, 10% for Arm H and 14% for Arm I and the time to response was one to four cycles. Median number of cycles was three with a range of one to over 23 and 30 patients received four or more cycles. Additionally, 23 patients achieved stable disease lasting longer than 16 weeks. The 30 day mortality from all causes was 5% in each of the three arms and ten patients (approximately 16%) were still alive.

Median survival for patients with intermediate-2 or high-risk disease, as defined by the IPSS, is 4.3 to 5.6 months as reported in literature. Patients with high IPSS scores also have a high probability of experiencing transformation of their MDS into AML, an aggressive form of blood cancer with typically poor survival.

Solid Tumors

Phase 2 clinical trial in patients with NSCLC

We are evaluating sapacitabine in patients in a Phase 2, open label, single arm, multicenter, clinical trial in patients with NSCLC who have had one prior chemotherapy. This study builds on the observation of prolonged stable disease of four months or longer experienced by heavily pretreated NSCLC patients involved in two Phase 1 studies of sapacitabine. The multicenter Phase 2 trial is led by Philip D. Bonomi, M.D., at Rush University Medical Center, Chicago. The primary objective of the study is to evaluate the rate of response and stable disease in patients with previously treated NSCLC. Secondary objectives are to assess progression-free survival, duration of response, duration of stable disease, one year survival, overall survival and safety.

Forty-eight patients have been treated with two dosing schedules, either twice daily or once a day. In the twice daily schedule 15 patients were treated with escalating doses. The recommended Phase 2 dose was reached at 75 mg twice daily for 5 days per week for 2 weeks every 3 weeks. Among 12 patients treated at this recommended Phase 2 dose, 4 achieved stable disease. All 4 responders had at least 2 prior therapies and have been discontinued from the study. Responders received an average of 7 treatment cycles.

In the once daily schedule 33 patients were treated with escalating doses. Maximum tolerated dose has not been reached at the upper limit of the dosing range as per protocol. Patients are currently being entered into the 200 mg once daily dosing level for 5 days per week for 2 weeks every 3 weeks. Among 25 patients treated with daily doses ranging from 100 mg to 175 mg, two patients achieved PR and 10 stable disease. The two PR responders had 3 or 4 prior therapies, respectively, and one remains on study. Among

the 10 stable disease responders, 9 had at least 2 prior therapies and 2 remain on study. Responders received an average of 10 treatment cycles.

Phase 1 clinical trial of sapacitabine and seliciclib in patients with advanced cancers

In an open label Phase 1, single-arm dose escalation study, sapacitabine and seliciclib were administered sequentially in patients with incurable advanced solid tumors unresponsive to conventional treatment or for which no effective therapy exists. Sapacitabine was dosed twice daily for 7 days (Day 1-7) and seliciclib twice daily for 3 days (Day 8-11). One treatment cycle is three weeks. At least 3 patients were enrolled at each escalating dose level. The first tumor imaging study is conducted after 2 cycles of treatment and every 3 cycles thereafter. The primary objective of the study is to determine the maximum tolerated dose, or MTD, and recommended Phase 2 dosing schedule of sapacitabine and seliciclib administered sequentially. The secondary objective was to evaluate the antitumor activity of sequential treatment and to explore the pharmacodynamic effect of this treatment in skin and peripheral blood mononuclear cells. We reported at the 2013 American Society of Clinical Oncology Annual Meeting that 38 patients with incurable solid tumors and adequate organ function have been enrolled in the Phase 1 study, 16 of them found to be BRCA mutation carriers. Sapacitabine was administered twice daily for seven days followed by seliciclib twice daily for three days. Four patients with BRCA-deficient pancreatic, breast or ovarian cancers had confirmed partial responses to the drug combination. Based on available follow-up to date, three patients are experiencing durable partial responses, with the longest lasting more than 78 weeks. Researchers observed stable disease of 12 weeks or more in eight additional patients, including two patients with ovarian and breast cancers who carried BRCA mutations and whose stable disease lasted 64 weeks and 21 weeks, respectively. The maximum tolerated doses were 50 mg sapacitabine twice daily and 1,200 mg seliciclib twice daily. Dose-limiting toxicities included reversible transaminase elevations and neutropenia. Adverse events were mild to moderate in intensity. Results of skin biopsies after treatment showed a 2.3-fold increase in DNA damage induced by sapacitabine, as measured by gamma-H2AX immunohistochemistry. Additional DNA damage occurred after treatment with seliciclib with a 0.58-fold further increase in gamma-H2AX staining.

BRCA1 and BRCA2, or breast cancer susceptibility genes, are tumor suppressor genes that help ensure the stability of DNA, the cell's genetic material, and help prevent uncontrolled cell growth. Genetic testing for BRCA-status is routinely available. BRCA mutation has been linked to predisposition to breast and ovarian cancer. According to the US National Cancer Institute, during her life time a woman has a 60% chance of developing breast cancer and 15-40% chance of developing ovarian cancer if she inherits a harmful BRCA mutation. These risks are 5 times and over 10 times more likely than for women without the mutation, respectively.

Orphan Designation

European Union

During May 2008, we received designation from the EMA for sapacitabine as an orphan medicine in two separate indications: AML and MDS. The EMA's Committee for Orphan Medicinal Products, or COMP, adopted a positive opinion on our application to designate sapacitabine as an orphan medicinal product for the indications of AML and MDS. The objective of European orphan medicines legislation is to stimulate research and development of medicinal products for rare diseases by providing incentives to industry. An orphan designation in the European Union confers a range of benefits to sponsor companies including market exclusivity for a period of 10 years, EMA scientific advice on protocol development, direct access to the centralized procedure for review of marketing authorizations, EMA fee reductions and eligibility for grant support from European agencies.

United States

In June 2010, we announced that the FDA granted orphan drug designation to our sapacitabine product candidate for the treatment of both AML and MDS. An orphan designation in the United States confers a range of benefits to sponsor companies, including market exclusivity for a period of seven years from the date of drug approval, the opportunity to apply for grant funding from the United States government to defray costs of clinical trial expenses, tax credits for clinical research expenses and a potential waiver of the FDA's application user fee. Orphan status is granted by the FDA to promote the development of new drug therapies for the treatment of diseases that affect fewer than 200,000 individuals in the United States.

Seliciclib

Although our current clinical development priorities are focused on sapacitabine only, our second drug candidate, seliciclib, is a novel, first-in-class, orally-available, CDK inhibitor. The compound selectively inhibits a spectrum of enzyme targets - CDK2, CDK7 and CDK9 - that are central to the process of cell division and cell cycle control. The target profile of seliciclib is differentiated from the published target profile of other CDK inhibitors. Its selectivity is differentiated by recent publications by independent investigators which showed that seliciclib (i) is more active against NSCLC cells with K-Ras or N-Ras mutations than those with wild type Ras and (ii) overcomes resistance to letrozole in breast cancer cells caused by a particular form of cyclin E in complex with CDK2. Preclinical studies have shown that the drug works by inducing cell apoptosis, or cell suicide, in multiple phases of the cell

cycle. To date, seliciclib has been evaluated in approximately 450 patients in several Phase 1 and 2 studies and has shown signs of anti-cancer activity. Additionally, the UK's Medical Research Council in an investigator initiated clinical study will evaluate whether seliciclib can be repurposed to treat RA in patients who do not respond to existing treatments. Seliciclib may work for RA by targeting proliferating fibroblasts, a different type of approach than conventional RA therapies, and could therefore succeed where these treatments have failed. We have retained worldwide rights to commercialize seliciclib.

Phase 2 clinical trial in patients with NSCLC

Four Phase 2 trials have been conducted in cancer patients to evaluate the tolerability and antitumor activities of seliciclib alone or in combination with standard chemotherapies used in the treatment of advanced NSCLC or breast cancer. Interim data from two Phase 2 open-label studies of a total of 52 patients with NSCLC, suggests that seliciclib treatment neither aggravated the known toxicities of standard first and second-line chemotherapies nor appeared to cause unexpected toxicities, although these trials were not designed to provide statistically significant comparison.

On December 21, 2010, we announced topline results from APPRAISE, our Phase 2b, randomized discontinuation, double-blinded, placebo-controlled, study of oral seliciclib capsules as a third line or later treatment in patients with NSCLC. APPRAISE was led by Chandra P. Belani, M.D. at Milton S. Hershey Medical Center, Penn State University. Topline results, after unblinding the treatment assignment among randomized patients, showed that there was no difference between the seliciclib and placebo arms in terms of progression free survival, or PFS, (48 versus 53 days respectively) but an increase in median overall survival, or OS, was observed favoring the seliciclib arm over the placebo arm (388 versus 218 days respectively). A total of 187 patients from 21 centers in the United States were entered in the study after having progressed on at least two prior therapeutic regimens for their NSCLC. Of these, 53 (28%) were randomized, 27 on seliciclib and 26 on placebo. Forty-five out of 53 randomized patients (85%) received 3 or more prior therapies and 45 out of 53 randomized patients (85%) previously received at least one EGFR inhibitor drug (22 on seliciclib and 23 on placebo). Fourteen patients were crossed-over to the seliciclib arm after their cancer progressed while they were receiving placebo. Study data demonstrated seliciclib to be safe at the administered dose. There was no difference between the seliciclib and placebo arms in terms of PFS of 48 days on the seliciclib arm versus 53 days on the placebo arm. However an increase in median overall survival was observed of 388 days on the seliciclib arm versus 218 days on the placebo arm.

Published pre-clinical work indicated that K-Ras mutational status, cyclin D1 and cyclin E1 protein levels correlated strongly with tumor sensitivity towards seliciclib. In order to explore this possible molecular rationale for the difference in OS, we retrospectively collected and analyzed available biopsy samples from APPRAISE patients who granted informed consent. As only 30 patient samples were available from the 152 APPRAISE patients who gave consent, results of the retrospective analysis were insufficient to allow meaningful correlation. A new prospectively designed study is required to test the hypothesis that these biomarkers can predict therapeutic effect of seliciclib in patients with advanced stage NSCLC.

Phase 2 clinical trials in patients with NPC

In November 2007, we commenced a Phase 2 multicenter, international, blinded randomized study of oral seliciclib as a single agent in patients with nasopharyngeal cancer, or NPC. The primary objective is to evaluate 6-month progression free survival, or PFS, of two dosing schedules of seliciclib in approximately 75 patients with previously treated NPC. Secondary objectives are OS, response rate, response duration, safety and tolerability. The first part of the study is designed to confirm safety and tolerability of 400 mg twice a day for four days per week or 800 mg once a day for four days per week of seliciclib. It is open to approximately 12 to 24 patients with advanced solid tumors as well as patients with NPC. The second part of the study, which is dependent on clinical data from the lead-in phase and available resources to fund the study, is designed to detect major differences between the two dosing schedules of seliciclib and a placebo group in terms of 6-month PFS in approximately 51 patients.

In May 2009, at the ASCO annual meeting, we reported interim data from the lead-in portion of the Phase 2 study which demonstrated that oral seliciclib could be safely administered in two dosing schedules which were well tolerated and met the criteria for proceeding to the randomized stage of the study. Seliciclib treatment resulted in prolonged stable disease in 70% of previously-treated NPC patients, including 3 with stable disease lasting longer than 8 months, suggesting seliciclib inhibits tumor growth in NPC. The data support further clinical development of oral seliciclib in NPC.

CYC065

CYC065 is a highly-selective, orally-available, 2nd generation inhibitor of CDK -2, -5 and -9; enzyme complexes that play pivotal roles in cancer cell growth, metastatic spread and DNA damage repair. CYC065 causes apoptotic cell death of cancer cells at sub-micromolar and antitumor efficacy has been achieved in vivo with once a day oral dosing at well tolerated doses. CYC065 has been shown to target key components of leukemogenic and survival pathways in acute leukemias, including the MCL1 anti-apoptotic protein, and also transcription, driven by the rearranged mixed lineage leukemia, or MLL, gene. Strong preclinical data supports expansion into solid tumor indications which overexpress cyclin E or CDK5 such as trastuzumab resistant breast cancer and metastatic

pancreatic cancer. CYC065 is currently in IND-directed preclinical development. We received a grant award of approximately \$1.9 million from the Biomedical Catalyst of the United Kingdom government to complete investigational new drug (IND)-directed preclinical development of CYC065.

In addition CYC065 was shown to have preclinical efficacy in proliferative kidney disease models (Cyclacel data on file). Cyclacel discovered CYC065 and other novel CDK inhibitors in collaboration with the Cancer Research United Kingdom Centre for Cancer Therapeutics at The Institute of Cancer Research.

PLK inhibitors

In our PLK inhibitor program we have discovered potent and selective small molecule inhibitors of PLK1, a kinase active during cell division, targeting the mitotic phase of the cell cycle. At the 2012 Annual Meeting of the AACR we reported on one of these compounds, CYC140, selected for further preclinical development. In a panel of esophageal cancer cell lines, sensitivity to CYC140 correlated with p53 status. Esophageal cell lines lacking functional p53 showed the greatest sensitivity to CYC140. Short drug exposure times demonstrated differential sensitivity between cancerous esophageal cells versus control, outlining the potential broad therapeutic index for CYC140 in treating esophageal cancers, and in particular those with non-functional p53. Status of p53 could be used as a predictive biomarker in clinical trials to identify responders. PLK was discovered by Professor David Glover, our Chief Scientist. We have received a grant award of approximately \$3.7 million from the Biomedical Catalyst of the United Kingdom government to complete IND-directed preclinical development of CYC140.

Aurora kinase inhibitors

Aurora kinases, or AK, are a family of serine/threonine protein kinases discovered by Professor David Glover, our Chief Scientist, which are only expressed in actively dividing cells and are crucial for the process of cell division, or mitosis. These proteins, which have been found to be over-expressed in many types of cancer, have generated significant scientific and commercial interest as cancer drug targets. VEGFR2 is a receptor protein that plays a key regulatory role in the angiogenesis pathway, or blood vessel formation. VEGFR is targeted by recently approved drugs such as bevacizumab and sorafenib indicated for the treatment of several solid cancers, such as breast, colorectal, kidney, liver and lung. At the Annual Meeting of the AACR 2012 we reported that collaborators testing of the activity of CYC3, our novel Aurora Kinase A specific inhibitor, in pancreatic cancer cell lines. They reported that CYC3 suppresses pancreatic cancer cell growth, inducing mitotic arrest and apoptosis. CYC3 was also shown to act synergistically against pancreatic cancer cell lines in combination with paclitaxel at a 10-fold lower dose resulting in comparable anti-proliferative activity to standard paclitaxel dosing. As myelosuppression is associated with paclitaxel administration, the CYC3/low-dose paclitaxel combination was compared with high-dose paclitaxel in an *in vitro* granulocyte and macrophage assay in which the CYC3/low-dose paclitaxel combination displayed less myelotoxicity. They reported that the combination merits further investigation and has the potential for improved therapeutic index *in vivo*. In June 2007, we initiated and completed a multicenter Phase 1 pharmacologic clinical trial of CYC116, an orally-available inhibitor of Aurora kinase A and B and VEGFR2, in patients with advanced solid tumors. Further work on this program will be undertaken if we have a sufficient level of resources available to direct to the program. We have retained worldwide rights to commercialize CYC116 and our other Aurora kinase inhibitors.

Non-oncology Programs

Cell Cycle Inhibitors in Autoimmune & Inflammatory Diseases

Preclinical results from several independent investigators suggest that cell cycle inhibitors such as seliciclib and its backup molecules arrest the progress of the cell cycle and may have therapeutic benefit in the treatment of patients with autoimmune and inflammatory diseases as well as in diseases characterized by uncontrolled cell proliferation. Published data indicate potential benefit in graft-versus-host disease, idiopathic pulmonary fibrosis, glomerulonephritis, lupus nephritis, polycystic kidney disease and RA.

Business Strategy

Our operating plan is to focus on the clinical development of sapacitabine, specifically in hematology and the on-going SEAMLESS trial, with selective investment in the advancement of other clinical studies or our other drug candidates. We currently anticipate that our cash and cash equivalents of approximately \$31.1 million at December 31, 2013 are sufficient beyond the completion of the SEAMLESS Phase 3 trial but not sufficient to complete development of other indications or product candidates or to commercialize any of the Company's product candidates.

Focus on the cell cycle and cancer

Our core area of expertise is in cell cycle biology and our scientists include recognized leaders in this field. In addition, our senior management has extensive experience in research, preclinical and clinical development and sales and marketing. Thus, we believe that we are well placed to exploit the significant opportunities that this area offers for new drug discovery and development for the following reasons:

- The novel, mechanism-targeted cell cycle drugs we are developing are designed to be highly selective in comparison to conventional chemotherapies, potentially inducing death in cancer cells while sparing most normal cells which may give rise to fewer side-effects.
- We believe that our sapacitabine is the only orally-available nucleoside analogue presently being tested in a Phase 3 trial in previously untreated AML and Phase 2 trial in high risk MDS. We also believe that seliciclib is the most advanced orally-available CDK2 or CDK9 inhibitor currently in Phase 2 trials. We feel that we are well positioned to realize some of the market potential of such drugs.

Develop anticancer drug candidates in all phases of the cell cycle and multiple compounds for particular cell cycle targets

Targeting a broad development program focused on multiple phases of the cell cycle allows us to minimize risk while maximizing the potential for success and also to develop products that are complementary to one another.

Enter into partnering arrangements selectively, while developing our own sales and marketing capability

We currently retain virtually all marketing rights to the compounds associated with our current clinical-stage drug programs. To optimize our commercial return, we intend to enter into selected partnering arrangements, and to leverage our sales and marketing capability by retaining co-promotion rights as appropriate. Historically, we have planned to develop compounds through the Phase 2 proof-of-efficacy stage before seeking a partner. We may enter into partnering arrangements earlier than Phase 2 proof-of-concept trials in connection with drug programs outside our core competency in oncology.

Patents, Proprietary Technology and Collaborations

We consider intellectual property rights to be vital and use a variety of methods to secure, protect and evaluate these rights. These include:

- Ownership and enforcement of patent rights;
- Patent applications covering our own inventions in fields that we consider important to our business strategy;
- License agreements with third parties granting us rights to patents in fields that are important to our business strategy;
- Invention assignment agreements with our employees and consultants;
- Non-compete agreements with our key employees and consultants;
- Confidentiality agreements with our employees, consultants, and others having access to our proprietary information;
- Standard policies for the maintenance of laboratory notebooks to establish priority of our inventions;
- Freedom to use studies from patent counsel;
- Material transfer agreements; and
- Trademark protection.

We give priority to obtaining substance of matter claims in the United States, the EPO, Japan and other important markets if such protection is available. We prefer substance of matter claims because they give us rights to the compounds themselves, and not merely a particular use. In addition to substance of matter claims, we seek coverage for solid state forms, polymorphic and crystalline forms, medical uses, combination therapies, specific regimens, pharmaceutical forms of our compounds and synthetic routes where available and appropriate. Claims covering combination therapies, specific regimens and pharmaceutical forms can be valuable because the therapeutic effect of pharmaceuticals used in the anticancer field is often enhanced when individual therapeutics are used in particular combinations or dosed in a certain way. The availability of protection in these areas can, however, vary from jurisdiction to jurisdiction and combination claims are particularly difficult to obtain for many inventions.

We own 18 patents granted in the United States, 10 granted by the EPO and 40 granted in other countries worldwide. In addition, we have a license or an option to take a license to 52 patents granted worldwide.

We own 10 patent applications pending in the United States, 9 before the EPO, two pending PCT applications in the international application phase, and over 30 pending patent applications in other countries.

No assurances can be given that patents will be issued with respect to the pending applications, nor that the claims will provide equivalent coverage in all jurisdictions. In addition to the pending patent applications referred to above that we own, there are 10 pending patent applications worldwide to which we have a license or an option to take a license.

Since publications in the scientific or patent literature often lag behind actual discoveries, we are not certain of being first to make the inventions covered by each of our pending patent applications or the first to file those patent applications. Generally, patent applications in the United States are maintained in secrecy for a period of 18 months or more, which increases the uncertainty we face. Moreover, the patent positions of biotechnology and pharmaceutical companies are highly uncertain and involve complex legal and factual questions. As a result, we cannot predict the breadth of claims allowed in biotechnology and pharmaceutical patents, or their enforceability. To date, there has been no consistent policy regarding the breadth of claims allowed in biotechnology patents. Third parties or competitors may challenge or circumvent our patents or patent applications, if issued. Because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that before we commercialize any of our products, any related patent may expire, or remain in existence for only a short period following commercialization, thus reducing any advantage of the patent and the commercial opportunity of the product.

If patents are issued to others containing valid claims that cover our compounds or their manufacture or use or screening assays related thereto, we may be required to obtain licenses to these patents or to develop or obtain alternative technology. We are aware of several published patent applications, and understand that others may exist, that could support claims that, if granted and held valid, would cover various aspects of our developmental programs, including in some cases particular uses of our lead drug candidates, sapacitabine, seliciclib or other therapeutic candidates, or gene sequences, substances, processes and techniques that we use in the course of our research and development and manufacturing operations.

In addition, we understand that other applications and patents exist relating to uses of sapacitabine and seliciclib that are not part of our current clinical programs for those compounds. Although we intend to continue to monitor the pending applications, it is not possible to predict whether these claims will ultimately be allowed or if they were allowed what their breadth would be. In addition, we may need to commence litigation to enforce any patents issued to us or to determine the scope and validity of third-party proprietary rights. Litigation would create substantial costs. In one case we have opposed a European patent relating to human aurora kinase and the patent has been finally revoked (no appeal was filed). We are also aware of a corresponding United States patent containing method of treatment claims for specific cancers using aurora kinase modulators which, if held valid, could potentially restrict the use of our aurora kinase inhibitors once clinical trials are completed. We are aware that other patents exist that claim substances, processes and techniques, which, if held valid, could potentially restrict the scope of our research, development or manufacturing operations. If competitors prepare and file patent applications in the United States that claim technology that we also claim, we may have to participate in interference proceedings in the United States Patent and Trademark Office to determine which invention has priority. These proceedings could result in substantial costs, even if the eventual outcome is favorable to us. An adverse outcome in litigation could subject us to significant liabilities to third parties and require us to seek licenses of the disputed rights from third parties or to cease using the technology, even a therapeutic product, if such licenses are unavailable or too expensive.

Licenses

Several of our programs are based on technology licensed from others. Our breach of an existing license or failure to obtain a license to technology required to develop, test and commercialize our products may seriously harm our business.

Sapacitabine

On September 10, 2003, we entered into a license agreement with Daiichi Sankyo Co., Ltd. of Japan or Daiichi Sankyo with respect to patents and patent applications covering the sapacitabine compound. Daiichi Sankyo filed patent applications claiming sapacitabine and certain crystalline forms of sapacitabine and methods for its preparation and use which encompass our chosen commercial development form as well as related know-how and materials. The issued patents for the sapacitabine compound cover the United States, EPO, Japan and 19 other countries. These patents expire in the United States in 2014 and expired elsewhere in 2012. The issued patents for the crystalline forms cover the United States, EPO, Japan and twelve other countries, with patents pending in a further two countries. These patents expire in 2022. It may be possible to extend the term of a patent in the United States, Europe or Japan for up to five years to the extent it covers the sapacitabine compound or its crystalline form upon regulatory approval of that compound in the United States, Europe or Japan, but there is no assurance that we will be able to obtain any such extension.

Separately Cyclacel owns an issued United States patent with granted claims to a specified method of administration of sapacitabine, adding to the existing composition of matter patents and supporting market exclusivity out to 2030. Cyclacel also owns patents issued in the United States or in Europe which claim methods of use of sapacitabine with hypomethylating agents, including decitabine, which is being tested as one of the arms of the SEAMLESS Phase 3 trial and with other anticancer drugs such as HDAC inhibitors. The license grants us the exclusive right to exploit and sublicense the sapacitabine compound and any other products covered by the patents and patent applications owned by Daiichi Sankyo. The license originally was subject to certain third party rights related to certain countries but the license has been extended and is now worldwide. The license agreement also grants us nonexclusive, sublicensed rights to CNDAC, both a precursor compound and initial metabolite of sapacitabine.

We are under an obligation to use reasonable endeavors to develop a product and obtain regulatory approval to sell a product and we agreed to pay Daiichi Sankyo an up-front fee, reimbursement for Daiichi Sankyo's enumerated expenses, milestone payments and royalties on a country-by-country basis. Under this agreement, \$1.6 million was paid in April 2011, and further aggregate milestone payments totaling approximately \$10.0 million could be payable subject to achievement of specific contractual milestones and our decision to continue with these projects. The up-front fee and certain past reimbursements have been paid. Royalties are payable in each country for the term of patent protection in the country or for ten years following the first commercial sale of licensed products in the country, whichever is later. Royalties are payable on net sales. Net sales are defined as the gross amount invoiced by us or our affiliates or licensees, less discounts, credits, taxes, shipping and bad debt losses. The agreement extends from its commencement date to the date on which no further amounts are owed under it. If we wish to appoint a third-party to develop or commercialize a sapacitabine-based product in Japan, within certain limitations, Daiichi Sankyo must be notified and given a right of first refusal to develop and/or commercialize in Japan. Effective July 11, 2011, the license was amended to irrevocably waive a termination right Daiichi Sankyo possessed under a provision of the agreement that required the Company to obtain regulatory approval to sell sapacitabine in at least one country by September 2011, and releases the Company from all claims and liability of any kind arising under such provision. The amendment further provides that the royalty fee due from us to Daiichi Sankyo on future net sales of sapacitabine be increased by a percentage between 1.25% and 1.50%, depending on the level of net sales of sapacitabine realized. In general, however, the license may be terminated by us for technical, scientific, efficacy, safety, or commercial reasons on six months notice, or twelve months if after a launch of a sapacitabine-based product, or by either party for material default.

Seliciclib

We have entered into an agreement with Centre National de Recherche Scientifique, or CNRS, and Institut Curie that grants us worldwide rights under the patents jointly owned by CNRS, Institut Curie and the Czech Institute of Experimental Botany covering the seliciclib compound. The effective date of the agreement is February 1, 2002. The license grants exclusive rights in the fields of auto-immune diseases, cardiovascular diseases, dermatological diseases, infectious diseases, inflammatory diseases, and proliferative diseases, including cancer. Non-acute chronic diseases of the central nervous system, neurological diseases and diseases of the peripheral nervous system are specifically excluded. The license runs for the term of the patents in each country, or for ten years from the first commercial sale in each country, whichever is later. We paid an up-front fee and yearly payments and milestone payments until the patents covering the seliciclib compound, particular uses of the compound, and particular uses and derivatives of the compound were published as granted in either the United States or by EPO which occurred in 2001 and 2003, respectively. Milestones are also payable on the first commercialization of a product that consists of a new chemical entity that is covered by one of the licensed patents.

We will be obligated to pay royalties based on our net sales of products covered by the patents. Royalties are payable on a country-by-country basis for the term of patent protection in each country or ten years from the first commercial sale of royalty-bearing products in that country, whichever is later. Royalties are payable on net sales. Net sales are defined as the gross amount invoiced by us or by our affiliates for the products, less normal trade discounts, credits for returned products, taxes and shipping charges. There is one royalty rate for products that are covered by valid licensed patent claims and a second, lower royalty rate for all other products that require a license under the licensed patents. We must also pay a portion of sublicensing revenues. Although the license permits us to grant sublicenses, we cannot assign the license without the consent of the CNRS and Institut Curie, which may not be unreasonably withheld. Under the agreement, assignment is defined to include many transactions of the type that we might wish to pursue, such as a merger or an acquisition by another company, as well as certain takeovers. This restriction may prevent us from pursuing attractive business opportunities. Moreover, the occurrence of a majority takeover or a similar transaction that we may be unable to control could cause a default under the license agreement, which could lead to its termination.

We have also purchased from the Czech Institute of Experimental Botany patents and patent applications covering the use of seliciclib and related compounds. The issued patents are in the United States, Australia and South Korea. Under the purchase agreement, we will pay royalties to the Czech Institute upon sales of products covered by those patents, but only if there are no royalties paid by us to CNRS for those sales under the license agreement with CNRS and Institut Curie covering seliciclib that is described above.

Patents covering the seliciclib compound are owned jointly by the Czech Institute of Experimental Botany and CNRS. The patents have been issued in the United States, in Japan and Canada by the EPO and expire in 2016. It may be possible to extend the term of a patent in the United States, Europe or Japan for up to five years to the extent it covers the seliciclib compound upon regulatory approval of that compound in the United States or Europe, but there is no assurance that we will be able to obtain any such extension. Under agreements between CNRS and the Czech Institute of Experimental Botany, CNRS has the exclusive right to enter into license agreements covering the patents. The agreement reserves to both CNRS and the Czech Institute of Experimental Botany certain rights, including the right to patent improvements and to use the patents for internal research purposes.

Manufacturing

We have no in-house manufacturing capabilities and have no current plans to establish manufacturing facilities for significant clinical or commercial production. We have no direct experience in manufacturing commercial quantities of any of our products, and we currently lack the resources or capability to manufacture any of our products on a clinical or commercial scale. As a result, we are dependent on corporate partners, licensees or other third parties for the manufacturing of clinical and commercial scale quantities of all of our products. We believe that this strategy will enable us to direct operational and financial resources to the development of our product candidates rather than diverting resources to establishing a manufacturing infrastructure.

Government Regulation

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the clinical development, manufacture, marketing and distribution of drugs. These agencies and other federal, state and local entities regulate research and development activities and the testing, manufacture, quality control, safety, effectiveness, labeling, storage, record keeping, approval, advertising and promotion of our drug candidates and commercialized drugs.

In the United States, the FDA regulates drugs under the Federal Food, Drug and Cosmetic Act and implementing regulations. The process required by the FDA before our drug candidates may be marketed in the United States generally involves the following:

- completion of extensive preclinical laboratory tests, preclinical animal studies and formulation studies, all performed in accordance with the FDA's good laboratory practice, or GLP, regulations;
- submission to the FDA of an IND application which must become effective before clinical trials may begin;
- performance of adequate and well-controlled clinical trials to establish the safety and efficacy of the drug candidate for each proposed indication;
- submission of a NDA to the FDA;
- satisfactory completion of an FDA pre-approval inspection of the manufacturing facilities at which the product is produced to assess compliance with current good manufacturing practice GMP, or cGMP, regulations;
- FDA review and approval of the NDA prior to any commercial marketing, sale or shipment of the drug; and
- regulation of commercial marketing and sale of drugs.

This testing and approval process requires substantial time, effort and financial resources, and we cannot be certain that any approvals for our drug candidates will be granted on a timely basis, if at all. Preclinical tests include laboratory evaluation of product chemistry, formulation and stability, as well as studies to evaluate toxicity in animals. The results of preclinical tests, together with manufacturing information and analytical data, are submitted as part of an IND application to the FDA. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day time period, raises concerns or questions about the conduct of the clinical trial, including concerns that human research subjects will be exposed to unreasonable health risks. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. Our submission of an IND, or those of our collaborators, may not result in FDA authorization to commence a clinical trial. A separate submission to an existing IND must also be made for each successive clinical trial conducted during product development. Further, an independent institutional review board, or IRB, for each medical center proposing to conduct the clinical trial must review and approve the plan for any clinical trial before it commences at that center and it must monitor the clinical trial until completed. The FDA, the IRB or the clinical trial sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Clinical testing also must satisfy extensive GCP regulations and regulations for informed consent.

Clinical Trials

For purposes of an NDA submission and approval, clinical trials are typically conducted in the following three sequential phases, which may overlap:

- *Phase 1:* The clinical trials are initially conducted in a limited population to test the drug candidate for safety, dose tolerance, absorption, metabolism, distribution and excretion in healthy humans or, on occasion, in patients, such as cancer patients. Phase 1 clinical trials can be designed to evaluate the impact of the drug candidate in combination with currently approved drugs.
- *Phase 2:* These clinical trials are generally conducted in a limited patient population to identify possible adverse effects and safety risks, to determine the efficacy of the drug candidate for specific targeted indications and to determine dose tolerance and optimal dosage. Multiple Phase 2 clinical trials may be conducted by the sponsor to obtain information prior to beginning larger and more expensive Phase 3 clinical trial.
- *Phase 3:* These clinical trials are commonly referred to as pivotal clinical trials. If the Phase 2 clinical trials demonstrate that a dose range of the drug candidate is effective and has an acceptable safety profile, Phase 3 clinical trials are then undertaken in large patient populations to further evaluate dosage, to provide substantial evidence of clinical efficacy and to further test for safety in an expanded and diverse patient population at multiple, geographically dispersed clinical trial sites.

