UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

Commission file number 0-50626

CYCLACEL PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**91-1707622**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Id. No.)

200 CONNELL DRIVE, SUITE 1500
BERKELEY HEIGHTS, NJ 07922

(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of ''accelerated filer and larger accelerated filer'' in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

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

As of November 6, 2007 there were 20,433,167 shares of the issuer's common stock outstanding.

CYCLACEL PHARMACEUTICALS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEETS
(In $000s, except share amounts)

	December 31, 2006 (Note 1)	September 30, 2007 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	44,238	31,113
Short-term investments	9,764	37,430
Prepaid expenses and other current assets	4,163	6,623
Total current assets	**58,165**	**75,166**
Property, plant and equipment (net)	2,121	2,292
Deposits and other assets	241	233
Goodwill	2,749	2,749
Total assets	**63,276**	**80,440**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	2,175	2,004
Accrued liabilities	3,324	3,667
Other current liabilities	290	200
Derivative liability	1,135	302
Warrant liability	—	3,935
Current portion of other accrued restructuring charges	908	793
Current portion of equipment financing	89	—
Total current liabilities	**7,921**	**10,901**
Other accrued restructuring charges, net of current	1,436	964
Total liabilities	**9,357**	**11,865**
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized at December 31, 2006 and September 30, 2007, respectively; 2,046,813 shares issued and outstanding at December 31, 2006 and September 30, 2007, respectively. Aggregate preference in liquidation of $20,673,000 at December 31, 2006 and September 30, 2007.	2	2
Common stock, $0.001 par value; 100,000,000 shares authorized at December 31, 2006 and September 30, 2007, respectively; 16,157,953 and 20,433,167 shares issued and outstanding at December 31, 2006 and September 30, 2007, respectively	16	20
Additional paid-in capital	194,714	222,815
Accumulated other comprehensive loss	(2,537)	(3,286)
Deficit accumulated during the development stage	(138,276)	(150,976)
Total stockholders' equity	**53,919**	**68,575**
Total liabilities and stockholders' equity	**63,276**	**80,440**

SEE NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Period from August 13, 1996 (inception) to September 30,
	2006	2007	2006	2007	2007
Revenues:					
Collaboration and research and development revenue	27	—	152	10	3,000
Grant revenue	56	33	118	107	3,584
	83	33	270	117	6,584
Operating expenses:					
Research and development	(4,059)	(4,449)	(17,196)	(12,742)	(134,717)
General and administrative	(2,511)	(2,064)	(9,456)	(6,883)	(42,836)
Restructuring costs	(225)	—	(225)	(81)	(306)
Total operating expenses	(6,795)	(6,513)	(26,877)	(19,706)	(177,859)
Operating loss	(6,712)	(6,480)	(26,607)	(19,589)	(171,275)
Other income (expense):					
Costs associated with aborted 2004 IPO	—	—	—	—	(3,550)
Change in valuation of derivative	(64)	(19)	(162)	(89)	(304)
Change in valuation of warrants	—	951	—	2,815	2,815
Interest income	793	955	1,565	2,769	11,376
Interest expense	(52)	(54)	(178)	(154)	(4,070)
Total other income (expense)	677	1,833	1,225	5,341	6,267
Loss before taxes	(6,035)	(4,647)	(25,382)	(14,248)	(165,008)
Income tax benefit	603	433	1,659	1,549	14,033
Net loss	(5,432)	(4,214)	(23,723)	(12,699)	(150,975)
Dividends on Preferred Ordinary shares	—	—	(2,827)	—	(38,123)
Net loss applicable to ordinary shareholders	(5,432)	(4,214)	(26,550)	(12,699)	(189,098)
Net loss per share – Basic and diluted	$ (0.34)	$ (0.21)	$ (2.13)	$ (0.65)	
Weighted average shares	**16,157,953**	**20,433,129**	**12,458,458**	**19,685,457**	

SEE NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In $000s)
(Unaudited)

	Nine Months Ended September 30,		Period from August 13, 1996 (inception) to September 30,
	2006	2007	2007
Cash flows from operating activities:			
Net loss	(23,723)	(12,699)	(150,975)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of investment premiums, net	(11)	(220)	(249)
Change in valuation of derivative	162	89	304
Change in valuation of warrants	—	(2,815)	(2,815)
Depreciation and amortization	869	707	9,796
Unrealized foreign exchange (gain) loss	—	(1,432)	1,937
Deferred revenue	—	—	(98)
Compensation for warrants issued to non employees	—	—	1,215
Shares issued for IP rights	—	—	446
(Loss) Gain on disposal of property, plant and equipment	(1)	—	27
Stock based compensation	9,314	1,335	13,489
Provision for restructuring	225	81	306
Amortization of issuance costs of Preferred Ordinary "C" shares	—	—	2,517
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(496)	(2,088)	(5,635)
Accounts payable and other current liabilities	(3,120)	(588)	(918)
Net cash used in operating activities	**(16,781)**	**(17,630)**	**(130,653)**
Investing activities:			
Purchase of property, plant and equipment	(133)	(800)	(7,469)
Proceeds from sale of property, plant and equipment	23	—	26
Net redemptions (purchases) of short-term investments on deposit, net of maturities	4,349	(27,429)	(33,387)
Net cash provided by (used in) investing activities	**4,239**	**(28,229)**	**(40,830)**
Financing activities:			
Payment of capital lease obligations	(197)	(89)	(3,709)
Proceeds from issuance of ordinary and preferred ordinary shares, net of issuance costs	—	—	90,858
Proceeds from issuance of common stock and warrants, net of issuance costs	42,626	33,359	75,985
Net proceeds from stock options and warrants exercised	—	163	163
Payment of preferred stock dividend	(614)	(921)	(1,842)
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	17,915	—	17,915

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In $000s)
(Unaudited)

	Nine Months Ended September 30,		Period from August 13, 1996 (inception) to September 30,
	2006	2007	2007
Costs associated with stock purchase	(1,951)	—	(1,951)
Net cash provided by financing activities	**57,779**	**32,512**	**197,009**
Effect of exchange rate changes on cash and cash equivalents	1,433	222	5,587
Net increase (decrease) in cash and cash equivalents	45,237	(13,347)	25,526
Cash and cash equivalents at beginning of period	3,117	44,238	—
Cash and cash equivalents at end of period	**49,787**	**31,113**	**31,113**
Supplemental disclosure of cash flows information:			
Cash received during the period for:			
Interest	1,625	1,716	9,770
Taxes	1,906	—	10,739
Cash paid during the period for:			
Interest	(78)	(122)	(945)
Schedule of non-cash transactions:			
Acquisitions of equipment purchased through capital leases	—	—	3,470
Issuance of Ordinary shares in connection with license agreements	—	—	592
Issuance of Ordinary shares on conversion of bridging loan	—	—	1,638
Issuance of Preferred Ordinary “C” shares on conversion of secured convertible loan notes and accrued interest	—	—	8,893
Issuance of Ordinary shares in lieu of cash bonus	—	—	164

SEE NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

CYCLACEL PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Cyclacel Pharmaceuticals, Inc. (“Cyclacel” or the “Company”) is a development-stage biopharmaceutical company dedicated to the discovery, development and commercialization of novel, mechanism-targeted drugs to treat human cancers and other serious disorders. As a development stage enterprise, substantially all efforts of the Company to date have been devoted to performing research and development, conducting clinical trials, developing and acquiring intellectual property, raising capital and recruiting and training personnel. The Company was incorporated in the state of Delaware in 1996 and is headquartered in Berkeley Heights, New Jersey with research facilities located in the United Kingdom.

The condensed consolidated balance sheet as of September 30, 2007, the condensed consolidated statements of operations for the three and nine months ended September 30, 2007 and 2006 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2007 and 2006, and related disclosures contained in the accompanying notes are unaudited. The condensed consolidated balance sheet as of December 31, 2006 is derived from the audited consolidated financial statements included in the 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”). The condensed consolidated financial statements are presented on the basis of accounting principles that are generally accepted in the United States for interim financial information and in accordance with the rules and regulations of the SEC. Accordingly, they do not include all the information and footnot es required by accounting principles generally accepted in the United States for a complete set of financial statements. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the condensed consolidated balance sheet as of September 30, 2007, the results of operations for the three and nine months ended September 30, 2007 and 2006 and the consolidated statement of cash flows for the nine months ended September 30, 2007 and 2006 have been made. The interim results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007 or for any other year. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2006, included in the Company’s Annual Report on Form 10-K f iled with the SEC.

Recent Developments

Acquisition of ALIGN Pharmaceuticals, LLC and ALIGN Holdings, LLC

On October 5, 2007, Achilles Acquisition, LLC (renamed immediately following the acquisition to ALIGN Pharmaceuticals, LLC (“ALIGN”), a wholly-owned subsidiary of Cyclacel entered into a definitive asset purchase agreement (the “Agreement”) with ALIGN Pharmaceuticals, LLC and ALIGN Holdings, LLC (together, the “Sellers”), to acquire substantially all of the Sellers’ assets (the “Transaction”). The closing of the Transaction occurred simultaneously with the execution of the Agreement (the “Closing Date”).

Cyclacel, through ALIGN, acquired the Sellers’ exclusive rights to sell and distribute three products in the United States used primarily to manage the effects of radiation or chemotherapy in cancer patients: Xclair® Cream, Numoisyn® Liquid and Numoisyn® Lozenges. The acquired business provides Cyclacel with the foundation to build a commercial organization focused on cancer that is complementary to Cyclacel’s oncology/hematology products in development and is part of Cyclacel’s strategy to build a d iversified biopharmaceutical business.

As consideration for the Transaction and pursuant and subject to the terms of the Agreement, Cyclacel, through ALIGN, paid $3,331,428 in cash to the Sellers and shall pay an additional aggregate amount of $452,464 within 130 business days from the Closing Date, in cash, shares of the Company’s common stock, or a combination thereof, as further described in the Agreement. In addition, the

Company may be required to issue to the Sellers a maximum number of shares of common stock, in an amount equal to $1,116,108, issuable at a price per share of $6.06 (the average closing price of Cyclacel's common stock on the 90 trading days immediately before the Closing Date), which issuance is contingent upon the achievement of certain operational and financial milestones and subject to satisfaction of any outstanding indemnification obligations by the Sellers. The Company will issue the shares of common stock only to the extent that the milestones are achieved. The Company, as part of securing long term supply arrangements has commitments to make future payments of approximately $0.5 million in each of 2009 and 2010.

The transaction will be accounted for as a business combination and the results of operations of Cyclacel will include the results of operations from the Sellers' from the Closing Date. The assets and certain agreed liabilities of ALIGN will be recorded as of the Closing Date at their estimated fair values. The transaction will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. William C. Collins, the former chief executive officer and manager of the Sellers, was appointed as the general manager of ALIGN.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries for the indicated periods. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period, and the costs related to the merger with Xcyte Therapies, Inc. (''Xcyte'') on March 27, 2006. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

Supplemental Financial Information:

Loss per Share

Basic and diluted loss per share is computed by dividing loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted weighted average shares outstanding excludes shares underlying stock options; convertible preferred stock; make-whole dividend payments of common stock on convertible preferred stock and common stock warrants, since the effects would be anti-dilutive. Accordingly, basic and diluted loss per share is the same. Such excluded shares are summarized as follows:

	September 30, 2006	September 30, 2007
Stock options	849,153	1,968,915
Convertible preferred stock	870,980	870,980
Make-whole dividend payments of common stock on convertible preferred stock	190,608	190,608
Common stock warrants	2,572,653	3,634,703
Total shares excluded from calculation	4,483,394	6,665,206

Other Comprehensive Loss

In accordance with Financial Accounting Standards Board Statement (“FASB”), Statement of Financial Accounting Standards (“SFAS”) No. 130, “Reporting Comprehensive Income, (“SFAS 130”) 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).

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2007	2006	2007
	($000s)			
Net loss	(5,432)	(4,214)	(23,723)	(12,699)
Unrealized gain (loss) on marketable securities	—	50	—	16
Currency translation	91	(409)	591	(765)
Comprehensive loss	(5,341)	(4,573)	(23,132)	(13,448)

Other Accrued Liabilities

Other accrued liabilities consist of the following:

	December 31, 2006	September 30, 2007
	($000s)	
Accrued research and development	1,406	2,622
Other accrued liabilities	1,918	1,045
Total accrued liabilities	3,324	3,667

3. STOCK BASED COMPENSATION

On January 1, 2006, the Company adopted FASB, Statement No. 123R, “Share-Based Payment” (“SFAS 123R”). SFAS 123R requires the Company to measure all share-based payment awards, including those with employees, granted, modified, repurchased or cancelled after, or that were

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

At the Company's annual shareholder meeting on May 21, 2007, the stockholders approved and amended the number of shares reserved under the 2006 Equity Incentive Plan (''2006 Plan'') to 3,000,000 shares of the Company's common stock (up from 1,615,795 shares). The shares reserved under the 2006 Plan have a maximum maturity of 10 years and generally exercisable over a four-year period from the date of grant. For the three and nine months ended September 30, 2007, the Company granted 307,296 and 661,046 stock options, respectively, to its employees and directors under the 2006 Plan which vest ratably over four years. For the three and nine months ended September 30, 2006, the Company granted 16,667 and 844,286 stock options, respectively, to its employees and directors. Based on the Black-Scholes option-pricing model, the total fair value of all options granted under the 2006 Plan is $8.2 m illion, of which $4.3 million of share based compensation will be recognized as compensation over the remaining vesting periods. A summary of activity for the options under the Company's 2006 Plan for the nine months ended September 30, 2007 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in $000s)
Options outstanding at December 31, 2006	1,335,841	$ 6.42	9.44	—
Granted	661,046	$ 5.53		
Exercised	(25,508)	$ 6.40		
Expired	—	—		
Cancelled / forfeited	(2,464)	$ 6.40		
Options outstanding at September 30, 2007	1,968,915	$ 6.68	9.48	71,064
Unvested at September 30, 2007	1,160,259	$ 6.69	8.65	66,156
Vested and exercisable at September 30, 2007	808,656	$ 6.66	9.14	4,908

Summarized Black-Scholes-Merton option pricing model assumptions for stock option grants to employees and directors for the nine months ended September 30, 2006 and 2007:

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2007	2006	2007
Expected term	5 Yrs	5 – 6 Yrs	3 – 5 Yrs	4.25 – 6 Yrs
Risk free interest rate	4.56 – 4.68%	4.25 – 4.92%	4.56 – 5.06%	4.25 – 5.07%
Expected volatility	90%	70 – 80%	90%	70 – 80%
Expected dividend yield over expected term	—	—	—	—
Resulting weighted average grant fair value	$3.41	$3.49	$3.86	$4.05

The expected term assumption was estimated using past history of early exercise behavior and expectations about future behavior.

The expected volatility assumption was based on the historical volatility of the Company's common stock since the merger with Xcyte on March 27, 2006 together with an analysis of the historical volatilities of a peer group of similar biotechnology companies.

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, the Company uses the weighted average of the two Federal Reserve securities closest to the expected term of the employee option.

Dividend yield has been assumed to be zero as (a) the Company has never declared or paid any dividends and (b) does not currently anticipate paying any cash dividends on our outstanding shares of common stock in the foreseeable future.

The Company received approximately $0.2 million from the exercise of 25,508 stock options during the second quarter of 2007. There were no exercises of stock options during the three months ended September 30, 2007. No income tax benefits have been recorded associated with these stock option exercises. SFAS 123R prohibits recognition of tax benefits for exercised stock options until such benefits are realized. As the Company presently has tax loss carry forwards from prior periods and expects to incur tax losses in 2007, the Company is not able to benefit from the deduction for exercised stock options in the current reporting period.

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

The following table summarizes the components of the Company's stock based compensation for the three and nine months ended September 30, 2006 and 2007:

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2007	2006	2007
	($000s)			
Research and development	164	120	6,052	622
General and administrative	93	199	3,262	713
Stock-based compensation costs before income taxes	257	319	9,314	1,335

4. COMMITMENTS AND CONTINGENCIES

In 2005, the Company recorded an accrued restructuring liability associated with abandoning the facility in Bothell, Washington. The lease term on this space expires December 2010. The restructuring liability was computed as the present value of the difference between the remaining lease payments due less the estimate of net sublease income and expenses. The accrual balance was adjusted in 2006 to reflect a change in estimate due to continued deterioration in the local real estate market. As of September 30, 2007 the accrued restructuring liability was $1.8 million. This represents the Company's best estimate of the fair value of the liability. Subsequent changes in the liability due to accretion, or changes in estimates of sublease assumptions, etc. will be recognized as adjustments to restructuring charges in future periods.

The Company records payments of rent related to the Bothell facility as a reduction in the amount of the accrued restructuring liability. Accretion expense is recognized due to the passage of time, which is also reflected as a restructuring charge. Based on our current projections of estimated sublease income and a discount rate of 7.8%, the Company expects to record additional accretion expense of approximately $0.2 million over the remaining term of the lease.

In connection with the abandonment of the Bothell facility and the related sale of assets in late 2005, the Company has been subjected to a State sales tax audit by the Department of Revenue of the State of Washington. As a result of the potential State sales tax assessment, the Company recorded a liability of $0.3 million during 2006. There has been no change in the Company's assessment of the liability.

5. MERGER

On March 27, 2006, Xcyte completed the Stock Purchase Agreement with Cyclacel Group plc whereby Xcyte acquired all of the outstanding shares of common stock of Cyclacel Limited or Limited, from Cyclacel Group plc. Xcyte changed its name to Cyclacel Pharmaceuticals, Inc., or Cyclacel, and Cyclacel was listed on the Nasdaq Global Market under the ticker symbol CYCC. The transaction was considered a "reverse merger" and was accounted for as a purchase by Cyclacel under accounting principles generally accepted in the United States. Accordingly, the purchase price was

allocated among the fair values of the assets and liabilities of Xcyte, while the historical results of Limited are reflected in the results of the combined company. The 1,967,967 shares of Xcyte common stock outstanding, the 2,046,813 preferred stock outstanding and the outstanding Xcyte options, were considered as the basis for determining the consideration in the reverse merger transaction.

Merger Purchase Price

The consolidated financial statements reflect the merger of Limited with Xcyte as a reverse acquisition wherein Limited is deemed to be the acquiring entity from an accounting perspective. Under the purchase method of accounting, Xcyte's outstanding shares of common and preferred stock were valued using the average closing price on Nasdaq for the two days prior to through the two days subsequent to the announcement of the transaction date, December 15, 2005, which were $4.38 (as adjusted for a reverse stock split) and $3.72 per share for common stock and preferred stock, respectively. There were 1,967,967 shares of common stock and 2,046,813 shares of preferred stock outstanding as of March 27, 2006. The fair values of the Xcyte outstanding stock options were determined using the Black-Scholes-Merton option pricing model with the following assumptions: stock price of $4.38 (as adjusted for the reverse stock split), volatility – 97 %; risk-free interest rate – 4.0%; and an expected life – three months.

The purchase price is summarized as follows ($000s):

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

Merger Purchase Price Allocation

The purchase price allocation is as follows ($000s):

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

Pro Forma Results of Operations

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

	For the nine months ended September 30, 2006 (000s)
Revenue	5,270
Loss before taxes	(24,540)
Net loss applicable to ordinary shareholders	(25,708)
Net loss per share-basic and diluted	$ (2.01)
Weighted average shares	12,806,491

6. STOCKHOLDERS' EQUITY

Preferred stock

On November 3, 2004, the Company completed a public offering of 2,990,000 shares of its 6% convertible exchangeable preferred stock (the 'Preferred Stock') at $10.00 per share, including the shares sold to the underwriters pursuant to the over-allotment option granted in connection with the offering. Net proceeds from the offering, after deducting underwriting discounts and offering-related expenses, totaled $27.5 million.

Dividends on the Preferred Stock are cumulative from the date of original issue 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. In January, April, July and October 2006, the Company's Board of Directors declared quarterly dividends in the amount of $0.15 per share of Preferred Stock, which were paid on the first business day in February, May, August and November 2006, respectively. Each quarterly dividend distribution totaled $0.3 million and was paid to holders of record as of the close of business on January 20, 2006, April 29, 2006, July 24, 2006 and October 23, 2006, respectively. In January, April, July and September 2007, the Company's Board of Directors declared quarterly dividends in the amount of $0.15 per share of Preferred Stock, which were paid on the first business day in February, May and August 2007, respectively. Each quarterly dividend distribution totaled $0.3 million and was paid to holders of record as of the close of business on January 22, April 20, and July 20, 2007, respectively. Additionally, a dividend was declared in September, 2007 and was paid on November 1, 2007 to holders of record on October 19, 2007.

The Preferred Stock is convertible at the option of the holder at any time into the Company's common stock at a conversion rate of approximately 4.2553 shares of common stock for each share of Preferred Stock, based on an initial conversion price of $2.35. The initial conversion price is subject to adjustment in certain events, including the one for ten reverse stock split of Xcyte's common stock pursuant to which the conversion price of the convertible Preferred Stock now equals approximately $23.50. Such adjusted conversion price is equivalent to a conversion rate of approximately 0.42553 shares of common stock for each share of convertible Preferred Stock. The Company has reserved 870,980 shares of common stock for issuance upon conversion of the remaining shares of Preferred Stock outstanding as of September 30, 2007 (after giving effect to the one for ten reverse stock split of Xcyte's common stock). In the year ended December&nb sp;31, 2004, holders converted 910,187 shares of Preferred Stock into 3,873,124 shares of common stock. In the year ended December 31, 2005, holders converted 33,000 shares of preferred stock into 140,425 shares of common stock. During 2006 and for the nine months ended September 30, 2007 no shares of preferred stock were converted into common stock.

The Company may automatically convert the Preferred Stock into common stock if the closing price of the Company's common stock has exceeded $35.30, 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 Company and the holders elected not to automatically convert some or all of the Preferred Stock into common stock prior to November 3, 2007. If they had done so, the Company would have made an additional payment on the Preferred Stock equal to the aggregate amount of dividends that would have been payable on the Preferred Stock through November 3, 2007, less any dividends already paid on the Preferred Stock. This additional payment would have been payable in cash or, at the Company's option, in shares of the Company's common stock, or a combination of cash and shares of common stock. As of September 30, 2007 the Company issued 81,927 shares of common stock (as adjusted for the reverse stock split) to converting holders in satisfaction of this additional payment.

In accordance with SFAS 133, ''Accounting for Derivative Instruments'' (''SFAS 133''), the Company is required to separate and account for, as an embedded derivative, the dividend make-whole payment feature of the Preferred Stock. As an embedded derivative instrument, the dividend make-whole payment feature must be measured at fair value and reflected as a liability. Changes in the fair value of the derivative are recognized in the condensed consolidated statement of operations as a component of other income (expense). As of December 31, 2006 and September 30, 2007, the fair value of the dividend make-whole payment feature was $1.2 million and $0.3 million, respectively. The carrying value of this derivative was reduced by $0.9 million during the nine months ended September 30, 2007 based on cash dividends paid during the period. As a result, the Company has charged $19,000 and $89,000, as other expense for the three and nine months ended September 30, 2007, respectively.

The Company may elect to redeem the Preferred Stock at declining redemption prices on or after November 6, 2007. 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.

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

Common Stock and warrants

On February 16, 2007, the Company raised $36.0 million in gross proceeds, before deducting placement agent fees and offering expenses of $2.6 million, in a ''registered direct'' offering through the sale of shares of the Company's common stock and warrants. The Company entered into subscription agreements with these investors pursuant to which it sold approximately 4.2 million units, each unit consisting of one share of common stock and a seven-year warrant to purchase 0.25 shares of common stock, at a purchase price of $8.47125 per unit. The purchase price for the shares and the exercise price for the warrants was $8.44 per share, the closing bid price for the Company's common stock on February 12, 2007. Investors paid $0.125 per warrant. The Company issued 4,249,668 shares of common stock and warrants to purchase 1,062,412 shares of common stock.

Emerging Issues Task Force (''EITF'') 00-19, ''Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock'' (''EITF 00-19'') requires freestanding contracts that are settled in a Company's own stock, including common stock warrants to be classified as an equity instrument, asset or liability. As of September 30, 2007, the warrants issued to the investors meet the requirements of and are being accounted for as a liability in accordance with EITF 00-19. 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 shar es is being marked to market each reporting period as a derivative gain or loss until exercised or expiration. At September 30, 2007, fair value of the warrants was $3.9 million. During the three and nine months ended September 30, 2007, the Company recognized the change in the value of warrants of approximately $1.0 million and $2.8 million, as a gain on the consolidated statement of operations.

The following table summarizes information about warrants outstanding at September 30, 2007:

Issued in Connection With	Expiration Date	Common Shares Issuable	Weighted Average Exercise Price
Acquisition of Xcyte March 2006	2008	431	$ 15.29
Acquisition of Xcyte March 2006	2009	431	15.29
April 2006 stock issuance	2013	2,571,429	7.00
February 2007 stock issuance	2014	1,062,412	8.44
Total		3,634,703	$ 7.42

Exercise of Stock Options

During the second quarter of 2007, 25,508 shares of common stock were issued from the exercise of stock options resulting in proceeds of $0.2 million. There were no exercises of stock options during the third quarter of 2007.

7. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB Interpretation No. 48, ‘‘Accounting for Uncertainty in Income Taxes’’, an interpretation of SFAS 109, ‘‘Accounting for Income Taxes’’ (‘‘FIN 48’’). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements by prescribing a minimum probability threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides related guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and the Company adopted FIN 48 as of January 1, 2007. Due to the relatively simple operational nature of the Company, as well as the fact that the Company has incurred net operating losses since incept ion, the Company believes that its tax filing positions and deductions are more likely than not to be sustained on audit and does not anticipate any adjustments that will result in a material change in its financial position. Therefore, no reserves for uncertain tax positions have been recorded pursuant to FIN 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48, nor has the Company recognized any interest or penalties related to uncertain tax positions in the statement of operations for the three and nine months September 30, 2007. Although no interest and penalties have been recognized, the Company, upon adoption of FIN 48, has elected a policy to classify any future interest and penalties as a component of interest expense. Tax years that remain subject to examination by the taxation authorities include:

- 2005 and 2006 in the UK
- 2006 in the US

In September 2006, the FASB issued SFAS No. 157, ‘‘Fair Value Measurements’’ (‘‘SFAS 157’’). SFAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years and will be adopted by the Company as of January 1, 2008. SFAS 157 may impact the Company’s balance sheet and statement of operations in areas including the fair value measurements for short-term investments, derivative instruments and warrants. The Company is currently reviewing the provisions of SFAS 157 and has not yet determined the effect, if any, that adoption of SFAS 157 will have.

In February 2007, the FASB issued SFAS No. 159, ‘‘The Fair Value Option for Financial Assets and Financial Liabilities’’ (‘‘SFAS 159’’) which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 159 on its financial position, cash flows and results of operations.

8. Subsequent Event

On October 5, 2007, Cyclacel, through its renamed wholly-owned subsidiary ALIGN Pharmaceuticals, LLC acquired substantially all of the assets of ALIGN Pharmaceuticals, LLC and ALIGN Holdings, LLC. The closing of the acquisition occurred simultaneously with the execution of Asset Purchase Agreement. See Note 1 to the Notes to Condensed Consolidated Financial Statement for further information.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including without limitation Management's Discussion and Analysis of Financial Condition and Results of Operations, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend the forward-looking statements to be covered by the safe harbor for forward-looking statements in such sections of the Exchange Act. The forward-looking information is based on various factors and was derived using numerous assumptions. 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. These forward-looking statements are usually accompanied by words such as "believe," "anticipate," "plan," "seek," "expect," "intend" and similar expressions.

Forward-looking statements necessarily involve risks and uncertainties, and our actual results could differ materially from those anticipated in the forward looking statements due to a number of factors, including those set forth in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2006, as updated and supplemented by Part II, Item 1A "Risk Factors" of this Quarterly Report on Form 10-Q, and elsewhere in this report. These factors as well as other cautionary statements made in this Quarterly Report on Form 10-Q, should be read and understood as being applicable to all related forward-looking statements wherever they appear herein. The forward-looking statements contained in this Quarterly Report on Form 10-Q represent our judgement as of the date hereof. We encourage you to read those descriptions carefully. We caut ion 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. In this report, "Cyclacel," the "Company," "we," "us," and "our" refer to Cyclacel Pharmaceuticals, Inc.

Overview

We are a development stage biopharmaceutical company dedicated to the discovery, development and commercialization of novel, mechanism-targeted drugs to treat human cancers and other serious disorders. We, through our wholly-owned subsidiary, ALIGN Pharmaceuticals, LLC ("ALIGN") markets directly in the U.S. Xclair® Cream for radiation dermatitis and Numoisyn® Liquid and Numoisyn® Lozenges for xerostomia. Three Cyclacel drugs are in clinical development. Sapacitabine, an orally-available, cell cycle modulating nucleoside analog, is in Phase II for the treatment of cutaneous T-cell lymphoma and in Phase I in patients with hematologic malignancies. Seliciclib, an orally-available CDK (cyclin dependent kinase) inhibitor, is in Phase II for the treatment of lung cancer and is also being evaluated for nasopharyngeal cancer. CYC116, an orally-available, Aurora kinase and VEGFR2 inhibitor, is in Phase I in patients with solid tumors. Several additional programs are at an earlier stage. Our strategy is to build a diversified biopharmaceutical business focused in oncology, hematology and other therapeutic areas based on a portfolio of commercial products and a development pipeline of novel drug candidates.

Our core area of scientific expertise is in cell cycle biology, or the processes by which cells divide and multiply. We focus primarily on the discovery and development of orally available anticancer agents that target the cell cycle with the aim of slowing the progression or shrinking the size of tumors, and enhancing quality of life and improving survival rates of cancer patients. We are generating several families of anticancer drugs that act on the cell cycle including Cyclin Dependent kinase (CDK) and Aurora kinase (AK) inhibitors. We are advancing three of our anticancer drug candidates,

sapacitabine, seliciclib and CYC116 through in-house research and development activities. Sapacitabine, our orally available nucleoside analog, has completed Phase I studies in approximately 160 patients at five centers in the United States including two Phase I studies evaluating 87 patients in refractory solid tumors. We are currently conducting a Phase Ib dose escalation clinical trial with sapacitabine for the treatment of patients with advanced malignancies with approximately 35 patients as of June 30, 2007. Interim results from this trial were presented in a poster at the 43rd annual meeting of the American Society of Clinical Oncology, or ASCO. We plan to evaluate sapacitabine in Phase II studies in both hematological cancers and solid tumors and we announced the first study on April 30, 2007, when we initiated a Phase II clinical trial in patients with advanced cutaneous T-cell lymphoma. Seliciclib is currently being studied in a Phase IIb, multi-center, randomized, double-blinded trial, called APPRAISE, to evaluate the efficacy and safety of seliciclib as a third line treatment in patients with non-small cell lung cancer, or NSCLC. The APPRAISE study builds on the observation of prolonged stable disease experienced by heavily-pretreated NSCLC patients enrolled in a Phase I study of single agent seliciclib. We also plan to commence in the coming months a Phase II study of single agent seliciclib in nasopharyngeal carcinoma. We are also developing CYC116, a novel inhibitor of Aurora kinases A and B and VEGFR2 for the treatment of cancer. We began a multicenter Phase I pharmacologic clinical trial of orally-available CYC116 in patients with advanced solid tumors in June 2007. We have worldwide rights to commercialize sapacitabine, seliciclib and CYC116 and our business strategy is to enter into selective partnership arrangements with these programs. We are also progressing further novel drug series, principally for cancer, which are at earlier stages. Taken together, our pipeline covers all four phases of the cell cycle, which we believe will improve the chances of successfully developing and commercializing novel drugs that work on their own or in combination with approved conventional chemotherapies or with other targeted drugs to treat human cancers.

The ALIGN business, acquired in October 2007, provides us with the foundation to build a commercial organization focused on cancer that is complementary to our oncology/hematology products in development and is part of Cyclacel's strategy to build a diversified biopharmaceutical business. William C. Collins, who was the Seller's Chief Executive Officer and manager, has become General Manager of ALIGN Pharmaceuticals, LLC.

Our corporate headquarters is located in Berkeley Heights, New Jersey, with our research facilities located in the United Kingdom. From our inception in 1996 through September 30, 2007, we have devoted substantially all our efforts and resources to our research and development activities. We have incurred significant net losses since inception. As of September 30, 2007, our accumulated deficit during the development stage was $151.0 million. We expect to continue incurring substantial losses for the next several years as we continue to develop our clinical, pre-clinical and other drugs currently in development and build our commercialization capability. Our operating expenses are primarily comprised of research and development expenses and general and administrative costs.

As of September 30, 2007, we have not generated any product revenue but have financed our operations and internal growth through private placements of our common stock and preferred securities, licensing revenue, interest on investments, government grants and research and development tax credits. Our revenue has consisted of collaboration and grant revenue. We have not generated any revenue from sales of commercial products; however, following the acquisition of ALIGN in October, 2007 we expect to generate modest product revenue during the remainder of 2007.

Acquisition of ALIGN Pharmaceuticals, LLC and ALIGN Holdings, LLC

On October 5, 2007, Achilles Acquisition, LLC (renamed immediately following the acquisition to ALIGN Pharmaceuticals, LLC (''ALIGN''), a wholly-owned subsidiary of Cyclacel entered into a definitive asset purchase agreement (the ''Agreement'') with ALIGN Pharmaceuticals, LLC and ALIGN Holdings, LLC (together, the ''Sellers''), to acquire substantially all of the Sellers' assets (the ''Transaction''). The closing of the Transaction occurred simultaneously with the execution of the Agreement (the ''Closing Date'').

Cyclacel through ALIGN, acquired, the Sellers' exclusive rights to sell and distribute three products in the United States used primarily to manage the effects of radiation or chemotherapy in cancer patients: Xclair® Cream, Numoisyn® Liquid and Numoisyn® Lozenges. The acquired business provides Cyclacel with the foundation to build a commercial organization focused on cancer that is complementary to Cyclacel's oncology/hematology products in development and is part of Cyclacel's strategy to build a d iversified biopharmaceutical business.

As consideration for the Transaction and pursuant and subject to the terms of the Agreement, we, through ALIGN, paid $3,331,428 in cash to the Sellers and shall pay an additional aggregate amount of $452,464 within 130 business days from the Closing Date, in cash, shares of the Company's common stock, or a combination thereof, as further described in the Agreement. In addition, the Company may be required to issue to the Sellers a maximum number of shares of common stock, in an amount equal to $1,116,108, issuable at a price per share of $6.06 (the average closing price of Cyclacel's common stock on the 90 trading days immediately before the Closing Date), which issuance is contingent upon the achievement of certain operational and financial milestones and subject to satisfaction of any outstanding indemnification obligations by the Sellers. The Company will issue the shares of common stock only to the extent that the milestones are achieved. The res ults of operations of Cyclacel will include the results of operations from ALIGN from the Closing Date. The assets and liabilities of ALIGN will be recorded as of the Closing Date at their estimated fair values. The transaction is expected to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

Results of Operations

On March 27, 2006, Xcyte Therapeutics, Inc. completed the Stock Purchase Agreement with Cyclacel Group plc whereby Xcyte acquired all of the outstanding shares of common stock of Cyclacel Limited, from Cyclacel Group plc. Xcyte changed its name to Cyclacel Pharmaceuticals, Inc., or Cyclacel, and Cyclacel was listed on the Nasdaq Global Market under the ticker symbol CYCC. As explained in detail in Note 5 of the unaudited Condensed Consolidated Financial Statements, the transaction with Xcyte was accounted for as a reverse merger and Cyclacel Limited was considered to have acquired Xcyte on March 27, 2006. As a consequence, the comparative period for the nine months ended September 30, 2006 includes the three-month period to March 31, 2006 which reflects the results of Cyclacel Limited only, while the current nine month period ended September 30, 2007 reflects the results of the combined companies from January 1, 2007 through Septemb er 30, 2007.

Three Months Ended September 30, 2006 and 2007

Revenues

The following table summarizes the components of our revenues for the three months ended September 30, 2006 and 2007:

	Three months ended September 30,			
	2006	2007	Difference	Difference
	($000s)			%
Collaboration and research and development revenue	27	—	(27)	100
Grant revenue	56	33	(23)	41
Total revenue	83	33	(50)	60

Collaboration and research and development revenue is derived from several agreements under which the Company provides compounds for evaluation for an agreed consideration.

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 grant awards.

Research and development expenses

To date, we have focused on drug discovery and development programs, with particular emphasis on orally available anticancer agents. Research and development expense represents costs incurred to

discover and develop novel small molecule therapeutics, including clinical trial costs for sapacitabine, seliciclib and CYC116, to advance product candidates through clinical trials, to develop in-house research and preclinical study capabilities and to advance our biomarker program and technology platforms. We expense all research and development costs as they are incurred. Research and development expenses primarily include:

- payroll and related-expense, including consultants and contract research;
- clinical trial and regulator-related costs;
- pre-clinical studies;
- screening and identification of drug candidates;
- laboratory supplies and materials;
- technology license costs;
- rent and facility expenses for our laboratories; and
- scientific consulting fees.

The following table provides information with respect to our research and development expenditure for the three months ended September 30, 2006 and 2007:

	Three months ended September 30,			
	2006	2007	Difference	Difference
		($000s)		%
Sapacitabine	448	477	29	6
Seliciclib	1,061	758	(303)	(29)
CYC116	1,679	672	(1,007)	(60)
Other research and development costs	871	2,542	1,671	192
Total research and development expenses	4,059	4,449	390	10

Total research and development expenses represented 60% and 70% of our operating expenses for the three months ended September 30, 2006, and 2007, respectively.

Research and development expenditure increased 10% or $0.4 million from $4.0 million for the three months ended September 30, 2006 to $4.4 million for the three months ended September 30, 2007. In September 2006, we recorded a charge of $0.1 million for the three months ended September, 2006 in connection with the stock options granted to certain of our employees under FAS123R as compared to $0.2 million for the three months ended September 30, 2007. During the three months ended September 30, 2006, there were higher costs related to seliciclib with the start of the APPRAISE Phase IIb trial and costs associated with CYC116 as the program was in full pre-clinical studies during 2006 but in Phase I trials in 2007.

The future

We plan to increase our investment in our research and development programs to further enhance our clinical and regulatory capabilities to allow us to advance the development of our drug candidates.

General and administrative expenses

General and administrative expenses include costs for administrative personnel, legal and other professional expenses and general corporate expenses. The following table summarizes the general and administrative expenses for the three months ended September 30, 2006 and 2007:

	Three months ended September 30,			
	2006	2007	Difference	Difference
		($000s)		%
Total general and administrative expenses	2,511	2,064	(447)	(18)

Our general and administrative expenditure decreased by $0.4 million from $2.5 million for the three months ended September 30, 2006 to $2.1 million for the three months ended September 30, 2007. The reduction in expenses was primarily attributable to lower costs incurred on audit and accountancy, work related to compliance with the Sarbanes-Oxley in 2006 which is now being sustained at a reduced level of cost and staff recruitment.

The future

As a public company, we operate in an increasingly demanding regulatory environment that requires us to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC, and the Nasdaq Global Market for our common stock and Nasdaq Capital Market for our preferred stock, including those related to expanded disclosures, accelerated reporting requirements and more complex accounting rules. There will be costs incurred with integrating ALIGN into the group as well as expanding the sales team during the remainder of 2007. We expect that our general and administrative expenses will continue to increase in subsequent periods due to these requirements.

Restructuring charge

As of September 30, 2007 the restructuring liability associated with the exiting Bothell facility was $1.8 million accounting for the estimated fair value of the remaining lease payments, net of estimated sub-lease income. The restructuring liability is subject to a variety of assumptions and estimates. We review these assumptions and estimates on a quarterly basis and will adjust the accrual if necessary. There was no change in the estimate for the three months ended September 30, 2007.

Other income (expense)

Other income (expense) is comprised of the change in valuation of the derivative, change in value of liability classified warrants, interest income and interest expense. The following table summarizes the other income (expense) for the three month ended September 30, 2006 and 2007:

	Three months ended September 30,			
	2006	2007	Difference	Difference
		($000s)		%
Change in valuation of derivative	(64)	(19)	45	70
Change in valuation of warrants	—	951	951	100
Interest income	793	955	162	20
Interest expense	(52)	(54)	(2)	(4)
Total other income (expense)	677	1,833	1,156	171

The change in valuation of the derivative of $19,000 for the three months ended September 30, 2007 is associated with the dividend make-whole payment on our outstanding convertible exchangeable preferred stock. For the three months ended September 30, 2006, the derivative valuation expense was $64,000.

The change in valuation of warrants relates to the issue of warrants to purchase shares of our common stock under the registered direct financing completed in February 2007. The warrants issued to the investors meet the requirements of and are being accounted for as a liability in accordance with EITF 00-19. The value of the warrants is being marked to market each reporting period as a derivative gain or loss until exercised or expiration. For the three months ended September 30, 2007, we recognized the change in the value of warrants of approximately $1.0 million, as other income in the consolidated statement of operations.

The increase in interest income of $0.2 million to $1.0 million for the three months ended September 30, 2007 from $0.8 million for the three months ended September 30, 2006 is primarily attributable to higher average balances of cash and cash equivalents and short-term investments in 2007 as compared to 2006 as a result of our registered direct offering in February 2007.

Interest expense for the three months ended September 30, 2007 increased by $2,000 from $52,000 for the three months ended September 30, 2006 to $54,000 for the three months ended September 30, 2007. During the three months ended September 30, 2006 and 2007 interest expenses resulted primarily from accretion expense associated with the Bothell lease restructuring provision.

The future

The valuations of the dividend make-whole payment and the liability-classified warrants will continue to be re-measured at the end of each reporting period. The valuations of the derivative and warrants are dependent upon many factors, including estimated market volatility, and may fluctuate significantly and could have a significant impact on our statement of operations.

A further $0.2 million of accretion expense associated with the Bothell lease restructuring charge will be recognized over the remaining life of the lease to December 2010.

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 research and development tax credits for the three months ended September 30, 2006 and 2007:

	Three months ended September 30,			
	2006	2007	Difference	Difference
		($000s)		%
Total income tax benefit	603	433	(170)	(28)

Research and development tax credits recoverable decreased by $0.2 million from $0.6 million for the three months ended September 30, 2006 to $0.4 million for the three months ended September 30, 2007. This decrease was a reflection of a decrease in income taxes available for recovery as a consequence of the lower eligible research and development expenses in 2007.

The future

We expect to continue to be eligible to receive United Kingdom research and development tax credits for the foreseeable future and it will elect to do so.

Nine Months Ended September 30, 2006 and 2007

Revenues

The following table summarizes the components of our revenues for the nine months ended September 30, 2006 and 2007:

	Nine months ended September 30,			
	2006	2007	Difference	Difference
		($000s)		%
Collaboration and research and development revenue	152	10	(142)	(93)
Grant revenue	118	107	(11)	(9)
Total revenue	270	117	(153)	(57)

Collaboration and research and development revenue is derived from several agreements under which we provide compounds for evaluation for an agreed consideration.

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 grant awards.

Research and development expenses

The following table provides information with respect to our research and development expenditure for the nine months ended September 30, 2006 and 2007:

	Nine months ended September 30,			
	2006	2007	Difference	Difference
		($000s)		%
Sapacitabine	1,367	1,862	495	36
Seliciclib	2,027	2,405	378	19
CYC116	5,230	1,564	(3,666)	(70)
Other research and development costs	8,572	6,911	(1,661)	(19)
Total research and development expenses	17,196	12,742	(4,454)	(26)

Total research and development expenses represented 64% and 65% of our operating expenses for the nine months ended September 30, 2006 and 2007, respectively.

Research and development expenses decreased by 26% or $4.5 million from $17.2 million for the nine months ended September 30, 2006 to $12.7 million for the nine months ended September 30, 2007. The overall reduction relates primarily to a decrease in the charge for stock-based compensation of $5.5 million from $6.1 million for the nine months ended September, 30 2006 to $0.6 million for the nine months ended September 30, 2007 as a result of the stock options granted during June 2006 being two-thirds vested immediately upon grant. Additionally, there was a decrease in expenditure on CYC116 as the program was in full pre-clinical studies during 2006, offset by higher costs related to sapacitabine and seliciclib with ongoing Phase I and Phase II trials during 2007.

General and administrative expenses

The following table summarizes the general and administrative expenses for the nine months ended September 30, 2006 and 2007:

	Nine months ended September 30,			
	2006	2007	Difference	Difference
		($000s)		%
Total general and administrative expenses	9,456	6,883	(2,573)	(27)

Total general and administrative expenses represented 35% of our operating expenses for the nine months ended September 30, 2006 and 2007, respectively.

Our general and administrative expenditure decreased by $2.6 million from $9.5 million for the nine months ended September 30, 2006 to $6.9 million for the nine months ended September 30, 2007. The reduction in expenses was primarily attributable to a decrease in the charge for stock based compensation of $2.6 million from $3.3 million for the nine months ended September, 30 2006 to $0.7 million for the nine months ended September 30, 2007.

Restructuring charge

The following table summarizes the restructuring charges for the nine months ended September 30, 2006 and 2007:

	Nine months ended September 30,			
	2006	2007	Difference	Difference
	($000s)			%
Total restructuring charge	225	81	(144)	(64)

In March 2006, the Company assumed an accrued restructuring liability in relation to the Bothell manufacturing facility, calculated as the net present value of the difference between the remaining lease payments due less the estimate of net sublease income and expenses. In September 2006, the Company entered into an Exclusive Subleasing Agency Agreement in an attempt to achieve the successful sublet of the facility and the market assessment from our real estate agent was that it was difficult to lease space in the Bothell area and the original estimate of obtaining an early tenant was optimistic. On the basis of continued market review we assessed that the facility may have a possibility of being sublet by the beginning of 2008, albeit at a reduced capacity. As a result of this, we have recorded an additional provision in the first quarter of 2007 of $0.1 million in recognition of reduced projected sublease income under a sublease agreement. The r estructuring liability is subject to a variety of assumptions and estimates. We review these assumptions and estimates on a quarterly basis and will adjust the accrual if necessary. There was no change in the estimate for the three months ended September 30, 2007.