In some cases, the FDA may condition approval of an NDA for a drug candidate on the sponsor's agreement to conduct additional clinical trials to further assess the drug's safety and effectiveness after NDA approval.

New Drug Application

The results of drug candidate development, preclinical testing and clinical trials are submitted to the FDA as part of an NDA. The NDA also must contain extensive manufacturing information. Once the submission has been accepted for filing, by law the FDA has 180 days to review the application and respond to the applicant. The review process is often significantly extended by FDA requests for additional information or clarification. The FDA may refer the NDA to an advisory committee for review, evaluation and recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory committee, but it generally follows such recommendations. The FDA may deny approval of an NDA if the applicable regulatory criteria are not satisfied, or it may require additional clinical data or an additional pivotal Phase 3 clinical trial. Even if such data are submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Data from clinical trials are not always conclusive and the FDA may interpret data differently than we or our collaborators do. Once issued, the FDA may withdraw a drug approval if ongoing regulatory requirements are not met or if safety problems occur after the drug reaches the market. In addition, the FDA may require further testing, including Phase 4 clinical trials, and surveillance programs to monitor the effect of approved drugs which have been commercialized. The FDA has the power to prevent or limit further marketing of a drug based on the results of these post-marketing programs. Drugs may be marketed only for the approved indications and in accordance with the provisions of the approved label. Further, if there are any modifications to a drug, including changes in indications, labeling or manufacturing processes or facilities, we may be required to submit and obtain FDA approval of a new NDA or NDA supplement, which may require us to develop additional data or conduct additional preclinical studies and clinical trials.

Fast Track Designation

The FDA's fast track program is intended to facilitate the development and to expedite the review of drugs that are intended for the treatment of a serious or life-threatening condition for which there is no effective treatment and which demonstrate the potential to address unmet medical needs for the condition. Under the fast track program, the sponsor of a new drug candidate may request the FDA to designate the drug candidate for a specific indication as a fast track drug concurrent with or after the filing of the IND for the drug candidate. The FDA must determine if the drug candidate qualifies for fast track designation within 60 days of receipt of the sponsor's request.

If fast track designation is obtained, the FDA may initiate review of sections of an NDA before the application is complete. This rolling review is available if the applicant provides and the FDA approves a schedule for the submission of the remaining information and the applicant pays applicable user fees.

However, the time period specified in the Prescription Drug User Fees Act, which governs the time period goals the FDA has committed to reviewing an application, does not begin until the complete application is submitted. Additionally, the fast track designation may be withdrawn by the FDA if the FDA believes that the designation is no longer supported by data emerging in the clinical trial process.

In some cases, a fast track designated drug candidate may also qualify for one or more of the following programs:

- *Priority Review.* Under FDA policies, a drug candidate is eligible for priority review, or review within a six-month time frame from the time a complete NDA is accepted for filing, if the drug candidate provides a significant improvement

compared to marketed drugs in the treatment, diagnosis or prevention of a disease. We cannot suggest or in any way guarantee that any of our drug candidates will receive a priority review designation, or if a priority designation is received, that review or approval will be faster than conventional FDA procedures, or that the FDA will ultimately grant drug approval.

- *Accelerated Approval.* Under the FDA's accelerated approval regulations, the FDA is authorized to approve drug candidates that have been studied for their safety and effectiveness in treating serious or life-threatening illnesses, and that provide meaningful therapeutic benefit to patients over existing treatments based upon either a surrogate endpoint that is reasonably likely to predict clinical benefit or on the basis of an effect on a clinical endpoint other than patient survival. In clinical trials, surrogate endpoints are alternative measurements of the symptoms of a disease or condition that are substituted for measurements of observable clinical symptoms. A drug candidate approved on this basis is subject to rigorous post-marketing compliance requirements, including the completion of Phase 4 or post-approval clinical trials to validate the surrogate endpoint or confirm the effect on the clinical endpoint. Failure to conduct required post-approval studies, or to validate a surrogate endpoint or confirm a clinical benefit during post-marketing studies, will allow the FDA to withdraw the drug from the market on an expedited basis. All promotional materials for drug candidates approved under accelerated regulations are subject to prior review by the FDA. In rare instances the FDA may grant accelerated approval of an NDA based on Phase 2 data and require confirmatory Phase 3 studies to be conducted after approval and/or as a condition of maintaining approval. We can give no assurance that any of our drugs will be reviewed under such procedures.

When appropriate, we and our collaborators may attempt to seek fast track designation or accelerated approval for our drug candidates. We cannot predict whether any of our drug candidates will obtain a fast track or accelerated approval designation, or the ultimate impact, if any, of the fast track or the accelerated approval process on the timing or likelihood of FDA approval of any of our drug candidates.

Satisfaction of FDA regulations and requirements or similar requirements of state, local and foreign regulatory agencies typically takes several years and the actual time required may vary substantially based upon the type, complexity and novelty of the product or disease. Typically, if a drug candidate is intended to treat a chronic disease, as is the case with some of our drug candidates, safety and efficacy data must be gathered over an extended period of time. Government regulation may delay or prevent marketing of drug candidates for a considerable period of time and impose costly procedures upon our activities. The FDA or any other regulatory agency may not grant approvals for new indications for our drug candidates on a timely basis, if at all. Even if a drug candidate receives regulatory approval, the approval may be significantly limited to specific disease states, patient populations and dosages. Further, even after regulatory approval is obtained, later discovery of previously unknown problems with a drug may result in restrictions on the drug or even complete withdrawal of the drug from the market. Delays in obtaining, or failures to obtain, regulatory approvals for any of our drug candidates would harm our business. In addition, we cannot predict what adverse governmental regulations may arise from future United States or foreign governmental action.

Special Protocol Agreement

A Special Protocol Assessment is a binding written agreement with the FDA that the sponsor's proposed trial protocol design, clinical endpoints and statistical analyses are acceptable to support regulatory approval. Final marketing approval depends on efficacy results, adverse event profile and an evaluation of the benefit/risk of a treatment as demonstrated in the trial.

Other regulatory requirements

Any products manufactured or distributed by us or our collaborators pursuant to FDA approvals are subject to continuing regulation by the FDA, including recordkeeping requirements and reporting of adverse experiences associated with the drug. Drug manufacturers and their subcontractors are required to register their establishments with the FDA and certain state agencies and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with ongoing regulatory requirements, including cGMP, which impose certain procedural and documentation requirements upon us and our third-party manufacturers. Failure to comply with the statutory and regulatory requirements can subject a manufacturer to possible legal or regulatory action, such as warning letters, suspension of manufacturing, seizure of product, injunctive action or possible civil penalties. We cannot be certain that we or our present or future third-party manufacturers or suppliers will be able to comply with the cGMP regulations and other ongoing FDA regulatory requirements. If our present or future third-party manufacturers or suppliers are not able to comply with these requirements, the FDA may halt our clinical trials, require us to recall a product from distribution, or withdraw approval of that product.

The FDA closely regulates the post-approval marketing and promotion of drugs, including standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the Internet. A company can make only those claims relating to safety and efficacy that are approved by the FDA. Failure to comply with these requirements can result in adverse publicity, warning letters, corrective advertising and potential civil and criminal

penalties. Physicians may prescribe legally available drugs for uses that are not described in the drug's labeling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties. Physicians may believe that such off-label uses are the best treatment for many patients in varied circumstances. The FDA does not regulate the behavior of physicians in their choice of treatments. The FDA does, however, impose stringent restrictions on manufacturers' communications regarding off-label use.

Competition

The biotechnology and biopharmaceutical industries are rapidly changing and highly competitive. We are seeking to develop and market drug candidates that will compete with other products and therapies that currently exist or are being developed. Other companies are actively seeking to develop products that have disease targets similar to those we are pursuing. We face competition from many different sources, including commercial, pharmaceutical and biotechnology companies, academic institutions, government agencies and private and public research institutions. Many of our competitors have significantly greater financial, manufacturing, marketing and drug development resources than we do. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Our commercial opportunity will be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer side effects or are less expensive than any products that we may develop. In addition, competitors compete in the areas of recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies and technology licenses.

A large number of drug candidates are in development for the treatment of leukemia and lymphomas, MDS, breast, lung, and nasopharyngeal cancer. Several pharmaceutical and biotechnology companies have nucleoside analogs or other products on the market or in clinical trials which may be competitive to sapacitabine in both hematology and oncology indications. These include Ambit, Astra-Zeneca, Baxter, Boehringer Ingelheim, Celator, Celgene, Eisai, Lilly, GlaxoSmithKline, Hospira, Johnson & Johnson, Onconova, Otsuka, Sanofi, Sunesis and Teva. Several pharmaceutical and biotechnology companies have CDK inhibitors in clinical trials including Bayer, Lilly, Merck, Nerviano Medical Sciences, Novartis, Otsuka, Pfizer, Piramal, Sanofi, Tolero and Tragara. Several companies are pursuing discovery and research activities in each of the other areas that are the subject of our research and drug development programs. We believe that Amgen, AstraZeneca, Entremed, Merck, Nerviano Medical Sciences, Otsuka, Pfizer, Rigel, Sunesis and Takeda-Millennium have commenced clinical trials of Aurora kinase inhibitors for hemato-oncology indications. We believe that Boehringer Ingelheim, GlaxoSmithKline, Merck, Nerviano Medical Sciences, Takeda-Millennium and Tekmira have commenced clinical trials with PLK inhibitor candidates for hemato-oncology indications.

Legal Proceedings

From time to time, we may be involved in routine litigation incidental to the conduct of our business. On April 27, 2010, we were served with a complaint filed by Celgene Corporation in the United States District Court for the District of Delaware seeking a declaratory judgment that four of our own patents, claiming certain uses of romidepsin were invalid and not infringed by Celgene's sale of ISTODAX® (romidepsin for injection). We subsequently counterclaimed for infringement of these four patents. On April 3, 2013, we entered into a definitive agreement with Celgene to sell to Celgene the four owned patents related to uses of romidepsin and their foreign counterparts. In connection with the definitive agreement, Celgene has made a one-time payment of \$5.5 million to us. As a result, the litigation between us and Celgene in the United States District Court for the District of Delaware was dismissed.

Employees

As of March 24, 2014, we had 18 full-time employees. We believe we have been successful in attracting skilled and experienced management and scientific personnel. Our employees are not represented by any collective bargaining agreements, and management considers relations with our employees to be good.

Corporate information

Our corporate headquarters are located at 200 Connell Drive, Suite 1500, Berkeley Heights, New Jersey 07922, and our telephone number is 908-517-7330. This is also where our medical and regulatory functions are located. Our research facility is located in Dundee, Scotland, which is also the center of our translational work and development programs.

Available information

We file reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. Copies of our reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the SEC at SEC Headquarters, Public Reference Room, 100 F Street, N.E., Washington D.C. 20549. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding Cyclacel. The address of the SEC website is <http://www.sec.gov>.

We will also provide copies of our current reports on Form 8-K, annual reports on Form 10-K, quarterly reports on Form 10-Q and proxy statements, and all amendments to those reports at no charge through our website at www.cyclacel.com as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. We have not incorporated by reference in this Annual Report on Form 10-K the information on, or accessible through, our website. Copies are also available, without charge, from Cyclacel Pharmaceuticals, Inc., 200 Connell Drive, Suite 1500, Berkeley Heights, NJ 07922.

Item 1A. Risk Factors

In analyzing our company, you should consider carefully the following risk factors, together with all of the other information included in this Annual Report on Form 10-K. Factors that could cause or contribute to differences in our actual results include those discussed in the following subsection, as well as those discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere throughout this Annual Report on Form 10-K. Each of the following risk factors, either alone or taken together, could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our company. The risks and uncertainties described below are not the only ones we face. Additional risks not currently known to us or other factors not perceived by us to present significant risks to our business at this time also may impair our business operations.

Risks Associated with Development and Commercialization of Our Drug Candidates

Clinical trial designs that were discussed with the authorities prior to their commencement may subsequently be considered insufficient for approval at the time of application for regulatory approval. Thus, our SPA regarding our SEAMLESS trial does not guarantee marketing approval or approval of our sapacitabine oral capsules for the treatment of AML.

On September 13, 2010, and as amended on October 11, 2011, we reached agreement with the FDA regarding an SPA on the design of a pivotal Phase 3 trial for our sapacitabine oral capsules as a front-line treatment in elderly patients aged 70 years or older with newly diagnosed AML, who are not candidates for intensive induction chemotherapy, or the SEAMLESS trial. An SPA provides trial sponsors with an agreement from the FDA that the design and analysis of the trial adequately address objectives in support of a submission for a marketing application if the trial is performed according to the SPA. The SPA may only be changed through a written agreement between the sponsor and the FDA or if the FDA becomes aware of a substantial scientific issue essential to product efficacy or safety. In January 2011, we opened enrollment in the lead-in portion of the SEAMLESS trial and in October 2011, we opened enrollment in the randomized portion of the trial.

An SPA, however, neither guarantees approval nor provides any assurance that a marketing application would be approved by the FDA. There are companies that have been granted SPAs but have ultimately failed to obtain final approval to market their drugs. The FDA may revise previous guidance or decide to ignore previous guidance at any time during the course of clinical activities or after the completion of clinical trials. The FDA may raise issues relating to, among other things, safety, study conduct, bias, deviation from the protocol, statistical power, patient completion rates, changes in scientific or medical parameters or internal inconsistencies in the data prior to making its final decision. The FDA may also seek the guidance of an outside advisory committee prior to making its final decision. Even with successful clinical safety and efficacy data, including such data from a clinical trial conducted pursuant to an SPA, we may be required to conduct additional, expensive clinical trials to obtain regulatory approval.

Clinical trials are expensive, time consuming, subject to delay and may be required to continue beyond our available funding and we cannot be certain that we will be able to raise sufficient funds to complete the development and commercialize any of our product candidates currently in clinical development, should they succeed.

Clinical trials are expensive, complex, can take many years to conduct and may have uncertain outcomes. We estimate that clinical trials of our most advanced drug candidates may be required to continue beyond our available funding and may take several more years to complete. The designs used in some of our trials have not been used widely by other pharmaceutical companies. Failure can occur at any stage of the testing and we may experience numerous unforeseen events during, or as a result of, the clinical trial process that could delay or prevent commercialization of our current or future drug candidates, including but not limited to:

- delays in securing clinical investigators or trial sites for our clinical trials;
- delays in obtaining IRB and other regulatory approvals to commence a clinical trial;
- slower than anticipated rates of patient recruitment and enrollment, or not reaching the targeted number of patients because of competition for patients from other trials, or if there is limited or no availability of coverage, reimbursement and adequate payment from health maintenance organizations and other third party payors for the use of agents used in our clinical trials, such as decitabine in SEAMLESS, or other reasons;

- negative or inconclusive results from clinical trials;
- unforeseen safety issues;
- uncertain dosing issues that may or may not be related to suboptimal pharmacokinetic and pharmacodynamics behaviors;
- approval and introduction of new therapies or changes in standards of practice or regulatory guidance that render our clinical trial endpoints or the targeting of our proposed indications obsolete;
- inability to monitor patients adequately during or after treatment or problems with investigator or patient compliance with the trial protocols;
- inability to replicate in large controlled studies safety and efficacy data obtained from a limited number of patients in uncontrolled trials;
- inability or unwillingness of medical investigators to follow our clinical protocols; and
- unavailability of clinical trial supplies.

If we suffer any significant delays, setbacks or negative results in, or termination of, our clinical trials, we may be unable to continue development of our drug candidates or generate revenue and our development costs could increase significantly. Adverse events have been observed in our clinical trials and may force us to stop development of our product candidates or prevent regulatory approval of our product candidates.

Adverse or inconclusive results from our clinical trials may substantially delay, or halt entirely, any further development of our 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 our drug candidates and could result in the FDA or other regulatory authorities denying approval of our drug candidates. We 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 been demonstrated in clinical trials for any of our drug candidates. Toxicity and “serious adverse events” as defined in trial protocols have been noted in preclinical and clinical trials involving certain of our drug candidates. For example, neutropenia and gastro-intestinal toxicity were observed in patients receiving sapacitabine and elevations of liver enzymes and decrease in potassium levels have been observed in patients receiving seliciclib.

In addition, we may pursue clinical trials for sapacitabine and 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. Even if we believe the data collected from clinical trials of our 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 we do which could delay, limit or prevent regulatory approval. The FDA, other regulatory authorities or we may suspend or terminate clinical trials at any time. Any failure or significant delay in completing clinical trials for our drug candidates, or in receiving regulatory approval for the commercialization of our drug candidates, may severely harm our business and reputation.

We are making use of biomarkers, which are not scientifically validated, and our reliance on biomarker data may thus lead us to direct our resources inefficiently.

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

For most purposes, however, biomarkers have not been scientifically validated. If our understanding and use of biomarkers is inaccurate or flawed, or if our reliance on them is otherwise misplaced, then we 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. Our biomarker data should not be interpreted as evidence of efficacy.

Due to our reliance on contract research organizations or other third parties to conduct clinical trials, we may be unable to directly control the timing, conduct and expense of our clinical trials.

We do not have the ability to independently conduct clinical trials required to obtain regulatory approvals for our drug candidates. We must rely on third parties, such as contract research organizations, data management companies, contract clinical research associates, medical institutions, clinical investigators and contract laboratories to conduct our clinical trials. In addition, we rely on third parties to assist with our 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 our clinical protocols or regulatory requirements or for other reasons, our preclinical development activities or clinical trials may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory approval for or successfully commercialize our drug candidates.

If we fail to enter into and maintain successful strategic alliances for our drug candidates, we may have to reduce or delay our drug candidate development or increase our expenditures.

An important element of our strategy for developing, manufacturing and commercializing our drug candidates is entering into strategic alliances with pharmaceutical companies or other industry participants to advance our programs and enable us to maintain our financial and operational capacity.

We face significant competition in seeking appropriate alliances. We may not be able to negotiate alliances on acceptable terms, if at all. In addition, these alliances may be unsuccessful. If we fail to create and maintain suitable alliances, we may have to limit the size or scope of, or delay, one or more of our drug development or research programs. If we elect to fund drug development or research programs on our own, we will have to increase our expenditures and will need to obtain additional funding, which may be unavailable or available only on unfavorable terms.

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

Although we are not currently party to any collaboration arrangement or strategic alliance that is material to our business, in the future we expect to be dependent upon collaborative arrangements or strategic alliances to complete the development and commercialization of some of our drug candidates particularly after the Phase 2 stage of clinical testing. These arrangements may place the development of our drug candidates outside our control, may require us to relinquish important rights or may otherwise be on terms unfavorable to us.

Dependence on collaborative arrangements or strategic alliances will subject us to a number of risks, including the risk that:

- we may not be able to control the amount and timing of resources that our collaborators may devote to the drug candidates;
- our collaborators may experience financial difficulties;
- we 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 our obligations under any arrangement;
- a collaborator could independently move forward with a competing drug candidate developed either independently or in collaboration with others, including our competitors; and
- collaborative arrangements are often terminated or allowed to expire, which would delay the development and may increase the cost of developing our drug candidates.

We have no manufacturing capacity and will rely on third party manufacturers for the late stage development and commercialization of any drugs or devices we may develop or sell.

We do not currently operate manufacturing facilities for clinical or commercial production of our drug candidates under development. We currently lack the resources or the capacity to manufacture any of our products on a clinical or commercial scale. We anticipate future reliance on a limited number of third party manufacturers until we are able, or decide to, expand our operations to include manufacturing capacities. If the FDA or other regulatory agencies approve any of our drug candidates for commercial sale, or if we significantly expand our clinical trials, we will need to manufacture them in larger quantities and will be required to secure alternative third-party suppliers to our current suppliers. To date, our drug candidates have been manufactured in small quantities for preclinical testing and clinical trials and we may not be able to successfully increase the manufacturing capacity, whether in collaboration with our current or future third-party manufacturers or on our own, for any of our drug candidates in a timely or economic manner, or at all. Significant scale-up of manufacturing may require additional validation studies, which the FDA and other regulatory bodies must review and approve. If we are unable to successfully increase the manufacturing capacity for a drug candidate whether for late stage clinical trials or for commercial sale or are unable to secure alternative third-party suppliers to our current suppliers, the drug development, regulatory approval or commercial launch of any related drugs may be delayed or blocked or there may be a shortage in supply. Even if any third party manufacturer makes improvements in the manufacturing process for our drug candidates, we may not own, or may have to share, the intellectual property rights to such innovation. Any performance failure on the part of manufacturers could delay late stage clinical development or regulatory approval of our drug, the commercialization of our drugs or our ability to sell our commercial products, producing additional losses and depriving us of potential product revenues.

As we evolve from a company primarily involved in discovery and development to one also involved in the commercialization of drugs and devices, we may encounter difficulties in managing our growth and expanding our operations successfully.

In order to execute our business strategy, we will need to expand our development, control and regulatory capabilities and develop financial, manufacturing, marketing and sales capabilities or contract with third parties to provide these capabilities for us. If our operations expand, we expect that we will need to manage additional relationships with various collaborative partners, suppliers and other third parties. Our ability to manage our operations and any growth will require us to make appropriate changes and upgrades, as necessary, to our operational, financial and management controls, reporting systems and procedures wherever we may operate. Any inability to manage growth could delay the execution of our business plan or disrupt our operations.

Our drug candidates are subject to extensive regulation, which can be costly and time-consuming, and we may not obtain approvals for the commercialization of any of our drug candidates.

The clinical development, manufacturing, selling and marketing of our 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. We are not permitted to market a potential drug in the United States until we receive approval of a New Drug Application, or NDA, from the FDA. We have not received an NDA approval from the FDA for any of our 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 IND, which must become effective before human clinical trials may begin. Clinical development typically involves three phases of study: Phase 1, 2 and 3. The most significant costs associated with clinical development are the pivotal or suitable for registration late Phase 2 or Phase 3 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 the FDA and other applicable foreign and U.S. regulatory requirements may subject us 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.

There is substantial time and expense invested in preparation and submission of an NDA or equivalents in other jurisdictions and regulatory approval is never guaranteed. The FDA and other regulatory authorities in the 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 the FDA or other regulatory officials may not approve our or our 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.

Our applications for regulatory approval could be delayed or denied due to problems with studies conducted before we in-licensed the rights to some of our product candidates.

We currently license some of the compounds and drug candidates used in our research programs from third parties. These include sapacitabine which was licensed from Daiichi Sankyo. Our present research involving these compounds relies upon previous research conducted by third parties over whom we had no control and before we in-licensed the drug candidates. In order to receive regulatory approval of a drug candidate, we must present all relevant data and information obtained during our research and development, including research conducted prior to our licensure of the drug candidate. Although we are not currently aware of any such problems, any problems that emerge with preclinical research and testing conducted prior to our in-licensing may affect future results or our ability to document prior research and to conduct clinical trials, which could delay, limit or prevent regulatory approval for our drug candidates.

Even if our product candidates receive regulatory approval, we may still face future development and regulatory difficulties.

Our product candidates, if approved, will also be subject to ongoing regulatory requirements for labeling, packaging, storage, advertising, promotion, record-keeping and submission of safety and other post-market information. In addition, approved products, manufacturers and manufacturers' facilities are required to comply with extensive FDA and other regulatory requirements and requirements of other similar agencies, including ensuring that quality control and manufacturing procedures conform to the FDA's Current Good Manufacturing Practice, or cGMP. As such, we and our contract manufacturers are subject to continual review and periodic inspections to assess compliance with cGMP. Accordingly, we and others with whom we work must continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production and quality control. We will also be required to report certain adverse reactions and production problems, if any, to the FDA and other regulatory agencies and to comply with certain requirements concerning advertising and promotion for our products. Promotional communications with respect to prescription drugs are subject to a variety of legal and regulatory restrictions and must be consistent with the information in the product's approved label. Accordingly, we may not promote our approved products, if any, for indications or uses for which they are not approved.

If a regulatory agency discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, or disagrees with the promotion, marketing or labeling of a product, it may impose restrictions on that product or us, including requiring withdrawal of the product from the market. If our product candidates fail to comply with applicable regulatory requirements, the FDA and other regulatory agencies may:

- issue warning letters;
- mandate modifications to promotional materials or require us to provide corrective information to healthcare practitioners;
- require us or our collaborators to enter into a consent decree or permanent injunction, which can include imposition of various fines, reimbursements for inspection costs, required due dates for specific actions and penalties for noncompliance;
- impose other administrative or judicial civil or criminal penalties;
- withdraw regulatory approval;
- refuse to approve pending applications or supplements to approved applications filed by us or our potential future collaborators;
- impose restrictions on operations, including costly new manufacturing requirements; or
- seize or detain products.

Even if we successfully complete the clinical trials of one or more of our product candidates, the product candidates may fail for other reasons.

Even if we successfully complete the clinical trials for one or more of our product candidates, the product candidates may fail for other reasons, including the possibility that the product candidates will:

- fail to receive the regulatory approvals required to market them as drugs;
- be subject to proprietary rights held by others requiring the negotiation of a license agreement prior to marketing;
- be difficult or expensive to manufacture on a commercial scale;
- have adverse side effects that make their use less desirable; or
- fail to compete with product candidates or other treatments commercialized by our competitors.

If we are unable to receive the required regulatory approvals, secure our intellectual property rights, minimize the incidence of any adverse side effects or fail to compete with our competitors' products, our business, financial condition, and results of operations could be materially and adversely affected.

We face intense competition and our competitors may develop drugs that are less expensive, safer, or more effective than our drug candidates.

A large number of drug candidates are in development for the treatment of leukemia, lung cancer, lymphomas and nasopharyngeal cancer. Several pharmaceutical and biotechnology companies have nucleoside analogs or other products on the market or in clinical trials which may be competitive to sapacitabine in both hematological and oncology indications. Our competitors, either alone or together with collaborators, may have substantially greater financial resources and research and development staff. Our competitors may also have more experience:

- developing drug candidates;
- conducting preclinical and clinical trials;
- obtaining regulatory approvals; and
- commercializing product candidates.

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

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

If our drug candidates are approved, or approved together with another agent such as Dacogen® (decitabine) in SEAMLESS, by the FDA or by another regulatory authority, the resulting drugs, if any, must still gain market acceptance among physicians, healthcare providers and payors, patients and the medical community. The degree of market acceptance of any of our approved drugs will depend on a variety of factors, including:

- timing of market introduction, number and clinical profile of competitive drugs;
- our ability to provide acceptable evidence of safety and efficacy;
- relative convenience and ease of administration;
- pricing and cost-effectiveness, which may be subject to regulatory control;

- availability of coverage, reimbursement and adequate payment from health maintenance organizations and other third party payors; and
- prevalence and severity of adverse side effects; and other potential advantages over alternative treatment methods.

If any product candidate that we develop does not provide a treatment regimen that is at least as beneficial as the current standard of care or otherwise does not provide some additional patient benefit over the current standard of care, that product will not achieve market acceptance and we will not generate sufficient revenues to achieve profitability.

If our drug candidates or distribution partners' products fail to achieve market acceptance, we may not be able to generate significant revenue and our business would suffer.

Reimbursement decisions by third-party payors may have an adverse effect on pricing and market acceptance. If there is not sufficient reimbursement for our products, it is less likely that they will be widely used. Market acceptance and sales of our product candidates that we develop, if approved, will depend on reimbursement policies, and may be affected by future healthcare reform measures. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which drugs they will cover and establish payment levels. We cannot be certain that reimbursement will be available for our product candidates that we develop. Also, we cannot be certain that reimbursement policies will not reduce the demand for, or the price paid for, our products. If reimbursement is not available or is available on a limited basis, we may not be able to successfully commercialize any of our product candidates.

Our business may be affected by the efforts of government and third-party payors to contain or reduce the cost of healthcare through various means. For example, the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010, referred to jointly as ACA, enacted in March 2010, substantially changed the way healthcare is financed by both governmental and private insurers, and significantly impacted the pharmaceutical industry. With regard to pharmaceutical products, among other things, ACA is expected to expand and increase industry rebates for drugs covered under Medicaid programs and make changes to the coverage requirements under the Medicare Part D program.

Although most of ACA has withstood court challenges, there are ongoing Congressional efforts to repeal ACA. This adds to the uncertainty of the legislative changes enacted as part of ACA, and we cannot predict the impact that ACA or any other legislative or regulatory proposals will have on our business. Regardless of whether or not ACA is overturned or repealed, we expect both government and private health plans to continue to require healthcare providers, including healthcare providers that may one day purchase our products, to contain costs and demonstrate the value of the therapies they provide.

The United States and several other jurisdictions are considering, or have already enacted, a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products profitably. Among policy makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access to healthcare. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives. We expect to experience pricing pressures in connection with the sale of products that we develop, due to the trend toward cost containment and additional legislative proposals.

If we are unable to compete successfully in our market place, it will harm our business.

There are existing products in the marketplace that compete with our products. Companies may develop new products that compete with our products. Certain of these competitors and potential competitors have longer operating histories, substantially greater product development capabilities and financial, scientific, marketing and sales resources. Competitors and potential competitors may also develop products that are safer, more effective or have other potential advantages compared to our products. In addition, research, development and commercialization efforts by others could render our products obsolete or non-competitive. Certain of our competitors and potential competitors have broader product offerings and extensive customer bases allowing them to adopt aggressive pricing policies that would enable them to gain market share. Competitive pressures could result in price reductions, reduced margins and loss of market share. We could encounter potential customers that, due to existing relationships with our competitors, are committed to products offered by those competitors. As a result, those potential customers may not consider purchasing our products.

The failure to attract and retain skilled personnel and key relationships could impair our drug development and commercialization efforts.

We are highly dependent on our senior management and key clinical development, scientific and technical personnel. Competition for these types of personnel is intense. The loss of the services of any member of our senior management, clinical development, 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 our business, operating results and financial condition. We also rely on consultants and advisors to assist us in formulating our strategy. All of our 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 us. We intend to expand and develop new drug candidates. We will need to hire additional employees in order to continue our clinical trials and market our drug candidates. This strategy will require us to recruit additional executive management and clinical development, scientific, technical and sales and marketing personnel. There is currently intense competition for skilled executives and employees with relevant clinical development, scientific, technical and sales and marketing expertise, and this competition is likely to continue. The inability to attract and retain sufficient clinical development, scientific, technical and managerial personnel could limit or delay our product development efforts, which would adversely affect the development of our drug candidates and commercialization of our potential drugs and growth of our business.

We may be exposed to product liability claims that may damage our reputation and we may not be able to obtain adequate insurance.

Because we conduct clinical trials in humans, we face the risk that the use of our drug candidates will result in adverse effects. We believe that we have obtained reasonably adequate product liability insurance coverage for our trials. We cannot predict, however, the possible harm or side effects that may result from our clinical trials. Such claims may damage our reputation and we may not have sufficient resources to pay for any liabilities resulting from a claim excluded from, or beyond the limit of, our insurance coverage or if the amount of the insurance coverage is insufficient to meet any liabilities resulting from any claims.

We may also be exposed to additional risks of product liability claims. These risks exist even with respect to 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. We have secured limited product liability insurance coverage, but may not be able to maintain such insurance on acceptable terms with adequate coverage, or at a reasonable cost. There is also a risk that third parties that we have agreed to indemnify could incur liability. Even if we were ultimately successful in product liability litigation, the litigation would consume substantial amounts of our financial and managerial resources and may exceed insurance coverage creating adverse publicity, all of which would impair our ability to generate sales of the litigated product as well as our other potential drugs.

We may be required to defend lawsuits or pay damages in connection with the alleged or actual violation of healthcare statutes such as fraud and abuse laws, and our corporate compliance programs can never guarantee that we are in compliance with all relevant laws and regulations.