Other income (expense)

The following table summarizes the other income (expense) for the nine months ended September 30, 2006 and 2007:

	Nine months ended September 30,			
	2006	2007	Difference	Difference
		($000s)		%
Change in valuation of derivative	(162)	(89)	73	45
Change in valuation of warrants	—	2,815	2,815	100
Interest income	1,565	2,769	1,204	77
Interest expense	(178)	(154)	24	13
Total other income (expense)	1,225	5,341	4,116	336

The change in derivative value of $162,000 and $89,000, respectively for the nine months ended September 30, 2006 and 2007 is associated with the dividend make-whole payment on our outstanding convertible exchangeable preferred stock.

The change in valuation of warrants relates to the issue of warrants to purchase shares of common stock under the registered direct financing completed in February 2007. The warrants issued to the investors meet the requirements of and are being accounted for as a liability in accordance with EITF 00-19. The value of the warrants is being marked to market each reporting period as a derivative gain or loss until exercised or expiration. For the nine months ended September 30, 2007, we recognized the change in the value of warrants of approximately $2.8 million, as other income in the consolidated statement of operations.

The increase in interest income of $1.2 million to $2.8 million for the nine months ended September 30, 2007 from $1.6 million for the nine months ended September 30, 2006, is primarily attributable to higher average balances of cash and cash equivalents and short-term investments in 2007 as compared to 2006 as a result of the Company’s financing activities.

Interest expense for the nine months ended September 30, 2007 decreased by $24,000 as compared to the same period in 2006. During the nine months ended September 30, 2006 interest expenses resulted

primarily from interest associated with a government loan, the principal of which was repaid in the fourth quarter of 2005. During the nine months ended September 30, 2007 interest expense resulted primarily from accretion expense associated with the Bothell lease restructuring provision. During the nine months ended September 30, 2007, accretion expense amounted to approximately $0.1 million.

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 research and development tax credits for the nine months ended September 30, 2006 and 2007:

	Nine months ended September 30,			
	2006	2007	Difference	Difference
		($000s)		%
Total income tax benefit	1,659	1,549	(110)	(7)

Research and development tax credits recoverable decreased by $0.1 million from $1.7 million for the nine months ended September 30, 2006 to $1.6 million for the nine months ended September 30, 2007. This decrease was a reflection of a decrease in income taxes available for recovery as a consequence of the lower eligible research and development expenses in 2007.

Liquidity and Capital Resources

The following is a summary of our key liquidity measures at December 31, 2006 and September 30, 2007:

	December 31, 2006	September 30, 2007
	($000s)	
Cash and cash equivalents	44,238	31,113
Short-term investments, available for sale	9,764	37,430
Current assets	58,165	75,166
Current liabilities	7,921	10,901
Working capital	50,244	64,265

We believe that existing funds together with cash generated from operations are sufficient to satisfy our planned working capital, capital expenditures, debt service and other financial commitments through 2008.

At September 30, 2007, we had cash and cash equivalents and short-term investments of $68.5 million as compared to $54.0 million at December 31, 2006. This higher balance at September 30, 2007 was primarily due to the receipt of net proceeds of $33.4 million from the registered direct offering in the first quarter of 2007. Since our inception, we have not generated any product revenue and have relied primarily on the proceeds from sales of equity and preferred securities to finance our operations and internal growth. Additional funding has come through interest on investments, licensing revenue, government grants and research and development tax credits. We have incurred significant losses since our inception. As of September 30, 2007, Cyclacel had an accumulated deficit of $151.0 million.

In our Annual Report on Form 10-K for the year ended December 31, 2006 under the heading ''Liquidity and Capital Resources,'' we outlined our contractual obligations and other commitments. For the nine months ended September 30, 2007, there have been no material changes in our contractual obligations and other commitments.

Cash provided by (used in) operating, investing and financing activities for the nine months ended September 30, 2006 and 2007, is summarized as follows:

	Nine months ended September 30,	
	2006	2007
	($000s)	
Net cash used in operating activities	16,781	17,630
Net cash provided by (used in) investing activities	4,239	(28,229)
Net cash provided by financing activities	57,779	32,512

Operating activities

Net cash used in operating activities increased $0.8 million, to $17.6 million for the nine months ended September 30, 2007 from $16.8 million for the nine months ended September 30, 2006.

Net cash used in operating activities during the nine months ended September 30, 2007 of $17.6 million resulted from our net operating loss of $12.5 million, adjusted for material non-cash activities comprising amortization of investment premiums (discounts), change in valuation of derivative, change in valuation of liability-classified warrants, depreciation and amortization, non-cash stock based compensation expense and provision for restructuring costs, amounting to $2.3 million and net increase in working capital of $2.8 million due to an increase in amounts receivable combined with a net decrease in accounts payable and accrued expenses.

Net cash used in operating activities during the nine months ended September 30, 2006 of $16.8 million resulted from our net operating loss of $23.7 million, adjusted for material non-cash activities comprising depreciation and amortization, and non-cash stock based compensation expense amounting to $10.3 million, and net decrease in working capital of $3.6 million, primarily due to a net decrease in accounts payable and accrued expenses.

Investing activities

Net cash provided by investing activities for the nine months ended September 30, 2006 was $1.0 million compared to a use of $28.2 million for the nine months ended September 30, 2007.

For the nine months ended September 30, 2007, we purchased $27.4 million of gross marketable securities.

Capital spending is important to our research and development initiatives and to maintain our operational capabilities. Capital expenditures for property, plant and equipment for the nine months ended September 30, 2006 and 2007 totaled approximately $0.1 million and $0.8 million respectively, for normal replacements and improvements.

Financing activities

Net cash provided by financing activities decreased by $28.5 million, from $61.0 million for the nine months ended September 30, 2006 to $32.5 million for the nine months ended September 30, 2007.

For the nine months ended September 30, 2007 the net cash provided by financing activities related to $33.4 million in net proceeds from our registered direct financing, offset by the payment of our preferred stock dividend of $0.9 million and by payment of capital lease obligations of $0.1 million.

For the nine months ended September 30, 2006 the net cash provided by financing activities related primarily to the $17.9 million of cash, and cash equivalents assumed on the Stock Purchase with Xcyte on March 27, 2006 and the April 2006 net proceeds of $42.6 million from the private placement of common stock in April 2006, offset by costs associated with the Stock Purchase of $2.0 million and the payment of capital lease obligations of $0.2 million.

Operating Capital and Capital Expenditure Requirements

We expect to continue to incur substantial operating losses in the future. Although we expect to receive a modest amount of product revenues from the ALIGN business acquired in October, 2007 we will not receive any product revenue on our product candidates currently in development until they have been approved by the U.S. Food and Drug Administration (“FDA”) or similar regulatory agencies in other countries and successfully commercialized.

We currently anticipate that our cash, cash equivalents and marketable securities will be sufficient to fund our operations at least through December 31, 2008. However, we will need to raise substantial additional funds to continue our operations. 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 or if we can successfully increase product revenues in the ALIGN business. 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 including the cost of establishing and growing a sales force and ;
- 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. 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 curtail commercialization activities. 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 our company.

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 assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the judgments and estimates required by the following accounting policies to be critical in the preparation of our financial statements.

Stock-based Compensation

On January 1, 2006, we adopted SFAS 123R. Under SFAS 123R, the fair value of stock options and other equity-based compensation must be recognized as expense in the statements of operations over the requisite service period of each award. The determination of grant-date fair value 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.

Derivative Instrument

Make-whole provision included in our preferred stock

The terms of our November 2004 convertible preferred stock offering include a dividend make-whole payment feature. If we had elected to automatically convert, or the holder elected to voluntarily convert, some or all of the convertible preferred stock into shares of our common stock prior to November 3, 2007, then we would have made an additional payment on the convertible preferred stock equal to the aggregate amount of dividends that would have been payable on the convertible preferred stock through and including November 3, 2007, less any dividends already paid on the convertible preferred stock. This make-whole payment feature was not exercised prior to 3rd November by either Cyclacel or the preferred stock holders. This additional payment would have been payable in cash or, at our option, in shares of our common stock, or a combination of cash and shares of common stock. This dividend make-whole payment feature is considered to be an embedded derivative and has been recorded on the balance sheet at fair value as a current liability. We will be required to recognize other income (expense) in our statements of operations as the fair value of this derivative fluctuates from period to period. The accounting for derivatives is complex, and requires significant judgments and estimates in determining the fair value in the absence of quoted market values. These estimates are based on valuation methodologies and assumptions deemed appropriate in the circumstances. The fair value of the dividend make-whole payment feature is based on various assumptions, including the estimated market volatility and discount rates used in determination of fair value. The use of different assumptions may have a material effect on the estimated fair value amount and our results of operations.

Warrants liability

EITF 00-19 requires freestanding contracts that are settled in our own stock, including common stock warrants to be designated as an equity instrument, asset or liability. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value until exercised or expired, with any changes in fair value recorded in the results of operations. A contract designated as an equity instrument must be included within equity, and no subsequent fair value adjustments are required. We review the classification of its contracts at each balance sheet date. Pursuant to EITF 00-19, since we are unable to control all the events or actions necessary to settle the warrants in registered shares the warrants have been recorded as a current liability at fair value. The fair value of the outstanding warrants is evaluated at each reporting period with any resulting change in the fair value being reflected in the consolidated statements of oper ations. The change in fair value recognized in the financial statements during the three and nine months ended September 30, 2007 was $1.0 million and $2.8 million, respectively.

Goodwill

Goodwill represents the difference between the purchase price and the fair value of net tangible and identifiable intangible assets acquired in the business combination.

Under SFAS No. 142, ‘‘Goodwill and Other Intangible Assets,’’ goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if there are indicators such assets may be impaired) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their estimated useful lives. There were no triggering events calling into question the recoverability of goodwill during the three and nine months ended September 30, 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk related to fluctuations in interest rates and in foreign currency exchange rates.

Interest Rate Risk

Our short-term investments as of September 30, 2007 consisted of $16.0 million in corporate bonds and $21.4 million in federal agency and municipal obligations with contractual maturities of one year

or less. Due to the short-term nature of our investments, we believe that our exposure to market interest rate fluctuations is minimal. The corporate bonds in which we invest are rated ‘‘A’’ or better by both Moody’s and Standard and Poor’s. Our cash and cash equivalents are held primarily in highly liquid money market accounts. A hypothetical 10% change in short-term interest rates from those in effect at September 30, 2007 would not have a significant impact on our financial position or our expected results of operations. We do not currently hold any derivative financial instruments with interest rate risk.

Foreign Currency Risk

We are exposed to foreign currency rate fluctuations related to the operation of our subsidiary in the United Kingdom. At the end of each reporting period, income and expenses of the subsidiary are remeasured into U.S. dollars using the average currency rate in effect for the period and assets and liabilities are remeasured into U.S. dollars using either historical rates or the exchange rate in effect at the end of the relevant period. We currently do not engage in foreign currency hedging; however, we have entered into certain contracts denominated in foreign currencies and therefore, we are subject to currency exchange risks. As of September 30, 2007 differences on foreign currency translation of $0.8 million are shown as a component of other comprehensive loss. In the nine months ended September 30, 2007 exchange rate differences of $0.5 million were charged in the statement of operations.

Valuation Risk

Derivate instruments

The Company’s convertible exchangeable preferred stock issued in November 2004 remained in place following completion of the Stock Purchase. The terms of the convertible exchangeable preferred stock include a dividend make-whole payment feature. This feature is considered to be an embedded derivative and was valued on the balance sheet at $0.3 million at September 30, 2007. As the fair value of this derivative may fluctuate significantly from period to period, the resulting change in valuation may have a significant impact on our results of operations.

Warrants

On February 16, 2007, the Company issued common stock and warrants. Pursuant to EITF 00-19 the Company recorded the fair value of the warrants as long-term liabilities. The fair value of the outstanding warrants is evaluated at each reporting period with any resulting change in the fair value being reflected in the condensed consolidated statements of operations. The change in fair value recognized in the financial statements during the three and nine months ended September 30, 2007 was $1.0 million and $2.8 million, respectively. Fair value of the derivative instruments will be affected by estimates of various factors that may affect the respective instrument, including our stock price, the risk free rate of return and expected volatility in the fair value of our stock price. As the fair value of this derivative may fluctuate significantly from period to period, the resulting change in valuation may have a significant impact o n our results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Spiro Rombotis, our President and Chief Executive Officer, and Paul McBarron, our Executive Vice President, Finance, and Chief Operating Officer, after evaluating the effectiveness of our ‘‘disclosure controls and procedures’’ (as defined in Securities Exchange Act Rule 13a-15(e)), have concluded that as of September 30, 2007 our disclosure controls and procedures are effective.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in SEC Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Securities Exchange Act of

1934 reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Executive Vice President of Finance, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Executive Vice President, Finance, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Executive Vice President, Finance, concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

During the most recently completed fiscal quarter, there has not been any change in our internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) under the Securities Exchange Act of 1934 that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal proceedings

None

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 Quarterly Report on Form 10-Q. Factors that could cause or contribute to differences in our actual results include those discussed in the following subsection, as well as those discussed above in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere throughout this Quarterly Report on Form 10-Q. 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 common stock.

The Risk Factors included in Part 1, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 have not materially changed other than as set forth below as a consequence of our acquiring the right to market and promote Xclair® Cream, Numoisyn® Liquid and Numoisyn® Lozenges in October 2007.Accordingly, the Risk Factors set forth below should be read in conjunction with those in our Annual Repo rt on Form 10-K for the fiscal year ended December 31, 2006 and this Quarterly Report on Form 10-Q.

We are subject to the following significant risks, among others:

Our customer base is highly concentrated.

Our principal customers are a small number of wholesale drug distributors. These customers comprise a significant part of the distribution network for pharmaceutical products in the United States. Three large wholesale distributors, AmerisourceBergen Corporation, Cardinal Health, Inc. and McKesson Corporation, control a significant share of the market in the United States. Our ability to distribute any product, including Xclair® Cream, Numoisyn® Liquid and Numoisyn® Lozenges, and to recognize revenues on a timely basi s is substantially dependent on our ability to maintain commercially reasonable agreements with each of these wholesale distributors and the extent to which these distributors, over whom we have no control, comply with such agreements. Our agreements with wholesaler distributors may contain terms that are not favorable, given our relative lack of market leverage (as a company with only three approved products) or other factors, which could adversely affect our commercialization of Xclair® Cream, Numoisyn® Liquid and Numoisyn® Lozenges (collectively, the '&ls quo;ALIGN products''). The loss of any of these customers could materially and adversely affect our ability to distribute our products, resulting in a negative impact on our operations and financial condition.

Our distribution rights to the ALIGN products are licensed from others, and any termination of that license could harm our business.

We have in-licensed from Sinclair Pharmaceuticals, Ltd. the distribution rights to the ALIGN products. This license agreement imposes obligations on us. Although we are currently in compliance with all of our material obligations under this license, if we were to breach any such obligations, Sinclair would be permitted to terminate the license. This would restrict us from distributing the ALIGN products.

If our 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.

Our licensor and supplier Sinclair Pharmaceuticals, Ltd., contracts with third party manufacturers to supply the finished goods to us to meet our needs. If any of Sinclair's third party manufacturers

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.

In all the countries where we 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 produc ts. 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.

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 custome rs 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.

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 are 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.

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 expect to receive modest product revenues from the ALIGN business acquired in October 2007, since beginning operations in 1996 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 Food and Drug Administration, or FDA, and other regulatory authorities in the United States, the European Union and elsewhere. Significant additional research, preclinical testing and clinical testing is required before we can file applications with the FDA or other regulatory authorities for premarket approval of our drug candidates. In addition, t o 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. Seliciclib and sapacitabine, our most advanced drug candidates for the treatment of cancer, are currently our only drug candidates in clinical trials and 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 general and administrative costs associated with our operations, and we may never achieve profitability. As of September 30, 2007, our accumulated deficit was $150.8 million. Our net loss for the three months ended September, 2006 and 2007 was $5.4million and $4.1 million respectively. Our net loss attributable to ordinary shareholders from inception through September 30, 2007 was $188.9 million. Our initial drug candidates are in the early 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 its drugs. We expect to incur continued losses for several years, as we continue our research and development

of our initial drug candidates, seek regulatory approvals, commercialize any approved drugs and market and promote Xclair® Cream, Numoisyn® Liquid and Numoisyn® Lozenges. If our initial 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, you could lose all or part of your investment.

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

Our successful commercialization of Xclair® Cream, Numoisyn® Liquid and Numoisyn® Lozenges in the United States will depend on our ability to establish and maintain an effective sales and marketing organization in the United States. We are in the process of hiring, training and deploying additional marketing personnel and a national sales force. Prior to our launches of these products, we had never sold or marketed any products.

For our product candidates currently under development, our strategy is to develop compounds through the Phase II stage of clinical testing and market or co-promote certain of our drugs on our own. We have limited 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 or devices ourselves or through a strategic alliance, product revenues will suffer, we will incur significant additional losses and our share price will be negatively affected.

We may not be able to obtain approval in additional countries to market Numoisyn® Liquid.

Numoisyn® Liquid is currently approved for marketing in the United States and we own the rights to market the drug in Canada. There is no guarantee that we will be able to obtain approval to market Numoisyn® Liquid in Canada and hence market the drug and earn potential sales revenue in Canada.

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 and regulatory capabilities and develop 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 where we may operate. Any inability to manage growth could delay the execution of our business plan or disrupt our operations.

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 scientific, technical and sales and marketing personnel. Competition for these types of personnel is intense. The loss of the services of any member of our senior management, scientific, technical or sales or marketing 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. With the acquisition of ALIGN, the success of the commercialization of those products depends, in large part, on our continued abili ty to develop and maintain important relationships with leading key distributors and research and medical institutions. Failure to do that could have a material adverse effect on our ability to commercialize the ALIGN products.

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 scientific and technical personnel. There is currently intense competition for skilled executives and employees with relevant scientific and technical expertise, and this competition is likely to continue. The inability to attract and retain sufficient scientific, technical and managerial personnel could limit or delay 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.

With regard to the ALIGN products, and following regulatory approval of any of our drug candidates, we are subject to ongoing regulatory obligations and restrictions, which may result in significant expense and limit our ability to commercialize our potential drugs.

With regard to our ALIGN products and our drug candidates, if any, approved by the FDA or by another regulatory authority, we are held to extensive regulatory requirements over product manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record keeping. Regulatory approvals may also be subject to significant limitations on the indicated uses or marketing of the drug candidates. Potentially costly follow-up or post-marketing clinical studies may be required as a condition of approval to further substantiate safety or efficacy, or to investigate specific issues of interest to the regulatory authority. Previously unknown problems with the product or drug candidate, including adverse events of unanticipated severity or frequency, may result in restrictions on the marketing of the drug or device, and could include withdrawal of the drug or device from the market.

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

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

It is necessary that our and our distribution partners' products, including Xclair® Cream, Numoisyn® Liquid and Numoisyn® Lozenges achieve and maintain market acceptance. If our drug candidates are approved by the FDA or by another regulatory authority, the resulting drugs, if any, may not gain market acceptance among physicians, healthcare providers and payors, patients and the medical community. The degree of market acceptance of any of our approved drugs or devices will depend on a variety of factors, includi ng:

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

If our drugs fail to achieve market acceptance, we may not be able to generate significant revenue and our business would suffer.

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

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

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

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.

Due to the acquisition of ALIGN, we now have the right to commercially market products. We are exposed to additional risks of product liability claims. These risks exist even with respect to those drugs and devices 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 obtain 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 create adverse publicity, all of which would impair our ability to generate sales of the litigated product as well as our other potential drugs.

If we infringe intellectual property rights of third parties, we may increase our costs or be prevented from being able to commercialize our drug candidates and/or the ALIGN products.

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 and/or the ALIGN products. 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. 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. In addition, the production, manufacture, commercialization or use of our product candidates may infringe existing patents of which we are not aware. Numerous third-party United States and foreign issued patents and pending applications exist in the area of kinases, including CDK, Aurora and Plk for which we have research programs. Because patent applications can take several years to issue, there may be pending applications that may result in issued patents that cover our technologies or product candidates. 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. 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. I n one case we have opposed a European patent relating to human aurora kinase. 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 move some of our screening work outside Europe;
- 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 formulation of a drug candidate so it does not infringe, which may not be possible or could require substantial funds and time.

Intellectual property rights of third parties could adversely affect our ability to commercialize our drug candidate and/or the ALIGN products.

If patents issued to third parties contain valid claims that cover our compounds or their manufacture or uses relevant to our development plans, 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, could cover various aspects of our developmental programs, including in some cases particular uses of our lead drug candidate, seliciclib, sapacitabine or other therapeutic candidates, or gene sequences and techniques that we use in the course of our research and development. In addition, we understand that other applications exist relating to potential uses of seliciclib and sapacitabine that are not part of our current clinical programs for these compounds. Although we intend to continue to monitor these applications, we cannot predict what claims will ultimately be allowed and if a llowed what their scope would be. If a patent is issued that covers our compounds or their manufacture or uses or screening assays related to our development plans then we may not be in a position to commercialize the related drug candidate unless we successfully pursue litigation to have that patent invalidated or enter into a licensing arrangement with the patent holder. Any such litigation would be time consuming and costly, and its outcome would not be guaranteed, and we cannot be certain that we would be able to enter into a licensing arrangement with the patent holder on commercially reasonable terms. In either case, our business prospects could be materially adversely affected. In one case we have opposed a granted European patent related to human aurora kinase. We are also aware of a corresponding US

patent containing method of treatment claims for specific cancers using aurora kinase modulators, which if held valid, could potentially restrict the use of certain of our aurora kinase inhibitors.

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 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Submissions of Matters to a Vote of Security Holders.

None.

Item 5. Other Information

None.

Item 6. Exhibits

10.1†	Asset Purchase Agreement by and between ALIGN Pharmaceuticals, LLC, ALIGN Holdings, LLC and Achilles Acquisition, LLC, dated October 5, 2007.
10.2	Employment Offer Letter by and between Achilles Acquisition, LLC and William C. Collins, dated October 3, 2007.
31.2	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a) As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

† Confidential treatment has been requested as to certain portions, which have been filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in Berkeley Heights, New Jersey, on November 7, 2007.

CYCLACEL PHARMACEUTICALS, INC.

Dated: November 7, 2007

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

ASSET PURCHASE AGREEMENT

BY AND AMONG

ALIGN PHARMACEUTICALS, LLC
ALIGN HOLDINGS, LLC,
as Seller,

and

ACHILLES ACQUISITION, LLC,
as Buyer

Dated as of October 5, 2007

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Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (the "**Agreement**") is entered into as of October 5, 2007 by and among ALIGN Pharmaceuticals, LLC ("**Pharmaceuticals**") and ALIGN Holdings, LLC ("**Holdings**," and, unless the context otherwise requires, collectively with Pharmaceuticals, the "**Seller**"), Cyclacel Pharmaceuticals, Inc. ("**Parent**") and Achilles Acquisition LLC, a limited liability company that is wholly-owned by Parent (the "**Purchaser**").

WHEREAS, the Seller is engaged in the business of the sale and distribution of specialty pharma drugs being sold by the Seller as of the date hereof (the "**Business**");

WHEREAS, the Seller desires to sell to the Purchaser, and the Purchaser desires to purchase from the Seller, substantially all of the assets of the Seller used in or relating to the Business, all upon the terms and conditions set forth herein;

WHEREAS, the managers of the Seller deem it advisable and in the best interest of their respective creditors and members to enter into this Agreement and to consummate the transactions contemplated hereby on the terms and subject to the conditions provided for in this Agreement; and

WHEREAS, the board of directors of Parent deems it advisable and in the best interest of its stockholders and the Seller's creditors to enter into this Agreement and to consummate the transactions contemplated hereby on the terms and subject to the conditions provided for in this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants, representations and warranties herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION

1.1 **Definitions**. In addition to terms defined elsewhere in this Agreement, the following terms when used in this Agreement shall have the respective meanings set forth below:

"**Action**" means any claim, demand, action, cause of action, chose in action, right of recovery, right of set-off, suit, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority.

"**Affiliate**" means, with respect to a specified Person, any other Person which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such Person, and without limiting the generality of the foregoing, includes, with respect to the specified Person: (a) any other Person which beneficially owns or holds 5% or more of the outstanding voting securities or other securities convertible into voting securities of such Person; (b) any other Person of which the specified Person beneficially owns or holds 5% or more of the outstanding voting securities or other securities convertible into voting securities; or (c) any director, manager, officer or employee of such Person.

"**Agreement**" has the meaning set forth in the recitals to this Agreement.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

"**Ancillary Agreements**" means the Bill of Sale, the Assumption Agreement, the Employment Agreement, the Consulting Agreements, the Compromise Agreements, the Supply Agreement and all other agreements, certificates, instruments, documents and writings delivered by the parties hereto in connection with any transaction contemplated hereby or thereby (excluding the Documents, as defined herein).

"**Assumed Liabilities**" has the meaning set forth in Section 2.3.

"**Assumption Agreement**" has the meaning set forth in Section 2.3.

"**Balance Sheet**" has the meaning set forth in Section 4.13.

"**Balance Sheet Date**" has the meaning set forth in Section 4.13.

"**Bill of Sale**" has the meaning set forth in Section 2.1.

"**Business**" has the meaning set forth in the recitals to this Agreement.

"**Business Day**" means any day other than a Saturday, Sunday or other day on which banks are required or authorized to be closed in the city of New York.

"**Cash**" means all cash and cash equivalents (including marketable securities and short-term investments) on hand or in banks or other depositories calculated in accordance with GAAP applied on a consistent basis.

"**CERCLA**" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended through the date hereof and any regulations promulgated thereunder.

"**Closing**" has the meaning set forth in Section 3.3.

"**Closing Date**" has the meaning set forth in Section 3.3.

"**COBRA Coverage**" has the meaning set forth in Section 4.23(d).

"**Code**" shall mean the Internal Revenue Code of 1986, as amended.

"**Compromise Agreements**" has the meaning set forth in Section 7.1(o).

"**Compromised Claims**" means those Liabilities of the Seller set forth on Schedule A.

"**Confidentiality Agreement**" has the meaning set forth in Section 6.4(d).

"**Consents**" has the meaning set forth in Section 4.5(c).

"**Consulting Agreement**" has the meaning set forth in Section 7.1(k).

"**Contract**" means any contract, plan, undertaking, understanding, agreement, license, lease, note, mortgage or other binding commitment, whether written or oral.

"**Court**" means any court or arbitration tribunal of the United States, any domestic state, or any foreign country, and any political subdivision thereof.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

"**Copyrights**" mean all copyrights (registered or otherwise) and registrations and applications for registration thereof, and all rights therein provided by multinational treaties or conventions.

"**Database**" means all data and other information recorded, stored, transmitted and retrieved in electronic form.

"**Disclosure Schedule**" has the meaning set forth in Article IV.

"**Documents**" means this Agreement, together with the Ancillary Agreements, the Schedules and Exhibits hereto and thereto, and the Disclosure Schedule and the other agreements, documents and instruments executed in connection herewith.

"**Employee Plans**" has the meaning set forth in Section 4.23(a).

"**Employment Agreement**" has the meaning set forth in Section 7.1(j).

"**Environmental Condition**" means a condition relating to, or arising or resulting from a failure to comply with any applicable Environmental Law or Environmental Permit, or any release of a Hazardous Substance into the environment.

"**Environmental Law**" means any Law or Regulation pertaining to: (a) the protection of health, safety and the indoor or outdoor environment; (b) the conservation, management or use of natural resources and wildlife; (c) the protection or use of surface water and ground water; (d) the management, manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, emission, discharge, release, threatened release, abatement, removal, remediation or handling of, or exposure to, any Hazardous Substance; or (e) pollution (including any emission, discharge or release to air, land, surface water and ground water of any material); and includes, without limitation, CERCLA and the Solid Waste Disposal Act, as amended 42 U.S.C. § 6901 et seq.

"**Environmental Permits**" means all Permits required under any Environmental Law.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended.

"**ERISA Affiliate**" has the meaning set forth in Section 4.23(a).

"**Event of Indemnification**" has the meaning set forth in Section 8.3(a).

"**Excluded Assets**" has the meaning set forth in Section 2.2.

"**Excluded Liabilities**" has the meaning set forth in Section 2.4.

"**Exchange Act**" shall mean the Securities Exchange Act of 1934, as amended.

"**GAAP**" means United States generally accepted accounting principles and practices in effect from time to time consistently applied.

"**Governmental Authority**" means any governmental, or legislative agency or authority (other than a Court) of the United States, any domestic state, any foreign country, and any political subdivision or agency thereof, and includes any authority having governmental or quasi-governmental powers, including any administrative agency or commission.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

"**Hardware**" means all mainframes, midrange computers, personal computers, notebooks, servers, switches, printers, modems, drives, peripherals and any component of any of the foregoing.

"**Hazardous Substance**" means any Hazardous Substance, as defined in CERCLA, and any other chemical, compound, product, solid, gas, liquid, pollutant, contaminant or material which is regulated under any Environmental Law, and includes without limitation, asbestos or any substance containing asbestos, polychlorinated biphenyls and petroleum (including crude oil or any fraction thereof).

"Holdings" has the meaning set forth in the recitals to this Agreement.

"**Indebtedness**" means, with respect to any Person, (a) all indebtedness of such Person, whether or not contingent, for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services, (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the Seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all obligations of such Person as lessee under leases that have been or should be, in accordance with GAAP, recorded as capital leases, (f) all obligations, contingent or otherwise, of such Person under acceptance, letter of credit or similar facilities, (g) all obligations of such Person to purchase, redeem, retire, decease or otherwise acquire for value any capital stock of such Person or any warrants, rights or options to acquire such capital stock, valued, in the case of redeemable preferred stock, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends, (h) all Indebtedness of others referred to in clauses (a) through (f) above guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (i) to pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness, (ii) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss, (iii) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (iv) otherwise to assure a creditor against loss and all Indebtedness referred to in clauses (a) through (f) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness.

"**Indemnified Persons**" has the meaning set forth in Section 8.3(b).

"**Indemnifying Persons**" has the meaning set forth in Section 8.3(c).

"**Information System**" means any combination of Hardware, Software and/or Database(s) employed primarily for the creation, manipulation, storage, retrieval, display and use of information in electronic form or media.

"**Intellectual Property**" means (a) inventions, whether or not patentable, whether or not reduced to practice or whether or not yet made the subject of a pending Patent application or applications, (b) ideas and conceptions of potentially patentable subject matter, including, without limitation, any patent disclosures, whether or not reduced to practice and whether or not yet made the subject of a pending Patent application or applications, (c) Patents, (d) Trademarks, (e) Copyrights, (g) Software, (h) trade secrets and confidential, technical or business information (including ideas, formulas, compositions, inventions, and conceptions of inventions whether patentable or unpatentable and whether or not reduced

to practice), (i) whether or not confidential, technology (including know-how and show-how), manufacturing and production processes and techniques, research and development information, drawings, specifications, designs, plans, proposals, technical data, copyrightable works, financial, marketing and business data, pricing and cost information, business and marketing plans and customer and supplier lists and information, (j) copies and tangible embodiments of all the foregoing, in whatever form or medium, (k) all rights to obtain and rights to apply for Patents, and to register Trademarks and Copyrights, (l) all rights under the License Agreements and any licenses, registered user agreements, technology or materials, transfer agreements, and other agreements or instruments with respect to items in (a) to (k) above; and (m) all rights to sue and recover and retain damages and costs and attorneys' fees for present and past infringement of any of the Intellectual Property rights hereinabove set out.

"**Inventory**" means all inventory, including, without limitation, merchandise, raw materials, work-in-process, finished products, including drugs, replacement parts, packaging, office supplies and maintenance supplies related to the Business, maintained, held or stored by or for the Seller at any location whatsoever and any prepaid deposits for any of the same.

"**IRS**" shall mean the United States Internal Revenue Service.

"**Knowledge**" means (a) in the case an individual, knowledge of a particular fact or other matter if (i) such individual is actually aware of such fact or other matter, or (ii) a prudent individual could be expected to discover or otherwise become aware of such fact or other matter in the course of conducting a reasonable investigation concerning the existence of such fact or other matter, and (b) in the case of a Person (other than an individual) such Person will be deemed to have Knowledge of a particular fact or other matter if any individual who is serving, or has at any time served, as a manager, officer, partner, executor, or trustee of such Person (or in any similar capacity) has, or at any time had, Knowledge of such fact or other matter.

"**Law**" means all laws, statutes, ordinances and Regulations of any Governmental Authority including all decisions of Courts having the effect of law in each such jurisdiction.

"**Leased Real Property**" means the real property leased by the Seller as tenant, together with, to the extent leased by the Seller, all buildings and other structures, facilities or improvements currently or hereafter located thereon, all fixtures, systems, equipment and items of personal property of the Seller attached or appurtenant thereto, and all easements, licenses, rights and appurtenances relating to the foregoing.

"**Liabilities**" means any and all debts, liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured or determined or determinable, including, without limitation, those arising under any Law (including, without limitation, any Environmental Law), Action or Order, Liabilities for Taxes and those Liabilities arising under any Contract (any one of the Liabilities, a **"Liability"**).

"**License Agreements**" has the meaning set forth in Section 4.21(c).

"**Licensed Intellectual Property**" means all Intellectual Property licensed or sublicensed by the Seller from a third party, including the License Agreements.

"**Liens**" means any mortgage, pledge, security interest, attachment, encumbrance, lien (statutory or otherwise), option, conditional sale agreement, right of first refusal, first offer, termination, participation or purchase, or charge of any kind (including any agreement to give any of the foregoing).

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

"**Litigation**" means any suit, action, arbitration, cause of action, claim, complaint, criminal prosecution, investigation, inquiry, demand letter, governmental or other administrative proceeding, whether at law or at equity, before or by any Court, Governmental Authority, arbitrator or other tribunal.

"**Losses**" has the meaning set forth in Section 8.3(d).

"**Material Adverse Effect**" means any circumstance, change in, or effect on, the Business or the Seller that, individually or in the aggregate with any other circumstances, changes in, or effects on, the Seller or the Business (a) is, or could be, materially adverse to the business, operations, assets or liabilities (including, without limitation, contingent liabilities), employee relationships, customer or supplier relationships, prospects, results of operations or the condition (financial or otherwise) of the Business, or (b) could materially adversely affect the ability of the Purchaser to operate or conduct the Business in the manner in which it is currently operated or conducted, or contemplated to be conducted, by the Seller.

"**Material Contract**" has the meaning given to it in Section 4.5(a).

"**Milestone One"** has the meaning given to it in Section 3.2(b)(iii).

"**Milestone Two"** has the meaning given to it in Section 3.2(b)(iii).

"**Net Sales**" has the meaning given to it in Section 3.2(b)(iii).

"**Order**" shall mean any judgment, order, writ, injunction, ruling, stipulation, determination, award or decree of or by, or any settlement under the jurisdiction of, any Court or Governmental Authority.

"**Owned Intellectual Property**" means all Intellectual Property in and to which the Seller has, or has a right to hold, right, title and interest.

"**Parent Common Stock**" means the common stock, par value $0.001 per share, of the Parent.

"**Parent Common Stock Price**" means the average of the closing prices per share of Parent Common Stock for the 90 Trading Day period ending on the date hereof.

"**Patents**" mean all national (including the United States) and multinational statutory invention registrations, patents, patent registrations and patent applications, including all reissues, divisions, continuations, continuations-in-part, extensions and reexaminations, and all rights therein provided by multinational treaties or conventions and all improvements to the inventions disclosed in each such registration, patent or application.

"**Permits**" means any licenses, permits, pending applications, consents, certificates, registrations, approvals and authorizations.

"**Person**" means any natural person, corporation, limited liability company, unincorporated organization, partnership, association, joint stock company, joint venture, trust or any other entity.

"Pharmaceuticals" has the meaning set forth in the recitals to this Agreement.

"**Products**" has the meaning set forth in Section 4.25.

"**Purchase Price**" has the meaning set forth in Section 3.1.

"**Purchased Assets**" has the meaning set forth in Section 2.1.

"**Purchased Receivables**" has the meaning set forth in Section 2.1(c).

"**Purchaser**" has the meaning set forth in the recitals to this Agreement.

"**Real Property**" means the Leased Real Property and the Owned Real Property.

"**Receivables**" means any and all accounts receivable, notes, book debts and other amounts due or accruing due to the Seller in connection with the Business, whether or not in the ordinary course, together with any unpaid financing charges accrued thereon and the benefit of all security for such accounts, notes and debts.

"**Regulation**" shall mean any rule or regulation of any Governmental Authority**.**

"**Securities Act**" means the Securities Act of 1933, as amended.

"**Seller**" has the meaning set forth in the recitals to this Agreement.

"Seller's Taxes" has the meaning set forth in Section 2.4(c).

"**Software**" means any and all (a) computer programs, including any and all software implementations of algorithms, models and methodologies, whether in source code or object code, (b) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, (c) descriptions, flow-charts and other work product used to design, plan, organize and develop any of the foregoing, (d) the technology supporting any Internet site(s) operated by or on behalf of the Seller and (e) all documentation, including user manuals and training materials, relating to any of the foregoing.

"**Subsidiary**" or "**Subsidiaries**" of a specified Person means any other Person in which such Person owns, directly or indirectly, more **than** 50% of the outstanding voting securities or other securities convertible into voting securities, or which may effectively be controlled, directly or indirectly, by such Person.

"**Supply Agreement**" means that certain Supply Agreement to be entered into by and between the Purchaser and Sinclair Pharmaceuticals Ltd on or before the Closing.

"**Survival Date**" has the meaning set forth in Section 8.1.

"**Tangible Personal Property**" has the meaning set forth in Section 4.17(a).

"**Tax**" or "**Taxes**" means any and all federal, state, local, or foreign taxes, fees, levies, duties, tariffs, imposts, and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any Governmental Authority or other taxing authority, including, without limitation: taxes or other charges on or with respect to income, franchises, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, disability, social security, workers' compensation, unemployment compensation, or net worth; taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value added, or gains taxes; license, registration and documentation fees; and customs' duties, tariffs, and similar charges, whether computed on a separate or consolidated, unitary or combined basis or in any

other manner, **whether** disputed or not and including any obligation to indemnify or otherwise assume or succeed to the Tax liability of any other Person.

"**Tax Returns**" means returns, reports and information statements, including any schedule or attachment thereto, with respect to Taxes required to be filed with the IRS or any other Governmental Authority or other taxing authority or agency, domestic or foreign, including consolidated, combined and unitary tax returns.

"**Third Party Claim**" has the meaning set forth in Section 8.7.

"**Trading Day**" means a day on which securities are traded on the NASDAQ market.

"**Trademarks**" mean all trademarks, service marks, trade dress, logos, trade names and corporate names, whether or not registered, including all common law rights, and registrations and applications for registration thereof, including, but not limited to, all marks registered in the United States Patent and Trademark Office, the Trademark Offices of the States and Territories of the United States of America, and the Trademark Offices of other nations throughout the world, and all rights therein provided by multinational treaties or conventions.

"**WARN Act**" means the Worker Adjustment and Retraining Notification Act.

ARTICLE II

PURCHASE AND SALE

2.1 **Purchased Assets**. Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, each of Holdings and Pharmaceuticals agrees to sell, assign, transfer, convey and deliver to the Purchaser (each pursuant to a Bill of Sale (together the "**Bills of Sale**") in substantially the form of Exhibit 2.1 attached hereto), and the Purchaser agrees to purchase from the Seller, free and clear of all Liens and Liabilities, substantially all of the assets and property used in connection with or otherwise relating to the Business (other than the Excluded Assets), whether real or personal, tangible or intangible (including, without limitation, the telephone numbers used in the Business), of every kind and description and wherever situated and whether or not specifically referred to in this Agreement (collectively, the "**Purchased Assets**"), including, without limitation, the following:

(a) Machinery, Equipment and Furniture. All furniture, fixtures, equipment, machinery and other tangible personal property used or held for use by the Seller at the locations at which the Business is conducted, or otherwise owned or held by the Seller at the Closing Date for use in the conduct of the Business, including, without limitation, the furniture, fixtures, equipment, machinery and tangible personal property listed in Schedule 4.17;

(b) Inventories. All Inventories;

(c) Accounts Receivable. The Receivables listed on Exhibit 2.1(c) attached hereto (the "**Purchased Receivables**");

(d) Books and Records. All books and records (other than those required by law to be retained by the Seller, copies of which will be made available to the Purchaser) including, without limitation, customer lists, sales records, price lists and catalogues, sales literature, advertising material,

manufacturing data, production records, employee manuals, personnel records, supply records, inventory records and correspondence files (together with, in the case of any such information which is stored electronically, the media on which the same is stored);

(e) Goodwill. The goodwill of the Seller relating to the Business together with the exclusive right for the Purchaser to represent itself as carrying on the Business in succession to the Seller and the right to use any words indicating that the Business is so carried on, including the exclusive right to use the name Align Pharmaceuticals, or any variation thereof, as part of the name or style under which the Business or any part thereof is carried on by the Purchaser;

(f) Intellectual Property. All the Seller's right, title and interest in, to and under the Licensed Intellectual Property and the Owned Intellectual Property of the Seller;

(g) Claims and Causes of Action. All Actions of any kind (including rights to insurance proceeds and rights under and pursuant to all warranties, representations and guarantees made by suppliers of products, materials or equipment, or components thereof) pertaining to or arising out of the Business, and inuring to the benefit of the Seller, together with any and all Liens granted or otherwise available to the Seller as security for collection of any of the foregoing;

(h) Prepaid Expenses. All prepaid expenses of the Seller;

(i) Contracts. All rights under Contracts of or relating to the Business, listed in Schedule 4.5(a), together with all of the Seller's claims or rights of action now existing or hereafter arising thereunder;

(j) Hardware and Software. All of the Seller's Information Systems and other Hardware, Software and Databases, including, without limitation, all rights under licenses and other agreements or instruments related thereto; and

(k) Permits. To the extent transferable, all Permits held or used by the Seller in connection with, or required for or useful for, the Business, including, without limitation, those listed in Schedule 4.19.

2.2 **Excluded Assets**. Notwithstanding the provisions of Section 2.1, the Purchased Assets shall not include any of the following property and assets of the Seller (collectively, the "**Excluded Assets**"):

(a) Indebtedness Owed to Any Seller. All Indebtedness owed to any Seller by another Seller or any Affiliate of any Seller.

(b) Income Taxes. All income tax installments paid by the Seller and the right to receive any refund of income taxes paid by the Seller;

(c) All corporate records, including, but not limited to, the Seller's minute book and stock record book (but not including records of the Business relating to operation of the Business described in Section 2.1(d)); and

(d) The assets listed on Exhibit 2.2(d) attached hereto.

2.3 **Assumed Liabilities**. At the Closing, the Purchaser shall execute and deliver the Assumption Agreement substantially in the form of Exhibit 2.3 attached hereto (the "**Assumption**

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

Agreement"), pursuant to which, subject to the provisions of Section 2.4, it shall assume and agree to pay, perform and discharge only the Liabilities of the Seller arising under the Contracts listed in Schedule 4.5(a) and included in the Purchased Assets from and after the Closing Date (other than Liabilities or obligations attributable to any failure by the Seller to comply with the terms thereof) (the "**Assumed Liabilities**"). All other Liabilities of the Seller shall be settled at or prior to Closing through the Compromise Agreements or otherwise.

2.4 **Excluded Liabilities**. The Seller shall retain, and shall be responsible for paying, performing and discharging **when** due, and the Purchaser shall not assume or have any responsibility for, any and all Liabilities of the Seller (including, without limitation, the Compromised Claims) other than the Assumed Liabilities (the "**Excluded Liabilities**"). Without limiting the generality of the foregoing, the Purchaser shall not assume, and the Seller shall remain responsible for, and shall indemnify the Purchaser with respect to, the following:

(a) all obligations or Liabilities for any administrative expenses or fees or expenses of professional persons (including any attorney, consultant or financial advisor) employed or retained by the Seller in connection with the transaction contemplated by this Agreement;

(b) subject to Section 2.3, all Liabilities or obligations (whether absolute, contingent, or otherwise) which accrue with respect to, arise out of, or relate to, the Purchased Assets on or prior to the Closing Date, including any Liability or obligation of the Seller or any of its employees, directors, managers, officers, members, affiliates or agents arising out of, relating to, or caused by (whether directly or indirectly), the Seller's ownership, possession, operation, interest in, use or control of the Purchased Assets;

(c) any liability or obligation for (i) Taxes of the Seller or any of its Affiliates or (ii) Taxes attributable to the Purchased Assets or the Business, in each case, relating to any period or any portion of any period ending on or prior to the Closing Date (for this purpose, ad valorem taxes shall be prorated as of the Closing Date) (the Taxes under clauses (i) and (ii), collectively, the "**Seller's Taxes**");

(d) subject to Section 2.3, with respect to current or former employees, directors, managers, officers, members and consultants of the Seller and its Affiliates, all liabilities or obligations in respect of any compensation, benefit plan, pension plan, unpaid vacation days, agreement, arrangement, program, policy or understanding relating to such individuals, their service to and tenure with the Seller and its Affiliates, and their benefits, including any employment, consulting, severance or other termination payments, Liability in respect of WARN, change in control or similar agreements, workers' compensation Liabilities, any other employment-related claim (including for actual, constructive or deemed termination, employment discrimination or wrongful discharge) or any right of indemnification;

(e) all Liabilities or obligations which arise, whether before, on or after the Closing Date, out of, or in connection with, the Excluded Assets;

(f) all Liabilities or obligations arising out of or in connection with any Indebtedness of the Seller or any of its Affiliates;

(g) all Liabilities or obligations arising from any litigation, investigation or other proceeding pending or threatened in respect of the Seller or any of its officers, directors, managers, representatives or agents or, to the extent relating to any transaction or event occurring on or prior to the Closing Date, in respect of the Purchased Assets;

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

(h) all Liabilities or obligations arising out of or in connection with any Real Property on or after the Closing Date; and

(i) all Liabilities and obligations incurred by the Seller on or after the Closing Date.