Our commercialization efforts in the United States are subject to various federal and state laws pertaining to promotion and healthcare fraud and abuse, including federal and state anti-kickback, fraud and false claims laws. Anti-kickback laws make it illegal for a manufacturer to offer or pay any remuneration in exchange for, or to induce, the referral of business, including the purchase of a product. The federal government has published many regulations relating to the anti-kickback statutes, including numerous safe harbors or exemptions for certain arrangements. False claims laws prohibit anyone from knowingly and willingly presenting, or causing to be presented for payment to third-party payers including Medicare and Medicaid, claims for reimbursed products or services that are false or fraudulent, claims for items or services not provided as claimed, or claims for medically unnecessary items or services.

Our activities relating to the sale and marketing of our products will be subject to scrutiny under these laws and regulations. It may be difficult to determine whether or not our activities, comply with these complex legal requirements. Violations are punishable by significant criminal and/or civil fines and other penalties, as well as the possibility of exclusion of the product from coverage under governmental healthcare programs, including Medicare and Medicaid. If the government were to investigate or make allegations against us or any of our employees, or sanction or convict us or any of our employees, for violations of any of these legal requirements, this could have a material adverse effect on our business, including our stock price. Our activities could be subject to challenge for many reasons, including the broad scope and complexity of these laws and regulations, the difficulties in interpreting and applying these legal requirements, and the high degree of prosecutorial resources and attention being devoted to the biopharmaceutical industry and health care fraud by law enforcement authorities. During the last few years, numerous biopharmaceutical companies have paid multi-million dollar fines and entered into burdensome settlement agreements for alleged violation of these requirements, and other companies are under active investigation. Although we have developed and implemented corporate and field compliance programs as part of our commercialization efforts, we cannot assure you that we or our employees, directors or agents were, are or will be in compliance with all laws and regulations or that we will not come under investigation, allegation or sanction.

In addition, we may be required to prepare and report product pricing-related information to federal and state governmental authorities, such as the Department of Veterans Affairs and under the Medicaid program. The calculations used to generate the pricing-related information are complex and require the exercise of judgment. If we fail to accurately and timely report product pricing-related information or to comply with any of these or any other laws or regulations, various negative consequences could result, including criminal and/or civil prosecution, substantial criminal and/or civil penalties, exclusion of the approved product from coverage under governmental healthcare programs including Medicare and Medicaid, costly litigation and restatement of our financial statements. In addition, our efforts to comply with this wide range of laws and regulations are, and will continue to be, time-consuming and expensive.

If a supplier upon whom we rely fails to produce on a timely basis the finished goods in the volumes that we require or fails to meet quality standards and maintain necessary licensure from regulatory authorities, we may be unable to meet demand for our products, potentially resulting in lost revenues.

If any third party manufacturer service providers do not meet our or our licensor's requirements for quality, quantity or timeliness, or do not achieve and maintain compliance with all applicable regulations, demand for our products or our ability to continue supplying such products could substantially decline. As the third party manufacturers are the sole supplier of the products any delays may impact our sales.

In all the countries where we may sell our products, governmental regulations exist to define standards for manufacturing, packaging, labeling and storing. All of our suppliers of raw materials and contract manufacturers must comply with these regulations. Failure to do so could result in supply interruptions. In the United States, the FDA requires that all suppliers of pharmaceutical bulk material and all manufacturers of pharmaceuticals for sale in or from the United States achieve and maintain compliance with the FDA's cGMP regulations and guidelines. Failure of our third-party manufacturers to comply with applicable regulations could result in sanctions being imposed on them or us, including fines, injunctions, civil penalties, disgorgement, suspension or withdrawal of approvals, license revocation, seizures or recalls of products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our products. In addition, before any product batch produced by our manufacturers can be shipped, it must conform to release specifications pre-approved by regulators for the content of the pharmaceutical product. If the operations of one or more of our manufacturers were to become unavailable for any reason, any required FDA review and approval of the operations of an alternative supplier could cause a delay in the manufacture of our products.

The commercialization of our products will be substantially dependent on our ability to develop effective sales and marketing capabilities.

For our product candidates currently under development, our strategy is to develop compounds through the Phase 2 stage of clinical testing and market or co-promote certain of our drugs. We currently have no sales, marketing or distribution capabilities. We will depend primarily on strategic alliances with third parties, which have established distribution systems and sales forces, to commercialize our drugs. To the extent that we are unsuccessful in commercializing any drugs ourselves or through a strategic alliance, product revenues may suffer, we may incur significant additional losses and our share price would be negatively affected.

If we market products in a manner that violates healthcare fraud and abuse laws, or if we violate government price reporting laws, we may be subject to civil or criminal penalties.

In addition to FDA restrictions on marketing of pharmaceutical products, several other types of state and federal healthcare laws, commonly referred to as “fraud and abuse” laws, have been applied in recent years to restrict certain marketing practices in the pharmaceutical industry. Other jurisdictions, such as Europe, have similar laws. These laws include false claims and anti-kickback statutes. If we market our products and our products are paid for by governmental programs, it is possible that some of our business activities could be subject to challenge under one or more of these laws.

Federal false claims laws prohibit any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government or knowingly making, or causing to be made, a false statement to get a false claim paid. The federal healthcare program anti-kickback statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce, or in return for, purchasing, leasing, ordering or arranging for the purchase, lease or order of any healthcare item or service covered by Medicare, Medicaid or other federally financed healthcare programs. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers, on the one hand, and prescribers, purchasers or formulary managers, on the other. Although there are several statutory exemptions and regulatory safe harbors protecting certain common activities from prosecution, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchasing or recommending may be subject to scrutiny if they do not qualify for an exemption or safe harbor. Most states also have statutes or regulations similar to the federal anti-kickback law and federal false claims laws, which apply to items and services covered by Medicaid and other state programs, or, in several states, apply regardless of the payor. Administrative, civil and criminal sanctions may be imposed under these federal and state laws.

Over the past few years, a number of pharmaceutical and other healthcare companies have been prosecuted under these laws for a variety of promotional and marketing activities, such as: providing free trips, free goods, sham consulting fees and grants and other monetary benefits to prescribers; reporting inflated average wholesale prices that were then used by federal programs to set reimbursement rates; engaging in off-label promotion; and submitting inflated best price information to the Medicaid Rebate Program to reduce liability for Medicaid rebates.

We face potential product liability exposure, and if successful claims are brought against us, we may incur substantial liability for a product candidate and may have to limit its commercialization.

The use of our product candidates in clinical trials and the sale of any products for which we may obtain marketing approval expose us to the risk of product liability claims. Product liability claims may be brought against us or our collaborators by participants enrolled in our clinical trials, patients, health care providers or others using, administering or selling our products. If we cannot successfully defend ourselves against any such claims, we would incur substantial liabilities. Regardless of merit or eventual outcome, product liability claims may result in:

- withdrawal of clinical trial participants;
- termination of clinical trial sites or entire trial programs;
- costs of related litigation;
- substantial monetary awards to patients or other claimants;
- decreased demand for our product candidates and loss of revenues;
- impairment of our business reputation;
- diversion of management and scientific resources from our business operations; and
- the inability to commercialize our product candidates.

We have obtained limited product liability insurance coverage for our clinical trials in the United States and in selected other jurisdictions where we are conducting clinical trials. Our product liability insurance coverage for clinical trials in the United States is currently limited to an aggregate of \$5.0 million and outside of the United States we have coverage for lesser amounts that vary by country. As such, our insurance coverage may not reimburse us or may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to product liability. We intend to

expand our insurance coverage for products to include the sale of commercial products if we obtain marketing approval for our product candidates in development, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. Large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us, particularly if judgments exceed our insurance coverage, could decrease our cash resources and adversely affect our business.

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

Our research and development involves the controlled use of hazardous materials, including chemicals, radioactive and biological materials such as chemical solvents, phosphorus and bacteria. Our operations produce hazardous waste products. We 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. We may be sued for any injury or contamination that results from our 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 our research, development and production efforts.

Our business and operations would suffer in the event of system failures.

Despite the implementation of security measures, our internal computer systems, and those of our CROs and other third parties on which we rely, are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our drug development programs. For example, the loss of clinical trial data from completed or ongoing or planned clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach were to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development of our product candidates could be delayed.

Risks Related to Our Business and Financial Condition

Raising additional capital in the future may not be available to us on reasonable terms, if at all, when or as we require additional funding. If we issue additional shares of our common stock or other securities that may be convertible into, or exercisable or exchangeable for, our common stock, our existing stockholders would experience further dilution. If we fail to obtain additional funding, we may be unable to complete the development and commercialization of our lead drug candidate, sapacitabine, or continue to fund our research and development programs.

We have funded all of our operations and capital expenditures with proceeds from the issuance of public equity securities, private placements of our securities, interest on investments, licensing revenue, government grants, research and development tax credits and product revenue. In order to conduct the lengthy and expensive research, preclinical testing and clinical trials necessary to complete the development and marketing of our drug candidates, we will require substantial additional funds. We may have insufficient public equity available for issue to raise the required additional substantial funds to implement our operating plan and we may not be able to obtain the appropriate stockholder approvals necessary to increase our available public equity for issuance within a time that we may require additional funding. Based on our current operating plans of focusing on the advancement of sapacitabine, we expect our existing resources to be sufficient to fund our planned operations for at least the next twelve months. To meet our long-term financing requirements, we 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 our stockholders to experience substantial dilution in their ownership interests and new investors may have rights superior to the rights of our other stockholders. Raising additional funds through debt financing, if available, may involve covenants that restrict our business activities and options. To the extent that we raise additional funds through collaborations and licensing arrangements, we may have to relinquish valuable rights to our drug discovery and other technologies, research programs or drug candidates, or grant licenses on terms that may not be favorable to us. Additional funding may not be available to us on favorable terms, or at all, particularly in light of the current economic conditions. If we are unable to obtain additional funds, we may be forced to delay or terminate our current clinical trials and the development and marketing of our drug candidates including sapacitabine.

Capital markets are currently experiencing a period of disruption and instability, which has had and could continue to have a negative impact on the availability and cost of capital.

The general disruption in the United States capital markets has impacted the broader worldwide financial and credit markets and reduced the availability of debt and equity capital for the market as a whole. These global conditions could persist for a prolonged period of time or worsen in the future. Our ability to access the capital markets may be restricted at a time when we would like, or need, to access those markets, which could have an impact on our flexibility to react to changing economic and business conditions.

The resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets could materially and adversely affect the cost of debt financing and the proceeds of equity financing may be materially adversely impacted by these market conditions.

The current economic conditions and financial market instability could adversely affect our business and results of operations.

Economic conditions remain difficult with the continuing uncertainty in the global credit markets, the European Union, the financial services industry and the United States capital markets and with the United States economy as a whole experiencing a period of substantial uncertainty characterized by unprecedented intervention by the United States federal government and the European Union. We believe the current economic conditions and financial market instability could adversely affect our operations, business and prospects, as well as our ability to obtain funds. If these circumstances persist or continue to worsen, our future operating results could be adversely affected, particularly relative to our current expectations.

We are at an early stage of development as a company and we do not have, and may never have, any products that generate significant revenues.

We are at an early stage of development as a company and have a limited operating history on which to evaluate our business and prospects. While we earned modest product revenues from the ALIGN business prior to terminating operations effective September 30, 2012, we have not generated any product revenues from our product candidates currently in development. We cannot guarantee that any of our product candidates currently in development will ever become marketable products.

We must demonstrate that our drug candidates satisfy rigorous standards of safety and efficacy for their intended uses before the 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 we can file applications with the FDA or other regulatory authorities for premarket approval of our drug candidates. In addition, to compete effectively, our drugs must be easy to administer, cost-effective and economical to manufacture on a commercial scale. We may not achieve any of these objectives. Sapacitabine, our most advanced drug candidates for the treatment of cancer, is currently in Phase 3 for AML and Phase 2 for AML, MDS, NSCLC and CLL. A combination of sapacitabine and seliciclib is currently in a Phase 1 clinical trial. We cannot be certain that the clinical development of these or any other drug candidates in preclinical testing or clinical development will be successful, that we will receive the regulatory approvals required to commercialize them or that any of our other research and drug discovery programs will yield a drug candidate suitable for investigation through clinical trials. Our commercial revenues from our product candidates currently in development, if any, will be derived from sales of drugs that will not become marketable for several years, if at all.

We have a history of operating losses and we may never become profitable. Our stock is a highly speculative investment.

We have incurred operating losses in each year since beginning operations in 1996 due to costs incurred in connection with our research and development activities and selling, general and administrative costs associated with our operations, and we may never achieve profitability. As of December 31, 2012 and 2013, our accumulated deficit was \$270.3 million and \$289.4 million, respectively. Our net loss was \$15.2 million, \$13.2 million, and \$10.2 million for the years ended December 31, 2011, 2012 and 2013, respectively. Our net loss applicable to common stockholders from inception through December 31, 2013 was \$332.2 million. Our drug candidates are in the mid-stages of clinical testing and we must conduct significant additional clinical trials before we can seek the regulatory approvals necessary to begin commercial sales of our drugs. We expect to incur continued losses for several years, as we continue our research and development of our drug candidates, seek regulatory approvals and commercialize any approved drugs. If our drug candidates are unsuccessful in clinical trials or we are unable to obtain regulatory approvals, or if our drugs are unsuccessful in the market, we will not be profitable. If we fail to become and remain profitable, or if we are unable to fund our continuing losses, particularly in light of the current economic conditions, you could lose all or part of your investment.

If we fail to comply with the continued listing requirements of the NASDAQ Global Market, our common stock may be delisted and the price of our common stock and our ability to access the capital markets could be negatively impacted.

Our common stock is currently listed for trading on the NASDAQ Global Market. We must satisfy NASDAQ's continued listing requirements, including, among other things, a minimum stockholders' equity of \$10.0 million and a minimum bid price for our common stock of \$1.00 per share, or risk delisting, which would have a material adverse effect on our business. A delisting of our common stock from the NASDAQ Global Market could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, suppliers, and employees and fewer business development opportunities.

To the extent we elect to fund the development of a drug candidate or the commercialization of a drug at our expense, we will need substantial additional funding.

We plan to market drugs on our 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, we will need to establish our own specialized sales force, marketing organization and supporting distribution capabilities. The development and commercialization of our drug candidates is very expensive, including our Phase 3 clinical trials for sapacitabine. To the extent we elect to fund the full development of a drug candidate or the commercialization of a drug at our expense, we will need to raise substantial additional funding to:

- fund research and development and clinical trials connected with our research;
- fund clinical trials and seek regulatory approvals;
- build or access manufacturing and commercialization capabilities;
- implement additional internal control systems and infrastructure;
- commercialize and secure coverage, payment and reimbursement of our drug candidates, if any such candidates receive regulatory approval;
- maintain, defend and expand the scope of our intellectual property; and
- hire additional management, sales and scientific personnel.

Our future funding requirements will depend on many factors, including:

- the scope, rate of progress and cost of our 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 we may establish.

If we are not able to secure additional funding when needed, especially in light of the current economic conditions and financial market turmoil, we may have to delay, reduce the scope of or eliminate one or more of our clinical trials or research and development programs or future commercialization efforts.

Our insurance policies are expensive and only protect us from some business risks, which will leave us exposed to significant uninsured liabilities.

We do not carry insurance for all categories of risk that our business may encounter. Some of the policies we currently maintain include property, general liability, employment benefits liability, workers' compensation, products liability and clinical trials (U.S and foreign), and directors' and officers', employment practices and fiduciary liability insurance. We do not know, however, if we will be able to maintain insurance with adequate levels of coverage. Any significant uninsured liability may require us to pay substantial amounts, which would adversely affect our financial position and results of operations.

Any future workforce and expense reductions may have an adverse impact on our internal programs, strategic plans, and our ability to hire and retain key personnel, and may also be distracting to our management.

Any workforce and expense reductions similar to those carried out in September 2008 and June 2009 could result in significant delays in implementing our strategic plans. In addition, employees, whether or not directly affected by such reduction, may

seek future employment with our business partners or competitors. Although our employees are required to sign a confidentiality agreement at the time of hire, the confidential nature of certain proprietary information may not be maintained in the course of any such future employment. In addition, any workforce reductions or restructurings would be expected to involve significant expense as a result of contractual terms in certain of our existing agreements, including potential severance obligations as well as any payments that may, under certain circumstances, be required under our agreement with the Scottish Enterprise. Further, we believe that our future success will depend in large part upon our ability to attract and retain highly skilled personnel. We may have difficulty retaining and attracting such personnel as a result of a perceived risk of future workforce and expense reductions. Finally, the implementation of expense reduction programs may result in the diversion of the time and attention of our executive management team and other key employees, which could adversely affect our business.

Funding constraints may negatively impact our research and development, forcing us to delay our efforts to develop certain product candidates in favor of developing others, which may prevent us from commercializing our product candidates as quickly as possible.

Research and development is an expensive process. As part of our operating plan, we have decided to focus our clinical development priorities on sapacitabine, while still possibly continuing to progress additional programs pending the availability of clinical data and the availability of funds, at which time we will determine the feasibility of pursuing, if at all, further advanced development of seliciclib, or additional programs. Because we have to prioritize our development candidates as a result of budget constraints, we may not be able to fully realize the value of our product candidates in a timely manner, if at all.

We are exposed to risks related to foreign currency exchange rates.

Some of our costs and expenses are denominated in foreign currencies. Most of our foreign expenses are associated with our research and development expenditures, including the operating costs of our United Kingdom-based wholly-owned subsidiary. When the United States dollar weakens against the British pound or the Euro, the United States dollar value of the foreign currency denominated expense increases, and when the United States dollar strengthens against the British pound or the Euro, the United States dollar value of the foreign currency denominated expense decreases. Consequently, changes in exchange rates, and in particular a weakening of the United States dollar, may adversely affect our results of operations.

Risks Related to our Intellectual Property

If we fail to enforce adequately or defend our intellectual property rights our business may be harmed.

Our commercial success depends in large part on obtaining and maintaining patent and trade secret protection for our drug candidates, the methods used to manufacture those drug candidates and the methods for treating patients using those drug candidates.

Sapacitabine is protected by granted, composition of matter patents claiming certain, stable crystalline forms of sapacitabine and their pharmaceutical compositions and therapeutic uses that expire in 2022 (and may be eligible for a Hatch-Waxman term restoration of up to five years, which could extend the expiration date to 2027); United States and European granted patents that expire in 2029, claiming the combination of sapacitabine with hypomethylating agents, including decitabine, which is being tested as the active arm in the SEAMLESS Phase 3 trial, and a United States granted patent claiming a specified method of administration of sapacitabine with patent exclusivity until July 2030. An amorphous form of sapacitabine is covered in granted, composition of matter patents that expire in 2014 in the United States and expired in 2012 outside of the United States. The amorphous sapacitabine form was used in early Phase 1 clinical trials. We have used one of the stable, crystalline forms of sapacitabine in nearly all our Phase 1 and all our Phase 2 and Phase 3 clinical studies. We have also chosen this crystalline form for commercialization. Additional patents and applications claim certain medical uses, combinations, formulations and dosing regimens of sapacitabine which have emerged in our clinical trials, as well as a process for the preparation of sapacitabine.

Seliciclib is protected by granted, composition of matter patents that expire in 2016. Additional patents and applications claim certain medical uses of seliciclib, including combination use with sapacitabine, which have emerged in our preclinical research and clinical trials. The latest to expire of the granted patents expires in 2028. Failure to obtain, maintain or extend the patents could adversely affect our business. We will only be able to protect our drug candidates and our technologies from unauthorized use by third parties to the extent that valid and enforceable patents or trade secrets cover them.

Our ability to obtain patents is uncertain because legal means afford only limited protections and may not adequately protect our rights or permit us 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 our intellectual

property or narrow the scope of our patent protection. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products and technologies. In addition, we generally do not control the patent prosecution of subject matter that we license from others and have not controlled the earlier stages of the patent prosecution. Accordingly, we are unable to exercise the same degree of control over this intellectual property as we would over our own.

Even if patents are issued regarding our drug candidates or methods of using them, those patents can be challenged by our competitors who may argue such patents are invalid and/or unenforceable. Patents also will not protect our drug candidates if competitors devise ways of making or using these product candidates without legally infringing our patents. The FDA and FDA regulations and policies and equivalents in other jurisdictions provide incentives to manufacturers to challenge patent validity or create modified, non-infringing 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 NDAs 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 our business. We rely on trade secrets to protect our technology, especially where we do not believe that patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our 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, our competitors may independently develop equivalent knowledge, methods and know-how. Failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

If we do not obtain protection under the Hatch-Waxman Act and similar legislation outside of the United States by extending the patent terms and obtaining data exclusivity for our product candidates, our business may be materially harmed.

Depending upon the timing, duration and specifics of FDA marketing approval of sapacitabine and our other product candidates, if any, one or more of our United States patents may be eligible for limited patent term restoration under the Drug Price Competition and Patent Term Restoration Act of 1984, referred to as the Hatch-Waxman Act. The Hatch-Waxman Act permits a patent restoration term of up to five years as compensation for patent term lost during product development and the FDA regulatory review process. However, we may not be granted an extension because, for example, of failing to apply within applicable deadlines, failing to apply prior to expiration of relevant patents or otherwise failing to satisfy applicable requirements. Moreover, the applicable time period or the scope of patent protection afforded could be less than we request. If we are unable to obtain patent term extension or restoration or the term of any such extension is less than what we request, the period during which we will have the right to exclusively market our product will be shortened and our competitors may obtain approval of competing products following our patent expiration, and our revenue could be reduced, possibly materially.

Intellectual property rights for our drug candidate seliciclib are licensed from others, and any termination of these licenses could harm our business.

We have in-licensed certain patent rights in connection with the development program of our drug candidate seliciclib. Pursuant to the CNRS and Institut Curie license under which we license seliciclib, we are obligated to pay license fees, milestone payments and royalties and provide regular progress reports. We are also obligated to use reasonable efforts to develop and commercialize products based on the licensed patents. If we fail to satisfy any of our obligations under these licenses, they would be terminated, which could harm our business.

We may be subject to damages resulting from claims that our employees or we have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have 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 we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize certain potential drugs, which could severely harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information and may not adequately protect our intellectual property, which could limit our ability to compete.

Because we operate in the highly technical field of drug discovery and development of small molecule drugs, we rely in part on trade secret protection in order to protect our proprietary technology and processes. However, trade secrets are difficult to protect. We enter into confidentiality and intellectual property assignment agreements with our corporate partners, employees, consultants, outside scientific collaborators, sponsored researchers, and other advisors. These agreements generally require that the other party keep confidential and not disclose to third parties all confidential information developed by the party or made known to the party by us during the course of the party's relationship with us. These agreements also generally provide that inventions conceived by the party in the course of rendering services to us will be our exclusive property. However, these agreements may not be honored and may not effectively assign intellectual property rights to us. Enforcing a claim that a party illegally obtained and is using our trade secrets is difficult, expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets. The failure to obtain or maintain trade secret protection could adversely affect our competitive position.

Intellectual property rights of third parties may increase our costs or delay or prevent us from being able to commercialize our drug candidates.

There is a risk that we are 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 of our research. Others might have been the first to make the inventions covered by each of our or our licensors' pending patent applications and issued patents and might have been the first to file patent applications for these inventions. We are aware of several published patent applications, and understand that others may exist, that could support claims that, if granted and held valid, could cover various aspects of our developmental programs, including in some cases particular uses of our lead drug candidate sapacitabine, seliciclib or other therapeutic candidates, or gene sequences, substances, processes and techniques that we use in the course of our research and development and manufacturing processes. We are aware that other patents exist that claim substances, processes and techniques, which, if held valid, could potentially restrict the scope of our research, development or manufacturing operations. In addition, we understand that other applications and patents exist relating to potential uses of sapacitabine and seliciclib that are not part of our current clinical programs for these compounds. Numerous third-party United States and foreign issued patents and pending applications exist in the area of kinases, including CDK, PLK and AK for which we have research programs. For example, some pending patent applications contain broad claims that could represent freedom to operate limitations for some of our kinase programs should they be issued unchanged. Although we intend to continue to monitor these applications, we cannot predict what claims will ultimately be allowed and if allowed what their scope would be. In addition, because the patent application process can take several years to complete, there may be currently pending applications, unknown to us, which may later result in issued patents that cover the production, manufacture, commercialization or use of our drug candidates. If we wish to use the technology or compound claimed in issued and unexpired patents owned by others, we will need to obtain a license from the owner, enter into litigation to challenge the validity of the patents or incur the risk of litigation in the event that the owner asserts that we infringe its patents. In one case we have opposed a European patent relating to human aurora kinase and the patent has been finally revoked (no appeal was filed). We are also aware of a corresponding U.S. patent containing method of treatment claims for specific cancers using aurora kinase modulators which, if held valid, could potentially restrict the use of our aurora kinase inhibitors once clinical trials are completed.

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 our business, which could lead to delays in our development or commercialization efforts. If third parties are successful in their claims, we might have to pay substantial damages or take other actions that are adverse to our business. As a result of intellectual property infringement claims, or to avoid potential claims, we might:

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

- be required to pay substantial royalties or grant a cross license to our patents to another patent holder; decide to locate some of our research, development or manufacturing operations outside of Europe or the United States;
- be required to pay substantial damages for past infringement, which we may have to pay if a court determines that our product candidates or technologies infringe a competitor's patent or other proprietary rights; or
- be required to redesign the manufacturing process or formulation of a drug candidate so it does not infringe which may not be possible or could require substantial funds and time.

We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights.

If we choose to go to court to stop another party from using the inventions claimed in any patents we obtain, that individual or company has the right to ask the court to rule that such patents are invalid or should not be enforced against that third party. These lawsuits are expensive and would consume time and resources and divert the attention of managerial and scientific personnel even if we were successful in stopping the infringement of such patents. In addition, there is a risk that the court will decide that such patents are not valid and that we do not have the right to stop the other party from using the inventions.

There is also a risk that, even if the validity of such patents is upheld, the court will refuse to stop the other party on the ground that such other party's activities do not infringe our rights to such patents. In addition, the United States Supreme Court has recently modified some tests used by the United States Patent and Trademark Office, or USPTO, in granting patents over the past 20 years, which may decrease the likelihood that we will be able to obtain patents and increase the likelihood of challenge of any patents we obtain or license.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and/or applications will be due to be paid to the USPTO and various governmental patent agencies outside of the United States in several stages over the lifetime of the patents and/or applications. We have systems in place to remind us to pay these fees, and we employ an outside firm and rely on our outside counsel to pay these fees due to non-United States patent agencies. The USPTO and various non-United States governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. We employ reputable law firms and other professionals to help us comply, and in many cases, an inadvertent lapse can be cured by payment of a late fee or by other means in accordance with the applicable rules. However, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, our competitors might be able to enter the market and this circumstance would have a material adverse effect on our business.

The patent applications of pharmaceutical and biotechnology companies involve highly complex legal and factual questions, which, if determined adversely to us, could negatively impact our patent position.

The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. The U.S. Patent and Trademark Office's, or USPTO's, standards are uncertain and could change in the future. Consequently, the issuance and scope of patents cannot be predicted with certainty. Patents, if issued, may be challenged, invalidated or circumvented. U.S. patents and patent applications may also be subject to interference proceedings, and U.S. patents may be subject to reexamination proceedings in the USPTO (and foreign patents may be subject to opposition or comparable proceedings in the corresponding foreign patent office), which proceedings could result in either loss of the patent or denial of the patent application or loss or reduction in the scope of one or more of the claims of the patent or patent application. Similarly, opposition or invalidity proceedings could result in loss of rights or reduction in the scope of one or more claims of a patent in foreign jurisdictions. In addition, such interference, reexamination and opposition proceedings may be costly. Accordingly, rights under any issued patents may not provide us with sufficient protection against competitive products or processes.

In addition, changes in or different interpretations of patent laws in the United States and foreign countries may permit others to use our discoveries or to develop and commercialize our technology and products without providing any compensation to us or may limit the number of patents or claims we can obtain. In particular, there have been proposals to shorten the exclusivity periods available under U.S. patent law that, if adopted, could substantially harm our business. The product candidates that we are developing are protected by intellectual property rights, including patents and patent applications. If any of our product candidates becomes a

marketable product, we will rely on our exclusivity under patents to sell the compound and recoup our investments in the research and development of the compound. If the exclusivity period for patents is shortened, then our ability to generate revenues without competition will be reduced and our business could be materially adversely impacted. The laws of some countries do not protect intellectual property rights to the same extent as U.S. laws, and those countries may lack adequate rules and procedures for defending our intellectual property rights. For example, some countries, including many in Europe, do not grant patent claims directed to methods of treating humans and, in these countries, patent protection may not be available at all to protect our product candidates. In addition, U.S. patent laws may change, which could prevent or limit us from filing patent applications or patent claims to protect our products and/or technologies or limit the exclusivity periods that are available to patent holders. For example, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was recently signed into law and includes a number of significant changes to U.S. patent law. These include changes to transition from a “first-to-invent” system to a “first-to-file” system and to the way issued patents are challenged. These changes may favor larger and more established companies that have more resources to devote to patent application filing and prosecution. The USPTO has been in the process of implementing regulations and procedures to administer the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act may affect our ability to obtain, enforce or defend our patents. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will ultimately have on the cost of prosecuting our patent applications, our ability to obtain patents based on our discoveries and our ability to enforce or defend our issued patents.

If we fail to obtain and maintain patent protection and trade secret protection of our product candidates, proprietary technologies and their uses, we could lose our competitive advantage and competition we face would increase, reducing our potential revenues and adversely affecting our ability to attain or maintain profitability.

Risks Related to Securities Regulations and Investment in Our Securities

Failure to achieve and maintain internal controls in accordance with Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and stock price.

If we fail to maintain our internal controls or fail to implement required new or improved controls, as such control standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting. Effective internal controls are necessary for us to produce reliable financial reports and are important in the prevention of financial fraud. If we cannot produce reliable financial reports or prevent fraud, our business and operating results could be harmed. We have concluded that our internal control over financial reporting was effective as of December 31, 2013.

We incur increased costs and management resources as a result of being a public company, and we may fail to comply with public company obligations.

As a public company, we face and will continue to face increased legal, accounting, administrative and other costs and expenses as a public company that we would not incur as a private company. Compliance with the Sarbanes Oxley Act of 2002, as well as other rules of the SEC, the Public Company Accounting Oversight Board and the NASDAQ Global Market resulted in a significant initial cost to us as well as an ongoing compliance cost. As a public company, we are subject to Section 404 of the Sarbanes Oxley Act relating to internal control over financial reporting. We have completed a formal process to evaluate our internal controls for purposes of Section 404, and we concluded that as of December 31, 2013, our internal control over financial reporting was effective. As our business grows and changes, there can be no assurances that we can maintain the effectiveness of our internal controls over financial reporting. In addition, our independent certified public accounting firm has not provided an opinion on the effectiveness of our internal controls over financial reporting for the year ended December 31, 2013 because we are a smaller reporting company. In the event our independent auditor is required to provide an opinion on such controls in the future, there is a risk that the auditor would conclude that such controls are ineffective.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. We have completed a formal process to evaluate our internal control over financial reporting. However, guidance from regulatory authorities in the area of internal controls continues to evolve and substantial uncertainty exists regarding our on-going ability to comply by applicable deadlines. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

Our common stock may have a volatile public trading price.

An active public market for our common stock has not developed. Our stock can trade in small volumes which may make the price of our stock highly volatile. The last reported price of our stock may not represent the price at which you would be able to buy or sell the stock. The market prices for securities of companies comparable to us have been highly volatile. Often, these stocks have experienced significant price and volume fluctuations for reasons that are both related and unrelated to the operating performance of the individual companies. In addition, the stock market as a whole and biotechnology and other life science stocks in particular have experienced significant recent volatility. Like our common stock, these stocks have experienced significant price and volume fluctuations for reasons unrelated to the operating performance of the individual companies. Factors giving rise to this volatility may include

- disclosure of actual or potential clinical results with respect to product candidates we are developing;
- regulatory developments in both the United States and abroad;
- developments concerning proprietary rights, including patents and litigation matters;
- public concern about the safety or efficacy of our product candidates or technology, or related technology, or new technologies generally;
- concern about the safety or efficacy of our product candidates or technology, or related technology, or new technologies generally;
- public announcements by our competitors or others; and
- general market conditions and comments by securities analysts and investors.