2.5 **Collection of Purchased Receivables**. The Seller agrees that, from and after the Closing Date, the Purchaser shall have the right and authority to collect for its own account the Purchased Receivables, subject to the provisions hereof, and to endorse with the name of the Seller all checks received on account of the Purchased Receivables. The Seller agrees that it will, within five Business Days, transfer, assign and deliver to the Purchaser all cash and other property which it may receive with respect to any Purchased Receivable, and pending any such delivery to the Purchaser of any such property, the Seller shall hold any such property in trust for the benefit of the Purchaser

2.6 **Returned Products**. Except as otherwise expressly set forth below, during the one year period immediately following the Closing Date, the Purchaser shall be responsible for processing returns of all Products which were sold by the Seller prior to the Closing Date and which are returned by customers for credit after the Closing Date. The Purchaser shall handle such returns during such period in accordance with the Seller's applicable returned goods policy. The Seller agrees to provide the Purchaser with any information reasonably requested by the Purchaser from time to time in order to facilitate such returned products policy. In the event that **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24B-2]** or more of Products which were sold by the Seller prior to the Closing Date are returned for credit during the period after the Closing Date and ending on the second anniversary of the Closing Date, the Seller shall indemnify the Purchaser for the value of the returned Products in excess of **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24B-2]** in accordance with the terms and provisions of Article VIII hereof.

ARTICLE III

PURCHASE PRICE

3.1 **Purchase Price**. As consideration for the purchase of the Purchased Assets, upon the terms and conditions set forth in this Agreement, the Purchaser shall pay to the Seller the Cash Consideration and Stock Consideration (each as hereinafter defined) as follows:

(a) On the Closing Date, the Purchaser shall pay to Seller (or creditors on behalf of Seller) in cash in the aggregate amount of $3,331,428.00. The Purchaser shall remain obligated to pay up to an additional $452,464.00 (the "**Creditor Reserve**") to creditors of the Seller (the "**Creditor Reserve Creditors**") based on obligations to such creditors of the Seller under Compromise Agreements, to the extent Purchaser determines it is required to make such payments within 120 business days from the Closing Date. (Cash paid at closing or within 120 business days after closing shall be the "**Cash Consideration**").

To the extent Purchaser pays the Creditor Reserve Creditors in cash, the Creditor Reserve shall be reduced by the actual amount of cash paid. To the extent Purchaser pays the Creditor Reserve Creditors with product rather than cash, the Creditor Reserve shall be reduced by Purchaser's cost of such product. To the extent part of or the entire Creditor Reserve is not expended within 130 business days from the Closing Date, additional Stock Consideration will be provided to Seller equal to the value of the unexpended amount. The Stock Consideration would be valued at the Parent Common Stock Price. These determinations shall be made by the Purchaser, in its sole commercially reasonable discretion and Section 8.5(c) of this Agreement shall not apply to such determinations by the Purchaser which shall be final and

conclusive. In the event **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24B-2]** or more of any product distributed pursuant to this Section 3.1 is returned for credit, Seller will indemnify Purchaser in the amount of the benefit received by Seller under this Section 3.1 on account of a creditor initially accepting such returned product in lieu of cash, as payment for Seller's obligations. Such indemnification shall be in accordance with Article VIII hereof.

(b) The Stock Consideration shall consist of shares of Parent Common Stock equal to $1,116,108, increased by the value of any additional stock issued pursuant to Section 3.1(a) above, and decreased by the value of any stock retained pursuant to Section 8 below (the "**Stock Consideration**," and, together with Cash Consideration, the **Purchase Price")**.

(c) On the Closing Date, the Purchaser shall assume the Assumed Liabilities.

3.2 **Payment of Purchase Price; Earn-Out**.

(a) At the Closing, except as set forth in Section 3.1(a) above, the Purchaser shall pay the Seller (or creditors on behalf of the Seller) the Cash Consideration by delivery of the requisite amount of cash by wire transfer, bank check or certified check as provided in Section 3.1.

(b) Subject to Section 3.1 and the terms of Article VIII, and following the Closing, Parent shall issue to Holdings such number of shares of Parent Common Stock as amount to the Stock Consideration, valued at the Parent Common Stock Price, to the extent the value of such Parent Common Stock is not used to satisfy the Seller's indemnification obligations under Article VIII, as follows:

[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24B-2]

3.3 **Closing**. Subject to the terms and conditions of this Agreement, the closing of the transactions contemplated by this Agreement (the "**Closing**") shall take place at the offices of **Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan, L.L.P., 2500 Wachovia Capitol Center, Raleigh, North Carolina 27601**, at 12:00 P.M. on October 5, 2007 (the day on which the Closing takes place being the "**Closing Date**").

3.4 **Transfer Taxes**. The Seller shall be liable for and shall pay all federal and state sales Taxes (including any retail sales Taxes and land transfer Taxes) and all other Taxes, duties, fees or other like charges of any jurisdiction properly payable in connection with the transfer of the Purchased Assets by the Seller to the Purchaser.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE SELLER

The Disclosure Schedule attached hereto (the "**Disclosure Schedule**") identifies by Section and Subsection any exception to a representation or warranty in this Article IV. As an inducement to the Purchaser to enter into this Agreement and to consummate the transactions contemplated hereby, each of Holdings and Pharmaceuticals, jointly and severally, represents and warrants to the Purchaser as follows:

4.1 **Organization and Qualification**. Each Seller is (a) a limited liability company duly organized, validly existing and in good standing under the laws of Delaware, and (b) duly licensed or

qualified to transact business as a foreign corporation and is in good standing in each of the jurisdictions listed on Schedule 4.1, such jurisdictions being the only jurisdictions in which the nature of the Business or the ownership or leasing of its properties by the Seller requires such licensing or qualification and where the failure to be so licensed or qualified could have a Material Adverse Effect on the Business or any of the Purchased Assets.

4.2 **Charter and Limited Liability Company Records**. True, correct and complete copies of each of (a) the certificate of formation of each Seller, as amended and in effect on the date hereof, (b) the operating agreement of each Seller, as amended and in effect on the date hereof, and (c) the minute books of each Seller have been previously delivered to the Purchaser. Such minute books contain complete and accurate records of all meetings and other actions of the managers, members, committees and incorporators of each Seller from the date of their respective formation to the date hereof and have been maintained in a manner consistent with good business practices. Except as set forth on Schedule 4.2, each Seller is in compliance with, and not in default or violation of, its respective certificate of formation and operating agreement.

4.3 **Authorization; Enforceability**. Each Seller has the power and authority to own, hold, lease and operate its respective properties and assets and to carry on its business as currently conducted. Each Seller has the power and authority to execute, deliver and perform this Agreement and the other Documents. The execution, delivery and performance of this Agreement and the other Documents and the consummation of the transactions contemplated herein and therein have been duly authorized and approved by each Seller and all of its members or equityholders, and no other action on the part of either Seller or its members or equityholders is necessary in order to give effect thereto. This Agreement and each of the other Documents to be executed and delivered by each Seller and each of its members or equityholders have been duly executed and delivered by, and constitute the legal, valid and binding obligations of, each Seller, enforceable against each Seller, in accordance with their respective terms, except as such enforcement may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally and except that the availability of equitable remedies is subject to the discretion of the court before which any proceeding therefor may be brought.

4.4 **No Violation or Conflict**. Except as set forth in Schedule 4.4, none of (a) the execution and delivery by either Seller and each of its members or equityholders of this Agreement and the other Documents to be executed and delivered by each Seller and each of their members or equityholders, (b) consummation by each Seller and each of their respective members or equityholders of the transactions contemplated by this Agreement and the other Documents, or (c) the performance of this Agreement and the other Documents required by this Agreement to be executed and delivered by each Seller and each of its members or equityholders at the Closing, will (i) conflict with or violate the respective certificate of formation or operating agreement of either Seller, (ii) conflict with or violate any Law, Order or Permit applicable to any Seller or by which any Seller's properties are bound or affected, or (iii) result in any breach or violation of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or impair any Seller's rights or alter the rights or obligations of any third party under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any Lien on any of the properties or assets of any Seller pursuant to, any Contract or other instrument or obligation to which either Seller is a party or by which any Seller or its properties are bound or affected except, in the case of clause (b) or (c) above, for any such conflict, breach, violation, default or other occurrence that would not individually or in the aggregate, have a Material Adverse Effect.

4.5 **Contracts**.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

(a) Schedule 4.5(a) lists each of the Contracts to which each Seller is a party or by which it or any of its properties or assets may be bound (each of such Contracts being a "**Material Contract**" and, collectively, being the "**Material Contracts**").

(b) The Seller has delivered or made available to the Purchaser true, correct and complete copies of all Material Contracts which are in writing, and Schedule 4.5(a) contains an accurate summary of all Material Contracts which are not in writing. As of the Closing Date, each Seller shall have satisfied in full all of its liabilities and obligations (that are subject to and capable of being fulfilled prior to the Closing Date) under the Material Contracts prior to the Closing, including, without limitation, the execution and fulfillment of the Compromise Agreements.

(c) The Material Contracts are in full force and effect and are the valid and binding obligations of the Seller and the other parties thereto, enforceable in accordance with their respective terms, subject only to bankruptcy, insolvency or similar laws affecting the rights of creditors generally and to general equitable principles. Except as set forth on Schedule 4.5(c)(i), each Material Contract is freely and fully assignable to the Purchaser without penalty or other adverse consequences and no consent of or notice to any third party (the "**Consents**") is required in order to validly assign and transfer the Material Contracts to the Purchaser. The Seller has not received notice of default by the Seller under any of the Material Contracts and no event has occurred which, with the passage of time or the giving of notice or both, would constitute a default by the Seller thereunder. To the Knowledge of the Seller, none of the other parties to any of the Material Contracts is in default thereunder, nor has an event occurred which, with the passage of time or the giving of notice or both would constitute a default by such other party thereunder. Except as set forth on Schedule 4.5(c)(ii), the Seller has not received notice of the pending or threatened cancellation, revocation or termination of any of the Material Contracts, nor does it have Knowledge of any facts or circumstances that could reasonably be expected to lead to any such cancellation, revocation or termination.

(d) Except to the extent Consents are not obtained prior to the closing, the continuation, validity and effectiveness of the Material Contracts under the current terms thereof will in no way be affected by the execution of this Agreement and the other Documents or the consummation of the transactions contemplated herein and therein.

(e) None of the Material Contracts was entered into outside the ordinary course of business, contains any unusual, onerous or burdensome provisions that could impair or adversely affect in any material way the operations of the Seller or the Business, or is reasonably likely to be performed at a material loss.

4.6 **Litigation**. Except as set forth on Schedule 4.6, there is no Litigation or investigation pending or, to the Knowledge of the Seller, threatened against, or otherwise adversely affecting, the Business or the properties, assets (including the Purchased Assets) or rights of the Seller relating thereto, before any Court or Governmental Authority, nor does there exist any reasonable basis for any such Litigation. The Seller is not subject to any outstanding Litigation or Order, which, individually or in the aggregate, would prevent, hinder or delay the Seller from consummating the transactions contemplated by this Agreement. There is no Litigation pending or threatened that might call into question the validity of this Agreement or any of the other Documents or any action taken or to be taken pursuant hereto or thereto, nor does there exist any reasonable basis for any such Litigation. There is no action by the Seller pending or threatened against any third party with respect to the Business or any of the Purchased Assets.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

4.7 **Brokers**. Except as set forth on Schedule 4.7, the Seller has not employed any financial advisor, broker or finder, and the Seller has not incurred and will not incur any broker's, finder's, investment banking or similar fees, commissions or expenses in connection with the transactions contemplated by this Agreement. The Seller shall be solely responsible for payment of all such fees incurred in connection with this transaction.

4.8 **Compliance with Law**. The Seller is, and has conducted and continues to conduct the Business, in compliance with, and is not in default or violation of, all Laws, Orders and other requirements applicable to it or by which any of its assets or properties are bound or affected including, without limitation, those relating to (a) the development, manufacture, packaging, distribution and marketing of products, (b) employment, safety and health, and (c) building, zoning and land use. The Seller is not subject to any Order that adversely affects, individually or in the aggregate, the Business, or its operations, properties, assets or condition (financial or otherwise). The Seller has not received any notice or other communication (whether written or oral) from any Governmental Authority or other Person regarding any actual, alleged, possible or potential breach, violation of or non-compliance with any Order to which the Seller, the Business or any of the Purchased Assets is or has been subject. There is no existing Law or Order, and the Seller is not aware of any proposed Law or Order, which would prohibit or materially restrict or otherwise materially adversely affect the conduct of the Business in any jurisdiction in which such business is now conducted.

4.9 **Certain Practices**. Neither the Seller, nor any of its directors, managers, officers, employees or agents has, directly or indirectly, given or agreed to give any rebate, gift or similar benefit to any supplier, customer, governmental employee or other Person who was, is, or may be in a position to help or hinder the Seller (or assist in connection with any actual or proposed transaction by the Seller).

4.10 **Governmental Consents and Approvals**. Except as set forth in Schedule 4.10, the execution, delivery and performance of this Agreement and the other Documents by the Seller do not and will not require any consent, approval, authorization, Permit or other order of, action by, filing with or notification to, any Governmental Authority.

4.11 **No Other Agreements to Purchase**. No person other than the Purchaser has any written or oral agreement or option or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement or option for the purchase or acquisition from the Seller of any of the Purchased Assets, other than purchase orders for Inventories accepted by the Seller in the ordinary course of business, consistent with past practice.

4.12 **Receivables**. Schedule 4.12 contains an aged list of the Receivables as of the Balance Sheet Date. Except as set forth on Schedule 4.12, all Receivables reflected on the Balance Sheet arose from, and the Receivables existing on the Closing Date will have arisen from, the sale of Inventory in the ordinary course of business, consistent with past practice, to Persons not affiliated with the Seller and, except as reserved against on the Balance Sheet, constitute or will constitute, as the case may be, only valid, undisputed claims of the Seller not subject to valid claims of set-off or other defenses or counterclaims.

4.13 **Balance Sheet**. The Seller has furnished to the Purchaser, and attached hereto as Schedule 4.13 is, the unaudited balance sheet of the Seller as at September 30, 2007 (the "**Balance Sheet**"). Except as set forth on Schedule 4.13, the Balance Sheet has been prepared in accordance with GAAP consistently applied (with the exception of the lack of notes thereto for unaudited financial statements), is complete and correct in all material respects and accurately reflects all transactions of the Business. The Balance Sheet fairly presents the financial position of the Business as of the date thereof.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

Except as set forth on Schedule 4.13, the Balance Sheet reflects reserves appropriate and adequate for all known material Liabilities and reasonably anticipated losses as required by GAAP. Except as set forth on Schedule 4.13, since the date of the Balance Sheet (the "**Balance Sheet Date**"), (a) there has been no change in the assets, liabilities or financial condition of the Business from that reflected in the Balance Sheet, except for changes in the ordinary course of business, and (b) none of the business, prospects, condition (financial or otherwise), operations, property or affairs of the Business has been materially or adversely affected by any occurrence or development, individually or in the aggregate, whether or not insured against.

4.14 **Absence of Undisclosed Liabilities**. Except as set forth on Schedule 4.14, there are no Liabilities of the Seller other than the Compromised Claims or Liabilities which have been or will be satisfied at or prior to Closing. Except as expressly contemplated in the preceding sentence, the Seller does not know of, and has no reason to know of, any basis for the assertion against the Seller with respect to the Business of any Liability.

4.15 **Conduct in the Ordinary Course; Absence of Changes**. Since the Balance Sheet Date, except as disclosed in Schedule 4.15, the Business has been conducted in the ordinary course of business, consistent with past practice, and there has been no change in the Purchased Assets or the Business which has had, or could reasonably be anticipated to result in, a Material Adverse Effect.

4.16 **Inventory**.

(a) The Inventory consists only of items of a quality and quantity usable or saleable by the Business in the ordinary course of business, and within a reasonable period of time, as first quality goods. Subject to amounts reserved therefor on the Balance Sheet, all Inventory is valued on the Balance Sheet at the lower of cost, determined by the first in first-out method of accounting, or market value, in accordance with GAAP. The Seller has good and marketable title to the Inventory, free and clear of all Liens. The Inventory does not include any items held on consignment. The Seller is not under any obligation or Liability with respect to accepting returns of items of Inventory or merchandise in the possession of its customers other than in the ordinary course of business consistent with past practice.

(b) The Inventory is in good and merchantable condition in all material respects, is suitable and usable for the purposes for which it is intended. To the extent the Inventory has been acquired from vendors or manufacturers, the Inventory is (i) returnable to such vendors or manufacturers for credit on customary terms, (ii) listed in such vendors' or manufacturers' current catalogs in use as of the Closing Date and (iii) is in "as new" condition.

4.17 **Personal Property**.

(a) Schedule 4.17 lists each item or distinct group of machinery, equipment, tools, supplies, furniture, fixtures, vehicles, rolling stock and other tangible personal property used in the Business and owned or leased by the Seller (the "**Tangible Personal Property**"), and the location thereof.

(b) The Seller has delivered to the Purchaser correct and complete copies of all leases for Tangible Personal Property and any and all material ancillary documents pertaining thereto (including, but not limited to, all amendments, consents and evidence of commencement dates and expiration dates). With respect to each of such leases:

(i) such lease, together with all ancillary documents delivered pursuant to the first sentence of this Section 4.17(b), is legal, valid, binding, enforceable and in full force and effect and represents the entire agreement between the respective lessor and lessee with respect to such property;

(ii) except as set forth in Schedule 4.17, such lease will not cease to be legal, valid, binding, enforceable and in full force and effect on terms identical to those currently in effect as a result of the consummation of the transactions contemplated by this Agreement, nor will the consummation of the transactions contemplated by this Agreement constitute a breach or default under such lease or otherwise give the lessor a right to terminate such lease;

(iii) except as otherwise set forth in Schedule 4.17, with respect to each such lease, (A) the Seller has not received any notice of cancellation or termination under such lease and no lessor has any right of termination or cancellation under such lease or sublease except in connection with the default of the Seller thereunder, (B) the Seller has not received any notice of a breach or default under such lease, which breach or default has not been cured and (C) the Seller has not granted to any other Person any rights, adverse or otherwise, under such lease; and

(iv) neither the Seller, nor, to the Knowledge of the Seller, any other party to such lease, is in breach or default in any material respect, and no event has occurred that, with notice or lapse of time would constitute such a breach or default or permit termination, modification or acceleration under, such lease.

(c) The Seller has, and upon the Closing will continue to have, the full right to exercise any renewal options contained in the leases pertaining to the Tangible Personal Property on the terms and conditions therein and upon due exercise would be entitled to enjoy the use of each item of leased Tangible Personal Property for the full term of such renewal options.

(d) All Tangible Personal Property is adequate and usable for the use and purposes for which it is currently used, is in good operating condition, and has been maintained and repaired in accordance with good business practice.

4.18 **Purchased Assets**.

(a) Except as set forth in Schedule 4.18(a), the Seller (i) owns, leases or has the legal right to use all the properties and assets, including, without limitation, the Owned Intellectual Property, the Licensed Intellectual Property, and the Tangible Personal Property, used, intended to be used in the conduct of the Business, and (ii) with respect to contractual rights, is a party to and enjoys the right to the benefits of all Contracts, all of which properties, assets and rights constitute Purchased Assets, except for the Excluded Assets. Except as set forth in Schedule 4.18(a), the Seller has good and marketable title to, or, in the case of leased or subleased Purchased Assets, valid and subsisting leasehold interests in, all the Purchased Assets, free and clear of all Liens.

(b) The Purchased Assets and the Excluded Assets constitute (i) all of the properties, assets and rights, used, held or intended to be used in the Business, and (ii) all such properties, assets and rights as are necessary or useful in the conduct of the Business. At all times, the Seller has caused the Purchased Assets to be maintained, in all material respects, in accordance with good business practice, and all the Purchased Assets are in good operating condition and repair and are suitable for the purposes for which they are used and intended to be used.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

(c) Except as set forth in Schedule 4.18(c), the Seller has the complete and unrestricted power and unqualified right to sell, assign, transfer, convey and deliver the Purchased Assets to the Purchaser without penalty or other adverse consequences. Following the consummation of the transactions contemplated by this Agreement and the execution of the instruments of transfer contemplated by this Agreement, the Purchaser will own, with good, valid and marketable title, or lease, under valid and subsisting leases, or otherwise acquire the interests of the Seller in the Purchased Assets, free and clear of all Liens, and without incurring any penalty or other adverse consequence, including, without limitation, any increase in rentals, royalties, or license or other fees imposed as a result of, or arising from, the consummation of the transactions contemplated by this Agreement.

4.19 **Permits**. Schedule 4.19 lists all Permits used in or otherwise necessary for the conduct of the Business. Except as set forth in Schedule 4.19, each of such Permits will be duly and validly transferred to the Purchaser in connection with the consummation of the transactions contemplated herein. The Seller is, and at all times has been, in compliance with all conditions and requirements imposed by the Permits and the Seller has not received any notice of, and has no reason to believe, that any appropriate authority intends to cancel or terminate any of the Permits or that valid grounds for such cancellation or termination exist. The Seller owns or has the right to use the Permits in accordance with the terms thereof without any conflict or alleged conflict or infringement with the rights of any other Person. Each of the Permits is valid and in full force and effect and, except as set forth in Schedule 4.19, none of the Permits will be terminated or adversely affected by the transactions contemplated hereby.

4.20 **Taxes**.

(a) (i) All returns and reports in respect of Taxes required to be filed with respect to the Seller or the Business have been timely filed; (ii) all Taxes required to be shown on such returns and reports or otherwise due have been timely paid; (iii) all such returns and reports are true, correct and complete in all material respects; (iv) no adjustment relating to such returns has been proposed formally or informally by any Governmental Authority and, to the Knowledge of the Seller, no basis exists for any such adjustment; (v) there are no pending or, to the Knowledge of the Seller, threatened actions or proceedings for the assessment or collection of Taxes against the Seller or (insofar as either relates to the activities or income of the Seller or the Business or could result in Liability of the Seller on the basis of joint and/or several liability) any Person that was includible in the filing of a return with the Seller on a consolidated or combined basis; (vi) the Seller has withheld and paid all Taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder, member or other third party, and all Forms W-2 and 1099 required with respect thereto have been properly completed and timely filed.

(b) Except as disclosed with reasonable specificity in Schedule 4.20: (i) there are no outstanding waivers or agreements extending the statute of limitations for any period with respect to any Tax to which the Seller or the Business may be subject; (ii) there are no requests for information currently outstanding that could affect the Taxes of the Seller or the Business; and (iii) there are no proposed reassessments of any property owned by the Seller or other proposals that could increase the amount of any Tax to which the Seller or the Business would be subject.

(c) On the Balance Sheet, reserves and allowances have been provided adequately to satisfy all Liabilities for Taxes relating to the Business for periods through the Closing Date (without regard to the materiality thereof).

(d) The Seller is not a party to any Tax allocation or sharing agreement. The Seller (i) has not been a member of an affiliated group filing a consolidated federal income Tax return (other

than a group the common parent of which was the Seller, and (ii) has no liability for the Taxes of any Person under Reg. §1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

4.21 **Intellectual Property.**

(a) Schedule 4.21(a) sets forth all of the Owned Intellectual Property, including, without limitation, a complete and accurate list of all Patents, Trademarks, domain name registrations and Copyrights, indicating for each item, to the extent applicable, the jurisdiction of registration (or application), registration number (or application number) and date issued (or date filed).

(b) All Trademarks, Patents and Copyrights listed in Schedule 4.21(a) are currently in compliance with all legal requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications with respect to Trademarks, and the payment of filing, examination and annuity and maintenance fees and proof of working or use with respect to Patents), are valid and enforceable and are not subject to any maintenance fees or actions falling due within ninety (90) days after the Closing Date. No Trademark is currently involved in any opposition or cancellation proceeding and no such action has been threatened with respect to any of the Trademarks or trademark registration applications. No Patent is currently involved in any interference, reissue, re-examination or opposition proceeding and no such action has been threatened with respect to any Patent. There are no potentially conflicting Trademarks or potentially interfering Patents of any third party as defined under 35 U.S.C. 135 of the United States Patent Code.

(c) Schedule 4.21(c)(i) sets forth a complete and accurate list of all license agreements granting any right to use or practice any rights under any Intellectual Property, whether the Seller is the licensee or licensor thereunder, and any assignments, consents, term, forbearances to sue, judgments, Governmental Orders, settlements or similar obligations relating to any Intellectual Property to which the Seller is a party or otherwise bound (collectively, the "**License Agreements**"), indicating for each the title, the parties, date executed, whether or not it is exclusive and the Intellectual Property covered thereby. The License Agreements are valid and binding obligations of the Seller, enforceable in accordance with their terms and, except as disclosed on Schedule 4.21(c)(ii), there exists no event or condition that will result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default by the Seller under any such License Agreement. None of the execution, delivery or performance of this Agreement by the Seller, the consummation by it of its obligations hereunder, or compliance by it with any of the provisions of this Agreement will conflict with or result in any breach of any provision contained in any of the Licensed Agreements.

(d) The Owned Intellectual Property and the Licensed Intellectual Property constitute all of the Intellectual Property used in or necessary for the conduct of the Business as currently conducted and as contemplated to be conducted.

(e) No royalties, honoraria or other fees are payable to any third parties for the use of or right to use any Intellectual Property except pursuant to the License Agreements set forth in Schedule 4.21(c)(i).

(f) The Seller exclusively owns, free and clear of all Liens and obligations to license, all Owned Intellectual Property, and has a valid, enforceable and transferable right to use all of the Licensed Intellectual Property.

(g) The Seller has taken all reasonable steps to protect the Owned Intellectual Property, including all reasonable steps to protect the Owned Intellectual Property from third party infringement. No third party has challenged the ownership, use, validity or enforceability of any of such Owned Intellectual Property.

(h) The conduct of the Business as currently conducted and as contemplated to be conducted does not infringe upon any Intellectual Property rights of any third party. The Seller has not been notified by any third party of any allegation that the Seller's activities or the conduct of the Business infringes upon, violates or constitutes the unauthorized use of the Intellectual Property rights of any third party. No third party has notified the Seller that (i) any of such third party's Intellectual Property rights are infringed or (ii) the Seller requires a license to any of such third party's Intellectual Property rights. Further, the Seller has not been offered a license to any of such third party's Intellectual Property rights.

(i) Except as set forth in Schedule 4.21(i), there is no litigation pending or threatened alleging that the Seller's activities or the conduct of the Business infringes upon, violates, or constitutes the unauthorized use of the Intellectual Property rights of any third party nor has any third party brought or threatened any Litigation challenging the ownership, use, validity or enforceability of any Intellectual Property of the Seller.

(j) No third party is misappropriating, infringing, diluting, or violating any Owned Intellectual Property and, except as set forth in Schedule 4.21(j), no such claims have been brought against any third party by the Seller.

(k) None of the execution, delivery or performance of this Agreement by the Seller, the consummation by it of its obligations hereunder, or compliance by it any of the provisions of this Agreement will result in the loss or impairment of the Seller's or the Purchaser's right to own or use any of the Intellectual Property, nor will the approval of any Governmental Authority or third party in respect of any such Intellectual Property be required.

(l) Schedule 4.21(l) lists (i) all Software (other than off-the-shelf software applications programs having an acquisition price of less than $5,000) which is owned, licensed to or by the Seller, leased to or by the Seller, or otherwise used by the Seller, and identifies which Software is owned, licensed, leased or otherwise used, as the case may be and (ii) lists all Software sold, licensed, leased or otherwise distributed by the Seller to any third party, and identifies which Software is sold, licensed, leased, or otherwise distributed as the case may be.

(m) All Trademarks of the Seller have been in continuous use by the Seller. There has been no prior use of any such Trademarks or other action taken by any third party which would confer upon said third party superior rights in such Trademarks, the Seller has taken all reasonable steps to protect the Trademarks against third party infringement and the registered Trademarks have been continuously used in the form appearing in, and in connection with the goods and services listed in, their respective registration certificates or identified in their respective pending applications.

(n) The Seller has taken all necessary steps to obtain and preserve the Patents, including the payment of annuities or maintenance fees and the filing of all required documents.

(o) The Copyrights relate to works of authorship (i) created by (A) employees of the Seller within the scope of their employment, or (B) independent contractors who have assigned their rights to the Seller pursuant to enforceable written agreements, or (ii) acquired from the original

author(s) or subsequent assignees. The works covered by the Copyrights were not copies of nor derived from any work for which the Seller does not own the Copyrights, and no third party has any claim to authorship or ownership of any part thereof.

(p) The Seller has taken all necessary steps in accordance with normal industry practice to protect the Seller's rights in confidential information and trade secrets of the Seller.

(q) All Software owned by the Seller, and all Software licensed from third parties by the Seller, is free from any significant defect or programming or documentation error, operates and runs in a reasonable and efficient business manner, conforms to the specifications thereof, if applicable, and, with respect to the Software owned by the Seller, the applications can be compiled from their associated source code without undue burden. The Seller has furnished the Purchaser with all required documentation relating to use, maintenance and operation of the Software.

(r) The Seller has valid registrations for each of the domain names set forth in Schedule 4.21(a). The Seller's registration of each of the domain names is free and clear of any Liens and is in full force and effect. The Seller has paid all fees required to maintain each registration. None of the Seller's registrations or use of the domain names has been disturbed or placed "on hold" and no claim (oral or written) has been asserted against the Seller adverse to its rights to such domain names.

4.22 **Labor Matters**.

(a) All directors, managers, officers, management employees, and technical and professional employees of the Seller are under written obligation to the Seller to maintain in confidence all confidential or proprietary information acquired by them in the course of their employment and to assign to the Seller all inventions made by them within the scope of their employment during such employment and for a reasonable period thereafter.

(b) Except as set forth in Schedule 4.22(b):

(i) the Seller is not a party to any collective bargaining agreement or other labor union contract applicable to persons employed by the Seller or in the Business, and currently there are no organizational campaigns, petitions or other unionization activities seeking recognition of a collective bargaining unit which could affect the Seller;

(ii) there are no controversies, strikes, slowdowns or work stoppages pending or, to the Knowledge of the Seller after due inquiry, threatened between the Seller and any of its employees, and the Seller has not experienced any such controversy, strike, slowdown or work stoppage since the inception of each respective the Seller;

(iii) the Seller has not breached or otherwise failed to comply with the provisions of any collective bargaining or union contract and there are no grievances outstanding against the Seller under any such agreement or contract that could have a Material Adverse Effect;

(iv) there are no unfair labor practice complaints pending against the Seller before the National Labor Relations Board or any other Governmental Authority or any current union representation questions involving employees of the Seller that could have a Material Adverse Effect;

(v) the Seller is currently in compliance with all applicable Laws relating to the employment of labor, including those related to wages, hours, collective bargaining and the payment and withholding of taxes and other sums as required by the appropriate Governmental Authority and has withheld and paid to the appropriate Governmental Authority or is holding for payment not yet due to such Governmental Authority all amounts required to be withheld from employees of the Seller and is not liable for any arrears of wages, taxes, penalties or other sums for failure to comply with any of the foregoing;

(vi) the Seller has paid in full to all their respective employees or adequately accrued for in accordance with GAAP consistently applied all wages, salaries, commissions, bonuses, benefits and other compensation due to or on behalf of such employees;

(vii) there is no claim with respect to payment of wages, salary or overtime pay that has been asserted or is now pending or threatened before any Governmental Authority with respect to any Persons currently or formerly employed by the Seller;

(viii) the Seller is not a party to, or otherwise bound by, any consent decree with, or citation by, any Governmental Authority relating to employees or employment practices;

(ix) there is no charge or proceeding with respect to a violation of any occupational safety or health standards that has been asserted or is now pending or threatened with respect to the Seller;

(x) there is no charge of discrimination in employment or employment practices, for any reason, including, without limitation, age, gender, race, religion or other legally protected category, which has been asserted or is now pending or threatened before the United States Equal Employment Opportunity Commission, or any other Governmental Authority in any jurisdiction in which the Seller has employed or currently employs any Person;

(xi) none of the Seller's employment policies or practices with respect to the Business is currently being audited or investigated by any Governmental Authority;

(xii) the Seller would be in compliance with respect to the requirements of the Americans With Disabilities Act if such act was effective as of the date hereof; and

(xiii) the Seller does not have, nor at the Closing will the Seller have, any obligation under the WARN Act.

4.23 **Employee Benefit Plans**.

(a) Schedule 4.23(a) lists all employee benefit plans (as defined in section 3(3) of ERISA) and all bonus, stock or other security option, stock or other security purchase, stock or other security appreciation rights, incentive, deferred compensation, retirement or supplemental retirement, severance, golden parachute, vacation, cafeteria, dependent care, medical care, employee assistance program, education or tuition assistance programs, insurance and other similar fringe or employee benefit plans, programs or arrangements, and any current or former employment or executive compensation or severance agreements, written or otherwise, which have ever been sponsored or maintained or entered into for the benefit of, or relating to, any present or former employee, director or manager of the Seller, or any trade or business (whether or not incorporated) which is a member of a controlled group or which is under common control with the Seller within the meaning of section 414 of

the Code (an "**ERISA Affiliate**"), whether or not such plan is terminated (together, the "**Employee Plans**").

(b) (i) There has been no "prohibited transaction," as such term is defined in section 406 of ERISA and section 4975 of the Code, with respect to any Employee Plan, (ii) there are no claims pending (other than routine claims for benefits) or threatened against any Employee Plan or against the assets of any Employee Plan, nor are there any current or threatened Liens on the assets of any Employee Plan, (iii) all Employee Plans conform to, and in their operation and administration are in all respects in compliance with the terms thereof and requirements prescribed by any and all statutes (including ERISA and the Code), orders, or governmental rules and regulations currently in effect with respect thereto (including without limitation all applicable requirements for notification, reporting and disclosure to participants or the Department of Labor, IRS or Secretary of the Treasury), (iv) the Seller and ERISA Affiliates have performed all obligations required to be performed by them under, are not in default under or violation of, and the Seller has no Knowledge of any default or violation by any other party with respect to, any of the Employee Plans, (v) each Employee Plan intended to qualify under section 401(a) of the Code and each corresponding trust exempt under section 501 of the Code has received or is the subject of a favorable determination or opinion letter from the IRS, and nothing has occurred which may be expected to cause the loss of such qualification or exemption, (vi) all contributions required to be made to any Employee Plan pursuant to section 412 of the Code or otherwise, the terms of the Employee Plan or any collective bargaining agreement, have been made on or before their due dates and a reasonable amount has been accrued for contributions to each Employee Plan for the current plan years, (vii) the transaction contemplated herein will not directly or indirectly result in an increase of benefits, acceleration of vesting or acceleration of timing for payment of any benefit to any participant or beneficiary, (viii) each Employee Plan, if any, which is maintained outside of the United States has been operated in all material respects in conformance with the applicable statutes or governmental regulations and rulings relating to such plans in the jurisdictions in which such Employee Plan is present or operates and, to the extent relevant, the United States and (ix) neither the Seller nor any ERISA Affiliate has ever made a complete or partial withdrawal from a Multiemployer Plan (as such term is defined in section 3(37) of ERISA) resulting in "withdrawal liability" (as such term is defined in section 4201 of ERISA), without regard to any subsequent waiver or reduction under section 4207 or 4208 of ERISA.

(c) No Employee Plan is an "employee pension benefit plan" (within the meaning of section 3(2) of ERISA) subject to Title IV of ERISA, and neither the Seller nor ERISA Affiliate has ever partially or fully withdrawn from any such plan. No Employee Plan is a Multiemployer Plan or "single-employer plan under multiple controlled groups" as described in section 4063 of ERISA, and neither the Seller nor ERISA Affiliate has ever contributed to or had an obligation to contribute, or incurred any liability in respect of a contribution, to any Multiemployer Plan.

(d) Each Employee Plan that is a "**group health plan**" (within the meaning of Code section 5000(b)(1)) has been operated in compliance with all laws applicable to such plan, its terms, and with the group health plan continuation coverage requirements of section 4980B of the Code and Sections 601 through 608 of ERISA ("**COBRA Coverage**"), section 4980D of the Code and sections 701 through 707 of ERISA, Title XXII of the Public Health Service Act and the provisions of the Social Security Act, to the extent such requirements are applicable. No Employee Plan or written or oral agreement exists which obligates the Seller, any Subsidiary or any ERISA Affiliate to provide health care coverage, medical, surgical, hospitalization, death or similar benefits (whether or not insured) to any employee, former employee, director or manager of the Seller or any ERISA Affiliate following such employee's, former employee's or director's termination of employment with the Seller, any Subsidiary or any ERISA Affiliate, other than COBRA Coverage.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

4.24 **Environmental Matters**. Except as described in Schedule 4.24, and except as will not, individually or in the aggregate, have a Material Adverse Effect (a) the Seller has all Environmental Permits which are or are reasonably expected to be required under Environmental Laws, (b) the Seller is in full compliance with all terms and conditions of such Environmental Permits, (c) the Seller is in compliance with all Environmental Laws and any other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in such Environmental Laws or contained in any regulation, code, plan, governmental Order, notice or demand letter issued, entered, promulgated or approved thereunder, (d) as of the date hereof, there has not been any event, condition, circumstance, activity, practice, incident, action or plan which will interfere with or prevent continued compliance with the terms of such Environmental Permits or which would give rise to any liability under any Environmental Law or give rise to any common law or statutory liability, based on or resulting from the Seller's or its agents' manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling, or the emission, discharge, or release into the environment, of any Hazardous Substance and (e) the Seller has taken all actions necessary under applicable requirements of Environmental Law to register any products or materials required to be registered by the Seller (or any of its agents) thereunder. Except as set forth in Schedule 4.24, there is no Action, governmental Order, notice or demand letter pending or, to the Knowledge of the Seller, threatened against the Seller relating in any way to Environmental Laws or any regulation, code, plan, governmental Order, notice or demand letter issued, entered, promulgated or approved thereunder.

4.25 **Products**. Each of the products sold by the Business (the "**Products**") (a) is, and at all times has been, in compliance in all material respects with all applicable Laws and (b) is, and at all relevant times has been, fit for the ordinary purposes for which it is intended to be used and conforms to any promises or affirmations of fact made on the container or label for such Product or in connection with its sale. There is no known design defect with respect to any Products and each of such Products contains adequate warnings, presented in a reasonably prominent manner, in accordance with applicable Laws and current industry practice with respect to its contents and use. The Seller has no Products placed with its customers under an understanding permitting their return to the Seller other than pursuant to a breach of warranty. Copies of all correspondence relating to Products received or sent by or on behalf of the Seller during the past five (5) years, from or to any Governmental Authority have been previously delivered to the Purchaser.

4.26 **Certain Interests**. (a) Except as disclosed in Schedule 4.26(a), no officer, manager or director of the Seller:

(i) has any direct or indirect financial interest in any competitor, supplier or customer of the Seller, provided, however, that the ownership of securities representing no more than one percent of the outstanding voting power of any competitor, supplier or customer, and which are also listed on any national securities exchange or traded actively in the national over-the-counter market, shall not be deemed to be a "financial interest" so long as the Person owning such securities has no other connection or relationship with such competitor, supplier or customer;

(ii) owns, directly or indirectly, in whole or in part, or has any other interest in any tangible or intangible property which the Seller uses or has used in the conduct of the Business or otherwise; or

(iii) has outstanding any Indebtedness to the Seller.

(b) Except as disclosed in Schedule 4.26(b), the Seller has no Liability or any other obligation of any nature whatsoever to, any officer, manager, director or equityholder of the Seller or to any relative or spouse (or relative of such spouse) who resides with, or is a dependent of, any such officer, manager, director or equityholder.

4.27 **Real Property**. No Seller currently owns nor has it ever owned, since its inception, any Real Property. Schedule 4.27 sets forth an accurate, correct and complete list of all Real Property Leases to which Seller is a party (including the street address of each Leased Real Property and the names of the landlord and lessor). The Seller has delivered to the Purchaser accurate, correct and complete copies of each Real Property Lease.

4.28 **Disclosure**. No representation or warranty of the Seller contained in this Agreement and the other Documents, and no statement, report, or certificate furnished by or on behalf of the Seller to the Purchaser or its agents pursuant to this Agreement or any of the other Documents, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements contained herein or therein not misleading or omits or will omit to state a material fact necessary in order to provide the Purchaser with full and proper information as to the business, financial condition, assets, results of operation or prospects of the Seller and the value of its properties and assets.

4.29 **Purchase For Investment; Residence.** Holdings is acquiring the Shares for investment for its own account and not with a view to the distribution or public offering thereof within the meaning of the Securities Act. Holdings understands that the Shares have not been registered under the Securities Act and may not be sold or transferred without such registration or an exemption therefrom (which Shares shall be legended to such effect). Holdings is sufficiently experienced in financial and business matters to be capable of evaluating the risk of investment in the Shares and to make an informed decision relating thereto. Holdings has the financial capability for making the investment in the Shares, can afford a complete loss of such investment, and such investment is a suitable one for Holdings. Holdings is an "Accredited Investor" as defined in Regulation D under the Securities Act. Prior to the execution and delivery of this Agreement, Holdings has had the opportunity to ask questions of and receive answers from representatives of the Purchaser.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

In order to induce the Seller to enter into this Agreement and to consummate the transactions contemplated hereby, the Purchaser represents and warrants to the Seller as follows:

5.1 **Organization and Qualification**. The Purchaser is a limited liability company duly organized, validly existing and in good standing under the laws of Delaware.

5.2 **Authorization; Enforceability**. The Purchaser has the power and authority to execute, deliver and perform this Agreement and the other Documents. The execution, delivery and performance of this Agreement and the other Documents and the consummation of the transactions contemplated herein and therein have been duly authorized and approved by the Purchaser, and no other action on the part of the Purchaser is necessary in order to give effect thereto. This Agreement and each of the other Documents to be executed and delivered by the Purchaser have been duly executed and delivered by, and constitute the legal, valid and binding obligations of, the Purchaser, enforceable against the Purchaser, in accordance with their terms, except as such enforcement may be limited by bankruptcy, insolvency or

other similar laws affecting the enforcement of creditors' rights generally and except that the availability of equitable remedies is subject to the discretion of the court before which any proceeding therefor may be brought.

5.3 **No Violation or Conflict**. Except as set forth in Schedule 5.3, none of (a) the execution and delivery by the Purchaser of this Agreement and the other Documents to be executed and delivered by the Purchaser, (b) consummation by the Purchaser of the transactions contemplated by this Agreement and the other Documents, or (c) the performance of this Agreement and the other Documents required by this Agreement to be executed and delivered by the Purchaser at the Closing, will (i) conflict with or violate the certificate of formation or operating agreement of the Purchaser, (ii) conflict with or violate any Law, Order or Permit applicable to the Purchaser, or result in any breach or violation of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or impair the Purchaser's rights or obligations under, any Contract or other instrument or obligation to which the Purchaser is a party.

5.4 **Governmental Consents and Approvals**. Except as set forth in Schedule 5.4, the execution, delivery and performance of this Agreement and the other Documents by the Purchaser do not and will not require any consent, approval, authorization, Permit or other order of, action by, filing with or notification to, any Governmental Authority.

5.5 **Brokers**. The Purchaser has not employed any financial advisor, broker or finder, and the Seller has not incurred and will not incur any broker's, finder's, investment banking or similar fees, commissions or expenses in connection with the transactions contemplated by this Agreement.

ARTICLE VI

COVENANTS

6.1 **Performance**. Subject to the terms and conditions provided in this Agreement, each of the parties to this Agreement shall use its respective reasonable best efforts in good faith to take or cause to be taken as promptly as practicable all reasonable actions that are within its power to cause to be performed and fulfilled those conditions precedent to its obligations to consummate the transactions contemplated by this Agreement that are dependent upon its actions, including obtaining all necessary approvals, to the end that the transactions contemplated hereby will be fully and timely consummated.

6.2 **Regulatory and Other Authorizations; Notices and Consents**.

(a) The Seller will use its best efforts to obtain all authorizations, consents, orders and approvals of all Governmental Authorities and officials that may be or become necessary for its execution and delivery of, and the performance of its obligations pursuant to, this Agreement and the other Documents and will cooperate fully with the Purchaser in promptly seeking to obtain all such authorizations, consents, orders and approvals.

(b) The Seller shall give promptly such notices to third parties and use its best efforts to obtain such third party consents and estoppel certificates as the Purchaser may in its reasonable discretion deem necessary or desirable in connection with the consummation of the transactions contemplated by this Agreement and the other Documents, including, without limitation, all Consents to the transfer of the Contracts listed in Schedule 4.5(c)(i) and all consents required to transfer to the Purchaser all of the Licensed Intellectual Property. The Purchaser shall cooperate and use all reasonable efforts to assist the Seller in giving such notices and obtaining such consents and estoppel certificates;

provided, however, that the Purchaser shall have no obligation to give any guarantee or other consideration of any nature in connection with any such notice, consent or estoppel certificate or to consent to any change in the terms of any Contract which the Purchaser in its reasonable discretion may deem adverse to the interests of the Purchaser or the Business.