Fluctuations in our operating losses could adversely affect the price of our common stock.

Our operating losses may fluctuate significantly on a quarterly basis. Some of the factors that may cause our operating losses to fluctuate on a period-to-period basis include the status of our preclinical and clinical development programs, level of expenses incurred in connection with our preclinical and clinical development programs, implementation or termination of collaboration, licensing, manufacturing or other material agreements with third parties, non-recurring revenue or expenses under any such agreement, and compliance with regulatory requirements. Period-to-period comparisons of our historical and future financial results may not be meaningful, and investors should not rely on them as an indication of future performance. Our fluctuating losses may fail to meet the expectations of securities analysts or investors. Our failure to meet these expectations may cause the price of our common stock to decline.

If securities or industry analysts do not publish research or reports about us, if they change their recommendations regarding our stock adversely or if our operating results do not meet their expectations, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us. If analysts do not publish research reports or one or more of these analysts who were publishing research cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

Anti-takeover provisions in our charter documents and provisions of Delaware law may make an acquisition more difficult and could result in the entrenchment of management.

We are incorporated in Delaware. Anti-takeover provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws may make a change in control or efforts to remove management more difficult. Also, under Delaware law, our Board of Directors may adopt additional anti-takeover measures.

We have the authority to issue up to 5 million shares of preferred stock and to determine the terms of those shares of stock without any further action by our stockholders. If the Board of Directors exercises this power to issue preferred stock, it could be more difficult for a third party to acquire a majority of our outstanding voting stock and vote the stock they acquire to remove management or directors.

Our amended and restated certificate of incorporation and amended and restated bylaws also provides staggered terms for the members of our Board of Directors. Under Section 141 of the Delaware General Corporation Law, our directors may be removed by stockholders only for cause and only by vote of the holders of a majority of voting shares then outstanding. These provisions may prevent stockholders from replacing the entire board in a single proxy contest, making it more difficult for a third-party to acquire control of us without the consent of our Board of Directors. These provisions could also delay the removal of management by the Board of Directors with or without cause. In addition, our directors may only be removed for cause and amended and restated bylaws limit the ability our stockholders to call special meetings of stockholders.

Under Section 203 of the Delaware General Corporation Law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock until the holder has held the stock for three years unless, among other possibilities, the Board of Directors approves the transaction. Our Board of Directors could use this provision to prevent changes in management. The existence of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

Certain severance-related agreements in our executive employment agreements may make an acquisition more difficult and could result in the entrenchment of management.

In March 2008 (as subsequently amended, most recently as of January 1, 2011), we entered into employment agreements with our President and Chief Executive Officer and our Executive Vice President, Finance, Chief Financial Officer and Chief Operating Officer, which contain severance arrangements in the event that such executive's employment is terminated without "cause" or as a result of a "change of control" (as each such term is defined in each agreement). The financial obligations triggered by 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 our stock.

In the event of an acquisition of our common stock, we cannot assure our common stockholders that we will be able to negotiate terms that would provide for a price equivalent to, or more favorable than, the price at which our shares of common stock may be trading at such time.

We may not effect a consolidation or merger with another entity without the vote or consent of the holders of at least a majority of the shares of our preferred stock (in addition to the approval of our common stockholders), unless the preferred stock that remains outstanding and its rights, privileges and preferences are unaffected or are converted into or exchanged for preferred stock of the surviving entity having rights, preferences and limitations substantially similar, but no less favorable, to our convertible preferred stock.

In addition, in the event a third party seeks to acquire our company or acquire control of our company by way of a merger, but the terms of such offer do not provide for our preferred stock to remain outstanding or be converted into or exchanged for preferred stock of the surviving entity having rights, preferences and limitations substantially similar, but no less favorable, to our preferred stock, the terms of the Certificate of Designation of our preferred stock provide for an adjustment to the conversion ratio of our preferred stock such that, depending on the terms of any such transaction, preferred stockholders may be entitled, by their terms, to receive up to \$10.00 per share in common stock, causing our common stockholders not to receive as favorable a price as the price at which such shares may be trading at the time of any such transaction. As of December 31, 2013, there were 335,273 shares of our preferred stock issued and outstanding. If the transaction were one in which proceeds were received by the Company for distribution to stockholders, and the terms of the Certificate of Designation governing the preferred stock were strictly complied with, approximately \$4.0 million would be paid to the preferred holders before any distribution to the common stockholders, although the form of transaction could affect how the holders of preferred stock are treated. In such an event, although such a transaction would be subject to the approval of our holders of common stock, we cannot assure our common stockholders that we will be able to negotiate terms that would provide for a price equivalent to, or more favorable than, the price at which our shares of common stock may be trading at such time. Thus, the terms of our preferred stock might hamper a third party's acquisition of our company.

Our certificate of incorporation and bylaws and certain provisions of Delaware law may delay or prevent a change in our management and make it more difficult for a third-party to acquire us.

Our amended and restated certificate of incorporation and bylaws contain provisions that could delay or prevent a change in our 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 our 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 we are incorporated in Delaware, we are 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, us. 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 our stock.

These provisions also make it more difficult for our stockholders to replace members of our Board of Directors. Because our Board of Directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt to replace our 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 our common stock.

We may have limited ability to pay cash dividends on our preferred stock, and there is no assurance that future quarterly dividends will be declared.

Delaware law may limit our ability to pay cash dividends on our preferred stock. Under Delaware law, cash dividends on our preferred 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 we are not profitable, our ability to pay cash dividends will require the availability of adequate surplus. Even if adequate surplus is available to pay cash dividends on our preferred stock, we may not have sufficient cash to pay dividends on the preferred stock or we may choose not to declare the dividends.

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

The market price of our common and preferred stock may fluctuate substantially due to a variety of factors, including:

- additions to or departures of our key personnel;
- announcements of technological innovations or new products or services by us or our competitors; announcements concerning our 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 our quarterly results; and
- announcements about our collaborators or licensors; and changes in accounting principles.

The market prices of the securities of biotechnology companies, particularly companies like us 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 us could result in substantial costs, divert our management's attention and resources and harm our financial condition and results of operations.

The future sale of our common and preferred stock and future issuances of our common stock upon conversion of our preferred stock could negatively affect our stock price and cause dilution to existing holders of our common stock.

If our common or preferred stockholders sell substantial amounts of our stock in the public market, or the market perceives that such sales may occur, the market price of our common and preferred stock could fall. If additional holders of preferred stock elect to convert their shares to shares of common stock at renegotiated prices, such conversion as well as the sale of substantial amounts of our common stock, could cause dilution to existing holders of our common stock, thereby also negatively affecting the price of our common stock. For example, in 2013, we issued an aggregate of 1,684,471 shares of our common stock in exchange for an aggregate of 877,869 shares of our preferred stock in arms-length negotiations between us and the other parties who had approached us to propose the exchanges.

If we exchange the convertible preferred stock for debentures, the exchange will be taxable but we 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 our common stock will be taxable events for United States 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. We will not distribute any cash to the holders of the securities to pay these potential tax liabilities.

If we automatically convert the preferred stock, there is a substantial risk of fluctuation in the price of our common stock from the date we elect to automatically convert to the conversion date.

We may automatically convert the preferred stock into common stock if the closing price of our common stock exceeds \$246.75. There is a risk of fluctuation in the price of our common stock between the time when we may first elect to automatically convert the preferred and the automatic conversion date.

We do not intend to pay cash dividends on our common stock in the foreseeable future.

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

The number of shares of common stock which are registered, including the shares to be issued upon exercise of our outstanding warrants, is significant in relation to our currently outstanding common stock and could cause downward pressure on the market price for our common stock.

The number of shares of common stock registered for resale, including those shares which are to be issued upon exercise of our outstanding warrants, is significant in relation to the number of shares of common stock currently outstanding. If the security holder determines to sell a substantial number of shares into the market at any given time, there may not be sufficient demand in the market to purchase the shares without a decline in the market price for our common stock. Moreover, continuous sales into the market of a number of shares in excess of the typical trading volume for our common stock, or even the availability of such a large number of shares, could depress the trading market for our common stock over an extended period of time.

If persons engage in short sales of our common stock, including sales of shares to be issued upon exercise of our outstanding warrants, the price of our common stock may decline.

Selling short is a technique used by a stockholder to take advantage of an anticipated decline in the price of a security. In addition, holders of options and warrants will sometimes sell short knowing they can, in effect, cover through the exercise of an option or warrant, thus locking in a profit. A significant number of short sales or a large volume of other sales within a relatively short period of time can create downward pressure on the market price of a security. Further sales of common stock issued upon exercise of our outstanding warrants could cause even greater declines in the price of our common stock due to the number of additional shares available in the market upon such exercise, which could encourage short sales that could further undermine the value of our common stock. You could, therefore, experience a decline in the value of your investment as a result of short sales of our common stock.

We are exposed to risk related to the marketable securities we may purchase.

We may invest cash not required to meet short term obligations in short term marketable securities. We may purchase securities in United States government, government-sponsored agencies and highly rated corporate and asset-backed securities subject to an approved investment policy. Historically, investment in these securities has been highly liquid and has experienced only very limited defaults. However, recent volatility in the financial markets has created additional uncertainty regarding the liquidity and safety of these investments. Although we believe our marketable securities investments are safe and highly liquid, we cannot guarantee that our investment portfolio will not be negatively impacted by recent or future market volatility or credit restrictions.

Our management team will have broad discretion over the use of the net proceeds from the sale of our common stock to Aspire Capital Fund, LLC.

On November 14, 2013, we entered into a new Stock Purchase Agreement with Aspire Capital Fund, LLC, or Aspire, pursuant to which we will require Aspire to purchase up to an aggregate of 3,719,652 shares over the course of 24 months at prices derived from the market prices on or near the date of each sale for aggregated proceeds of \$20.0 million. Our management will use its discretion to direct the net proceeds from the sale of those shares. We intend to use all of the net proceeds, together with cash on hand, for general corporate purposes. General corporate purposes may include working capital, capital expenditures, development costs, strategic investments or possible acquisitions. Our management's judgments may not result in positive returns on your investment and you will not have an opportunity to evaluate the economic, financial or other information upon which our management bases its decisions.

The sale of our common stock to Aspire may cause substantial dilution to our existing stockholders and the sale, actual or anticipated, of the shares of common stock acquired by Aspire could cause the price of our common stock to decline.

We have the right to sell up to \$20.0 million of our shares of common stock to Aspire. We are obligated to register these shares with the SEC. It is anticipated that these shares will be sold by Aspire over a period of up to approximately 24 months from November 14, 2013, the date we entered into the purchase agreement with Aspire. Under the rules of the Nasdaq Global Market, in no event may we issue more than 19.99% of our shares outstanding on November 14, 2013 under the purchase agreement (which is approximately 3,719,652 shares based on 18,691,718 shares of common stock outstanding on November 14, 2013), unless we obtain stockholder approval.

Any actual or anticipated sales of shares by Aspire may cause the trading price of our common stock to decline. Additional issuances of shares to Aspire may result in dilution to the interests of other holders of our common stock. The sale of a substantial number of shares of our common stock by Aspire, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales. However, we have the right to control the timing and amount of sales of our shares to Aspire, and the purchase agreement may be terminated by us at any time at our discretion without any penalty or cost to us.

Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful stockholder claims against us and may reduce the amount of money available to us.

As permitted by Section 102(b)(7) of the Delaware General Corporation Law, our restated certificate of incorporation limits the liability of our directors to the fullest extent permitted by law. In addition, as permitted by Section 145 of the Delaware General Corporation Law, our restated certificate of incorporation and restated bylaws provide that we shall indemnify, to the fullest extent authorized by the Delaware General Corporation Law, each person who is involved in any litigation or other proceeding because such person is or was a director or officer of our company or is or was serving as an officer or director of another entity at our request, against all expense, loss or liability reasonably incurred or suffered in connection therewith. Our restated certificate of incorporation provides that the right to indemnification includes the right to be paid expenses incurred in defending any proceeding in advance of its final disposition, provided, however, that such advance payment will only be made upon delivery to us of an undertaking, by or on behalf of the director or officer, to repay all amounts so advanced if it is ultimately determined that such director is not entitled to indemnification.

If we do not pay a proper claim for indemnification in full within 60 days after we receive a written claim for such indemnification, except in the case of a claim for an advancement of expenses, in which case such period is 20 days, our restated certificate of incorporation and our restated bylaws authorize the claimant to bring an action against us and prescribe what constitutes a defense to such action.

Section 145 of the Delaware General Corporation Law permits a corporation to indemnify any director or officer of the corporation against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any action, suit or proceeding brought by reason of the fact that such person is or was a director or officer

of the corporation, if such person acted in good faith and in a manner that he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, if he or she had no reason to believe his or her conduct was unlawful. In a derivative action, (i.e., one brought by or on behalf of the corporation), indemnification may be provided only for expenses actually and reasonably incurred by any director or officer in connection with the defense or settlement of such an action or suit if such person acted in good faith and in a manner that he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification shall be provided if such person shall have been adjudged to be liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine that the defendant is fairly and reasonably entitled to indemnity for such expenses despite such adjudication of liability.

The rights conferred in the restated certificate of incorporation and the restated bylaws are not exclusive, and we are authorized to enter into indemnification agreements with our directors, officers, employees and agents and to obtain insurance to indemnify such persons. We have entered into indemnification agreements with each of our officers and directors.

The above limitations on liability and our indemnification obligations limit the personal liability of our directors and officers for monetary damages for breach of their fiduciary duty as directors by shifting the burden of such losses and expenses to us. Although we obtained coverage under our directors' and officers' liability insurance, certain liabilities or expenses covered by our indemnification obligations may not be covered by such insurance or the coverage limitation amounts may be exceeded. As a result, we may need to use a significant amount of our funds to satisfy our indemnification obligations, which could severely harm our business and financial condition and limit the funds available to stockholders who may choose to bring a claim against our company.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters in Berkeley Heights, New Jersey and we have a research and development facility in Dundee, Scotland. We believe that our existing facilities are adequate to accommodate our business needs.

Item 3. Legal Proceedings

From time to time, we may be involved in routine litigation incidental to the conduct of our business. On April 27, 2010, we were served with a complaint filed by Celgene Corporation in the United States District Court for the District of Delaware seeking a declaratory judgment that four of our own patents, claiming certain uses of romidepsin were invalid and not infringed by Celgene's sale of ISTODAX® (romidepsin for injection). We subsequently counterclaimed for infringement of these four patents. On April 3, 2013, we entered into a definitive agreement with Celgene to sell to Celgene the four owned patents related to uses of romidepsin and their foreign counterparts. In connection with the definitive agreement, Celgene has made a one-time payment of \$5.5 million to us. As a result, the litigation between us and Celgene in the United States District Court for the District of Delaware was dismissed.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on The NASDAQ Global Market, or NASDAQ, under the symbol "CYCC". Our preferred stock currently trades on NASDAQ under the symbol "CYCCP". The following table summarizes, for the periods indicated, the high and low sales prices for the common stock as reported by NASDAQ:

| | <u>High</u> | <u>Low</u> |
|----------------------------------|-------------|------------|
| 2013 | | |
| Quarter ended March 31, 2013 | \$ 6.26 | \$ 5.01 |
| Quarter ended June 30, 2013 | \$ 5.65 | \$ 2.78 |
| Quarter ended September 30, 2013 | \$ 5.50 | \$ 2.75 |
| Quarter ended December 31, 2013 | \$ 5.25 | \$ 3.26 |
| 2012 | | |
| Quarter ended March 31, 2012 | \$ 5.60 | \$ 3.36 |
| Quarter ended June 30, 2012 | \$ 5.39 | \$ 2.73 |
| Quarter ended September 30, 2012 | \$ 6.23 | \$ 3.08 |
| Quarter ended December 31, 2012 | \$ 8.18 | \$ 4.30 |

Holder of Common Stock

On March 24, 2014, we had approximately 64 registered holders of record of our 19,819,332 shares of common stock outstanding. On March 24, 2014, the closing sale price of our common stock as reported by NASDAQ was \$3.75 per share.

Dividends

We have never declared nor paid any cash dividends on our common stock and do not currently anticipate declaring or paying any cash dividends on our outstanding shares of common stock in the foreseeable future. We are, however, required to make or accrue quarterly dividend payments on our Preferred Stock. Except for dividends that may be paid on the Preferred Stock, we currently intend to retain all of our future earnings, if any, to finance operations. Any future determination relating to our dividend policy will be made at the discretion of our 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 our Board of Directors may deem relevant.

Item 6. Selected Financial Data

Smaller reporting companies are not required to provide information in response to this item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Statements

This report contains certain statements that may be deemed 'forward-looking statements' within the meaning of United States securities laws. All statements, other than statements of historical fact, that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Certain factors that could cause results to differ materially from those projected or implied in the forward looking statements are set forth in this Annual Report on Form 10-K for the year ended December 31, 2013 under the caption "Item 1A — Risk factors".

We encourage you to read those descriptions carefully. We caution you not to place undue reliance on the forward-looking statements contained in this report. These statements, like all statements in this report, speak only as of the date of this report (unless an earlier date is indicated) and we undertake no obligation to update or revise the statements except as required by law. Such forward-looking statements are not guarantees of future performance and actual results will likely differ, perhaps materially, from those suggested by such forward-looking statements.

Overview

During 2013, we continued to progress with the clinical development of sapacitabine in AML, MDS and solid tumors. We were also able to progress our early pipeline through the support of government funding and investigator-initiated studies. The overview below describes our 2013 milestones and accomplishments in drug development, corporate developments and key business objectives for 2014:

Drug Development

Sapacitabine in AML

In our SEAMLESS, Phase 3, registration-directed study of sapacitabine in elderly patients with newly diagnosed AML, our lead indication, we have surpassed 50% enrollment and expect to at least double enrolling sites by expanding the study into Europe. In addition, the independent Data Safety Monitoring Board, or DSMB, performed the third periodic safety review and recommended that the study should continue as planned after reviewing available data from 212 randomized patients. The DSMB noted that no safety or efficacy concerns were identified. SEAMLESS is being conducted under a Special Protocol Assessment, or SPA, agreement with the FDA.

Sapacitabine in MDS

Primary endpoint data from an ongoing, open-label, multicenter, randomized Phase 2 trial of sapacitabine in older patients with MDS after treatment failure of front-line hypomethylating agents, such as azacitidine and/or decitabine were reported during the 2013 ASH Meeting and Exposition held in New Orleans, Louisiana. The seven day dose regimen (Arm G) appears to be a better schedule among the three tested, with a one-year survival rate of 38%, median overall survival of approximately 10 months and response rate of 19%. The 30-day mortality from all causes for all patients is 5%.

Sapacitabine in solid tumors

At the American Association of Cancer Research, or AACR, conference, "Advances in Ovarian Cancer from Concept to Clinic" in September 2013, independent researchers presented updated data at a poster presentation showing that sapacitabine has activity against a majority of ovarian cancer samples taken from patients, including resistant tumors. At the 104th Annual Meeting of the AACR in April 2013, we also reported updated data from an open label, single arm, Phase 1 escalation trial of sapacitabine and seliciclib, as an all-oral, sequentially-administered regimen in heavily-pretreated patients with advanced solid tumors. Of 38 patients with incurable solid tumors and adequate organ function enrolled in the study, 16 patients were found to be BRCA mutation carriers. Four patients with BRCA-deficient, breast, ovarian and pancreatic cancers achieved confirmed partial responses with promising durability, with the longest lasting more than 78 weeks. Stable disease of 12 weeks or more was observed in eight additional patients, including two with BRCA-deficient ovarian and breast cancers, lasting 64 weeks and 21 weeks, respectively. The AACR Annual Meeting Program Committee selected our study for inclusion at a press conference highlighting major developments reported during the meeting.

Sapacitabine exclusivity

The United States Patent and Trademark Office, USPTO, issued multiple patents extending the market exclusivity of sapacitabine to at least 2030. The patents claim, among others, methods of use for sapacitabine for the treatment of AML and MDS, including the dosing regimen used in SEAMLESS, as well as claims to methods of treating cancer comprising sapacitabine together with DNA methyltransferase inhibitors, including azacitidine and decitabine, and combination treatment of sapacitabine with HDAC, or histone deacetylase, inhibitors in various cancers.

Cyclin Dependent Kinase Inhibitors

Seliciclib

Seliciclib, CDK2, -7, -9 inhibitor, is to be evaluated in an investigator-initiated clinical study to treat RA, supported by an approximately \$1.5 million grant from the United Kingdom government's Medical Research Council. Enabled by the clinical development experience in solid tumors, investigators believe that seliciclib's mechanism of action and oral administration route may be of benefit in treating patients with RA.

CYC065

CYC065 is a novel, orally available, second generation, CDK2, -5, -9 inhibitor. We progressed investigational new drug, or IND, -directed preclinical development of CYC065 supported by a grant award of approximately \$1.9 million from the Biomedical Catalyst of the United Kingdom government.

Polo-like Kinase Inhibitors

CYC140

We received a new grant award of approximately \$3.7 million from the Biomedical Catalyst of the United Kingdom government to complete IND-directed preclinical development of CYC140, a novel, orally available, Polo-Like Kinase 1 (PLK1) inhibitor.

Corporate Developments

The following is a summary of our major corporate developments during fiscal 2013:

- Received \$5.5 million from Celgene Corporation, or Celgene, for the sale of four Cyclacel romidepsin-related patents to Celgene and dismissal of all claims in the related patent litigation.
- Closed an underwritten offering for proceeds of approximately \$19.0 million after deduction of offering expenses.
- Converted 877,869 shares of preferred stock into 1,684,471 shares of common stock and as a result, 335,273 shares of preferred stock remain outstanding.
- Entered into a common stock purchase agreement with Aspire Capital Fund, LLC, or Aspire, where Aspire has committed to purchase up to \$20 million of Cyclacel's common stock from time to time as directed by Cyclacel over the next two years at formula prices based on the market price at the time of each sale.

2014 Key Upcoming Business Objectives

For 2014, we are focused on completing the enrollment of SEAMLESS by the end of the year. We will continue to enroll patients in the United States and expect to at least double the number of enrolling sites through expansion of the study into Europe. We also expect to reach and report on several important milestones during the year, including the next interim periodic DSMB review at approximately 300 patients enrolled and DSMB interim analysis for futility after 212 events.

Additionally, we plan to advance the clinical development of sapacitabine in MDS and other cancers using existing resources, including the funding agreement with Aspire, and advance our earlier pipeline, including CYC065, our second-generation cyclin dependent kinase, or CDK, inhibitor, which is supported by government grant funding.

Recent Events

Preferred Stock Dividend

On March 17, 2014, the Board of Directors declared a quarterly cash dividend in the amount of \$0.15 per share on our 6% Convertible Exchangeable Preferred Stock (“Preferred Stock”). The cash dividend will be paid on May 1, 2014 to the holders of record of the Preferred Stock as of the close business on April 18, 2014.

Results of Operations

Years ended December 31, 2011, 2012, and 2013.

Results of Continuing Operations

Revenues

The following table summarizes the components of our revenues for the years ended December 31, 2011, 2012 and 2013 (in \$000s except percentages):

| | <u>Years ended</u> | | | <u>\$ Differences</u> | | <u>% Differences</u> | |
|---------------|--------------------|-------------|-------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> |
| Grant revenue | \$ — | \$ 69 | \$ 1,084 | \$ 69 | \$ 1,015 | — | 1,471 |

Grant revenue is recognized as we incur and pay for qualifying costs and services under the applicable grant. Grant revenue is primarily derived from various United Kingdom government and European Union grant awards. For the years ended December 31, 2012 and 2013, we had grant revenue of approximately \$0.1 million and \$1.1 million, respectively. We did not recognize any grant revenue for the year ended December 31, 2011 as there were no grants awarded during that period.

The future

We expect to recognize approximately \$24,000 in grant revenue over the next two years from the European Union and approximately \$4.6 million in grant revenue over the next three years from the Biomedical Catalyst of the United Kingdom government.

Research and development

We expense all research and development costs as they are incurred. Research and development expenses primarily include:

- Clinical trial and regulatory-related costs;
- Payroll and personnel-related expenses, including consultants and contract research;
- Preclinical studies and laboratory supplies and materials;
- Technology license costs; and
- Rent and facility expenses for our laboratories.

The following table provides information with respect to our research and development expenditures for the years ended December 31, 2011, 2012 and 2013 (in \$000s except percentages):

| | <u>Years ended</u> | | | <u>\$ Differences</u> | | <u>% Differences</u> | |
|---|--------------------|-----------------|------------------|-----------------------|---------------------|----------------------|---------------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> |
| Sapacitabine | \$ 8,710 | \$ 6,275 | \$ 9,286 | \$ (2,435) | \$ 3,011 | (28) | 48 |
| Other costs related to research and development programs, management and exploratory research | 496 | 317 | 1,991 | (179) | 1,674 | (36) | 528 |
| Total research and development | <u>\$ 9,206</u> | <u>\$ 6,592</u> | <u>\$ 11,277</u> | <u>\$ (2,614)</u> | <u>\$ 4,685</u> | <u>(28)</u> | <u>71</u> |

Research and development expenses represented 58%, 43% and 59% of our operating expenses for the years ended December 31, 2011, 2012 and 2013, respectively. Included in research and development expenses is stock-based compensation of \$0.2 million for the year ended December 31, 2011 and \$0.1 million for each of the years ended December 31, 2012 and 2013, respectively.

Fiscal 2013 as compared to fiscal 2012

Research and development expenditures increased by \$4.7 million to \$11.3 million for the year ended December 31, 2013 from \$6.6 million for the year ended December 31, 2012. The increase was primarily due to clinical trial drug supply and capsule manufacture costs for the SEAMLESS Phase 3 trial.

Fiscal 2012 as compared to fiscal 2011

Research and development expenditures decreased by \$2.6 million to \$6.6 million for the year ended December 31, 2012 from \$9.2 million for the year ended December 31, 2011. The decrease was primarily due to \$1.6 million of contractual expenses recognized during the year ended December 31, 2011, resulting from an achievement of a milestone triggered by the opening of enrollment in the lead-in portion of our SEAMLESS trial, pursuant to the Daiichi-Sankyo license under which we license certain patent rights for sapacitabine, a \$0.4 million decrease in outsourced research costs as a result of an out of period reversal of accrued pre-clinical costs, a \$0.5 million decrease in sapacitabine clinical supply costs, a \$0.1 million decrease in stock compensation charges, and a \$0.2 million decrease in employment costs partially offset by a \$0.5 million increase in clinical trial costs.

The future

We will continue to concentrate our resources on the development of sapacitabine. We anticipate that overall research and development expenditures for the year ended December 31, 2014 will increase compared to the year ended December 31, 2013 as we continue to enroll the randomized portion of the SEAMLESS pivotal Phase 3 trial, including expansion into Europe, and increased involvement in grant-supported work.

General and administrative

General and administrative expenses include costs for administrative personnel, legal and other professional expenses and general corporate expenses. The following table summarizes the total general and administrative expenses for the years ended December 31, 2011, 2012 and 2013 (in \$000s except percentages):

| | <u>Years ended</u> | | | <u>\$ Differences</u> | | <u>% Differences</u> | |
|----------------------------|--------------------|-----------------|-----------------|-----------------------|---------------------|----------------------|---------------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> |
| General and administrative | <u>\$ 6,542</u> | <u>\$ 8,580</u> | <u>\$ 7,781</u> | <u>\$ 2,038</u> | <u>\$ (799)</u> | <u>31</u> | <u>(9)</u> |

Total general and administrative expenses represented 42%, 57% and 41% of our operating expenses for the years ended December 31, 2011, 2012 and 2013, respectively.

Fiscal 2013 as compared to fiscal 2012

Our general and administrative expenditure decreased by approximately \$0.8 million to \$7.8 million for the year ended December 31, 2013 from \$8.6 million for the year ended December 31, 2012. The decrease in expenses was primarily attributable to a

net decrease in professional and consultancy costs of approximately \$0.8 million. Professional costs decreased primarily as a result of the decrease in legal fees associated with litigation settled during the year ended December 31, 2013 by the sale of patents to Celgene.

Fiscal 2012 as compared to fiscal 2011

Our general and administrative expenditure increased by approximately \$2.0 million to \$8.6 million for the year ended December 31, 2012 from \$6.5 million for the year ended December 31, 2011. The increase in expenses was primarily attributable to a net increase in professional and consultancy costs of \$2.2 million, an increase of employment-related costs of \$0.2 million, and offset by a decrease in stock compensation costs of \$0.4 million.

The future

We expect general and administrative expenditures for the year ended December 31, 2014 compared to our expenditures for the year ended December 31, 2013 to remain relatively flat.

Other income (expense)

The following table summarizes the other income (expense) for years ended December 31, 2011, 2012 and 2013 (in \$000s except percentages):

| | <u>Years ended</u> | | | <u>\$ Differences</u> | | <u>% Differences</u> | |
|---|--------------------|---------------|-----------------|-----------------------|---------------------|----------------------|---------------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> |
| Non-cash consideration associated with stock purchase agreement | \$ — | \$ (423) | \$ (98) | \$ (423) | \$ 325 | — | (77) |
| Change in valuation of Economic Rights | — | (23) | 570 | (23) | 593 | — | (2,578) |
| Change in valuation of liabilities measured at fair value | 609 | 51 | — | (558) | (51) | (92) | (100) |
| Foreign exchange (losses) gains | (74) | 292 | 62 | 366 | (230) | (495) | (79) |
| Interest income | 45 | 22 | 13 | (23) | (9) | (51) | (41) |
| Other income (expense), net | — | 77 | 5,547 | 77 | 5,470 | — | 7,104 |
| Total other income (expense), net | <u>\$ 580</u> | <u>\$ (4)</u> | <u>\$ 6,094</u> | <u>\$ (584)</u> | <u>\$ 6,098</u> | <u>(101)</u> | <u>(152,450)</u> |

Fiscal 2013 as compared to fiscal 2012

Total other income (expense), net, increased by approximately \$6.1 million, from a loss of approximately \$4,000 for the year ended December 31, 2012, to income of approximately \$6.1 million for the year ended December 31, 2013. The increase was primarily due to the \$5.5 million gain on four Cyclacel-owned patents sold to Celgene and the corresponding \$0.6 million change in the valuation of the economic rights granted to certain investors, as explained in more detail below.

Non-cash consideration associated with stock purchase agreement

The \$0.4 million reported for the year ended December 31, 2012 represents the portion of the fair value of the shares of common stock issued in lieu of cash consideration for entering into the November 2012 transaction with Aspire. The Company recognized \$0.1 million in expense for the year ended December 31, 2013 related to the November 2013 transaction with Aspire.

Change in valuation of Economic Rights

The change in valuation of economic rights is related to the economic rights sold in connection with the purchase agreement completed in March 2012. These collective rights were classified as liabilities and measured at fair value each reporting period until their settlement in April 2013. For the year ended December 31, 2012, we recognized a loss of approximately \$23,000 due to the change in the value of economic rights from the transaction date of March 22, 2012 to December 31, 2012. For the year ended December 31, 2013, we recognized a gain of approximately \$0.6 million based on the actual amount owed and paid to the holders of the Economic Rights in April 2013.

Change in valuation of liabilities measured at fair value

The change in valuation of other liabilities measured at fair value relates to the issue of warrants to purchase shares of our common stock under the registered direct financing completed in February 2007 and our liability under an agreement with the Scottish Enterprise, or SE, that would potentially require us to make a payment to SE should staffing levels in Scotland fall below prescribed minimum levels. The warrants and agreement are classified as liabilities. The value of the warrants and the SE Agreement are being measured at fair value each reporting period, with changes in fair value reported as a gain or loss. Such gains or losses will continue to be reported for the warrants until they are exercised or expired, which will occur for both the SE Agreement and the warrants in 2014. For the year ended December 31, 2012, the change in the valuation of liabilities measured at fair value was a gain of approximately \$0.1 million. There was no change in the valuation of liabilities measured at fair value for the year ended December 31, 2013.

Foreign exchange (losses) gains

Foreign exchange (losses) gains decreased by \$0.2 million to a gain of \$0.1 million for the year ended December 31, 2013 compared to a gain of approximately \$0.3 million for the year ended December 31, 2012. Foreign exchange (losses) gains are reported in the consolidated statement of operations as a separate line item within other income (expense).

We have a number of intercompany loans in place between our parent company based in New Jersey and our Scottish subsidiary. The intercompany loans outstanding are not expected to be repaid in the foreseeable future and the nature of the funding advanced is of a long-term investment nature. Therefore all unrealized foreign exchange gains or losses arising on the intercompany loans are recognized in other comprehensive income until repayment of the intercompany loan becomes foreseeable. Unfavorable unrealized foreign exchange movements related to intercompany loans recorded in other comprehensive income totaled \$4.6 million and \$2.8 million gains for the years ended December 31, 2012 and 2013, respectively.

Interest income

Interest income decreased by approximately \$9,000 to approximately \$13,000 for the year ended December 31, 2013 compared to approximately \$22,000 for the year ended December 31, 2012 as a result of a greater proportion of our cash held in lower yielding accounts than in the prior year.

Other income (expense), net

We recognized an approximately \$5.5 million gain in other income (expense), net during the period ended December 31, 2013 as a result of the sale of four Cyclacel-owned patents to Celgene. We recognized a gain of \$0.1 million in other income (expense), net from the sale of laboratory equipment during the year ended December 31, 2012.

Fiscal 2012 as compared to fiscal 2011

Total other income (expense), net, decreased by approximately \$0.6 million, primarily because of a \$0.6 million decrease in the change in valuation of liabilities measured at fair value and a \$0.4 million expense related to the 2012 stock purchase agreement, partially offset by a \$0.4 million increase in foreign exchange (losses) gains, mostly due to the increase in exchange rate of the British Pound Sterling relative to the U.S. Dollar.

The future

The economic rights liability was satisfied in 2013, meaning it will not affect our financial statements in 2014 or beyond. The valuation of the warrants liability and SE Agreement will continue to be remeasured at the end of each reporting period. The valuation of the warrants is not expected to change based on the exercise price relative to the market price per share of our common stock and the expiration in February 2014. The valuation of the SE Agreement is dependent on a number of factors, including our stock price and the probability of the occurrence of certain events that would give rise to a payment.

As the nature of funding advanced through intercompany loans is that of a long-term investment in nature, unrealized foreign exchange gains and losses on such funding will be recognized in other comprehensive income until repayment of the intercompany loan becomes foreseeable.

Income tax benefit

Credit is taken for research and development tax credits, which are claimed from the United Kingdom's taxation and customs authority, in respect of qualifying research and development costs incurred.

The following table summarizes total income tax benefit for the years ended December 31, 2011, 2012 and 2013 (in \$000s except percentages):

| | <u>Years ended</u> | | | <u>\$ Differences</u> | | <u>% Differences</u> | |
|--------------------|--------------------|-------------|-------------|-----------------------|---------------------|----------------------|---------------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> |
| Income tax benefit | \$ 565 | \$ 1,351 | \$ 1,670 | \$ 786 | \$ 319 | 139 | 24 |

Fiscal 2013 as compared to fiscal 2012

The total income tax benefit increased by approximately \$0.3 million to \$1.7 million for the year ended December 31, 2013 from \$1.4 million for the year ended December 31, 2012. Research and development tax credits recoverable increased by approximately \$0.7 million to \$1.7 million for the year ended December 31, 2013 from \$1.0 million for the year ended December 31, 2012. The level of tax credits recoverable is linked directly to qualifying research and development expenditure incurred in any one year. In 2011, these credits were also restricted to the payroll taxes paid by us to the United Kingdom tax authority in that year. However, in July 2012, legislation was passed to eliminate this restriction for the year ended December 31, 2012. In addition, the income tax benefit for the year ended December 31, 2012 includes a \$0.3 million income tax benefit that is completely offset by a \$0.3 million income tax expense related to discontinued operations. See *Results of Discontinued Operations* section below for further information.

Fiscal 2012 as compared to fiscal 2011

The total income tax benefit increased by approximately \$0.8 million to \$1.4 million for the year ended December 31, 2012 from \$0.6 million for the year ended December 31, 2011. Research and development tax credits recoverable increased by approximately \$0.5 million to \$1.0 million for the year ended December 31, 2012 from \$0.6 million for the year ended December 31, 2011.

The future

We expect to continue to be eligible to receive United Kingdom research and development tax credits for the foreseeable future and will elect to do so. The amount of tax credits we will receive is entirely dependent on the amount of eligible expenses we incur.

Results of Discontinued Operations

*Net (loss) income from discontinued operations*x (in \$000s except percentages):

| | <u>Years ended</u> | | | <u>\$ Differences</u> | | <u>% Differences</u> | |
|--|--------------------|-------------|-------------|-----------------------|---------------------|----------------------|---------------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> | <u>2011 to 2012</u> | <u>2012 to 2013</u> |
| (Loss) income from discontinued operations | \$ (640) | \$ (285) | \$ 91 | \$ 355 | \$ 376 | (55) | (132) |
| Gain on termination of distribution agreement | — | 1,192 | — | 1,192 | (1,192) | — | (100) |
| Income tax on discontinued operations | — | (337) | (34) | (337) | 303 | — | (90) |
| Net (loss) income from discontinued operations | \$ (640) | \$ 570 | \$ 57 | \$ 1,210 | \$ (513) | (189) | (90) |

In August 2012, we entered into a termination and settlement agreement with Sinclair to terminate, effective September 30, 2012, our license to distribute the ALIGN products, after which we will no longer generate product revenue. The operating results

associated with the ALIGN products are classified within net (loss) income from discontinued operations in the consolidated statements of operations for the years ended December 31, 2011, 2012 and 2013.

Fiscal 2013 as compared to fiscal 2012

Net (loss) income from discontinued operations, decreased by approximately \$0.5 million from a gain of \$0.6 million for the year ended December 31, 2012, to income of \$0.1 million for the year ended December 31, 2013. The decrease is the result of a \$1.2 million gain on termination of the distribution agreements recognized during the year ended December 31, 2012. We recorded approximately \$0.1 million in interest accretion on the minimum royalty payments that will be made through September 2015. We recorded income tax expense associated with discontinued operations for the year ended December 31, 2012 of \$0.3 million compared to approximately \$34,000 for the year ended December 31, 2013.

Fiscal 2012 as compared to fiscal 2011

Net (loss) income from discontinued operations, increased by approximately \$1.2 million from a loss of \$0.6 million for the year ended December 31, 2011, to income of \$0.6 million for the year ended December 31, 2012. The increase is the result of a \$1.2 million gain on termination of the distribution agreements, which is the \$0.9 million for the present value of the \$1.0 million we will receive over the next two years as part of a minimum royalty arrangement included in our termination agreement with Sinclair and the recognition of \$0.3 million associated with a \$0.3 million product returns provision liability for which an offsetting asset has been recorded based on our rights under the termination and settlement agreement. In addition, we recorded income tax expense associated with discontinued operations for the year ended December 31, 2012 of \$0.3 million, which is offset by a \$0.3 million income tax benefit recorded in continuing operations for the year ended December 31, 2012.

The future

We have ceased operations associated with the ALIGN products effective September 30, 2012 and do not expect significant activity beyond the year ended December 31, 2013.

Liquidity and Capital Resources

The following is a summary of our key liquidity measures as of December 31, 2011, 2012 and 2013 (in \$000s):

| | <u>December 31, 2012</u> | <u>December 31, 2013</u> |
|---------------------------|------------------------------|------------------------------|
| Cash and cash equivalents | \$ 16,412 | \$ 31,146 |
| Working capital: | | |
| Current assets | \$ 18,872 | \$ 35,173 |
| Current liabilities | (9,335) | (7,497) |
| Total working capital | <u>\$ 9,537</u> | <u>\$ 27,676</u> |

Since our inception, we have relied primarily on the proceeds from sales of common and preferred equity securities, as well as the exercise of warrants, to finance our operations and internal growth. Additional funding has come through interest on investments, licensing revenue, government grants, research and development tax credits, and a limited amount of product revenue from operations discontinued in September 2012. We have incurred significant losses since our inception. As of December 31, 2013, we had a deficit accumulated during the development stage of \$289.4 million.

We believe that existing funds together with cash generated from operations and recent financing activities are sufficient to satisfy our planned working capital, capital expenditures and other financial commitments for at least the next 12 months. However, we do not currently have sufficient funds to complete development and commercialization of any of our drug candidates. Current business and capital market risks could have a detrimental effect on the availability of sources of funding and our ability to access them in the future which may delay or impede our progress of advancing our drugs currently in the clinical pipeline to approval by the FDA for commercialization.

Cash Flows

Cash provided by (used in) operating, investing and financing activities

Cash provided by (used in) operating, investing and financing activities for the years ended December 31, 2011, 2012 and 2013 is summarized as follows (in \$000s):

| | Year ended December 31, | | |
|---|-------------------------|-------------|-------------|
| | 2011 | 2012 | 2013 |
| Net cash used in operating activities | \$ (13,977) | \$ (12,043) | \$ (18,199) |
| Net cash provided by (used in) investing activities | \$ (1) | \$ 50 | \$ 5,688 |
| Net cash provided by financing activities | \$ 8,906 | \$ 3,975 | \$ 27,332 |

Cash flows generated from discontinued operations have been combined with the cash flows from continuing operations within each of the Operating, Investing and Financing activities sections.

Operating activities

Net cash used in operating activities increased by \$6.2 million, from \$12.0 million for the year ended December 31, 2012 to \$18.2 million for the year ended December 31, 2013. The increase in cash used by operating activities was primarily the result of an increase in research and development costs related to the ongoing SEAMLESS trial, which reached 50% enrollment during the year ended December 31, 2013.

Net cash used in operating activities decreased by \$2.0 million, from \$14.0 million for the year ended December 31, 2011 to \$12.0 million for the year ended December 31, 2012. Net cash used in operating activities during the year ended December 31, 2012 of \$12.0 million resulted primarily from our net loss of \$13.2 million, adjusted for \$0.1 million of material non-cash activities comprising of change in valuation of liability-classified warrants, non-cash consideration associated with stock purchase agreement, depreciation, unrealized foreign exchange losses, stock based compensation expense amounting, transaction costs on sale of Economic Rights and gain on termination of distribution agreements and a net increase of \$0.9 million due to a decrease in prepaid expenses and other current assets combined with a net increase in accounts payable and other current liabilities.

Investing activities

Net cash provided by investing activities increased from approximately \$50,000 for the year ended December 31, 2012 to approximately \$5.7 million for the year ended December 31, 2013, primarily as a result of the sale of four Cyclacel-owned patents to Celgene for \$5.5 million.

Net cash (used in) provided by investing activities increased from approximately \$1,000 used in investing activities for the year ended December 31, 2011 to approximately \$50,000 provided by investing activities for the year ended December 31, 2012, primarily as a result of the sale of laboratory equipment.

Capital expenditures have remained low as the Company has continued to focus on the clinical development of sapacitabine. Capital expenditures were \$6,000, \$12,000, and \$0.2 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Financing activities

Net cash provided by financing activities was \$27.3 million for the year ended December 31, 2013 as a result of approximately \$19.0 million proceeds, net of certain expenses, from an underwritten offering in May 2013, approximately \$6.6 million in drawdowns in connection with a stock purchase agreement entered into in December 2012 and \$2.0 million in proceeds related to a stock purchase agreement entered into in November 2013 and offset by \$0.3 million in dividend payments to the holders of our Preferred Stock.

Net cash provided by financing activities was \$4.0 million for the year ended December 31, 2012 as a result of approximately \$2.9 million proceeds, net of certain expenses, from the sale of stock and economic rights and \$1.0 million in proceeds related to a stock purchase agreement entered into in December 2012.

Net cash provided by financing activities for the year ended December 31, 2011 was \$8.9 million, mostly from \$9.3 million in financing proceeds, net of certain expenses, and offset by the payment of a \$0.4 million dividend to the holders of our Preferred Stock.

Operating Capital and Capital Expenditure Requirements

We expect to continue to incur substantial operating losses in the future and cannot guarantee that we will generate any significant product revenues until a product candidate has been approved by the FDA or similar regulatory agencies in other countries and successfully commercialized.

We currently anticipate that our cash and cash equivalents will be sufficient to fund our operations beyond the next 12 months. However, we cannot be certain that any of our programs will be successful or that we will be able to raise sufficient funds to complete the development and commercialize any of our product candidates currently in development, should they succeed. Additionally, we plan to continue to evaluate in-licensing and acquisition opportunities to gain access to new drugs or drug targets that would fit with our strategy. Any such transaction would likely increase our funding needs in the future.

Our future funding requirements will depend on many factors, including but not limited to:

- the rate of progress and cost of our clinical trials, preclinical studies and other discovery and research and development activities;
- the costs associated with establishing manufacturing and commercialization capabilities;
- the costs of acquiring or investing in businesses, product candidates and technologies;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the costs and timing of seeking and obtaining FDA and other regulatory approvals;
- the effect of competing technological and market developments; and
- the economic and other terms and timing of any collaboration, licensing or other arrangements into which we may enter.

Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity offerings, debt financings or strategic collaborations. Although we are not reliant on institutional credit finance and therefore not subject to debt covenant compliance requirements or potential withdrawal of credit by banks, the current economic climate has also impacted the availability of funds and activity in equity markets. We do not know whether additional funding will be available on acceptable terms, or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more of our clinical trials or research and development programs or make changes to our operating plan. In addition, we may have to partner one or more of our product candidate programs at an earlier stage of development, which would lower the economic value of those programs to us.

Off-Balance Sheet Arrangements

As of December 31, 2013, we had no off-balance sheet arrangements.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. We review our estimates on an ongoing basis. We base our estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. We believe the judgments and estimates required by the following accounting policies to be critical in the preparation of our consolidated financial statements.

Clinical Trial Accounting

Data management and monitoring of our clinical trials are performed with the assistance of contract research organizations (“CROs”) or clinical research associates (“CRAs”) in accordance with our standard operating procedures. Typically, CROs and some CRAs bill monthly for services performed, and others bill based upon milestones achieved. For outstanding amounts, we accrue unbilled clinical trial expenses based on estimates of the level of 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 costs related to patient enrollment are accrued as patients are entered into and progress through the trial. Any initial payment made to the clinical trial site is recognized upon execution of the clinical trial agreements and expensed as research and development expenses.

Research and Development Expenditures

Research and development expenses consist primarily of costs associated with our 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 and depreciation. Expenditures relating to research and development are expensed as incurred.

Stock-based Compensation

We grant stock options, restricted stock units and restricted stock to officers, employees, directors and consultants under the Company's Amended and Restated Equity Incentive Plan, which was amended and restated as of April 14, 2008 and May 23, 2012. We measure compensation cost for all stock-based awards at fair value on date of grant and recognize compensation over the requisite service period for awards expected to vest. The fair value of restricted stock and restricted stock units is determined based on the number of shares granted and the quoted price of our common stock on the date of grant. The determination of grant-date fair value for stock option awards is estimated using an option-pricing model, which includes variables such as the expected volatility of our share price, the anticipated exercise behavior of our employees, interest rates, and dividend yields. These variables are projected based on our historical data, experience, and other factors. Changes in any of these variables could result in material adjustments to the expense recognized for share-based payments.

The fair value is recognized as an expense over the requisite service period, net of estimated forfeitures, using the straight-line attribution method. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

Other Liabilities Measured at Fair Value

Scottish Enterprise Agreement

The accounting guidance on distinguishing liabilities and equity requires freestanding financial instruments that meet certain criteria to be accounted for as liabilities and carried at fair value until exercised or expired, with any changes in fair value recorded in the results of operations. We entered into an agreement with SE in 2009 that would require us to pay SE £4 million (approximately \$6.5 million at December 31, 2012 and \$6.6 million at December 31, 2013, respectively) less the market value of the shares held by SE if staffing levels in Scotland fall below minimum levels stipulated in the Agreement. Due to the nature of the associated contingency and the likelihood of occurrence, we concluded the fair value of this liability was approximately \$20,000 at December 31, 2012 and 2013. The most significant inputs in estimating the fair value of this liability are the probabilities that staffing levels fall below the prescribed minimum levels and that we are unable or unwilling to replace such employees within the prescribed time period. As of December 31, 2012 and 2013, we concluded the probability of the combination of these events occurring is minimal. We record changes in fair value in the consolidated statement of operations. There were no changes to the fair value for the year ended December 31, 2012 and 2013, respectively. The Company's obligations under the Agreement will conclude in June 2014.

Recent Accounting Pronouncements Not Yet Effective

In July 2013, the Financial Accounting Standards Board ("FASB") issued guidance relating to the presentation of an unrecognized tax benefit when a net operating loss carryforward ("NOL"), a similar tax loss, or a tax credit carryforward exists. The guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a NOL, a similar tax loss, or a tax credit carryforward, except to the extent it is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We are currently reviewing the impact of adopting this guidance.

In March 2013, the FASB issued guidance relating to certain foreign currency matters. This guidance clarifies the parent company's accounting for the cumulative translation adjustment when a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity or of an investment in a foreign entity. The guidance is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2013, the FASB issued guidance relating to obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. This provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance in GAAP. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements that exist at the beginning of an entity's fiscal year of adoption. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are not required to provide information response to this item.

Item 8. Financial Statements and Supplementary Data

INDEX TO CYCLACEL PHARMACEUTICALS, INC. FINANCIAL STATEMENTS

| | <u>Page</u> |
|---|-------------|
| Reports of Independent Registered Public Accounting Firms | 55 |
| Consolidated Balance Sheets as of December 31, 2012 and 2013 | 58 |
| Consolidated Statements of Operations for the years ended December 31, 2011, 2012 and 2013 and the period from August 13, 1996 (inception) to December 31, 2013 | 59 |
| Consolidated Statements of Comprehensive Loss for the years ended December 31, 2011, 2012 and 2013 and the period from August 13, 1996 (inception) to December 31, 2013 | 60 |
| Consolidated Statements of Stockholders' Equity (Deficit) for the period from August 13, 1996 (inception) to December 31, 2013 | 61 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2012 and 2013 and the period from August 13, 1996 (inception) to December 31, 2013 | 72 |
| Notes to Consolidated Financial Statements | 74 |

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Cyclacel Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheet of Cyclacel Pharmaceuticals, Inc. and subsidiaries as of December 31, 2013, and the related statements of operations, comprehensive loss, stockholders' equity and cash flows for the year then ended and for the period from August 13, 1996 (inception) to December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Cyclacel Pharmaceuticals, Inc. and subsidiaries as of December 31, 2012, and for the years ended December 31, 2012 and 2011 were audited by other auditors whose report, dated April 1, 2013, expressed an unqualified opinion on those statements. The financial statements for the period from August 13, 1996 (inception) to December 31, 2010 were audited by other auditors whose report dated March 31, 2011 (except for Note 13, as to which the date is December 21, 2012) expressed an unqualified opinion on those statements. Our opinion on the statements of operations, comprehensive loss, stockholders' equity, and cash flows for the period from August 13, 1996 (inception) to December 31, 2013, insofar as it relates to the amounts for prior periods through December 31, 2012, is based solely on the report of other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cyclacel Pharmaceuticals, Inc. and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year then ended and the period from August 13, 1996 (inception) to December 31, 2013 in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey LLP

New York, New York
March 26, 2014

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Cyclacel Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheet of Cyclacel Pharmaceuticals, Inc. (a development stage company) as of December 31, 2012, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cyclacel Pharmaceuticals, Inc. (a development stage company) at December 31, 2012, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

MetroPark, New Jersey
April 1, 2013

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Cyclacel Pharmaceuticals, Inc.

We have audited the accompanying consolidated statements of stockholders' equity of Cyclacel Pharmaceuticals, Inc. (a development stage company) for the period from August 13, 1996 (inception) to December 31, 2010 and the consolidated statements of operations, comprehensive loss, and cash flows not presented herein for the period from August 13, 1996 (inception) to December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of Cyclacel Pharmaceuticals, Inc.'s (a development stage company) operations and its cash flows for the period from August 13, 1996 (inception) to December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

London, England
March 31, 2011
Except for Note 13
as to which the date is
December 21, 2012

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

(In \$000s, except share, per share, and liquidation preference amounts)

| | December 31, | |
|--|--------------|-----------|
| | 2012 | 2013 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 16,412 | \$ 31,146 |
| Prepaid expenses and other current assets | 1,599 | 3,388 |
| Current assets of discontinued operations | 861 | 639 |
| Total current assets | 18,872 | 35,173 |
| Property, plant and equipment (net) | 129 | 275 |
| Long-term assets of discontinued operations | 353 | 72 |
| Total assets | \$ 19,354 | \$ 35,520 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,259 | \$ 2,545 |
| Accrued and other current liabilities | 5,601 | 4,672 |
| Economic Rights measured at fair value | 1,120 | — |
| Other liabilities measured at fair value | 20 | 20 |
| Current liabilities of discontinued operations | 335 | 260 |
| Total current liabilities | 9,335 | 7,497 |
| Total liabilities | 9,335 | 7,497 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized at December 31, 2012 and 2013; 1,213,142 and 335,273 shares issued and outstanding at December 31, 2012 and 2013. Aggregate preference in liquidation of \$14,436,390 and \$3,989,749 at December 31, 2012 and 2013, respectively. | 1 | — |
| Common stock, \$0.001 par value; 100,000,000 shares authorized at December 31, 2012 and 2013; 8,686,484 and 19,369,332 shares issued and outstanding at December 31, 2012 and 2013, respectively. | 9 | 19 |
| Additional paid-in capital | 280,211 | 317,543 |
| Accumulated other comprehensive income (loss) | 48 | (109) |
| Deficit accumulated during the development stage | (270,250) | (289,430) |
| Total stockholders' equity | 10,019 | 28,023 |
| Total liabilities and stockholders' equity | \$ 19,354 | \$ 35,520 |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
(In \$000s, except share and per share amounts)

| | Year ended December 31, 2011 | Year ended December 31, 2012 | Year ended December 31, 2013 | Period from August 13, 1996 (inception) to December 31, 2013 |
|--|------------------------------------|------------------------------------|------------------------------------|---|
| Revenues: | | | | |
| Collaboration and research and development revenue | \$ — | \$ — | \$ — | \$ 3,100 |
| Grant revenue | — | 69 | 1,084 | 4,801 |
| Total revenues | <u>—</u> | <u>69</u> | <u>1,084</u> | <u>7,901</u> |
| Operating expenses: | | | | |
| Research and development | 9,206 | 6,592 | 11,277 | 203,668 |
| General and administrative | 6,542 | 8,580 | 7,781 | 97,192 |
| Goodwill and intangibles impairment | — | — | — | 2,747 |
| Other restructuring costs | — | — | — | 2,634 |
| Total operating expenses | <u>15,748</u> | <u>15,172</u> | <u>19,058</u> | <u>306,241</u> |
| Operating loss | <u>(15,748)</u> | <u>(15,103)</u> | <u>(17,974)</u> | <u>(298,340)</u> |
| Other income (expense): | | | | |
| Costs associated with aborted 2004 IPO | — | — | — | (3,550) |
| Payment under guarantee | — | — | — | (1,652) |
| Non-cash consideration associated with stock purchase agreement | — | (423) | (98) | (521) |
| Change in valuation of Economic Rights | — | (23) | 570 | 547 |
| Change in valuation of liabilities measured at fair value | 609 | 51 | — | 6,378 |
| Foreign exchange (losses) gains | (74) | 292 | 62 | (3,943) |
| Interest income | 45 | 22 | 13 | 13,760 |
| Interest expense | — | — | — | (4,567) |
| Other income (expense), net | — | 77 | 5,547 | 5,624 |
| Total other income (expense), net | <u>580</u> | <u>(4)</u> | <u>6,094</u> | <u>12,076</u> |
| Loss from continuing operations before taxes | <u>(15,168)</u> | <u>(15,107)</u> | <u>(11,880)</u> | <u>(286,264)</u> |
| Income tax benefit | 565 | 1,351 | 1,670 | 21,465 |
| Net loss from continuing operations | <u>(14,603)</u> | <u>(13,756)</u> | <u>(10,210)</u> | <u>(264,799)</u> |
| Discontinued operations: | | | | |
| (Loss) income from discontinued operations | (640) | 907 | 91 | (11,718) |
| Income tax on discontinued operations | — | (337) | (34) | (371) |
| Net (loss) income from discontinued operations | <u>(640)</u> | <u>570</u> | <u>57</u> | <u>(12,089)</u> |
| Net loss | <u>(15,243)</u> | <u>(13,186)</u> | <u>(10,153)</u> | <u>(276,888)</u> |
| Dividend on preferred ordinary shares | — | — | — | (38,123) |
| Deemed dividend on convertible exchangeable preferred shares | — | — | (9,027) | (12,542) |
| Dividend on convertible exchangeable preferred shares | (728) | (728) | (298) | (4,683) |
| Net loss applicable to common shareholders | <u>\$ (15,971)</u> | <u>\$ (13,914)</u> | <u>\$ (19,478)</u> | <u>\$ (332,236)</u> |
| Net loss per share, continuing operations — basic and diluted | <u>\$ (2.13)</u> | <u>\$ (1.75)</u> | <u>\$ (1.29)</u> | |
| Net (loss) income per share, discontinued operations — basic and diluted | <u>\$ (0.09)</u> | <u>\$ 0.07</u> | <u>\$ 0.00</u> | |
| Net loss per share — basic and diluted | <u>\$ (2.22)</u> | <u>\$ (1.68)</u> | <u>\$ (1.28)</u> | |
| Weighted average common shares outstanding | <u>7,185,877</u> | <u>8,291,802</u> | <u>15,158,225</u> | |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In \$000s)

| | <u>Year ended December 31, 2011</u> | <u>Year ended December 31, 2012</u> | <u>Year ended December 31, 2013</u> | <u>Period from August 13, 1996 (inception) to December 31, 2013</u> |
|---|---|---|---|---|
| Net loss from continuing operations | \$ (14,603) | \$ (13,756) | \$ (10,210) | \$ (264,799) |
| (Loss) income from discontinued operations, net of tax | <u>(640)</u> | <u>570</u> | <u>57</u> | <u>(12,089)</u> |
| Net loss | (15,243) | (13,186) | (10,153) | (276,888) |
| Translation adjustment | 648 | (4,559) | (2,908) | (2,193) |
| Unrealized foreign exchange (loss) gain on intercompany loans | <u>(622)</u> | <u>4,550</u> | <u>2,751</u> | <u>2,084</u> |
| Comprehensive loss | <u>\$ (15,217)</u> | <u>\$ (13,195)</u> | <u>\$ (10,310)</u> | <u>\$ (276,997)</u> |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(In \$000s, except share amounts)

| | Preferred Stock | | Common Stock | | Additional paid-in capital | Accumulated other comprehensive income/(loss) | Deferred compensation | Deficit accumulated during development stage | Total |
|--|-----------------|--------|--------------|--------|----------------------------------|--|--------------------------|--|---------|
| | No. | Amount | No. | Amount | | | | | |
| On incorporation, | — | \$ — | — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Issue of shares for cash | — | — | — | — | 1 | — | — | — | 1 |
| Translation adjustment | — | — | — | — | — | (4) | — | — | (4) |
| Loss for the period | — | — | — | — | — | — | — | (290) | (290) |
| Balance at March 31, 1997 | — | — | — | — | 1 | (4) | — | (290) | (293) |
| Issue of shares for cash, net of issuance costs | — | — | 38,111 | — | 4,217 | — | — | — | 4,217 |
| Issue of shares for IP rights agreement | — | — | — | — | 262 | — | — | — | 262 |
| Deferred stock-based compensation | — | — | — | — | 2,002 | — | (2,002) | — | — |
| Amortization of deferred stock-based compensation | — | — | — | — | — | — | 302 | — | 302 |
| Translation adjustment | — | — | — | — | — | 55 | — | — | 55 |
| Loss for the year | — | — | — | — | — | — | — | (2,534) | (2,534) |
| Balance at March 31, 1998 | — | — | 38,111 | — | 6,482 | 51 | (1,700) | (2,824) | 2,009 |
| Amortization of deferred stock-based compensation | — | — | — | — | — | — | 406 | — | 406 |
| Translation adjustment | — | — | — | — | — | 11 | — | — | 11 |
| Loss for the year | — | — | — | — | — | — | — | (3,964) | (3,964) |
| Balance at March 31, 1999 | — | — | 38,111 | — | 6,482 | 62 | (1,294) | (6,788) | (1,538) |

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

CYLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont'd)

(In \$000s, except share amounts)

| | Preferred Stock | | Common Stock | | Additional paid-in capital | Accumulated other comprehensive income/(loss) | Deferred compensation | Deficit accumulated during development stage | Total |
|--|-----------------|--------|--------------|--------|----------------------------|---|-----------------------|--|----------|
| | No. | Amount | No. | Amount | | | | | |
| Issue of shares for cash, net of issuance costs | — | — | 76,984 | — | 12,717 | — | — | — | 12,717 |
| Issue of shares on conversion of bridging loan | — | — | 12,943 | — | 1,638 | — | — | — | 1,638 |
| Issue of shares in lieu of cash bonus | — | — | 1,294 | — | 164 | — | — | — | 164 |
| Issue of shares for research & development agreement | — | — | — | — | 409 | — | — | — | 409 |
| Exercise of share options | — | — | 324 | — | 40 | — | — | — | 40 |
| Deferred stock-based compensation | — | — | — | — | 167 | — | (167) | — | — |
| Amortization of deferred stock-based compensation | — | — | — | — | — | — | 433 | — | 433 |
| Translation adjustment | — | — | — | — | — | (194) | — | — | (194) |
| Loss for the year | — | — | — | — | — | — | — | (5,686) | (5,686) |
| Balance at March 31, 2000 | — | — | 129,656 | — | 21,617 | (132) | (1,028) | (12,474) | 7,983 |
| Deferred stock-based compensation | — | — | — | — | 294 | — | (294) | — | — |
| Amortization of deferred stock-based compensation | — | — | — | — | — | — | 275 | — | 275 |
| Translation adjustment | — | — | — | — | — | (466) | — | — | (466) |
| Loss for the year | — | — | — | — | — | — | — | (10,382) | (10,382) |
| Balance at March 31, 2001 | — | — | 129,656 | — | 21,911 | (598) | (1,047) | (22,856) | (2,590) |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont'd)

(In \$000s, except share amounts)

| | Preferred Stock | | Common Stock | | Additional paid-in capital | Accumulated other comprehensive income/(loss) | Deferred compensation | Deficit accumulated during development stage | Total |
|---|-----------------|--------|--------------|--------|----------------------------|---|-----------------------|--|----------|
| | No. | Amount | No. | Amount | | | | | |
| Issue of shares for cash, net of issuance costs | — | — | 779 | — | — | — | — | — | — |
| Exercise of share options for cash | — | — | — | — | 106 | — | — | — | 106 |
| Issue of shares for license agreement | — | — | 644 | — | 183 | — | — | — | 183 |
| Fair value of warrants issued to shareholders | — | — | — | — | 1,215 | — | — | — | 1,215 |
| Deferred stock-based compensation | — | — | — | — | 363 | — | (363) | — | — |
| Amortization of deferred stock-based compensation | — | — | — | — | — | — | 672 | — | 672 |
| Translation adjustment | — | — | — | — | — | 191 | — | — | 191 |
| Loss for the year | — | — | — | — | — | — | — | (14,853) | (14,853) |
| Balance at March 31, 2002 | — | — | 131,079 | — | 23,778 | (407) | (738) | (37,709) | (15,076) |
| Exercise of share options for cash | — | — | — | — | 12 | — | — | — | 12 |
| Deferred stock-based compensation | — | — | — | — | (84) | — | 84 | — | — |
| Amortization of deferred stock-based compensation | — | — | — | — | — | — | 305 | — | 305 |
| Translation adjustment | — | — | — | — | — | (1,846) | — | — | (1,846) |
| Loss for the year | — | — | — | — | — | — | — | (15,542) | (15,542) |
| Balance at March 31, 2003 | — | — | 131,079 | — | 23,706 | (2,253) | (349) | (53,251) | (32,147) |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont'd)