(c) Anything in this Agreement to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign any Purchased Asset or any claim or right or any benefit arising thereunder or resulting therefrom if an attempted assignment thereof, without the consent of a third party thereto, would constitute a breach or other contravention thereof or in any way adversely affect the rights of the Purchaser or the Seller thereunder. The Seller will use its best efforts to obtain the consent of the other parties to any such Purchased Asset or any claim or right or any benefit arising thereunder for the assignment thereof to the Purchaser as the Purchaser may reasonably request. If such consent is not obtained, or if an attempted assignment thereof would be ineffective or would adversely affect the rights of the Seller thereunder so that the Purchaser would not in fact receive all such rights, the Seller and the Purchaser will cooperate in a mutually agreeable arrangement under which the Purchaser would obtain the benefits and assume the obligations thereunder in accordance with this Agreement, including subcontracting, sub-licensing, or sub-leasing to the Purchaser, or under which the Seller would enforce for the benefit of the Purchaser, with the Purchaser assuming the Seller's obligations, any and all rights of the Seller against a third party thereto. The Seller will promptly pay to the Purchaser when received, all monies received by the Seller under any Purchased Asset or any claim or right or any benefit arising thereunder, except to the extent the same represents an Excluded Asset. In such event, the Seller and the Purchaser shall, to the extent the benefits and obligations of any Purchased Asset have not been provided to the Purchaser by alternative arrangements satisfactory to the Purchaser and the Seller, negotiate in good faith an adjustment in the Purchase Price.

6.3 **Conduct of the Business Prior to the Closing**.

(a) The Seller covenants and agrees that, between the date hereof and the Closing, except as expressly required or permitted by this Agreement or unless the Purchaser shall otherwise agree in writing, the Seller shall conduct the Business only in the ordinary course of business consistent with past practice. By way of elaboration, and without in any way limiting, the preceding sentence, the Seller shall: (i) preserve intact the business organization of the Seller and the business organization, properties, assets and rights of the Business; (ii) operate the Business according to plans and budgets provided to the Purchaser; (iii) keep available the services of the present officers, employees and consultants of the Seller; (iv) maintain in effect all Contracts and to preserve the present relationships of the Seller with advertisers, sponsors, customers, licensees, suppliers and other Persons with which the Seller has business relations; (v) maintain, with financially sound and reputable insurers, insurance for the Purchased Assets and the Business against such casualties and contingencies and of such types and in such amounts as is customary for companies similarly situated; and (vi) not engage in any practice, take any action, fail to take any action or enter into any transaction which could cause any representation or warranty of the Seller to be untrue or result in a breach of any covenant made by the Seller in this Agreement.

(b) On or before the Closing Date, the Seller shall pay and satisfy in full all of its obligations and liabilities relating to the Business, of any nature whatsoever, which relate to the Business or the Purchased Assets prior to the Closing Date whether or not such obligations are due and payable as of or before the Closing Date, except for accrued taxes and except for those accrued liabilities which are Assumed Liabilities pursuant to Section 2.3. The Seller will pay and discharge the Excluded Liabilities as and when the same become due and payable.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

(c) The Seller shall cause to be prepared and timely filed, at it sole expense, all of its required Tax Returns for all periods up to and including the Closing Date. The Seller shall be responsible for the payment of all Taxes due or assessed which related to the operations of the Business for all periods up to and including the Closing Date.

6.4 **Access**.

(a) From the date hereof until the Closing, upon reasonable notice, the Seller shall and shall cause each of the Seller's officers, managers, employees, agents, accountants and counsel to: (i) afford the officers, employees and authorized agents, accountants, counsel, financing sources and representatives of the Purchaser reasonable access, during normal business hours, to the offices, properties, plants, other facilities, books and records of the Seller and to those officers, directors, employees, agents, accountants and counsel of the Seller who have any knowledge relating to the Seller or the Business; and (ii) furnish to the officers, employees and authorized agents, accountants, counsel, financing sources and representatives of the Purchaser such additional financial and operating data and other information regarding the Business and the assets, properties and goodwill of the Seller as the Purchaser may from time to time reasonably request.

(b) In order to facilitate the resolution of any claims made against or incurred by the Seller prior to the Closing, for a period of seven years after the Closing, the Purchaser shall (i) retain the books and records of the Seller which are transferred to the Purchaser pursuant to this Agreement relating to periods prior to the Closing in a manner reasonably consistent with the prior practices of the Seller and (ii) upon reasonable notice, afford the officers, employees and authorized agents and representatives of the Seller reasonable access (including the right to make, at the Seller's expense, photocopies), during normal business hours, to such books and records.

(c) In order to facilitate the resolution of any claims made by or against or incurred by the Purchaser after the Closing or for any other reasonable purpose, for a period of one year following the Closing, the Seller shall (i) retain all books and records of the Seller which are not transferred to the Purchaser pursuant to this Agreement and which relate to the Seller, its operations or the Business for periods prior to the Closing and which shall not otherwise have been delivered to the Purchaser; and (ii) upon reasonable notice, afford the officers, employees and authorized agents and representatives of the Purchaser, reasonable access (including the right to make photocopies at the expense of the Purchaser), during normal business hours, to such books and records.

(d) The Purchaser shall keep all information obtained pursuant to Section 6.4(a) confidential in accordance with the terms of the confidentiality agreement, dated June 6, 2007 (the "**Confidentiality Agreement**"), between the Purchaser and the Seller. Anything contained in the Confidentiality Agreement to the contrary notwithstanding, the Seller and the Purchaser hereby agree that each such party may issue press release(s) or make other public announcements in accordance with Section 10.9.

6.5 **Notification**. From the date hereof until the Closing, each party to this Agreement shall promptly notify the other parties in writing of the occurrence, or pending or threatened occurrence, of (a) any event that would constitute a breach or violation of this Agreement by any party or that could reasonably be anticipated to cause any representation or warranty made by the notifying party in this Agreement to be false or misleading in any respect (including without limitation, any event or circumstance which would have been required to be disclosed on the Disclosure Schedule if such event or circumstance occurred or existed on or prior to the date of this Agreement), and (b) all other material developments affecting the assets, Liabilities, business, financial condition, operations, results of

operations, customer or supplier relations, employee relations, projections or prospects of the Seller or the Business. Any such notification shall not limit or alter any of the representations, warranties or covenants of the parties set forth in this Agreement nor any rights or remedies a party may have with respect to a breach of any representation, warranty or covenant.

6.6 **Use of Intellectual Property**.

(a) Except as set forth in Schedule 6.6(a), from and after the Closing, the Seller shall not use any of the Owned Intellectual Property or the Licensed Intellectual Property.

(b) Immediately after the Closing the Seller shall change its corporate name, and amend its certificate of formation accordingly, to one not using any trademark, service mark, trade dress, logo, trade name or corporate name contained in the Owned Intellectual Property or the Licensed Intellectual Property or any trademark, service mark, trade dress, logo, trade name or corporate name similar or related thereto. As promptly as practicable following the Closing, the Seller shall remove any Owned Intellectual Property or Licensed Intellectual Property from letterheads and other materials remaining in its possession or under its control, and the Seller shall not use, put into use, or purport to authorize any other Person to use, after the Closing any materials that bear any trademark, service mark, trade dress, logo, trade name or corporate name contained in the Owned Intellectual Property or the Licensed Intellectual Property or any trademark, service mark, trade dress, logo, trade name or corporate name similar or related thereto.

6.7 **Transfer or other Disposition of Shares.** Holdings shall, in connection with its liquidation or other transfer of the Shares, comply in all respects with the requirements of the Securities Act and any other related Regulations.

ARTICLE VII

CONDITIONS PRECEDENT TO CLOSING; TERMINATION

7.1 **Conditions Precedent to the Obligations of the Purchaser**. The obligation of the Purchaser to consummate the transactions described in this Agreement and any and all liability of the Purchaser to the Seller shall be subject to the fulfillment on or before the Closing of the following conditions precedent, each of which may be waived in writing by the Purchaser in its sole discretion:

(a) Representations, Warranties and Covenants. The representations and warranties of each Seller contained in this Agreement shall have been true and correct when made and shall be true and correct in all material respects as of the Closing (other than such representations and warranties that are qualified by materiality, which shall be true and correct as of the Closing), with the same force and effect as if made as of the Closing Date, other than such representations and warranties that are expressly made as of another date, and the covenants and agreements contained in this Agreement to be complied with by the Seller on or before the Closing shall have been complied with, and the Purchaser shall have received a certificate from each Seller to such effect signed by a duly authorized officer thereof.

(b) No Adverse Change. No events or conditions shall have occurred which individually or in the aggregate, have had, or may reasonably be anticipated by the Purchaser, in its reasonable discretion, to give rise to any Material Adverse Effect.

(c) Governmental Approvals. The Purchaser shall have received evidence, in each instance in form and substance reasonably satisfactory to it, in its sole discretion, that any and all

approvals from Governmental Authorities required for the lawful consummation of the transactions contemplated by this Agreement and the other Documents shall have been obtained.

(d) Consents. The Purchaser shall have received evidence, each in form and substance reasonably satisfactory to it in its sole discretion, that any and all consents and approvals from third parties which the Purchaser, in its sole discretion, deems necessary or desirable for the consummation of the transactions contemplated by this Agreement and the other Documents, including, but not limited to, the Consents listed on Schedule 4.5(c)(i) with respect to any Contract, and consents to transfer of the Licensed Intellectual Property, shall have been obtained.

(e) Opinion of Counsel. The Purchaser shall have received from Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan, LLP, counsel to the Seller, an opinion dated the Closing Date, in substantially the form attached hereto as Exhibit 7.1(e) hereto.

(f) No Actions, Suits or Proceedings. No Order of any Court or Governmental Authority shall have been issued restraining, prohibiting, restricting or delaying, the consummation of the transactions contemplated by this Agreement and the other Documents. No Litigation shall be pending or, to the Knowledge of the parties to this Agreement, threatened, before any Court or Governmental Authority (i) to restrain, prohibit, restrict or delay, or to obtain damages or a discovery order in respect of this Agreement or the consummation of the transactions contemplated hereby, or (ii) which has had or may have a Material Adverse Effect on the Seller or the Business. No insolvency proceeding of any character including without limitation, bankruptcy, receivership, reorganization, assignment for the benefit of creditors, creditor composition, dissolution or arrangement with creditors, voluntary or involuntary, affecting the Seller shall be pending, whether or not an order for relief shall have been entered and the Seller shall not have taken any action in contemplation of, or which would constitute the basis for, the institution of any such proceedings.

(g) Delivery of Purchased Assets. The Seller shall have delivered possession of the Purchased Assets to the Purchaser, and shall have made all intangible Purchased Assets available to the Purchaser.

(h) Closing Documents. Each Seller shall have delivered to the Purchaser the resolutions, certificates, documents and instruments set forth below:

(i) each of the Ancillary Agreements to which it is a party;

(ii) a copy of each of the resolutions, duly and validly adopted by the Manager of Pharmaceuticals, the Board of Managers of Holdings and all of the Members of each of Holdings and Pharmaceuticals, certified by each respective chief executive officer, authorizing and approving the execution and delivery and performance of this Agreement, the Ancillary Agreements and the other Documents and the transactions contemplated hereby and thereby and the acts of the officers and employees of the Seller in carrying out the terms and provisions hereof;

(iii) all of the books, data, documents, instruments and other records relating to the Business of the Seller set forth in Section 2.1(d);

(iv) certificates issued by the Secretary of State or other similar appropriate governmental department, as of a date not more than five (5) Business Days prior to the Closing, as to the good standing of the Seller in its jurisdiction of incorporation and in each other

jurisdiction in which it is qualified to do business, and, as to its jurisdiction of incorporation, certifying its certificate of formation;

(v) a certificate of the chief executive officer of each of Holdings and Pharmaceuticals certifying the names and signatures of the officers of each of Holdings and Pharmaceuticals authorized to sign this Agreement and the Documents;

(vi) the certificate of each of Holdings and Pharmaceuticals referred to in Section 7.1(a); and

(vii) such other documents and instruments as the Purchaser or its counsel may reasonably request.

(i) Disclosures. Disclosure of the transactions contemplated by this Agreement to the holders of the Compromised Claims, other creditors, members and equityholders of Seller and/or public authorities, as may be reasonably required or advisable pursuant to applicable labor, bulk sale or insolvency laws, the form of such disclosures previously having been provided to and approved by the Purchaser and its counsel, as to their form and substance.

(j) Employment Agreement. William Collins shall have executed and delivered to the Purchaser an employment agreement (the "**Employment Agreement**") on terms reasonably acceptable to each of Mr. Collins and Purchaser (such agreement to contain customary provisions, including but not limited to, non-competition provisions extending one year following separation of employment).

(k) Consulting Agreements. Each of Al Goeken and Greg Preston shall have executed and delivered to the Purchaser a consulting and non-competition agreement (the "**Consulting Agreements**") on terms reasonably acceptable to each of such Persons and Purchaser (such agreement to contain customary provisions, including but not limited to, non-competition provisions extending one year following the separation of engagement).

(l) Resignations. Each of William Collins, Greg Preston and Al Goeken shall have executed and delivered resignations pursuant to which each shall resign from any and all positions held by each such individual in the Seller in the form attached hereto as Exhibit 7.1(l).

(m) Proprietary Information, Confidentiality and Assignment Agreements. Each of William Collins, Al Goeken and Greg Preston shall have executed proprietary information, confidentiality and assignment agreements in forms acceptable to the Purchaser.

(n) Supply Agreement. The Supply Agreement shall have been duly executed and delivered by Sinclair Pharmaceuticals Ltd.

(o) Compromise Agreements; Settlement of Compromised Claims. The Seller and certain third parties shall have executed and delivered compromise or similar agreements (the "**Compromise Agreements**"), on terms acceptable to the Purchaser, with respect to the payment of the Compromised Claims. All Compromised Claims shall have been settled to the reasonable satisfaction of the Purchaser.

(p) Approval of Transaction. This Agreement and the transactions contemplated hereby shall have been approved by each of (i) Parent's board of directors, (ii) the Board of Managers of

Holdings and the Manager of Pharmaceuticals and (iii) all of the members or equityholders of each Seller.

(q) Approval of Counsel to the Purchaser. All actions and proceedings under this Agreement and the other Documents, and all other related matters, shall have been approved by the Purchaser and its counsel, as to their form and substance.

(r) Due Diligence. The Purchaser shall have completed all of its due diligence with respect to the Business and shall, in its sole and absolute judgment, be satisfied with the results thereof.

7.2 **Conditions Precedent to the Obligations of the Seller**. The obligation of the Seller to consummate the transactions described in this Agreement and any and all liability of the Seller to the Purchaser shall be subject to the fulfillment on or before the Closing Date of the following conditions precedent, each of which may be waived in writing by the Seller in its sole respective discretion:

(a) Representations, Warranties and Covenants. The representations and warranties of the Purchaser contained in this Agreement shall have been true and correct when made and shall be true and correct in all material respects as of the Closing (other than such representations and warranties that are qualified by materiality, which shall be true and correct as of the Closing), with the same force and effect as if made as of the Closing Date, other than such representations and warranties that are expressly made as of another date, and the covenants and agreements contained in this Agreement to be complied with by the Purchaser on or before the Closing shall have been complied with, and the Seller shall have received a certificate from the Purchaser to such effect signed by a duly authorized officer thereof.

(b) Actions, Suits or Proceedings. No Order of any Court or Governmental Authority shall have been issued restraining, prohibiting, restricting or delaying, the consummation of the transactions contemplated by this Agreement and the other Documents. No Litigation shall be pending or, to the Knowledge of the parties to this Agreement, threatened, before any Court or Governmental Authority to restrain, prohibit, restrict or delay, or to obtain damages or a discovery order in respect of this Agreement or the consummation of the transactions contemplated hereby. No insolvency proceeding of any character including without limitation, bankruptcy, receivership, reorganization, assignment for the benefit of creditors, creditor composition, dissolution or arrangement with creditors, voluntary or involuntary, affecting the Purchaser shall be pending, whether or not an order for relief shall have been entered, and the Purchaser shall not have taken any action in contemplation of, or which would constitute the basis for, the institution of any such proceedings.

(c) Payment of Cash Consideration. The Purchaser shall have delivered the Cash Consideration as provided in Section 3.2(a).

(d) Purchaser Loan. The Purchaser shall have (i) appropriately recorded in its books and records and have marked as paid and satisfied in full that certain Secured Term Note dated July 16, 2007, (ii) taken all actions necessary to terminate or cancel of record all financing statements or other evidence of the lien of or secured financing by the Purchaser or its Affiliates, and (iii) delivered the original Secured Term Note and copies of all other applicable loan documents to the Seller marked as paid and satisfied in full.

(e) Closing Documents. The Purchaser shall have delivered to the Seller the resolutions, certificates, documents and instruments set forth below:

(i) each of the Ancillary Agreements to which it is a party;

(ii) a copy of the resolutions duly and validly adopted by the board of managers of the Purchaser, certified by its Secretary, authorizing and approving the execution and delivery and performance of this Agreement, the Ancillary Agreements and the other Documents and the transactions contemplated hereby and thereby and the acts of the officers of the Purchaser in carrying out the terms and provisions hereof;

(iii) a copy of the resolutions duly and validly adopted by the board of managers of Parent, certified by its Secretary, authorizing and approving the execution and delivery and performance of this Agreement, the Ancillary Agreements and the other Documents and the transactions contemplated hereby and thereby and the acts of the officers Parent in carrying out the terms and provisions hereof;

(iv) certificates issued by the Secretary of State or other similar appropriate governmental department, as of a date not more than five (5) Business Days prior to the Closing, as to the good standing of the Purchaser in its jurisdiction of incorporation and in each other jurisdiction in which it is qualified to do business, and, as to its jurisdiction of incorporation, certifying its Certificate of Incorporation;

(v) a certificate of the Secretary or an Assistant Secretary of each of Parent and the Purchaser certifying the respective names and signatures of the officers of each of Parent of the Purchaser authorized to sign this Agreement and the Documents;

(vi) the certificate of the Purchaser referred to in Section 7.2(a); and

(vii) such other documents and instruments as the Seller or its counsel may reasonably request.

7.3 **Termination**.

(a) Right to Terminate. This Agreement may be terminated and the transactions contemplated hereby may be abandoned as follows:

(i) by mutual written consent duly authorized by the parties hereto;

(ii) by either the Purchaser or the Seller if the Closing shall not have occurred on or before October 15, 2007 provided, that the right to terminate this Agreement under this Section 7.3(a)(ii) shall not be available to any party whose willful failure to fulfill any material obligation under this Agreement has been the cause of, or resulted in, the failure of the Closing to have occurred on or before such date;

(iii) by either the Purchaser or the Seller, if a Court or Governmental Authority shall have issued an Order or taken any other action, in each case, which has become final and non-appealable and which restrains, enjoins or otherwise prohibits the consummation of the transactions contemplated by this Agreement;

(iv) by the Purchaser, if the Purchaser is not in material breach of its obligations under this Agreement, if (A) at any time any of the representations and warranties of the Seller herein are or become untrue or inaccurate such that Section 7.1(a) would not be satisfied (treating such time as if it were the Closing for purposes of this Section 7.3(a)(iv) or (B)

there has been a breach on the part of the Seller of any of its covenants or agreements contained in this Agreement such that Section 7.1(a) will not be satisfied (treating such time as if it were the Closing for purposes of this Section 7.3(a)(iv)), and, in both case (A) and case (B), such breach (if curable) has not been cured within 15 days after notice to the Seller;

(v) by the Seller, if the Seller is not in material breach of its obligations under this Agreement, and if (A) at any time the representations and warranties of the Purchaser herein become untrue or inaccurate such that Section 7.2(a) would not be satisfied (treating such time as if it were the Closing for purposes of this Section 7.3(a)(v)), or (B) there has been a breach on the part of the Purchaser of any of its covenants or agreements contained in this Agreement such that Section 7.2(a) would not be satisfied (treating such time as if it were the Closing for purposes of this Section 7.3(a)(v)), and, in both case (A) and case (B), such breach (if curable) has not been cured within 15 days after notice to the Purchaser; or

(vi) by the Purchaser if, between the date hereof and the time scheduled for the Closing: (A) an event or condition occurs that has resulted in or that may be expected to result in a Material Adverse Effect; or (B) the Seller makes a general assignment for the benefit of creditors, or any proceeding shall be instituted by or against the Seller seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up or reorganization, arrangement, adjustment, protection, relief or composition of its debts under any Law relating to bankruptcy, insolvency or reorganization.

(b) Effect of Termination. Except as provided in this Section 7.3(b), in the event of the termination of this Agreement pursuant to Section 7.3(a), this Agreement (other than this Section 7.3(b), Section 6.4(d), Article VIII and Article IX, which shall survive such termination) will forthwith become void, and there will be no liability on the part of the Purchaser, the Seller, or any of their respective officers or directors to the other and all rights and obligations of any party hereto will cease, provided, that nothing herein will relieve any party from liability for any breach of any representation, warranty, covenant or agreement contained in this Agreement which occurred prior to termination of this Agreement in accordance with its terms.

ARTICLE VIII

INDEMNIFICATION

8.1 **Survival of Representations, Warranties and Covenants**. The representations and warranties contained in this Agreement and the other Documents, shall survive the Closing and any investigation at any time made by or on behalf of any party for the applicable limitation period or term expressly set forth in this Agreement; provided however, that (a) the representations and warranties set forth in Articles IV and V of this Agreement shall survive the Closing and continue in full force and effect for a period of one year; provided further that the representations and warranties set forth in Sections 4.1, 4.2, 4.3, 4.4, and 4.18 (and the corresponding representations and warranties set forth in any of the Documents) shall survive the Closing and continue in full force and effect indefinitely, (b) the representations and warranties set forth in Section 4.20 shall survive the Closing but not beyond the expiration of the period, if any, during which an assessment, reassessment or other form of recognized document assessing liability for Tax, interest or penalties under applicable Tax Laws in respect of any taxation year to which such representations and warranties extend could be issued under applicable Tax Laws to the Seller or the Purchaser, (c) the representations and warranties set forth in Section 4.24 (and the corresponding representations and warranties set forth in any of the Documents) shall survive the Closing and continue in full force for a period of ten years, and (d) a claim for any breach of a

representation or warranty contained in this Agreement or any of the Documents involving fraud or fraudulent misrepresentation may be made at any time following the Closing Date, subject only to applicable limitation periods imposed by Law. Any claims for indemnification asserted in writing as provided for in this Article VIII prior to the expiration date applicable to the representation or warranty with respect to which such claim for indemnification is made shall survive until finally resolved and satisfied in full. For convenience of reference, the date upon which any representation and warranty contained herein shall terminate is referred to herein as the "**Survival Date**." No third party other than the Indemnified Persons, shall be a third party or other beneficiary of such representations and warranties and no such third party shall have any rights of contribution with respect to such representations or warranties or any matter subject to or resulting in indemnification under this Article VIII or otherwise. All covenants and agreements contained in this Agreement (and in the corresponding covenants and agreements set forth in any of the Documents) shall survive the Closing and continue in full force until fully performed in accordance with their terms.