(In \$000s, except share amounts)

| | Preferred Stock | | Common Stock | | Additional paid-in capital | Accumulated other comprehensive income/(loss) | Deferred compensation | Deficit accumulated during development stage | Total |
|---|-----------------|--------|--------------|--------|----------------------------|---|-----------------------|--|----------|
| | No. | Amount | No. | Amount | | | | | |
| Issue of shares for cash, net of issuance costs | — | — | 215,755 | — | 27,635 | — | — | — | 27,635 |
| Exercise of share options for cash | — | — | 936 | — | 115 | — | — | — | 115 |
| Conversion of Preferred 'C' Ordinary shares | — | — | 538,449 | 1 | 58,147 | — | — | — | 58,148 |
| Amortization of deferred stock-based compensation | — | — | — | — | — | — | 217 | — | 217 |
| Translation adjustment | — | — | — | — | — | (1,343) | — | — | (1,343) |
| Loss for the year | — | — | — | — | — | — | — | (14,977) | (14,977) |
| Balance at December 31, 2003 | — | — | 886,219 | 1 | 109,603 | (3,596) | (132) | (68,228) | 37,648 |
| Issues of shares for cash, net of issuance costs | — | — | 61,510 | — | 8,541 | — | — | — | 8,541 |
| Exercise of warrants for cash | — | — | 3,233 | — | — | — | — | — | — |
| Deferred stock-based compensation | — | — | — | — | (2,050) | — | 132 | — | (1,918) |
| Translation adjustment | — | — | — | — | — | 2,424 | — | — | 2,424 |
| Loss for the year | — | — | — | — | — | — | — | (22,742) | (22,742) |
| Balance at December 31, 2004 | — | — | 950,962 | 1 | 116,094 | (1,172) | — | (90,970) | 23,953 |
| Translation adjustment | — | — | — | — | — | (1,786) | — | — | (1,786) |
| Loss for the year | — | — | — | — | — | — | — | (18,048) | (18,048) |
| Balance at December 31, 2005 | — | — | 950,962 | 1 | 116,094 | (2,958) | — | (109,018) | 4,119 |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont'd)

(In \$000s, except share amounts)

| | Preferred Stock | | Common Stock | | Additional paid-in capital | Accumulated other comprehensive income/(loss) | Deferred compensation | Deficit accumulated during development stage | Total |
|---|------------------|----------|------------------|----------|----------------------------------|--|--------------------------|--|---------------|
| | No. | Amount | No. | Amount | | | | | |
| Issue of shares to certain directors and officers | — | — | 92,630 | — | — | — | — | — | — |
| Issue of shares on conversion of Loan Note Instrument | — | — | 65,187 | — | — | — | — | — | — |
| Reverse Acquisition | 2,046,813 | 2 | 281,133 | — | 16,253 | — | — | — | 16,255 |
| Loan from Cyclacel Group plc waived | — | — | — | — | 10,420 | — | — | — | 10,420 |
| Issue of common stock and warrants for cash | — | — | 918,367 | 1 | 42,361 | — | — | — | 42,362 |
| Stock-based compensation | — | — | — | — | 9,600 | — | — | — | 9,600 |
| Change in unrealized loss on investment | — | — | — | — | — | 5 | — | — | 5 |
| Translation adjustment | — | — | — | — | — | 416 | — | — | 416 |
| Loss for the year | — | — | — | — | — | — | — | (29,258) | (29,258) |
| Balance at December 31, 2006 | <u>2,046,813</u> | <u>2</u> | <u>2,308,279</u> | <u>2</u> | <u>194,728</u> | <u>(2,537)</u> | <u>—</u> | <u>(138,276)</u> | <u>53,919</u> |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont'd)

(In \$000s, except share amounts)

| | Preferred Stock | | Common Stock | | Additional paid-in capital | Accumulated other comprehensive income/(loss) | Deferred compensation | Deficit accumulated during development stage | Total |
|---|------------------|----------|------------------|----------|----------------------------------|--|--------------------------|--|---------------|
| | No. | Amount | No. | Amount | | | | | |
| Stock-based compensation | — | — | — | — | 1,733 | — | — | — | 1,733 |
| Issue of common stock upon exercise of stock options | — | — | 3,644 | — | 163 | — | — | — | 163 |
| Issue of common stock for cash on registered direct offering, net of expenses | — | — | 607,095 | 1 | 33,356 | — | — | — | 33,357 |
| Preferred stock dividends declared | — | — | — | — | (307) | — | — | — | (307) |
| Issue of warrants in connection with registered direct offering | — | — | — | — | (6,750) | — | — | — | (6,750) |
| Translation adjustment | — | — | — | — | — | (93) | — | — | (93) |
| Loss for the year | — | — | — | — | — | — | — | (24,053) | (24,053) |
| Comprehensive loss for the year | — | — | — | — | — | — | — | — | (24,146) |
| Balance at December 31, 2007 | <u>2,046,813</u> | <u>2</u> | <u>2,919,018</u> | <u>3</u> | <u>222,923</u> | <u>(2,630)</u> | <u>—</u> | <u>(162,329)</u> | <u>57,969</u> |
| Stock-based compensation | — | — | — | — | 1,698 | — | — | — | 1,698 |
| Preferred stock dividends declared | — | — | — | — | (1,227) | — | — | — | (1,227) |
| Unrealized foreign exchange on intercompany loans | — | — | — | — | — | (12,330) | — | — | (12,330) |
| Translation adjustment | — | — | — | — | — | 14,918 | — | — | 14,918 |
| Loss for the year | — | — | — | — | — | — | — | (40,386) | (40,386) |
| Balance at December 31, 2008 | <u>2,046,813</u> | <u>2</u> | <u>2,919,018</u> | <u>3</u> | <u>223,394</u> | <u>(42)</u> | <u>—</u> | <u>(202,715)</u> | <u>20,642</u> |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont'd)

(In \$000s, except share amounts)

| | Preferred Stock | | Common Stock | | Additional paid-in capital (as restated) | Accumulated other comprehensive income/(loss) | Deferred compensation | Deficit accumulated during development stage | Total (as restated) |
|---|-----------------|--------|--------------|--------|---|--|--------------------------|--|------------------------|
| | No. | Amount | No. | Amount | | | | | |
| Warrant re-pricing | — | — | — | — | 44 | — | — | — | 44 |
| Issue of common stock for cash on registered direct offering, net of expenses | — | — | 571,429 | 1 | 2,846 | — | — | — | 2,847 |
| Issue of common stock upon draw down of Committed Equity Finance Facility | — | — | 179,289 | — | 1,030 | — | — | — | 1,030 |
| Issue of common stock upon exercise of stock options, restricted stock units and restricted stock | — | — | 7,887 | — | 7 | — | — | — | 7 |
| Stock-based compensation | — | — | — | — | 810 | — | — | — | 810 |
| Unrealized foreign exchange on intercompany loans | — | — | — | — | — | 5,651 | — | — | 5,651 |
| Translation adjustment | — | — | — | — | — | (5,589) | — | — | (5,589) |
| Loss for the year | — | — | — | — | — | — | — | (19,570) | (19,570) |
| Balance at December 31, 2009 | 2,046,813 | 2 | 3,677,623 | 4 | 228,131 | 20 | — | (222,285) | 5,872 |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont'd)

(In \$000s, except share amounts)

| | Preferred Stock | | Common Stock | | Additional paid-in capital | Accumulated other comprehensive income/(loss) | Deferred compensation | Deficit accumulated during development stage | Total |
|---|------------------|----------|------------------|----------|----------------------------------|--|--------------------------|--|---------------|
| | No. | Amount | No. | Amount | | | | | |
| Issue of common stock for cash on registered direct offering, net of expenses | — | — | 742,857 | 1 | 11,896 | — | — | — | 11,897 |
| Issue of common stock upon draw down of Committed Equity Finance Facility | — | — | 402,704 | — | 4,863 | — | — | — | 4,863 |
| Warrant exercise | — | — | 374,038 | — | 2,499 | — | — | — | 2,499 |
| Issue of common stock on private placement, net of expenses | — | — | 1,189,028 | 1 | 13,979 | — | — | — | 13,980 |
| Stock-based awards exercised | — | — | 29,367 | — | 77 | — | — | — | 77 |
| Preferred stock conversions | (833,671) | (1) | 236,514 | — | 3,516 | — | — | (3,515) | — |
| Stock-based compensation | — | — | — | — | 1,746 | — | — | — | 1,746 |
| Unrealized foreign exchange on intercompany loans | — | — | — | — | — | (2,073) | — | — | (2,073) |
| Translation adjustment | — | — | — | — | — | 2,084 | — | — | 2,084 |
| Loss for the year | — | — | — | — | — | — | — | (16,021) | (16,021) |
| Balance at December 31, 2010 | <u>1,213,142</u> | <u>1</u> | <u>6,652,131</u> | <u>7</u> | <u>266,706</u> | <u>31</u> | <u>—</u> | <u>(241,821)</u> | <u>24,924</u> |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont'd)

(In \$000s, except share amounts)

| | Preferred Stock | | Common Stock | | Additional paid-in capital | Accumulated other comprehensive income/(loss) | Deferred compensation | Deficit accumulated during development stage | Total |
|---|------------------|----------|------------------|----------|----------------------------------|--|--------------------------|--|---------------|
| | No. | Amount | No. | Amount | | | | | |
| Issue of common stock for cash on registered direct offering, net of expenses | — | — | 1,088,235 | 1 | 9,271 | — | — | — | 9,272 |
| Stock-based awards exercised | — | — | 5,414 | — | 3 | — | — | — | 3 |
| Stock-based compensation | — | — | — | — | 882 | — | — | — | 882 |
| Preferred stock dividends | — | — | — | — | (364) | — | — | — | (364) |
| Unrealized foreign exchange on intercompany loans | — | — | — | — | — | (622) | — | — | (622) |
| Translation adjustment | — | — | — | — | — | 648 | — | — | 648 |
| Loss for the year | — | — | — | — | — | — | — | (15,243) | (15,243) |
| Balance at December 31, 2011 | <u>1,213,142</u> | <u>1</u> | <u>7,745,780</u> | <u>8</u> | <u>276,498</u> | <u>57</u> | <u>—</u> | <u>(257,064)</u> | <u>19,500</u> |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont'd)

(In \$000s, except share amounts)

| | <u>Preferred Stock</u> | | <u>Common Stock</u> | | <u>Additional paid-in capital</u> | <u>Accumulated other comprehensive income/(loss)</u> | <u>Deferred compensation</u> | <u>Deficit accumulated during development stage</u> | <u>Total</u> |
|---|------------------------|---------------|---------------------|---------------|---|--|----------------------------------|---|---------------|
| | <u>No.</u> | <u>Amount</u> | <u>No.</u> | <u>Amount</u> | | | | | |
| Issue of common stock on private placement, net of expenses | — | — | 669,726 | 1 | 1,821 | — | — | — | 1,822 |
| Issue of common stock on share purchase agreement | — | — | 233,530 | — | 1,418 | — | — | — | 1,418 |
| Stock-based awards exercised | — | — | 37,448 | — | 94 | — | — | — | 94 |
| Stock-based compensation | — | — | — | — | 380 | — | — | — | 380 |
| Unrealized foreign exchange on intercompany loans | — | — | — | — | — | 4,550 | — | — | 4,550 |
| Translation adjustment | — | — | — | — | — | (4,559) | — | — | (4,559) |
| Loss for the year | — | — | — | — | — | — | — | (13,186) | (13,186) |
| Balance at December 31, 2012 | <u>1,213,142</u> | <u>1</u> | <u>8,686,484</u> | <u>9</u> | <u>280,211</u> | <u>48</u> | <u>—</u> | <u>(270,250)</u> | <u>10,019</u> |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (cont'd)

(In \$000s, except share amounts)

| | Preferred Stock | | Common Stock | | Additional paid-in capital | Accumulated other comprehensive income/(loss) | Deferred compensation | Deficit accumulated during development stage | Total |
|--|-----------------|-------------|-------------------|--------------|----------------------------------|--|--------------------------|--|------------------|
| | No. | Amount | No. | Amount | | | | | |
| Issue of common stock for cash in an underwritten public offering, net of expenses | — | — | 6,833,334 | 6 | 19,000 | — | — | — | 19,006 |
| Issue of common stock on share purchase agreement | — | — | 2,133,401 | 2 | 9,124 | — | — | — | 9,126 |
| Stock issued to employees in lieu of cash bonus | — | — | 31,642 | — | 181 | — | — | — | 181 |
| Preferred stock conversion | (877,869) | (1) | 1,684,471 | 2 | 9,026 | — | — | (9,027) | — |
| Stock-based compensation | — | — | — | — | 357 | — | — | — | 357 |
| Preferred stock dividends | — | — | — | — | (356) | — | — | — | (356) |
| Unrealized foreign exchange on intercompany loans | — | — | — | — | — | 2,751 | — | — | 2,751 |
| Translation adjustment | — | — | — | — | — | (2,908) | — | — | (2,908) |
| Loss for the year | — | — | — | — | — | — | — | (10,153) | (10,153) |
| Balance at December 31, 2013 | <u>335,273</u> | <u>\$ —</u> | <u>19,369,332</u> | <u>\$ 19</u> | <u>\$ 317,543</u> | <u>\$ (109)</u> | <u>\$ —</u> | <u>\$ (289,430)</u> | <u>\$ 28,023</u> |

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

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In \$000s)

| | <u>Year ended December 31, 2011</u> | <u>Year ended December 31, 2012</u> | <u>Year ended December 31, 2013</u> | <u>Period from August 13, 1996 (inception) to December 31, 2013</u> |
|---|---|---|---|---|
| Operating activities: | | | | |
| Net loss | \$ (15,243) | \$ (13,186) | \$ (10,153) | \$ (276,888) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | |
| Accretion of interest on notes payable, net of amortization of debt premium | — | — | — | 100 |
| Amortization of investment premiums, net | — | — | — | (2,297) |
| Change in valuation of liabilities at fair value | (609) | (28) | (1,120) | (7,475) |
| Non-cash consideration associated with stock purchase agreement | — | 423 | 98 | 521 |
| Depreciation | 241 | 60 | 70 | 12,685 |
| Amortization of intangible assets | — | — | — | 886 |
| Fixed asset impairment | — | — | — | 221 |
| Unrealized foreign exchange losses | — | — | — | 7,747 |
| Deferred revenue | — | — | — | (98) |
| Compensation for warrants issued to non-employees | — | — | — | 1,215 |
| Gain on sale of patents | — | — | (5,500) | (5,500) |
| Shares issued for IP rights | — | — | — | 446 |
| Loss (gain) on disposal of property, plant and equipment | 1 | (62) | — | 38 |
| Goodwill and intangibles impairment | — | — | — | 7,934 |
| Stock-based compensation | 882 | 380 | 357 | 19,760 |
| Provision for restructuring | — | — | — | 1,779 |
| Amortization of issuance costs of Preferred Ordinary 'C' shares | — | — | — | 2,517 |
| Transaction costs on sale of Economic Rights | — | 33 | — | 33 |
| Gain on termination of distribution agreements | — | (1,192) | — | (1,192) |
| Changes in operating assets and liabilities: | | | | |
| Prepaid expenses and other assets | 174 | (239) | (1,201) | (1,498) |
| Accounts payable and other current liabilities | 577 | 1,768 | (750) | (4,295) |
| Net cash used in operating activities | <u>(13,977)</u> | <u>(12,043)</u> | <u>(18,199)</u> | <u>(243,361)</u> |
| Investing activities: | | | | |
| Purchase of ALIGN | — | — | — | (3,763) |
| Purchase of property, plant and equipment | (6) | (12) | (208) | (9,057) |
| Minimum royalty payments received from termination of ALIGN license agreement | — | — | 396 | 396 |
| Proceeds from sale of patents | — | — | 5,500 | 5,500 |
| Proceeds from sale of property, plant and equipment | 5 | 62 | — | 225 |
| Purchase of short-term investments on deposit, net of maturities | — | — | — | (156,657) |
| Cash proceeds from redemption of short term securities | — | — | — | 162,729 |
| Net cash (used in) provided by investing activities | <u>(1)</u> | <u>50</u> | <u>5,688</u> | <u>(627)</u> |

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS (cont'd)

(In \$000s)

| | Year ended December 31, 2011 | Year ended December 31, 2012 | Year ended December 31, 2013 | Period from August 13, 1996 (inception) to December 31, 2013 |
|---|------------------------------------|------------------------------------|------------------------------------|---|
| Financing activities: | | | | |
| Payments of capital lease obligations | — | — | — | (3,719) |
| Proceeds from issuance of ordinary and preferred ordinary shares, net of issuance costs | | — | — | 121,678 |
| Proceeds from issuance of common stock and warrants, net of issuance costs | 9,267 | 3,881 | 27,637 | 123,189 |
| Proceeds from the exercise of stock options and warrants, net of issuance costs | 3 | 94 | — | 267 |
| Payment of preferred stock dividend | (364) | — | (305) | (2,203) |
| Repayment of government loan | — | — | — | (455) |
| Government loan received | — | — | — | 414 |
| Loan received from Cyclacel Group plc | — | — | — | 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 of Xcyte | — | — | — | 17,915 |
| Costs associated with stock purchase | — | — | — | (1,951) |
| Net cash provided by financing activities | <u>8,906</u> | <u>3,975</u> | <u>27,332</u> | <u>274,766</u> |
| Effect of exchange rate changes on cash and cash equivalents | 26 | (19) | (87) | 368 |
| Net increase (decrease) in cash and cash equivalents | (5,046) | (8,037) | 14,734 | 31,146 |
| Cash and cash equivalents, beginning of period | 29,495 | 24,449 | 16,412 | — |
| Cash and cash equivalents, end of period | <u>\$ 24,449</u> | <u>\$ 16,412</u> | <u>\$ 31,146</u> | <u>\$ 31,146</u> |
| Supplemental cash flow information: | | | | |
| Cash received during the period for: | | | | |
| Interest | 31 | 10 | 12 | 11,768 |
| Taxes | 685 | 565 | 970 | 19,742 |
| Cash paid during the period for: | | | | |
| Interest | — | — | — | (1,914) |
| Schedule of non-cash transactions: | | | | |
| Acquisitions of equipment purchased through capital leases | — | — | — | 3,470 |
| Issuance of common 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 Ordinary shares in lieu of cash bonus | — | — | 181 | 345 |
| Issuance of other long term payable on ALIGN acquisition | — | — | — | 1,122 |

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization of the Company

Cyclacel Pharmaceuticals, Inc. (Cyclacel or the Company) is a development-stage biopharmaceutical company dedicated to the development and commercialization of novel, mechanism-targeted drugs to treat human cancers and other serious diseases. Cyclacel is focused on delivering leading edge therapeutic management of cancer patients based on a clinical development pipeline of novel drug candidates.

Cyclacel's clinical development priorities are focused on sapacitabine, an orally available, cell cycle modulating nucleoside analogue.

Sapacitabine is being evaluated in the SEAMLESS Phase 3 trial being conducted under a Special Protocol Assessment ("SPA") agreement with the US Food and Drug Administration ("FDA") for the front-line treatment of acute myeloid leukemia ("AML") in the elderly and in Phase 2 studies for AML, myelodysplastic syndromes ("MDS"), non-small cell lung cancer ("NSCLC") and chronic lymphocytic leukemia. Sapacitabine is also being evaluated in a Phase 1 study in combination with seliciclib, our second clinical candidate, in patients with solid tumors. The FDA and the European Medicines Agency, or EMA, have designated sapacitabine as an orphan drug for the treatment of both AML and MDS.

The Company has evaluated seliciclib, an oral, highly selective inhibitor of CDK enzymes, in NSCLC and nasopharyngeal cancer ("NPC"). The Company will determine the feasibility of pursuing further development and/or partnering this asset and/or indications subject to available resources.

Our second generation CDK inhibitor, CYC065, is an oral, highly selective inhibitor of CDK enzymes. CYC065 has been shown to have increased anti-proliferative potency and improved pharmaceutical properties compared to seliciclib. Investigational new drug or IND-enabling studies with CYC065 are in progress supported by a \$1.5 million grant from the Biomedical Catalyst of the United Kingdom government.

In addition to these development programs, the Company has allocated limited resources to other programs allowing the Company to maintain and build on its core competency in cell cycle biology and related drug discovery. These include CYC140, an internally-discovered, potent and selective, orally-available, small molecule inhibitor of PLK1, or polo-like kinase 1. PLKs are kinases active during cell division that target the mitotic phase of the cancer cell cycle. In the Company's Aurora kinase inhibitor program, CYC116, an internally-discovered, orally-available, small molecule inhibitor of Aurora kinases A and B and Vascular Endothelial Growth Factor Receptor 2, or VEGFR2, has completed a multicenter Phase 1 trial. PLK and Aurora are cancer drug targets discovered by Professor David Glover, the Company's Chief Scientist.

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 property, raising capital and recruiting and training personnel.

Capital Resources

The Company's existing capital resources are expected to be sufficient beyond the completion of the SEAMLESS Phase 3 trial but not sufficient to complete development of other indications or product candidates or to commercialize any of the Company's product candidates.

Basis of Presentation

The accompanying consolidated financial statements as of December 31, 2012 and 2013, and for each of the three years in the period ended December 31, 2013 and for the period from August 13, 1996 (inception) to December 31, 2013, have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The consolidated financial statements include the financial statements of Cyclacel Pharmaceuticals, Inc. and all of the Company's wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical estimates include product returns reserve percentages and inputs used to determine stock-based compensation expense and the fair value of financial instruments, such as the Economic Rights and other liabilities measured at fair value. Cyclacel reviews its estimates on an ongoing basis. The estimates are based on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. Actual results may differ from these estimates. Cyclacel believes the judgments and estimates required by the following accounting policies to be significant in the preparation of the Company's consolidated financial statements.

Risks and Uncertainties

Drug candidates developed by the Company typically will require approvals or clearances from the FDA or other international regulatory agencies prior to commercialize sales. There can be no assurance that the Company's drug candidates will receive any of the required approvals or clearances. If the Company was denied approval or clearance or such approval was delayed, or is unable to obtain the necessary financing to complete development and approval, there will be a material adverse impact on the Company's financial condition and results of operations.

Foreign Currency and Currency Translation

Transactions that are denominated in a foreign currency are remeasured into the functional currency at the current exchange rate on the date of the transaction. Any foreign currency-denominated monetary assets and liabilities are subsequently remeasured at current exchange rates, with gains or losses recognized as foreign exchange (losses) gains in the statement of operations.

The assets and liabilities of the Company's international subsidiary are translated from its functional currency into United States dollars at exchange rates prevailing at the balance sheet date. Average rates of exchange during the period are used to translate the statement of operations, while historical rates of exchange are used to translate any equity transactions.

Translation adjustments arising on consolidation due to differences between average rates and balance sheet rates, as well as unrealized foreign exchange gains or losses arising from translation of intercompany loans that are of a long-term-investment nature, are recorded in other comprehensive income.

Segments

After considering its business activities and geographic reach, the Company has concluded that it operates in just one operating segment being the discovery, development and commercialization of novel, mechanism-targeted drugs to treat cancer and other serious disorders, with development operations in two geographic areas, namely the United States and the United Kingdom.

Cash and Cash Equivalents

Cash equivalents are stated at cost, which is substantially the same as fair value. The Company considers all highly liquid investments with an original maturity of three months or less at the time of initial purchase to be cash equivalents and categorizes such investments as held to maturity. The objectives of the Company's cash management policy are to safeguard and preserve funds, to maintain liquidity sufficient to meet Cyclacel's cash flow requirements and to attain a market rate of return.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts payable, accrued liabilities, common stock warrants, financial instruments associated with stock purchase agreements, and other arrangements. The carrying amounts of cash and cash equivalents, accounts payable, and accrued liabilities approximate their respective fair values due to the nature of the accounts, notably their short maturities. The Economic Rights obligation, liability-classified warrants, financial instruments associated with stock purchase agreements, and certain other liabilities are measured at fair value using applicable inputs as described in *Note 5 - Fair Value*.

Property, Plant and Equipment

The components of property, plant and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, which are generally three to five years. Amortization of leasehold improvements is performed using

the straight-line method over the shorter of the remaining lease term or the estimated useful life of the related assets, currently between five and fifteen years. Upon sale or retirement of assets, the costs and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss on sale is reflected as a component of operating income or loss. Expenditures for maintenance and repairs are charged to operating expenses as incurred.

During the year ended December 31, 2011, the Company sold fixed assets totaling approximately \$6,000. During the year ended December 31, 2012, the Company sold fully depreciated assets for proceeds of approximately \$0.1 million and there were no fixed assets sold during the year ended December 31, 2013.

Impairment of Long-lived Assets

The Company reviews property, plant and equipment for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company assesses the recoverability of the potentially affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows.

Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset (or asset group) exceeds its fair value.

Revenue Recognition

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.

In prior periods, certain of the Company's revenues were earned from collaborative agreements. The Company recognized revenue when persuasive evidence of an arrangement existed; delivery occurred or services were rendered; the fee was fixed or determinable; and collectability was reasonably assured. Determination of whether these criteria have been met was based on management's judgments regarding the nature of the research performed, the substance of the milestones met relative to those the Company that were still to be performed, and the collectability of any related 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.

Also in prior periods, research and development revenues were earned under agreements with third parties for contract research and development activities. Such revenues were recorded as the related services were performed. Milestone payments were 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 were recorded as deferred revenue. None of the revenues recognized to date are refundable if the relevant research effort is not successful.

Clinical Trial Accounting

Data management and monitoring of the Company's clinical trials are performed with the assistance of contract research organizations, or CROs, or clinical research associates, or CRAs, in accordance with the Company's standard operating procedures. Typically, CROs and some CRAs bill monthly for services performed, and others bill based upon milestones achieved. For outstanding amounts, the Company accrues unbilled clinical trial expenses based on estimates of the level of 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 costs related to patient enrollment are accrued as patients are entered into and progress through the trial. Any initial payment made to the clinical trial site is recognized upon execution of the clinical trial agreements and expensed as research and development expenses.

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 and depreciation. Expenditures relating to research and development are expensed as incurred.

Patent Costs

Patent prosecution costs are charged to operations as incurred as recoverability of such expenditure is uncertain.

Leased Assets

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

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.

The Company applies the accounting guidance codified in ASC 740 "Income taxes" ("ASC 740") related to accounting for uncertainty in income taxes. ASC 740 specifies the accounting for uncertainty in income taxes recognized in a company's financial statements by prescribing a minimum probability threshold a tax position is required to meet before being recognized in the financial statements.

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

Net Loss Per Common Share

The Company calculates net loss per common share in accordance with ASC 260 "Earnings Per Share" ("ASC 260"). Basic and diluted net loss per common share was determined by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding during the period. The Company's potentially dilutive shares, which include outstanding common stock options, restricted stock, restricted stock units, convertible preferred stock and common stock warrants, have not been included in the computation of diluted net loss per share for all periods as the result would be anti-dilutive.

| | Year ended December 31, 2011 | Year ended December 31, 2012 | Year ended December 31, 2013 |
|---|---|---|---|
| Stock options | 502,249 | 463,023 | 949,685 |
| Restricted Stock Units | 38,089 | 39,377 | 119,248 |
| Convertible preferred stock | 73,747 | 73,747 | 20,381 |
| Contingently issuable shares and common stock warrants associated with Economic Rights | — | 440,375 | — |
| Common stock warrants | 1,973,431 | 1,973,427 | 1,591,795 |
| Total shares excluded from calculation | <u>2,587,516</u> | <u>2,989,949</u> | <u>2,618,109</u> |

Fair Value Measurements

Inputs used to determine fair value of financial and non-financial assets and liabilities are categorized using a fair value hierarchy that prioritizes observable and unobservable inputs into three broad levels, from Level 1, for quoted prices (unadjusted) in active markets for identical assets or liabilities, to Level 3, for unobservable inputs (see *Note 5 — Fair Value*). Management reviews the categorization of fair value inputs on a periodic basis and may determine that it is necessary to transfer an input from one level of the fair value hierarchy to another based on changes in events or circumstances, such as a change in the observability of an input. Any such transfer will be recognized at the end of the reporting period.

Stock-based Compensation

The Company grants stock options, restricted stock units and restricted stock to officers, employees and directors under the Amended and Restated Equity Incentive Plan (“2006 Plan”), which was approved on March 16, 2006, as amended on May 21, 2007, and subsequently amended and restated on April 14, 2008. Under the 2006 Plan, the Company has granted various types of awards, which are described more fully in *Note 11 - Stock-Based Compensation Arrangements*. The Company accounts for these awards under ASC 718 “Compensation — Stock Compensation” (“ASC 718”).

ASC 718 requires measurement of compensation cost for all stock-based awards at fair value on date of grant and recognition of compensation over the requisite service period for awards expected to vest. The fair value of restricted stock and restricted stock units is determined based on the number of shares granted and the quoted price of the Company’s common stock on the date of grant. The determination of grant-date fair value for stock option awards is estimated using the Black-Scholes model, which includes variables such as the expected volatility of the Company’s share price, the anticipated exercise behavior of employees, interest rates, and dividend yields. These variables are projected based on historical data, experience, and other factors. Changes in any of these variables could result in material adjustments to the expense recognized for share-based payments. Such value is recognized as expense over the requisite service period, net of estimated forfeitures, using the straight-line attribution method. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from current estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including type of awards granted, employee class, and historical experience. Actual results and future estimates may differ substantially from current estimates.

Comprehensive Income (Loss)

In accordance with ASC 220 “Comprehensive Income” (“ASC 220”), 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). No taxes were recorded on items of other comprehensive income.

Recent Accounting Pronouncements Not Yet Effective

In July 2013, the FASB issued guidance relating to the presentation of an unrecognized tax benefit when a net operating loss carryforward (“NOL”), a similar tax loss, or a tax credit carryforward exists. The guidance states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a NOL, a similar tax loss, or a tax credit carryforward, except to the extent it is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In March 2013, the FASB issued guidance relating to certain foreign currency matters. This guidance clarifies the parent company’s accounting for the cumulative translation adjustment when a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity or of an investment in a foreign entity. The guidance is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2013, the FASB issued guidance relating to obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. This provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance in GAAP. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements that exist at the beginning of an entity's fiscal year of adoption. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

3. Significant Contracts

Distribution, Licensing and Research Agreements

The Company has entered into licensing agreements with academic and research organizations. Under the terms of these agreements, the Company has received licenses to technology and patent applications. The Company is required to pay royalties on future sales of product employing the technology or falling under claims of patent applications.

Pursuant to the Daiichi Sankyo license under which the Company licenses certain patent rights for sapacitabine, its lead drug candidate, the Company is under an obligation to use reasonable endeavors to develop a product and obtain regulatory approval to sell a product and has agreed to pay Daiichi Sankyo an up-front fee, reimbursement for Daiichi Sankyo's enumerated expenses, milestone payments and royalties on a country-by-country basis. The up-front fee and certain past reimbursements have been paid and, as a result of the SEAMLESS trial entering Phase 3 during the first quarter of 2011, a milestone payment of \$1.6 million was paid in April 2011. A further \$10.0 million in aggregate milestone payments could be payable subject to achievement of all the specific contractual milestones and the Company's decision to continue with these projects. Royalties are payable in each country for the term of patent protection in the country or for ten years following the first commercial sale of licensed products in the country, whichever is later. Royalties are payable on net sales. Net sales are defined as the gross amount invoiced by the Company or its affiliates or licensees, less discounts, credits, taxes, shipping and bad debt losses. The agreement extends from its commencement date to the date on which no further amounts are owed under it. If the Company wishes to appoint a third party to develop or commercialize a sapacitabine-based product in Japan, within certain limitations, Daiichi Sankyo must be notified and given a right of first refusal to develop and/or commercialize in Japan. In general, the license may be terminated by the Company for technical, scientific, efficacy, safety, or commercial reasons on six months notice, or twelve months, if after a launch of a sapacitabine-based product, or by either party for material default. Effective July 11, 2011, the license agreement was amended to irrevocably waive a termination right Daiichi Sankyo possessed under a provision of the agreement that required the Company to obtain regulatory approval to sell sapacitabine in at least one country by September 2011, and releases the Company from all claims and liability of any kind arising under such provision. The amendment further provides that the royalty due from the Company to Daiichi Sankyo on future net sales of sapacitabine be increased by a percentage between 1.25% and 1.50% depending on the level of net sales of sapacitabine realized.

4. Cash and Cash Equivalents

The following is a summary of cash and cash equivalents at December 31, 2012 and 2013 (in \$000s):

| | December 31, | |
|--|------------------|------------------|
| | 2012 | 2013 |
| Cash | \$ 4,090 | \$ 4,670 |
| Investments with original maturity of less than three months at the time of purchase | 12,322 | 26,476 |
| Total cash and cash equivalents | <u>\$ 16,412</u> | <u>\$ 31,146</u> |

Investments with original maturity of less than three months at time of purchase are made up of money market funds and commercial paper.

5. Fair Value

Fair value measurements

As defined in ASC 820 “Fair Value Measurements and Disclosures” (“ASC 820”), fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considering counterparty credit risk in its measurement of fair value.

The fair value of the Company’s financial assets and liabilities that are measured on a recurring basis were determined using the following inputs as of December 31, 2012 (in \$000s):

| | Level 1 | Level 2 | Level 3 | Total |
|---|-----------------|-----------------|-----------------|------------------|
| ASSETS | | | | |
| Cash equivalents | \$ 5,523 | \$ 6,799 | \$ — | \$ 12,322 |
| Financial instrument associated with stock purchase agreement | — | — | — | — |
| Total assets | <u>\$ 5,523</u> | <u>\$ 6,799</u> | <u>\$ —</u> | <u>\$ 12,322</u> |
| LIABILITIES | | | | |
| Economic rights | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1,120</u> | <u>\$ 1,120</u> |
| Other liabilities measured at fair value: | | | | |
| Warrants liability | \$ — | \$ — | \$ — | \$ — |
| Scottish Enterprise agreement | — | — | 20 | 20 |
| Other liabilities measured at fair value | — | — | 20 | 20 |
| Total liabilities | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1,140</u> | <u>\$ 1,140</u> |

The fair value of the Company’s financial assets and liabilities that are measured on a recurring basis were determined using the following inputs as of December 31, 2013 (in \$000s):

| | <u>Level 1</u> \$000 | <u>Level 2</u> \$000 | <u>Level 3</u> \$000 | <u>Total</u> \$000 |
|---|-------------------------|-------------------------|-------------------------|-----------------------|
| ASSETS | | | | |
| Cash equivalents | \$ 26,476 | \$ — | \$ — | \$ 26,476 |
| Financial instrument associated with stock purchase agreement | — | 397 | — | 397 |
| Total assets | <u>\$ 26,476</u> | <u>\$ 397</u> | <u>\$ —</u> | <u>\$ 26,873</u> |
| LIABILITIES | | | | |
| Other liabilities measured at fair value: | | | | |
| Warrants liability | \$ — | \$ — | \$ — | \$ — |
| Scottish Enterprise agreement | — | — | 20 | 20 |
| Other liabilities measured at fair value | — | — | 20 | 20 |
| Total liabilities | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 20</u> | <u>\$ 20</u> |

The following table reconciles the beginning and ending balances of Level 3 inputs for the year ended December 31, 2013 (in \$000s):

| | <u>Level 3</u> |
|--|----------------|
| Balance as of December 31, 2012 | \$ 1,140 |
| Change in valuation of Economic Rights | (570) |
| Movement of valuation of Economic Rights from Level 3 to Level 2 | (550) |
| Balance as of December 31, 2013 | <u>\$ 20</u> |

Financial Instrument Associated with Stock Purchase Agreement

The December 14, 2012 common stock purchase agreement with Aspire was terminated on November 14, 2013, and on that date the Company entered into a new common stock purchase agreement with Aspire) (the “Purchase Agreement”) under which Aspire purchased 511,509 shares of common stock for an aggregate purchase price of \$2.0 million and committed to purchase up to an additional 3,042,038 shares from time to time as directed by the Company over the next two years at prices derived from the market prices on or near the date of each sale (see *Note 10 – Stockholders’ Equity*).

The Company has accounted for the right to sell additional shares under the purchase agreement based on the guidance of ASC 815 “Derivative Financial Instruments” (“ASC 815”), which requires the instrument to be measured at fair value with changes in fair value reported in earnings. The instrument had a fair value of \$0.5 million at the date of the transaction and a fair value of \$0.4 million as of December 31, 2013. The \$0.1 million decrease in the fair value of the Purchase Agreement during the year ended December 31, 2013 was recognized as a loss in the consolidated statements of operations. The primary inputs used to determine fair value are the price of the Company’s common stock, the remaining term, and aggregate share purchases on the measurement date. The fair value of purchase agreement is remeasured each reporting period and gains or losses will continue to be reported until the agreement is exhausted or expired.

Economic Rights

On March 22, 2012, the Company entered into a financing agreement with certain existing institutional stockholders. Under the terms of the agreement, investors received contractual rights to receive cash equal to 10% of any future litigation settlement related to the specified intellectual property, subject to a cap. In certain defined situations, the Company may have to issue either additional common shares or warrants (collectively, the “Economic Rights”).

Up to December 31, 2012, the fair value of the Economic Rights was estimated using a decision-tree analysis method. This was an income-based method that incorporates the expected benefits, costs and probabilities of contingent outcomes under varying scenarios. Each scenario within the decision-tree was discounted to the present value using the Company’s credit adjusted risk-free rate and ascribed a weighted probability to determine the fair value.

On April 3, 2013, the Company entered into a definitive agreement with Celgene Corporation (“Celgene”) to sell to Celgene four Cyclacel-owned patents related to the use of romidepsin injection, intellectual property to which the Economic Rights relates. In connection with the agreement, Celgene has made to Cyclacel a one-time payment of \$5.5 million and the litigation was dismissed. As a result, the holders of the Economic Rights were paid approximately \$0.6 million in April 2013 in full satisfaction of the Company’s obligation under the Economic Rights. The fair value of this liability was approximately \$1.1 million as of December 31, 2012. The \$0.6 million decrease in the fair value of the Economic Rights during the year ended December 31, 2013 was recognized as a gain in the consolidated statements of operations.

Other Liabilities Measured at Fair Value

Warrants Liability

The Company issued warrants to purchase shares of common stock under the registered direct financing completed in February 2007. These warrants are being accounted for as a liability in accordance with ASC 815. At the date of the transaction, the fair value of the warrants of \$6.8 million was determined utilizing the Black-Scholes option pricing model utilizing the following assumptions: risk free interest rate — 4.68%, expected volatility — 85%, expected dividend yield — 0%, and a remaining contractual life of 7 years. As of December 31, 2013, the fair value of the warrants is zero based on the high exercise price of the warrants relative to the Company's stock price at December 31, 2013 and the remaining term of less than 0.13 years. The fair value of the warrant is remeasured each reporting period, with any gains or losses recognized in the consolidated statement of operations. Such gains or losses will continue to be reported until the warrants are exercised or expired.

The Company recognized the change in the value of warrants as a gain on the consolidated statement of operations of \$0.6 million and \$0.1 million for the year ended December 31, 2011 and 2012, respectively. There was no change recognized in the value of warrants on the consolidated statement of operations for the year ended December 31, 2013.

Scottish Enterprise Agreement

On June 22, 2009, the Company amended the Agreement with Scottish Enterprise ("SE") (the "Amendment"), in order to allow the Company to implement a reduction of the Company's research operations located in Scotland in exchange for the parties' agreement to modify the payment terms of the Agreement in the principal amount of £5 million (approximately \$8.0 million at December 31, 2009), which SE had previously entered into with the Company. The Agreement provided for repayment of up to £5 million in the event the Company significantly reduced its Scottish research operations. Pursuant to the terms of the Amendment, in association with Cyclacel's material reduction in staff at its Scottish research facility, the parties agreed to a modified payment of £1 million (approximately \$1.7 million at June 22, 2009) payable in two equal tranches. On July 1, 2009, the first installment of £0.5 million (approximately \$0.8 million) was paid and the remaining amount of £0.5 million (approximately \$0.8 million) was paid on January 6, 2010.

In addition, should a further reduction below current minimum staff levels be effectuated before July 2014 without SE's prior consent, the Company may be obligated to pay up to £4 million to SE, which will be calculated as a maximum of £4 million (approximately \$6.5 million at December 31, 2012 and \$6.6 million at December 31, 2013) less the market value of the shares held by SE at the time staffing levels in Scotland fall below the prescribed minimum levels. If the Company were to have reduced staffing levels below the prescribed levels, the amount potentially payable to SE would have been approximately £3.8 million (approximately \$6.1 million) and approximately £3.8 million (approximately \$6.3 million) at December 31, 2012 and December 31, 2013, respectively.

This arrangement is accounted for as a liability under ASC Topic 480 "Distinguishing Liabilities from Equity" ("ASC 480"), and is measured at fair value. Changes in fair value are recognized in earnings. Due to the nature of the associated contingency and the likelihood of occurrence, the Company has concluded the fair value of this liability was approximately \$20,000 at December 31, 2012 and December 31, 2013, respectively. The most significant inputs in estimating the fair value of this liability are the probabilities that staffing levels fall below the prescribed minimum and that the Company is unable or unwilling to replace such employees within the prescribed time period. At both December 31, 2012 and 2013, the Company used a scenario analysis model to arrive at the fair value of the Scottish Enterprise Agreement and assumed a 30% probability of falling below a minimum staffing level and a 1% probability that the occurrence of such an event would not be cured within the prescribed time period. At each reporting period, the inputs used to determine the fair value of the liability will be evaluated to determine whether adjustments are appropriate. Any changes in the value of this liability are recorded in the consolidated statement of operations.

6. Prepaid Expenses and Other Current Assets

The following is a summary of prepaid expenses and other current assets at December 31, 2012 and 2013 (in \$000s):

| | December 31, | |
|--|-----------------|-----------------|
| | 2012 | 2013 |
| Research and development tax credit receivable | \$ 1,033 | \$ 1,744 |
| Prepayments | 358 | 427 |
| Grant receivable | — | 357 |
| Sales tax receivable | 45 | 209 |
| Deposits | 153 | 132 |
| Other current assets | 10 | 519 |
| | <u>\$ 1,599</u> | <u>\$ 3,388</u> |

7. Property, Plant, and Equipment

Property, plant and equipment consisted of the following (in \$000s):

| | Useful lives in years from date of acquisition | December 31, | |
|---|---|----------------|----------------|
| | | 2012 | 2013 |
| Leasehold improvements | 5 to 15 years | \$ 867 | \$ 922 |
| Research and laboratory equipment | 3 to 5 years | 5,519 | 5,668 |
| Office equipment and furniture | 3 to 5 years | 1,325 | 1,338 |
| | | <u>7,711</u> | <u>7,928</u> |
| Less: accumulated depreciation and amortization | | <u>(7,582)</u> | <u>(7,653)</u> |
| | | <u>\$ 129</u> | <u>\$ 275</u> |

The depreciation and amortization of property, plant and equipment amounted to \$0.2 million, \$0.1 million and \$0.1 million for the year ended December 31, 2011, 2012 and 2013, respectively.

Depreciation and amortization expense for the period from inception or August 13, 1996 through December 31, 2013 was \$12.7 million. At December 31, 2012 and 2013 there were no assets held under capital lease arrangements.

8. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following (in \$000s):

| | December 31, | |
|-------------------------------------|-----------------|-----------------|
| | 2012 | 2013 |
| Accrued research and development | \$ 3,623 | \$ 3,565 |
| Accrued legal and professional fees | 1,118 | 265 |
| Other current liabilities | 860 | 842 |
| | <u>\$ 5,601</u> | <u>\$ 4,672</u> |

9. Commitments and Contingencies

General

Please refer to *Note 3 — Significant Contracts* for further discussion of certain of the Company's commitments and contingencies.

Leases

The following is a summary of the Company's contractual obligations and commitments relating to its facilities leases as at December 31, 2013 (in \$000s):

| | Operating Lease Obligations |
|------------|--|
| 2014 | \$ 499 |
| 2015 | 585 |
| 2016 | 585 |
| 2017 | 456 |
| 2018 | 431 |
| Thereafter | 2,867 |
| Total | <u>\$ 5,423</u> |

Rent expense, which includes lease payments related to the Company's research and development facilities and corporate headquarters and other rent related expenses was \$0.6 million for each of the years ended December 31, 2011 and 2012. For the year ended December 31, 2013, rent expense was \$0.8 million.

In October 2000, the Company entered into a twenty-five year lease for its research and development facility in Dundee, Scotland. In November 2013, the Company entered into a one year commitment to sublease the aforementioned research and development facility in Dundee, Scotland and recognized approximately \$23,000 in sublease income for the year ended December 31, 2013. In May 2011, the Company extended its lease for office space at its headquarters in Berkeley Heights, New Jersey, for an additional five years.

Please refer to *Note 5 — Fair Value* for further discussion of certain of the Company's commitments and contingencies.

Preferred Dividends

The Company's Board of Directors considers numerous factors in determining whether to declare the quarterly dividend pursuant to the certificate of designation governing the terms of the Company's outstanding 6% Convertible Exchangeable Preferred Stock, including the requisite financial analysis and determination of a surplus. Accrued and unpaid dividends in arrears on preferred stock were \$2.3 million, or \$1.90 per share of preferred stock, as of December 31, 2012 and \$0.6 million, or \$1.90 per share, of preferred stock, as of December 31, 2013.

Legal Proceedings

On April 27, 2010, the Company was served with a complaint filed by Celgene Corporation in the United States District Court for the District of Delaware seeking a declaratory judgment that four of the Company's own patents, claiming certain uses of romidepsin were invalid and not infringed by Celgene's sale of ISTODAX® (romidepsin for injection). The Company subsequently counterclaimed for infringement of these four patents. On April 3, 2013, the Company entered into a definitive agreement with Celgene to sell to Celgene the four Cyclacel-owned patents related to uses of romidepsin and their foreign counterparts. In connection with the definitive agreement, in April 2013, Celgene made a one-time payment of \$5.5 million to Cyclacel. As a result, the litigation between Cyclacel and Celgene in the United States District Court for the District of Delaware, case number 1:10-cv-00348-GMS, was dismissed by virtue of a jointly filed stipulation requesting the Court to enter an Order dismissing the litigation and the entry of such an Order. The \$5.5 million gain from the sale of patents has been recorded in other income (expense), net, in the consolidated statement of operations.

10. Stockholders' Equity

Preferred Stock

As of December 31, 2013, there were 335,273 shares of Preferred Stock issued and outstanding at an issue price of \$10.00 per share. Dividends on the Preferred Stock are cumulative from the date of original issuance at the annual rate of 6% of the liquidation preference of the Preferred Stock, payable quarterly on the first day of February, May, August and November, commencing February 1, 2005. Any dividends must be declared by the Company's Board of Directors and must come from funds that are legally available for dividend payments. The Preferred Stock has a liquidation preference of \$10 per share, plus accrued and unpaid dividends.

The Preferred Stock is convertible at the option of the holder at any time into the Company's shares of common stock at a conversion rate of approximately 0.06079 shares of common stock for each share of Preferred Stock based on a price of \$164.50. The Company has reserved 20,381 shares of common stock for issuance upon conversion of the remaining shares of Preferred Stock outstanding at December 31, 2013. The shares of previously-converted Preferred Stock have been retired, cancelled and restored to the

status of authorized but unissued shares of preferred stock, subject to reissuance by the Board of Directors as shares of Preferred Stock of one or more series.

The Company may automatically convert the Preferred Stock into common stock if the closing price of the Company's common stock has exceeded \$246.75, which is 150% of the conversion price of the Preferred Stock, for at least 20 trading days during any 30-day trading period, ending within five trading days prior to notice of automatic conversion.

The Certificate of Designations governing the Preferred Stock provides that if the Company fails to pay dividends on its Preferred Stock for six quarterly periods, holders of Preferred Stock are entitled to nominate and elect two directors to the Company's Board of Directors. This right accrued to the holders of Preferred Stock as of August 2, 2010 and two directors were nominated and elected at the annual meeting held on May 24, 2011.

The Preferred Stock has no maturity date and no voting rights prior to conversion into common stock, except under limited circumstances.

The Company may, at its option, redeem the Preferred Stock in whole or in part, out of funds legally available at the redemption prices per share stated below, plus an amount equal to accrued and unpaid dividends up to the date of redemption:

| | | |
|--|----|-------|
| Year from November 1, 2012 to October 31, 2013 | \$ | 10.12 |
| Year from November 1, 2013 to October 31, 2014 | \$ | 10.06 |
| November 1, 2014 and thereafter | \$ | 10.00 |

The Preferred Stock is exchangeable, in whole but not in part, at the option of the Company on any dividend payment date beginning on November 1, 2005 (the "Exchange Date") for the Company's 6% Convertible Subordinated Debentures ("Debentures") at the rate of \$10 principal amount of Debentures for each share of Preferred Stock. The Debentures, if issued, will mature 25 years after the Exchange Date and have terms substantially similar to those of the Preferred Stock. No such exchanges have taken place to date.

Conversion of Convertible Preferred Stock

During 2013, Cyclacel entered into agreements to exchange the Company's Preferred Stock into shares of common stock. There were no exchanges of the Company's Preferred Stock into shares of common stock during the year ended December 31, 2011 or 2012. The table below provides details of the aggregate activities in 2013:

| | |
|--|---|
| | Year ended December 31, 2013 |
| Preferred shares exchanged | <u>877,869</u> |
| Common shares issued: | |
| At stated convertible option | 53,366 |
| Incremental shares issued under the exchange transaction | <u>1,631,105</u> |
| Total common shares issued | <u>1,684,471</u> |

As the Preferred Stock stockholders received additional shares of common stock issued to them upon conversion as compared to what they would have been entitled to receive under the stated rate of exchange, the Company recorded the excess of (1) the fair value of all securities and other consideration transferred to the holders of the Preferred Stock and (2) the fair value of securities issuable pursuant to the original conversion terms as an increase in the net loss attributable to common shareholders. Specifically, the Company recorded deemed dividends related to the additional shares issued under the exchange transactions of \$9.0 million for the year ended December 31, 2013.

Common Stock

November 2013 Stock Purchase Agreement

The December 14, 2012 common stock purchase agreement with Aspire was terminated on November 14, 2013, and on that day, the Company entered into a new common stock purchase agreement with Aspire. Upon execution of the Purchase Agreement, Aspire purchased 511,509 shares of common stock for an aggregate purchase price of \$2.0 million. Under the terms of the Purchase Agreement, Aspire has committed to purchase up to an additional 3,042,038 shares from time to time as directed by the Company or, in certain instances, as agreed to by both parties, over the next two years at prices derived from the market prices on or near the date of each sale. However, such commitment is limited to an additional \$18.0 million of share purchases. In consideration for entering into

the Purchase Agreement, concurrent with the execution of the Purchase Agreement, the Company issued 166,105 shares of the Company's common stock to Aspire in lieu of a commitment fee. The value of these shares has been recorded as a component of other assets and is being amortized over the term of the Purchase Agreement on a straight-line basis, except to the extent that shares are purchased on an accelerated basis, in which case the Company will accelerate the amortization of the deferred charge.

May 2013 Underwriting Agreement

On May 16, 2013, the Company entered into an underwriting agreement relating to the public offering and sale of up to 6,666,667 shares of the Company's common stock, par value \$0.001, at a price to the public of \$3.00 per share. On May 21, 2013, the Company closed the public offering and completed the sale of 6,833,334 shares of its common stock, which includes 166,667 shares that were subject to the underwriters' over-allotment option, at a price to the public of \$3.00 per share, for proceeds, net of certain fees and expenses, of approximately \$19.0 million.

December 2012 Stock Purchase Agreement

On December 14, 2012, the Company entered into a common stock purchase agreement with Aspire. Upon execution of the Purchase Agreement, Aspire purchased 158,982 shares of common stock for an aggregate purchase price of \$1.0 million based on the closing price of the Company's common stock on December 13, 2012, the date upon which the business terms were agreed. Under the terms of the purchase agreement, Aspire committed to purchase up to an additional 1,455,787 shares from time to time as directed by the Company over the next two years at prices derived from the market prices on or near the date of each sale. However, such commitment was limited to an additional \$19.0 million of share purchases. In consideration for entering into the purchase agreement, concurrent with the execution of the purchase agreement, the Company issued 74,548 shares of its common stock to Aspire for no consideration. The fair value of the 74,548 shares of common stock along with the direct costs incurred in the connection with the Aspire transaction have been allocated to the shares sold at inception of this agreement and the right to sell additional shares in the future based on the ratio of shares sold at inception to the listed shares subject to this agreement. As a result, the Company recorded an expense of \$0.4 million on its consolidated statements of operations for the year ended December 31, 2012. The agreement terminated on November 14, 2013 and no rights or obligations remain under the agreement.

March 2012 Sale of Common Stock and Economic Rights

On March 22, 2012, the Company entered into a purchase agreement with certain existing institutional stockholders, raising approximately \$2.9 million of proceeds, net of certain fees and expenses. The proceeds from the financing will be used to fund ongoing litigation-related expenses on certain intellectual property and for general corporate purposes.

Under the terms of the purchase agreement, the investors purchased 669,726 shares of the Company's common stock at a price of \$4.53, which is equal to the 10-day average closing price of the Company's common stock for the period ending on March 21, 2012. The shares issued at closing were subject to a lock-up period of one year from the date of issuance. See *Note 5 - Fair Value* for further details.

In addition to the common stock, investors received contractual rights to receive cash equal to 10% of any future litigation settlement related to the specified intellectual property, subject to a cap. In April 2013, the Economic Rights were settled for payment of \$0.6 million.

July 2011 Underwritten Offering

On July 7, 2011, the Company closed an underwritten offering for an aggregate of 1,088,235 units, at an offering price of \$9.52 per unit, for gross proceeds of approximately \$10.4 million. Each unit consists of (i) one share of common stock and (ii) a five-year warrant to purchase 0.5 of a share of common stock at an exercise price of \$9.52 per share, exercisable beginning six months after the date of issuance. The shares of common stock and warrants were immediately separable. As of December 31, 2013, all warrants issued to the investors in connection with this financing were outstanding and have been classified as equity. The transaction date fair value of the warrants of approximately \$3.5 million was determined utilizing the Black-Scholes option pricing model utilizing the following assumptions: risk free interest rate — 1.74%, expected volatility - 99%, expected dividend yield - 0%, and a remaining contractual life of 5.00 years. Net proceeds of approximately \$9.3 million, after underwriting discounts and commissions and other fees and expenses of approximately \$1.1 million, were allocated based on relative transaction date fair values in the following manner: \$6.8 million (\$6.23 per share) and \$2.5 million (\$4.62 per warrant) to common shares and warrants, respectively.

October 2010 Private Placement

On October 7, 2010, the Company completed a private placement pursuant to which it sold approximately \$15.2 million of its units to several institutional investors, for net proceeds of approximately \$14.0 million. The units consist of one share of common stock and 0.5 of a warrant, with each whole warrant representing the right to purchase one share of common stock at an exercise price of \$13.44 per share for a period of five years. As of December 31, 2013, all options and warrants issued to the investors are outstanding and have been classified as equity. The investors purchased a total of 1,189,027 units at a price of \$12.78 per unit. The investors also had the right to acquire up to 594,513 additional units at a price of \$11.69 per unit (for \$6.9 million in gross proceeds) at any time up to nine months after closing or by July 6, 2011. As of July 6, 2011, the right to acquire the additional units lapsed. The transaction date fair value of the warrants and additional optional units was \$5.1 million and \$2.8 million, respectively. Net proceeds of approximately \$14.0 million were allocated based on relative transaction date fair values in the following manner: \$8.9 million (\$7.49 per share), \$3.3 million (\$5.53 per warrant) and \$1.8 million (\$3.01 per optional unit) to common shares, warrants and the additional optional units, respectively.

January 2010 Registered Direct Financings

On January 25, 2010, the Company completed the sale of 335,714 units in a “registered direct” offering at a purchase price of \$17.50 per unit to certain institutional investors of the Company for gross proceeds of approximately \$5.9 million. Each unit consisted of one share of the Company’s common stock and one warrant to purchase 0.30 of one share of its common stock. The warrants have a five-year term from the date of issuance and are exercisable beginning six months from the date of issuance at an exercise price of \$19.95 per share of common stock. As of December 31, 2013, warrants issued to the investors have been classified as equity. The transaction date fair value of the warrants of \$1.0 million was determined utilizing the Black-Scholes option pricing model utilizing the following assumptions: risk free interest rate - 2.39%, expected volatility - 90%, expected dividend yield - 0%, and a remaining contractual life of 5.00 years. As of December 31, 2013, all the warrants are outstanding. Net proceeds of approximately \$5.4 million were allocated based on relative transaction date fair values in the following manner: \$4.5 million (\$13.51 per share) to common shares and \$0.9 million (\$9.03 per warrant) to the warrants.

On January 13, 2010, the Company completed the sale of 407,143 units in a “registered direct” offering to certain institutional investors. Each unit was sold at a purchase price of \$17.57 per unit and consists of one share of the Company’s common stock and one warrant to purchase 0.25 of one share of its common stock for gross proceeds of approximately \$7.2 million. The warrants have a five-year term from the date of issuance and are exercisable beginning six months from the date of issuance at an exercise price of \$22.82 per share of common stock. As of December 31, 2013, warrants issued to the investors have been classified as equity. The transaction date fair value of the warrants of \$1.3 million was determined utilizing the Black-Scholes option pricing model utilizing the following assumptions: risk free interest rate - 2.55%, expected volatility - 90%, expected dividend yield - 0%, and a remaining contractual life of 5.00 years. As of December 31, 2013, all the warrants are outstanding. Net proceeds of approximately \$6.5 million were allocated based on relative transaction date fair values in the following manner: \$5.6 million (\$13.65 per share) to common shares and \$0.9 million (\$9.24 per warrant) to the warrants.

July 2009 Registered Direct Financing

On July 29, 2009, the Company sold its securities to select institutional investors consisting of 571,429 units in a “registered direct” offering at a purchase price of \$5.95 per unit. Each unit consisted of (i) one share of the Company’s common stock, (ii) one warrant to purchase 0.625 of one share of common stock (a “Series I Warrant”) and (iii) one warrant to purchase 0.1838805 of one share of common stock (a “Series II Warrant”). The Series I Warrants had a seven-month term from the date of issuance and were exercisable beginning six months from the date of issuance at an exercise price of \$7.00 per share of common stock. During the first quarter of 2010, all of the Series I Warrants were exercised for \$2.5 million. The Series II Warrants have a five-year term from the date of issuance and are exercisable beginning six months from the date of issuance at an exercise price of \$7.00 per share of common stock. During the first quarter of 2010, 6,181 common shares were issued upon exercise of Series II Warrants with proceeds of \$43,266. There were no exercises during the years ended December 31, 2012 or 2013.

The net proceeds to the Company from the sale of the units, after deducting for the placement agent’s fees and offering expenses, were approximately \$2.9 million. As of December 31, 2013, the remaining Series II Warrants are outstanding and exercisable into 98,893 of the Company’s shares of common stock have been classified as equity. The transaction date fair value of the Series II Warrants of \$0.6 million was determined utilizing the Black-Scholes option pricing model utilizing the following assumptions: risk free interest rate - 2.69%, expected volatility - 90%, expected dividend yield - 0%, and a remaining contractual life of 5.00 years.

December 2007 Committed Equity Financing Facility or CEFF

On December 10, 2007 and as amended on November 24, 2009, Cyclacel entered into a Committed Equity Financing Facility, or CEFF, with Kingsbridge, in which Kingsbridge committed to purchase the lesser of 583,513 shares of common stock or \$60 million of common stock from Cyclacel over a three-year period. The CEFF lapsed on December 10, 2010.

During the year ended December 31, 2010, the Company sold 402,704 shares of its common stock to Kingsbridge under the CEFF, in consideration of aggregate proceeds of \$4.9 million.

Common Stock Warrants Classified as Liabilities

In connection with the Company's February 16, 2007 "registered direct" offering, the Company issued to investors warrants to purchase 151,773 shares of common stock. The warrants issued to the investors are being accounted for as a liability. At the date of the transaction, the fair value of the warrants of \$6.8 million was determined utilizing the Black-Scholes option pricing model utilizing the following assumptions: risk free interest rate - 4.58%, expected volatility - 85%, expected dividend yield - 0%, and a remaining contractual life of 6.88 years. The value of the warrant is being remeasured each reporting period as a derivative gain or loss on the consolidated statement of operations until exercised or expiration. The Company determined that the warrants had no value at December 31, 2012 and 2013 because of the market price of the Company's common stock compared to the exercise price of the warrants and the expiration of the warrants in February 2014. The Company recognized the change in the value of warrants of \$0.6 million and \$0.1 million as gains on the consolidated statements of operations for the years ended December 31, 2011 and 2012, respectively. There was no change in the value of warrants for the year ended December 31, 2013.

Summary of Outstanding Warrants

The following table summarizes information about warrants outstanding at December 31, 2013:

| Issued in Connection With | Expiration Date | Common Shares Issuable | Weighted Average Exercise Price |
|------------------------------------|------------------------|-------------------------------|--|
| February 2007 stock issuance | 2014 | 151,773 | \$ 59.08 |
| July 2009 Series II stock issuance | 2014 | 98,893 | \$ 7.00 |
| January 2010 stock issuance | 2015 | 101,785 | \$ 22.82 |
| January 2010 stock issuance | 2015 | 100,714 | \$ 19.95 |
| October 2010 stock issuance | 2015 | 594,513 | \$ 13.44 |
| July 2011 stock issuance | 2016 | 544,117 | \$ 9.52 |
| Total | | <u>1,591,795</u> | \$ 17.06 |

Exercise of Stock Options

During the year ended December 31, 2012, 33,351 shares of common stock were issued from the exercise of stock options resulting in proceeds of approximately \$0.1 million. During the year ended December 31, 2013, there were no stock options exercised.

11. Stock-Based Compensation Arrangements

ASC 718 requires compensation expense associated with share-based awards to be recognized over the requisite service period, which for the Company is the period between the grant date and the date the award vests or becomes exercisable. Most of the awards granted by the Company (and still outstanding), vest ratably over three to four years. Certain awards made to executive officers vest over three to five years, depending on the terms of their employment with the Company.

The Company recognizes all share-based awards under the straight-line attribution method. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company evaluates its forfeiture assumptions quarterly and the expected forfeiture rate is adjusted when necessary. Ultimately, the actual expense recognized over the vesting period is based on only those shares that vest.

Stock based compensation has been reported within expense line items on the consolidated statement of operations for 2011, 2012 and 2013 as shown in the following table (in \$000s):

| | Year ended December 31, 2011 | Year ended December 31, 2012 | Year ended December 31, 2013 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Research and development | \$ 171 | \$ 71 | \$ 75 |
| General and administrative | 669 | 266 | 282 |
| Net (loss) income from discontinued operations | 42 | 43 | — |
| Stock-based compensation costs before income taxes | <u>\$ 882</u> | <u>\$ 380</u> | <u>\$ 357</u> |

2006 Plans

On March 16, 2006, Xcyte stockholders approved the adoption of the 2006 Plans, under which Cyclacel, may make equity incentive grants to its officers, employees, directors and consultants. At the Company's annual shareholder meeting on May 23, 2012, the stockholders approved and amended the number of shares reserved under the 2006 Plan to 10,000,000 shares of the Company's common stock, up from 5,200,000 shares. Stock option awards granted under the 2006 Plan have a maximum life of 10 years and generally vest over a four-year period from the date of grant.