8.2 **Investigation**. The representations, warranties, covenants and agreements set forth in this Agreement and the other Documents shall not be affected or diminished in any way by any investigation (or failure to investigate) at any time by or on behalf of the party for whose benefit such representations, warranties, covenants and agreements were made. All statements contained herein or in any of the other Documents, shall be deemed to be representations and warranties for purposes of this Agreement.

8.3 **Definitions**. As used in this Article VIII, the following terms shall have the following meanings:

(a) "**Event of Indemnification**" shall mean the following:

(i) The untruth, inaccuracy or breach of any representation or warranty contained in this Agreement or in any of the other Documents;

(ii) The breach of any covenant, agreement or condition of the Seller contained in this Agreement or in any of the other Documents;

(iii) The return of **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24B-2]** or more of Products as provided for in Section 2.6;

(iv) The disclosure by any of William Collins, Al Goeken or Greg Preston of the confidential information or trade secrets of either Seller; or

(v) Liabilities of, or claims against, the Purchaser relating to, or arising out of, the operation of the Business prior to the Closing date or facts and circumstances existing at or prior to the Closing Date, whether or not such Liabilities were known on such date, and any other Liabilities of the Seller or relating to the Business not expressly included in the Assumed Liabilities; provided, however, that liabilities of or claims against the Purchaser or its Affiliates relating to or arising out of discussions or negotiations between the Purchaser or its Affiliates and third parties relating to the Compromised Claims is expressly excluded.

(b) "**Indemnified Persons**" shall mean and include the Purchaser and its Affiliates, successors and assigns, and the respective officers, directors, managers, employees and agents of each of the foregoing.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

(c) "**Indemnifying Persons**" shall mean and include each of the Seller and its successors, assigns, heirs and legal representatives and estate and, for purposes of Section 8.5(b) hereof, William Collins, Al Goeken and Greg Preston, in their individual capacities on a joint and several basis.

(d) "**Losses**" shall mean any and all losses, claims, shortages, damages, liabilities, expenses (including reasonable attorneys' and accountants' fees), assessments, Taxes (including interest or penalties thereon) sustained, suffered or incurred by any Indemnified Person arising from or in connection with any such matter that is the subject of indemnification under Article VIII hereof.

8.4 **Indemnification Generally; Limitations**. The Indemnifying Persons shall jointly and severally indemnify the Indemnified Persons from and against any and all Losses arising from or in connection with any Event of Indemnification with respect to the Indemnified Persons. Notwithstanding any of the foregoing, nothing contained in this Section 8.4 shall in any way limit, impair, modify or otherwise affect the rights of the Indemnified Persons (including rights available under the Securities Act or the Exchange Act) nor shall there be any limitation of liability of Indemnifying Persons in connection with any of such rights of the Indemnified Persons (a) to bring any claim, demand, suit or cause of action otherwise available to the Indemnified Persons based upon an allegation or allegations that the Seller and/or the Indemnifying Persons, or any of them, had an intent to defraud or made a willful, intentional or reckless misrepresentation or willful omission of a material fact in connection with this Agreement and the transactions contemplated hereby or (b) to enforce any judgment of a court of competent jurisdiction which finds or determines that the Seller and/or the Indemnifying Persons, or any of them, had an intent to defraud or made a willful misrepresentation or omission of a material fact in connection with this Agreement and the transactions contemplated hereby.

8.5 **Event of Indemnification in Excess of Stock Consideration**. Subject to Sections 8.6 and 8.7 below:

(a) Any Losses of the Purchaser or its Affiliates shall be set-off against the Stock Consideration in accordance with the provisions of this Article VIII.

(b) In the event that the Losses of the Purchaser exceed the Stock Consideration, then William Collins, Al Goeken and Greg Preston shall, in their respective individual capacities and jointly and severally, be Indemnifying Persons for such Losses.

(c) **Assertion of Claims**. No claim shall be brought under Article VIII hereof unless the Indemnified Persons, or any of them, at any time after the Closing Date but prior to the applicable Survival Date, give the Indemnifying Persons (a) written notice of the existence of any such claim, specifying the nature and basis of such claim and the amount thereof, to the extent known, or (b) written notice pursuant to Section 8.7 of any Third Party Claim, the existence of which might give rise to such a claim but the failure so to provide such notice to the Indemnifying Persons will not relieve the Indemnifying Persons from any liability which they may have to the Indemnified Persons under this Agreement or otherwise (unless and only to the extent that such failure results in the loss or compromise of any rights or defenses of the Indemnifying Persons and they were not otherwise aware of such action or claim). If the Indemnifying Persons do not object within ten days of such written notice, then the Indemnified Persons shall give written notice setting forth the amount of Losses to be set-off against the Stock Consideration and, if the Stock Consideration is insufficient or unavailable to satisfy such Losses, the Losses to be claimed against the Indemnifying Persons in accordance with Section 8.5(b), which written notice the parties hereto hereby acknowledge to be sufficient to authorize such set-off against the Stock Consideration and/or to be claimed against the Indemnifying Persons in accordance with Section 8.5(b), as directed by the Indemnified Persons. If the Indemnifying Persons do object on a timely basis

and the parties are unable to agree to the amount of Losses to be set-off and/or claimed within 30 days from the date of written notice of the objection, either party may institute court proceedings in accordance with Section 9.10 hereof for a determination of the Losses to be set-off against the Stock Consideration and/or to be claimed against the Indemnifying Persons in accordance with Section 8.5(b) hereof.

8.6 **Valuation of Parent Common Stock**. For purposes of this Article VIII, the Parent Common Stock shall be valued on the basis of the Parent Common Stock Price.

8.7 **Notice and Defense of Third Party Claims**. Losses resulting from the assertion of liability by third parties (each, a "**Third Party Claim**") shall be subject to the following terms and conditions:

(a) The Indemnified Persons shall promptly give written notice to the Indemnifying Persons of any Third Party Claim that might give rise to any Loss by the Indemnified Persons, stating the nature and basis of such Third Party Claim, and the amount thereof to the extent known. Such notice shall be accompanied by copies of all relevant documentation with respect to such Third Party Claim, including, without limitation, any summons, complaint or other pleading that may have been served, any written demand or any other document or instrument. Notwithstanding the foregoing, the failure to provide notice as aforesaid to the Indemnifying Persons will not relieve the Indemnifying Persons from any liability which they may have to the Indemnified Persons under this Agreement or otherwise (unless and only to the extent that such failure directly results in the loss or compromise of any rights or defenses of the Indemnifying Persons and they were not otherwise aware of such action or claim).

(b) The Indemnifying Persons shall have the right to assume the defense of any such Third Party Claim. Notwithstanding the foregoing, the Indemnifying Persons may not assume the defense of any such Third Party Claim if the claim (i) is reasonably likely to result in imprisonment of the Indemnified Persons, (ii) is reasonably likely to result in a criminal penalty or fine against the Indemnified Persons the consequences of which would have a Material Adverse Effect on the Indemnified Persons unrelated to the size of such penalty or fine, or (iii) is reasonably likely to result in an equitable remedy which would have a Material Adverse Effect on the Indemnified Persons. If Indemnifying Persons assume the defense of such Third Party Claim, such Indemnifying Persons shall conduct such defense diligently, shall have full and complete control over the conduct of such proceeding on behalf of the Indemnified Persons and shall, in their sole discretion, have the right to decide all matters of procedure, strategy, substance and settlement relating to such proceeding, provided, however, that (A) any counsel chosen by such Indemnifying Persons to conduct such defense shall be reasonably satisfactory to the Indemnified Persons and (B) the Indemnifying Persons will not, without the written consent of the Indemnified Persons, consent to the entry of any judgment or enter into any settlement with respect to the matter which does not include a provision whereby the plaintiff or the claimant in the matter releases the Indemnified Persons from all liability with respect thereto. The Indemnified Persons may participate in such proceeding and retain separate co-counsel at their sole cost and expense, provided, however, that the Indemnifying Persons shall be responsible for the fees and expenses of one separate co-counsel for the Indemnified Persons to the extent the Indemnified Persons are advised by counsel that either (1) the counsel the Indemnifying Persons have selected has a conflict of interest or (2) there are legal defenses available to the Indemnified Party that are different from or additional to those available to the Indemnifying Persons). Failure by the Indemnifying Persons to notify the Indemnified Persons of their election to defend any such Third Party Claim within 30 days after notice of the Third Party Claim shall have been given to such Indemnifying Persons by the Indemnified Persons shall be deemed a waiver by such Indemnifying Persons of their right to defend such claim or action.

(c) If no Indemnifying Persons are permitted to or do not elect to assume the defense, or do not diligently pursue the defense, of a Third Party Claim, the Indemnified Persons shall diligently defend against such Third Party Claim in such manner as they may deem appropriate and, in such event, the Indemnifying Persons shall promptly reimburse the Indemnified Persons for all reasonable out-of-pocket costs and expenses, legal or otherwise, incurred by the Indemnified Persons in connection with the defense against such Third Party Claim, as such costs and expenses are incurred. Any counsel chosen by such Indemnified Persons to conduct such defense must be reasonably satisfactory to the Indemnifying Persons and only one counsel shall be retained to represent all Indemnified Persons in an action (except that if litigation is pending in more than one jurisdiction with respect to an action, one such counsel may be retained in each jurisdiction in which such litigation is pending).

ARTICLE IX

MISCELLANEOUS

9.1 **Notices**. All notices, requests, consents and other communications hereunder shall be in writing, shall be addressed to the receiving party's address set forth below or to such other address as a party may designate by notice hereunder, and shall be either (a) delivered by hand, (b) made by facsimile transmission, (c) sent by recognized overnight courier, or (d) sent by certified mail, return receipt requested, postage prepaid.

If to the Purchaser to:	Achilles Acquisition, LLC 200 Connell Drive Suite 1500 Berkeley Heights, New Jersey 07922 Attn: Patrick J. Kocks, Esq., Assistant General Counsel
With a copy to:	Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. 666 Third Avenue, 25th Floor New York, New York 10017 Attn: Joel I. Papernik, Esq.
If to the Seller to:	Align Holdings LLC/Align Pharmaceuticals LLC 208 Birkhaven Drive Cary, North Carolina 27511 Attn: William Collins
With a copy to:	Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan, LLP 2500 Wachovia Capitol Center P.O. Box 2611 Raleigh, North Carolina 27602 Attn: Amos U. Priester, IV, Esq.

All notices, requests, consents and other communications hereunder shall be deemed to have been made (i) if by hand, at the time of the delivery thereof to the receiving party at the address of such party set forth above, (ii) if sent by facsimile transmission, at the time receipt has been acknowledged by electronic confirmation or otherwise, (iii) if sent by overnight courier, on the next business day following

the day such notice is delivered to the courier service, or (iv) if sent by certified mail, on the 5th business day following the day such mailing is made.

9.2 **Entire Agreement**. The Documents and the Confidentiality Agreement embody the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement of any kind not expressly set forth in the Documents shall affect, or be used to interpret, change or restrict, the express terms and provisions of this Agreement.

9.3 **Binding Effect**. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, heirs, personal representatives, legal representatives, and permitted assigns.

9.4 **Assignment**. Neither this Agreement, nor any right hereunder, may be assigned by any of the parties hereto without the prior written consent of the other parties, except that the Purchaser may assign all or part of its rights and obligations under this Agreement to one or more direct or indirect Subsidiaries or Affiliates (in which event, representations and warranties relating to the Purchaser shall be appropriately modified).

9.5 **Modifications and Amendments**. The terms and provisions of this Agreement may be modified or amended only by written agreement executed by all parties hereto.

9.6 **Waivers and Consents**. The terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provisions. No such waiver or consent shall be deemed to be or shall constitute a waiver or consent with respect to any other terms or provisions of this Agreement, whether or not similar. Each such waiver or consent shall be effective only in the specific instance and for the purpose for which it was given, and shall not constitute a continuing waiver or consent. No failure or delay by a party hereto in exercising any right, power or remedy under this Agreement, and no course of dealing between the parties hereto, shall operate as a waiver of any such right, power or remedy of the party. No single or partial exercise of any right, power or remedy under this Agreement by a party hereto, nor any abandonment or discontinuance of steps to enforce any such right, power or remedy, shall preclude such party from any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. The election of any remedy by a party hereto shall not constitute a waiver of the right of such party to pursue other available remedies. No notice to or demand on a party not expressly required under this Agreement shall entitle the party receiving such notice or demand to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the party giving such notice or demand to any other or further action in any circumstances without such notice or demand.

9.7 **No Third Party Beneficiary**. Except as provided in Article VIII, nothing expressed or implied in this Agreement is intended, or shall be construed, to confer upon or give any Person other than the parties hereto and their respective heirs, personal representatives, legal representatives, successors and permitted assigns, any rights or remedies under or by reason of this Agreement.

9.8 **Severability**. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party.

Portions of this Agreement were omitted and have been filed separately with the Secretary of the Commission pursuant to the Company's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

9.9 **Publicity**. No party to this Agreement shall make, or cause to be made, any press release or public announcement in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the Purchaser**,** except as may be required by Law or any listing agreement related to the trading of the shares of such party on any national securities exchange or national automated quotation system, in which case the party proposing to issue such press release or make such public announcement shall use reasonable efforts to consult in good faith with the other party before issuing any such press release or making any such public announcement. The parties shall cooperate as to the timing and contents of any such press release or public announcement.

9.10 **Governing Law; Jurisdiction**. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the Law of the State of New York without giving effect to the conflict of law principles thereof. Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement shall be brought against the parties hereto or thereto in the courts of the State of New York, County of New York, or, if it has or can acquire jurisdiction, in the United States District Court for the Southern District of New York, and each of the parties consents to the exclusive jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. The parties hereby expressly waive all rights to trial by jury in any suit, action or proceeding arising under this Agreement.

9.11 **Counterparts**. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same agreement.

9.12 **Headings**. The descriptive headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

9.13 **Expenses**. Except as otherwise specified in this Agreement, all costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred.

9.14 **Further Assurances**. At any time and from time to time after the Closing Date, at the request of the Purchaser and without further consideration, the Seller shall execute and deliver such other instruments of sale, transfer, conveyance, assignment and confirmation as may be reasonably requested in order to more effectively transfer, convey and assign to the Purchaser, and to confirm the Purchaser's title to, the Purchased Assets.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

SIGNATURE PAGES TO FOLLOW

IN WITNESS WHEREOF, the parties hereto have each executed and delivered this Agreement as of the day and year first above written.

ACHILLES ACQUISITION LLC

By: /s/ Spiro G. Rombotis
Name: Spiro G. Rombotis
Title: President & CEO

ALIGN PHARMACEUTICALS, LLC

By: /s/ William W. Collins
Name: William W. Collins
Title: Manager

ALIGN HOLDINGS, LLC

By: /s/ William W. Collins
Name: William W. Collins
Title: Chief Executive Officer

/s/ William W. Collins
William Collins

/s/ Al Goeken
Al Goeken

/s/ Greg Preston
Greg Preston

Solely for purposes of the issuance of Parent Common Stock as set forth in Section 3.1 hereof:

CYCLACEL PHARMACEUTICALS, INC.

By: /s/ Spiro G. Rombotis
Name: Spiro G. Rombotis
Title: President & CEO

PRIVATE & CONFIDENTIAL

October 3, 2007

William Collins
208 Birkhaven Drive
Cary, North Carolina 27511

Dear Bill:

Offer of Full-Time Employment with Achilles Acquisition, LLC (the "Company")

We are pleased to put in writing an offer of a position with the Company setting out the major terms of your employment subject to successful completion of the executive search process including a physical examination.

1. Title and Job Description

Your position will be General Manager of the Company, a wholly-owned subsidiary of Cyclacel Pharmaceuticals, Inc. ("Cyclacel"). You will report to the undersigned. As a member of our executive team you will primarily be responsible for leading the Company's commercial efforts and in particular manage its sales force, marketing programs, relationships with suppliers, payors, intermediaries, end users and trade relations in accordance with regulatory and pharmaceutical industry standards. You will be expected to play a lead role in working with the Chief Executive Officer and the Chief Operating Officer of Cyclacel and as required with other members of the management team to establish, refine and implement the Company's marketed drug portfolio strategy in light of the requirements and resources available to the business.

2. Employment Details

The effective date ("Effective Date") of your employment with the Company will commence on October 5, 2007. Your primary place of business will be the Company's premises in Berkeley Heights, New Jersey. As a condition of your employment you agree to relocate no later than three months from the Effective Date to a home within a radius of 25 miles from the Company's offices. You will have access to the Cyclacel's relocation policy. In carrying out your responsibilities you will be expected to travel extensively within the US and abroad.

3. Compensation

Your base salary will initially be $22,917 per month or the annual equivalent of $275,000 payable monthly in arrears or on such other period basis as determined by the Company, in accordance with its then current payroll procedures. You will be employed on an at will basis which means that either you or the Company may terminate your employment at any time and for any reason or no reason. In addition, in accordance with the Company's compensation

practices, you will receive, generally annually, a salary review which will be based on your individual, Company and Cyclacel overall performance and such other factors as may be determined by Cyclacel's Board of Directors ("Board"). In accordance with our policy, for employees starting work on or before August 1, any salary revisions prorated for the actual time of service will occur on January 1 of the following year. For all other employees, any prorated revisions will occur on the second January 1 from the date of employment.

4. Bonus

You will be eligible for a discretionary bonus based on a fixed percentage of base salary for your position. Bonuses are subject to approval by the Compensation Committee of the Board of Cyclacel. Bonus payments may be made to eligible and active employees at the end of the first quarter of each year. Bonus payments are contingent on the Company, Cyclacel and you meeting overall goals established at the beginning of each calendar year. In the event of Company performance below or above target, your actual bonus payment may vary. Your individual bonus payment will also vary based on your individual performance. The target for your position will be 35% of your annual base salary prorated based on service during the year. I will work with you to establish your individual goals for 2008 in consultation with other senior executives within approximately three months from the Effective Date.

5. Benefits

Company shall provide such benefits and agreements commensurate with those offered to other executive employees of the Company when so awarded. As such, you and your qualified dependents will be eligible for the Company's standard medical, dental, disability and other benefit plans, including a medical expenses insurance plan to cover you and your qualified dependents for eligible medical expenses. You will be provided with business travel insurance. Benefits under any insurance policy are subject to the rules and terms of any applicable insurance policy and are conditional on complying with and satisfying any applicable requirements of the insurer. Copies of these rules and policies and particulars of the requirements and the terms of the plans and policies will be provided to you by Human Resources upon request.

You agree to undertake, ideally before the Effective Date and in no case later than the first three months of your employment, at the Company's discretion a medical examination made by a physician chosen by the Company or its insurance carriers. You also agree to provide this physician with all appropriate medical records in confidence.

You will be eligible to participate in the Company's retirement account plans, such as the Company's Retirement Savings 401(k) Plan, as may be in place from time to time. The Company's standard vacation policy provides for vacation accrual at the rate of 1.66 days per month of full-time employment. Standard paid holidays will be observed.

The Company reserves the right to modify or withdraw its employee benefit programs at any time.

6. Equity Compensation

Cyclacel wishes to encourage its employees to share in the Company's and Cyclacel's future through stock ownership and has established stock option plans for the benefit of all employees.

Such awards are subject to your individual as well as the Company's and Cyclacel's performance and such other factors as may be determined by the Board at its discretion generally at the beginning of a new fiscal year.

Subject to the approval of the Board and the conditions of Cyclacel's applicable stock option plans you will initially be offered a stock option package as follows:

(a) You will be granted, as of the Effective Date, stock options under our 2006 Stock Option and Award Plan (the "Stock Plan") exercisable for 35,000 shares of Cyclacel's common stock. All options will vest as to one quarter (1/4) of the shares on the first anniversary of the Effective Date and as to one forty-eighth (1/48) of the total number shares monthly thereafter until all shares are vested (i.e. 100% vesting after the fourth anniversary of the Effective Date), provided that you remain employed in good standing by the Company.

(b) In addition to the options in (a) above, you will be granted options exercisable for 10,000 shares of Cyclacel's common stock, under the Stock Plan, six months from the Effective Date. These options will vest as to one quarter (1/4) of the shares eighteen months from the Effective Date and as to one forty-eighth (1/48) of the total number shares monthly thereafter until all shares are vested (i.e. 100% vesting after the fifth anniversary of the Effective Date), provided that you remain employed in good standing by the Company.

A complete description of the terms and conditions of the stock options above are contained in the Stock Plan or will be contained in your stock option grant forms. In the event of any inconsistency between this letter agreement and the terms of such stock option grant forms, the terms of this letter agreement shall prevail. The exercise price of all stock options above will be equal to the fair market value of Cyclacel's common stock on the date of each grant. By signing this letter you acknowledge that all stock options granted to you are subject to restrictions applicable to your position within the Company and Cyclacel as stipulated by US and other applicable laws, Cyclacel's policies and procedures and the rules of Cyclacel's stock option plans as may be adopted from time to time.

7. Employment Eligibility Verification

Please note that all persons employed in the United States are required to complete an Employment Eligibility Verification Form on the first day of employment and submit an original document or documents that establish identity and employment eligibility within three business days of employment. For your convenience, we are enclosing Form I-9 for your review. You will need to complete Section 1 and present original document(s) of your choice as listed on the reverse side of the form once you begin work. PLEASE NOTE: THE I-9 FORM AND VALID IDENTIFICATION ARE LEGAL REQUIREMENTS AND MUST BE SUBMITTED WITHIN 3 DAYS OF YOUR START DATE. IF YOU DO NOT SUBMIT THE REQUIRED DOCUMENTATION WITHIN THE THREE DAY TIME FRAME, BY LAW WE CANNOT ALLOW YOU TO CONTINUE TO WORK.

8. Conflicts of Interest, Confidentiality and Intellectual Property

The Company's and Cyclacel's key assets include its intellectual property both existing and future, confidential information, trade secrets and goodwill with customers, vendors and others.

Accordingly the attached memorandum sets out our agreement in this regard as an appendix to this letter and must be signed as a condition of employment. Please sign this appendix as well as confirmation that you have been informed and understand the position regarding these issues and your acceptance of its provisions.

If the foregoing represents an acceptable basis of employment for you, we would be grateful if you would sign and return to the undersigned the enclosed copy of this letter. This offer will be considered null and void if a signed copy is not received within ten calendar days of the date of this letter.

Bill, we are excited about the prospect of you joining the Company's executive team and look forward to your response.

Yours sincerely

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

ACCEPTED AND AGREED TO

THIS 3rd DAY OF OCTOBER 2007.

By: /s/ William Collins
William Collins

cc: GC
PMcB
PK

EXHIBIT 31.1

Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Spiro Rombotis, certify that:

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

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

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

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

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

b) designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;

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

d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: November 7, 2007

/s/ Spiro Rombotis
Spiro Rombotis
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Paul McBarron, certify that:

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

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

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

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

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

b) designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;

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

d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: November 7, 2007

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

EXHIBIT 32.1

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

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2007 (the ''Report'') fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: November 7, 2007

/s/ Spiro Rombotis
Spiro Rombotis
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

Certification of Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2007 (the ''Report'') fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: November 7, 2007

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