The Company granted approximately 494,663 options to employees and directors with a grant date fair value of approximately \$1.6 million, of which approximately \$0.4 million has been recorded as compensation cost in the consolidated statement of operations for the year ended December 31, 2013. During 2012, the Company granted approximately 33,571 options to employees and directors with a grant date fair value of approximately \$0.1 million, of which approximately \$12,000 has been recorded as compensation cost for the year ended December 31, 2012. During 2011, the Company granted approximately 28,500 options to employees and directors with a grant date fair value of approximately \$0.2 million, of which approximately \$24,000 was expensed during the year ended December 31, 2011. The weighted average grant-date fair values of options granted during the year ended December 31, 2011, 2012, and 2013 were \$8.05, \$2.52, and \$3.25, respectively.

As of December 31, 2013, the total remaining unrecognized compensation cost related to the non-vested stock options amounted to approximately \$1.5 million, which will be amortized over the weighted-average remaining requisite service period of 2.83 years.

During the years ended December 31, 2011, 2012 and 2013, the Company did not settle any equity instruments with cash.

There were no stock option exercises during 2013. The Company received \$0.1 million from the exercise of 33,351 options during 2012. The total intrinsic value of options exercised during 2012 was approximately \$0.1 million. The Company received \$3,000 from the exercise of 948 stock options during 2011. The total intrinsic value of options exercised during 2011 was approximately \$7,000. No income tax benefits were recorded for the years ended December 2011, 2012 and 2013 because ASC 718 prohibits recognition of tax benefits for exercised stock options until such benefits are realized. The Company was not able to benefit from the deduction for exercised stock options for the years ended December 31, 2011, 2012 and 2013 because the Company incurred tax losses in each of those years.

Outstanding Options

A summary of the share option activity and related information is as follows:

| | Number of Options Outstanding | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value (\$000s) |
|---|-------------------------------------|--|---|--|
| Options outstanding at December 31, 2011 | 502,249 | \$ 26.11 | 6.44 | \$ 140 |
| Granted | 33,571 | \$ 3.29 | | |
| Exercised | (33,351) | \$ 3.09 | | |
| Cancelled/forfeited | (39,446) | \$ 20.21 | | |
| Options outstanding at December 31, 2012 | 463,023 | \$ 26.61 | 5.58 | \$ 347 |
| Granted | 494,663 | \$ 4.22 | | |
| Exercised | — | | | |
| Cancelled/forfeited | (8,001) | \$ 18.55 | | |
| Options outstanding at December 31, 2013 | 949,685 | \$ 15.02 | 7.38 | \$ 152 |
| Unvested at December 31, 2013 | 528,754 | \$ 4.49 | 9.76 | \$ 50 |
| Vested and exercisable at December 31, 2013 | <u>420,931</u> | \$ 28.25 | 4.40 | \$ 101 |

The fair value of the stock options granted is calculated using the Black-Scholes option-pricing model as prescribed by ASC 718 using the following assumptions:

| | Year ended December 31, 2011 | Year ended December 31, 2012 | Year ended December 31, 2013 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Expected term (years) | 5 — 6 | 6 | 5 — 6 |
| Risk free interest rate | 1.47 — 2.29% | 0.95% | 0.84% - 1.865% |
| Volatility | 93 — 99% | 98% | 97—108% |
| Expected dividend yield over expected term | 0.00% | 0.00% | 0.00% |
| Resulting weighted average grant date fair value | \$8.05 | \$2.52 | \$3.25 |

The expected term assumption was estimated using past history of early exercise behavior and expectations about future behaviors. Starting with the December 2010 annual grants to the Company's employees, the Company relied exclusively on its historical volatility as an input to the option pricing model as management believes that this rate will be representative of future volatility over the expected term of the options.

Estimates of pre-vesting option forfeitures are based on the Company's experience. Currently the Company uses a forfeiture rate of 0 — 30% depending on when and to whom the options are granted. The Company adjusts its estimate of forfeitures over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative adjustment in the period of change and may impact the amount of compensation expense to be recognized in future periods.

The Company considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. During the years ended December 31, 2011, 2012 and 2013, the Company recognized an expense of \$0.2 million, income of approximately \$0.1 million, and expense of approximately \$40,000, respectively, as a result of revised forfeiture rates.

The weighted average risk-free interest rate represents interest rate for treasury constant maturities published by the Federal Reserve Board. If the term of available treasury constant maturity instruments is not equal to the expected term of an employee option, Cyclacel uses the weighted average of the two Federal Reserve securities closest to the expected term of the employee option.

Restricted Stock Units

The Company issued 34,000 and 12,281 restricted stock units, each of which entitles the holders to receive a share of the Company's common stock, to senior executives of the Company in December 2011, and to employees in January 2012 and February 2012. The 2011 and 2012 grants vest over three years. The Company issued 85,097 restricted stock units to employees during the year end December 31, 2013. The 2013 restricted stock units will vest upon the fulfillment of certain clinical and financial conditions and will terminate if they have not vested by December 31, 2014. The Company determined that the satisfaction of the vesting criteria was not probable at December 31, 2013 and, as a result, did not record any expense related to these awards for the year ended December 31, 2013. A restricted stock unit grant is accounted for at fair value at the date of grant which is equivalent to the market price of a share of the Company's common stock, and an expense is recognized over the vesting term. As of December 31, 2013, the total remaining unrecognized compensation cost related to the non-vested restricted stock amounted to \$0.1 million, which will be amortized over the weighted-average remaining requisite service period of 1.06 years. Summarized information for restricted stock units activity for the years ended December 31, 2012 and 2013 is as follows:

| | Restricted Stock Units | Weighted Average Grant Date Value Per Share |
|---------------------------------|---------------------------|---|
| Non-vested at December 31, 2011 | 36,463 | \$ 5.60 |
| Granted | 12,281 | \$ 3.85 |
| Forfeited | (6,904) | \$ 4.99 |
| Vested | (2,463) | \$ 3.08 |
| Non-vested at December 31, 2012 | 39,377 | \$ 5.34 |
| Granted | 85,097 | \$ 5.71 |
| Forfeited | (5,226) | \$ 5.00 |
| Non-vested at December 31, 2013 | 119,248 | \$ 5.62 |

12. Employee Benefit Plans

Pension Plan

The Company operates a defined contribution group personal pension plan for all of its UK based employees. Company contributions to the plan totaled approximately \$0.1 million for each of the years ended December 31, 2011, 2012 and 2013.

401(k) Plan

The 401(k) Plan provides for matching contributions by the Company in an amount equal to the lesser of 100% of the employee's deferral or 6% of the U.S. employee's qualifying compensation. The 401(k) Plan is intended to qualify under Section 401(k) of the Internal Revenue Code, so that contributions to the 401(k) Plan by employees or by the Company, and the investment earnings thereon, are not taxable to the employees until withdrawn. Company matching contributions are tax deductible by the Company when made. Company employees may elect to reduce their current compensation by up to the statutorily prescribed annual limit of \$17,000 if under 50 years old and \$22,500 if over 50 years old in 2012 and to have those funds contributed to the 401(k) Plan. For each of the years ended December 31, 2011, 2012 and 2013, the Company made contributions of approximately \$0.1 million to the 401(k) Plan.

13. Discontinued Operations

On August 10, 2012, the Company entered into an agreement with Sinclair to terminate, effective September 30, 2012, the distribution agreements relating to the promotion and sale of Xclair®, Numoisyn® Lozenges and Numoisyn® Liquid.

Product revenue, cost of goods sold, and selling, general and administrative costs related to the promotion and sale of the Xclair®, Numoisyn® Liquid and Numoisyn® Lozenges have been reclassified from operating results from continuing operations to (loss) income from discontinued operations in the consolidated statement of operations for all periods presented as follows (in \$000s):

| | Year ended December 31, 2011 | Year ended December 31, 2012 | Year ended December 31, 2013 | Period from August 13, 1996 (inception) to December 31, 2013 |
|---|------------------------------------|------------------------------------|------------------------------------|---|
| Product revenue | \$ 699 | \$ 583 | \$ — | \$ 3,604 |
| Cost of goods sold | (360) | (293) | — | (2,045) |
| Selling, general and administrative | (979) | (607) | — | (9,295) |
| Goodwill and intangible impairment | — | — | — | (5,187) |
| Interest income | — | 32 | 91 | 123 |
| Interest expense | — | — | — | (110) |
| Gain on termination of license agreement | — | 1,192 | — | 1,192 |
| (Loss) income from discontinued operations | (640) | 907 | 91 | (11,718) |
| Income tax expense | — | (337) | (34) | (371) |
| (Loss) income from discontinued operations, net of tax | \$ (640) | \$ 570 | \$ 57 | \$ (12,089) |

The approximately \$0.9 million present value of the estimated \$1.0 million of minimum royalty payments the Company will receive over three years ending September 30, 2015 arising from the termination and settlement agreement and the recognition of approximately \$0.3 million associated with a \$0.3 million product returns provision liability for which an offsetting asset has been recorded based on our rights under the termination and settlement agreement resulted in a \$1.2 million gain on termination of the distribution agreements for the year ended December 31, 2012.

The assets and liabilities associated with product promotion and sale have been classified within assets and liabilities of discontinued operations in the accompanying consolidated balance sheets (in \$000s):

| | December 31, 2012 | December 31, 2013 |
|---|----------------------|----------------------|
| Current assets of discontinued operations: | | |
| Short term portion of minimum royalty arrangement receivable, net | \$ 536 | \$ 379 |
| Returns indemnification receivable | 325 | 260 |
| Total current assets of discontinued operations | 861 | 639 |
| Long-term assets of discontinued operations: | | |
| Long-term portion of minimum royalty arrangement receivable, net | 353 | 72 |
| Total assets of discontinued operations | \$ 1,214 | \$ 711 |
| Current liabilities of discontinued operations: | | |
| Accounts payable | \$ 10 | \$ — |
| Returns provision | 325 | 260 |
| Total current liabilities of discontinued operations | \$ 335 | \$ 260 |

14. Taxes

Loss from continuing operations before taxes is comprised of the following components for the years ended December 31, 2011, 2012 and 2013 (in \$000s):

| | Year ended December 31, 2011 | Year ended December 31, 2012 | Year ended December 31, 2013 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Domestic | \$ 904 | \$ (2,009) | \$ 1,132 |
| Foreign | (16,072) | (13,098) | (13,012) |
| Loss from continuing operations before taxes | <u>\$ (15,168)</u> | <u>\$ (15,107)</u> | <u>\$ (11,880)</u> |

The benefit for income taxes from continuing operations consists of the following (in \$000s):

| | Year ended December 31, 2011 | Year ended December 31, 2012 | Year ended December 31, 2013 |
|---------------------|------------------------------------|------------------------------------|------------------------------------|
| Current — domestic | \$ — | \$ — | \$ (25) |
| Current — foreign | 565 | 1,014 | 1,695 |
| Current — total | 565 | 1,014 | 1,670 |
| Deferred — domestic | — | 337 | — |
| Income tax benefit | <u>\$ 565</u> | <u>\$ 1,351</u> | <u>\$ 1,670</u> |

The Company has incurred a taxable loss in each of the operating periods since incorporation. The income tax credits of \$0.6 million, \$1.4 million and \$1.7 million for the years ended December 31, 2011, 2012 and 2013, respectively, represent UK research and development (“R&D”) tax credits receivable against such expenditures in the United Kingdom that are refundable.

A reconciliation of the (benefit) provision for income taxes from continuing operations with the amount computed by applying the statutory federal tax rate to loss from continuing operations before income taxes is as follows (in \$000s):

| | Year ended December 31, 2011 | Year ended December 31, 2012 | Year ended December 31, 2013 |
|---|------------------------------------|------------------------------------|------------------------------------|
| Loss from continuing operations before taxes | <u>\$ (15,168)</u> | <u>\$ (15,107)</u> | <u>\$ (11,880)</u> |
| Income tax expense computed at statutory federal tax rate | (5,157) | (5,136) | (4,039) |
| Disallowed expenses and non-taxable income | (141) | 176 | 62 |
| Loss surrendered to generate R&D credit | 1,372 | 3,025 | 4,833 |
| Additional research and development tax relief | (2,260) | (2,656) | (4,418) |
| Change in valuation allowance | 2,952 | (579) | 6,302 |
| Research and development tax credit rate difference | — | — | — |
| Research and development true up | — | — | (4,530) |
| Foreign items, including change in tax rates, and other | 2,669 | 3,819 | 120 |
| | <u>\$ (565)</u> | <u>\$ (1,351)</u> | <u>\$ (1,670)</u> |

Significant components of the Company's deferred tax assets are shown below (in \$000s):

| | <u>December 31,</u> | |
|---|---------------------|-----------------|
| | <u>2012</u> | <u>2013</u> |
| Net operating loss carryforwards | \$ 42,399 | \$ 46,144 |
| Depreciation, amortization and impairment of property and equipment | 1,654 | 67 |
| Stock options | 1,451 | 1,651 |
| Accrued expenses | 3,389 | 3,373 |
| Research and development credits | — | 4,530 |
| Other | 45 | 82 |
| Translation adjustment | 1,277 | 660 |
| Deferred tax assets | <u>50,215</u> | <u>56,507</u> |
| Valuation allowance for deferred tax assets | <u>(50,215)</u> | <u>(56,507)</u> |
| Net deferred taxes | <u>\$ —</u> | <u>\$ —</u> |

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and tax purposes. A valuation allowance has been established, as realization of such assets is uncertain.

The Company's management evaluated the positive and negative evidence bearing upon the realizability of its deferred assets, and has determined that, at present, the Company may not be able to recognize the benefits of the deferred tax assets under the more likely than not criteria. Accordingly, a valuation allowance of approximately \$56.5 million has been established at December 31, 2013. The valuation allowance increased by approximately \$6.3 million in 2013.

In certain circumstances, as specified in the Tax Reform Act of 1986, due to ownership changes, the Company's ability to utilize its NOL carryforwards may be limited. The benefit of deductions from the exercise of stock options is included in the net operating loss ("NOL") carryforwards. The benefit from these deductions will be recorded as a credit to additional paid-in capital if and when realized through a reduction of cash taxes. As of December 31, 2012 and 2013, the Company had federal NOLs of \$19.2 million and \$22.1 million and foreign NOLs of \$153.4 million and \$162.4 million, respectively. The Company has federal NOLs that will start to expire in 2027, and state NOLs totaling \$21.3 million will start expiring in 2023. The Company's foreign NOL's do not expire under UK tax law.

Utilization of the NOLs may be subject to a substantial annual limitation under Section 382 of the Internal Revenue Code of 1986 due to ownership change limitations that have occurred previously or that could occur in the future. These ownership changes may limit the amount of NOL and R&D credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively. The Company completed a Section 382 study as of December 31, 2013 noting there was no ownership change since the Company's formation. Management has evaluated all significant tax positions at December 31, 2012 and 2013 and concluded that there are no material uncertain tax positions. The Company would recognize both interest and penalties related to unrecognized benefits in income tax expense. The Company has not recorded any interest and penalties on any unrecognized tax benefits since its inception.

Tax years 2011, 2012 and 2013 remain open to examination by major taxing jurisdictions to which the Company is subject, which are primarily in the United Kingdom and the United States, as carryforward attributes generated in years past may still be adjusted upon examination by the United Kingdom's H.M. Revenue & Customs, the Internal Revenue Service ("IRS") or state tax authorities if they have or will be used in a future period. The Company is currently not under examination by the IRS or any other jurisdictions for any tax years.

15. Geographic Information

Geographic information for the years ended December 31, 2011, 2012 and 2013 is as follows:

| | Year ended December 31, 2011 \$000 | Year ended December 31, 2012 \$000 | Year ended December 31, 2013 \$000 |
|-------------------------------------|---|---|---|
| Revenue | | | |
| United Kingdom | — | 69 | 1,084 |
| Total Revenue | <u>—</u> | <u>69</u> | <u>1,084</u> |
| Net loss | | | |
| United States: | | | |
| Continuing operations | 565 | (1,672) | 1,114 |
| Discontinued operations | (640) | 570 | 57 |
| Total United States | <u>(75)</u> | <u>(1,102)</u> | <u>1,171</u> |
| United Kingdom | <u>(15,168)</u> | <u>(12,084)</u> | <u>(11,324)</u> |
| Total Net Loss | <u><u>(15,243)</u></u> | <u><u>(13,186)</u></u> | <u><u>(10,153)</u></u> |
| | | December 31, | |
| | | 2012 | 2013 |
| | | \$000 | \$000 |
| Total Assets | | | |
| United States: | | | |
| Continuing operations | | 14,286 | 27,837 |
| Discontinued operations | | 1,214 | 711 |
| Total United States | | <u>15,500</u> | <u>28,548</u> |
| United Kingdom | | <u>3,854</u> | <u>6,972</u> |
| Total Assets | | <u><u>19,354</u></u> | <u><u>35,520</u></u> |
| Long Lived Assets, net | | | |
| United States: | | | |
| Continuing operations | | 25 | 5 |
| Discontinued operations | | — | — |
| Total United States | | <u>25</u> | <u>5</u> |
| United Kingdom | | <u>104</u> | <u>270</u> |
| Total Long Lived Assets, net | | <u><u>129</u></u> | <u><u>275</u></u> |

16. Subsequent Events

Preferred Stock Dividend

On March 17, 2014, the Company's Board of Directors declared a quarterly cash dividend in the amount of \$0.15 per share on the Company's Preferred Stock with respect to the first quarter of 2014. The Company is expected to pay the dividend on May 1, 2014 to holders of record of the Preferred Stock as of the close of business on April 18, 2014.

The Board considered numerous factors in determining whether to declare the quarterly dividend, including the requisite financial analysis and determination of a surplus. While the Board will analyze the advisability of the declaration of dividends in future quarters, there is no assurance that future quarterly dividends will be declared.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Disclosure Controls:

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act 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 Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the Company's disclosure controls and procedures as of December 31, 2013.

Pursuant to this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2013, the end of the period covered by this report, our disclosure controls and procedures were effective.

We have concluded that the consolidated financial statements in this Annual Report on Form 10-K fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with U.S. GAAP.

(b) Management's Annual Report on Internal Control Over Financial Reporting:

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known

features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee.

Based on this assessment, management determined that, as of December 31, 2013, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

This annual report does not include an attestation report of the Company's registered independent public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(c) Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f)) during the fiscal quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by item 10 is incorporated herein by reference from the Company's Proxy Statement, which will be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year pursuant to Regulation 14A for its 2014 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by item 11 is incorporated herein by reference from the Company's Proxy Statement, which will be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year pursuant to Regulation 14A for its 2014 Annual Meeting of Stockholders.

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

The information required by item 12 is incorporated herein by reference from the Company's Proxy Statement, which will be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year pursuant to Regulation 14A for its 2014 Annual Meeting of Stockholders.

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

The information required by item 13 is incorporated herein by reference from the Company's Proxy Statement, which will be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year pursuant to Regulation 14A for its 2014 Annual Meeting of Stockholders.

Item 14. Principal Accountant Fees and Services

The information required by item 14 is incorporated herein by reference from the Company's Proxy Statement, which will be filed with the SEC within 120 days after the end of the Company's 2013 fiscal year pursuant to Regulation 14A for its 2014 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report are as follows:

- (1) See "Index to Consolidated Financial Statements and Financial Statement Schedules" at Item 8 of this Annual Report on Form 10-K.
- (2) Other financial statement schedules have not been included because they are not applicable or the information is included in the financial statements or notes thereto.
- (3) The following is a list of exhibits filed as part of this Annual Report on Form 10-K.

(b) Exhibits:

| <u>EXHIBIT NUMBER</u> | <u>DESCRIPTION</u> |
|-----------------------|---|
| 1.1 | Placement Agent Agreement, dated July 23, 2009, by and between the Company and Lazard Capital Markets LLC (previously filed as Exhibit 1.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on July 24, 2009, and incorporated herein by reference). |
| 1.2 | Placement Agent Agreement, dated January 11, 2010, by and between the Company and ROTH Capital Partners, LLC (previously filed as Exhibit 1.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on January 11, 2010, and incorporated herein by reference). |
| 1.3 | Placement Agent Agreement, dated January 21, 2010, by and between the Company and ROTH Capital Partners, LLC (previously filed as Exhibit 1.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on January 21, 2010, and incorporated herein by reference). |
| 1.4 | Underwriting Agreement, dated as of June 30, 2011, by and among the Company, Leerink Swan LLC and Lazard Capital Markets LLC (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on July 1, 2011, and incorporated herein by this reference). |
| 1.5 | Underwriting Agreement, dated May 16, 2013, by and between the Company and JMP Securities LLC (previously filed as Exhibit 1.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on May 16, 2013, and incorporated herein by reference). |
| 3.1 | Amended and Restated Certificate of Incorporation of Cyclacel Pharmaceuticals, Inc. (previously filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K, originally filed with the SEC on April 1, 2103, and incorporated herein by reference). |
| 3.2 | Amended and Restated Bylaws of Cyclacel Pharmaceuticals, Inc. (Previously filed as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K, File No. 000-50626, originally filed with the SEC on March 31, 2011 and incorporated herein by reference). |

- 3.3 Preferred Stock Certificate of Designations (previously filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on November 5, 2004, and incorporated herein by reference).
- 4.1 Specimen of Common Stock Certificate (previously filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-1, File No. 333-109653, originally filed with the SEC on October 10, 2003, as subsequently amended, and incorporated herein by reference).
- 4.2 Specimen of Preferred Stock Certificate of Designation (previously filed as Exhibit 3.2 to Registrant's Registration Statement on Form S-1, File No. 333-119585, originally filed with the SEC on October 7, 2004, as subsequently amended, and incorporated herein by reference).
- 4.3 Form of Warrant to purchase shares of Cyclacel Pharmaceuticals, Inc. Common Stock (previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on October 5, 2010, and incorporated herein by reference).
- 4.4 Form of Series I Warrant to purchase shares of Cyclacel Pharmaceuticals, Inc. Common Stock (previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on July 24, 2009, and incorporated herein by reference).
- 4.5 Form of Series II Warrant to purchase shares of Cyclacel Pharmaceuticals, Inc. Common Stock (previously filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on July 24, 2009, and incorporated herein by reference).
- 4.6 Form of Warrant to purchase shares of Cyclacel Pharmaceuticals, Inc. Common Stock (previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on January 11, 2010, and incorporated herein by reference).
- 4.7 Form of Warrant to purchase shares of Cyclacel Pharmaceuticals, Inc. Common Stock (previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on January 21, 2010, and incorporated herein by reference).
- 4.8 Form of Warrant to purchase shares of Cyclacel Pharmaceuticals, Inc. Common Stock (previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on July 1, 2011, and incorporated herein by reference).
- 4.9 Registration Rights Agreement, dated as of December 14, 2012, by and between the Company and Aspire Capital Fund, LLC (previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on December 17, 2012, and incorporated herein by reference).
- 4.10 Registration Rights Agreement, dated November 14, 2013, by and between the Company and Aspire Capital Fund, LLC (previously filed as Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q, originally filed with the SEC on November 14, 2013, and incorporated herein by reference).
- 10.1 Stock Purchase Agreement, dated December 15, 2005, between Xcyte Therapies, Inc., and Cyclacel Group plc (previously filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on December 20, 2005, and incorporated herein by reference).
- 10.2 Amendment No. 1 to the Stock Purchase Agreement, dated January 13, 2006, between Xcyte Therapies Inc., and Cyclacel Group plc (previously filed as exhibit 2.1 to the Registrant's current report on Form 8-K filed with the Commission on January 19, 2006, and incorporated herein by reference).
- 10.3† Amended and Restated Equity Incentive Plan (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on May 24, 2012, and incorporated herein by reference).
- 10.4†* Employment Agreement by and between Cyclacel Pharmaceuticals, Inc. and Spiro Rombotis, dated as of January 1, 2014.
- 10.5†* Employment Agreement by and between Cyclacel Pharmaceuticals, Inc. and Paul McBarron, dated as of January 1, 2014.

- 10.6† Form of Change in Control Agreement by and between Cyclacel Pharmaceuticals, Inc. and Dr. Judy Chiao, dated as of December 10, 2010 (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on December 14, 2010, and incorporated herein by reference).
- 10.7 Form of Subscription Agreement between the Company and certain investors (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on July 24, 2009, and incorporated herein by reference).
- 10.8 Form of Subscription Agreement between the Company and certain investors (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on January 11, 2010, and incorporated herein by reference).
- 10.9 Form of Subscription Agreement between the Company and certain investors (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on January 21, 2010, and incorporated herein by reference).
- 10.10 Purchase Agreement, dated as of October 4, 2010, by and between Cyclacel Pharmaceuticals, Inc. and each Investor named therein (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on October 5, 2010, and incorporated herein by reference).
- 10.11 Form of Registration Rights Agreement by and among the Company and the Investors named therein (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K, originally filed with the SEC on October 5, 2010, and incorporated herein by reference).
- 10.12 Agreement between the Company and Scottish Enterprise dated March 27, 2006 (previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, for the quarterly period ended June 30, 2009, originally filed with the SEC on August 13, 2009, and incorporated herein by reference).
- 10.13 Addendum to Agreement between the Company and Scottish Enterprise dated June 22, 2009 (previously filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q, for the quarterly period ended June 30, 2009, originally filed with the SEC on August 13, 2009, and incorporated herein by reference).
- 10.14# License Agreement by and between Sankyo Co., Ltd. and Cyclacel Limited, dated September 10, 2003, and letter amendments dated April 1, 2004 and April 28, 2004 (previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, for the quarterly period ended June 30, 2011, originally filed with the SEC on August 12, 2011, and incorporated herein by reference).
- 10.15# Amendment No. 4 to License Agreement between Daiichi Sankyo Company, Limited and Cyclacel Limited, dated July 11, 2011 (previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, for the quarterly period ended June 30, 2011, originally filed with the SEC on August 12, 2011, and incorporated herein by reference).
- 10.16# Purchase Agreement, dated as of March 22, 2012, by and among the Company and the investors signatory thereto (previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, for the quarterly period ended March 31, 2012, originally filed with the SEC on May 15, 2012, and incorporated herein by reference).
- 10.17 Securities Exchange Agreement, dated December 31, 2012, by and between the Company and Tang Capital Partners, LP. (previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, originally filed with the SEC on May 13, 2013, and incorporated herein by reference).
- 10.18 Securities Exchange Agreement, dated March 27, 2013, by and between the Company and Tang Capital Partners, LP. (previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, originally filed with the SEC on May 13, 2013, and incorporated herein by reference).
- 10.19 Common Stock Purchase Agreement, dated November 14, 2013, by and between the Company and Aspire Capital Fund, LLC (previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, originally filed with

the SEC on November 14, 2013, and incorporated herein by reference).

- 21* Subsidiaries of Cyclacel Pharmaceuticals, Inc.
- 23.1* Consent of Independent Registered Public Accounting Firm.
- 23.2* Consent of Independent Registered Public Accounting Firm.
- 23.3* Consent of Independent Registered Public Accounting Firm.
- 31.1* Certification of Spiro Rombotis, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of Paul McBarron, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1** Certification of Spiro Rombotis, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).
- 32.2** Certification of Paul McBarron, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).
- 101*** The following materials from Cyclacel Pharmaceuticals, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.

† Indicates management compensatory plan, contract or arrangement.

Confidential treatment has been granted with respect to certain portions of this exhibit, which portions have been omitted and filed separately with the Securities and Exchange Commission as part of an application for confidential treatment pursuant to the Securities and Exchange Act of 1934, as amended.

* Filed herewith.

** Furnished herewith.

*** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned.

CYCLACEL PHARMACEUTICALS, INC.

Date: March 26, 2014

By: /s/ Paul McBarron
Paul McBarron
Chief Operating Officer, Chief Financial Officer & Executive
Vice President, Finance
(Principal Financial and Accounting Officer)

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

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|--|--|----------------|
| <u>/s/ Spiro Rombotis</u> Spiro Rombotis | President & Chief Executive Officer (Principal Executive Officer) and Director | March 26, 2014 |
| <u>/s/ Paul McBarron</u> Paul McBarron | Chief Operating Officer, Chief Financial Officer & Executive Vice President, Finance (Principal Financial and Accounting Officer) and Director | March 26, 2014 |
| <u>/s/ Dr. David U'Prichard</u> Dr. David U'Prichard | Chairman | March 26, 2014 |
| <u>/s/ Dr. Christopher Henney</u> Dr. Christopher Henney | Vice Chairman | March 26, 2014 |
| <u>/s/Dr. Nicholas Bacopoulos</u> Dr. Nicholas Bacopoulos | Director | March 26, 2014 |
| <u>/s/ Sir John Banham</u> Sir John Banham | Director | March 26, 2014 |
| <u>/s/Gregory Hradsky</u> Gregory Hradsky | Director | March 26, 2014 |
| <u>/s/Lloys Sems</u> Lloyd Sems | Director | March 26, 2014 |

Directory

Corporate Headquarters

200 Connell Drive, Suite 1500
Berkeley Heights, NJ 07922
United States of America
T: +1 908 517 7330
F: +1 866 271 3466

1 James Lindsay Place
Dundee DD1 5JJ
United Kingdom
T: +44 1382 206 062
F: +44 1382 206 067

Website

www.cyclacel.com

Accountants

McGladrey LLP
1185 Avenue of the Americas
New York, NY 10036-2602
T: +1 212 372 1000

Transfer Agents

**American Stock Transfer
& Trust Company**
6201 15th Avenue, 2nd Floor
Brooklyn, NY 11219
T: +1 718 921 8124

Attorneys

**Mintz Levin Cohn Ferris
Glovsky & Popeo PC**
Chrysler Center
666 Third Avenue
New York, NY 10017
T: +1 212 935 3000

SEC Form 10-K

Enclosed is a copy of our Annual Report on Form 10-K as filed with the U.S. Securities and Exchange Commission. Additional copies are available without charge upon request to:

Cyclacel Pharmaceuticals, Inc.
Attn: Investor Relations
200 Connell Drive, Suite 1500
Berkeley Heights, NJ 07922
United States of America
T: +1 908 517 7330

Executive Management

Spiro Rombotis
President and Chief Executive Officer

Paul McBarron
Executive Vice President, Finance and
Chief Operating Officer, Secretary

Judy Chiao, M.D.
Vice President, Clinical Development
and Regulatory Affairs

Susan Davis, Ph.D.
Director, Business Development

Board of Directors

David U'Prichard, Ph.D.
Chairman

Nicholas Bacopoulos, Ph.D.

Sir John Banham

Christopher S. Henney, Ph.D., D.Sc.
Vice Chairman

Gregory T. Hradsky

Lloyd Sems

Spiro Rombotis
President and Chief Executive Officer

Paul McBarron
Executive Vice President, Finance and
Chief Operating Officer, Secretary

Forward-Looking Statements

This annual report contains certain forward-looking statements. Actual results may differ materially from those predicted herein due to certain risks and uncertainties inherent in the Company's business, which are discussed in the Company's Form 10-K for the fiscal year ended December 31, 2013. Further information on the factors and risks that could affect the Company's business, financial condition and results of operations are contained in Cyclacel's public disclosure filings with the U.S. Securities and Exchange Commission, which are available at www.sec.gov.

Stock Listing

Cyclacel's stock is traded on NASDAQ under the symbol CYCC for the common stock and CYCCP for the preferred stock. For more information, please visit www.cyclacel.com.

Annual Meeting

Cyclacel stockholders are invited to attend our annual meeting, which will be held at 10:00 a.m. Eastern on May 22, 2014 at our corporate headquarters at 200 Connell Drive, Suite 1500, Berkeley Heights, NJ 07922.



www.cyclacel.com

**CELL CYCLE PIONEERS:
IMPROVING PATIENT LIVES
WITH ORALLY-AVAILABLE
INNOVATIVE MEDICINES**