

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Act of 1934**

Date of Report (Date of earliest event reported): May 16, 2005

Commission File Number 0-50626

XCYTE THERAPIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

91-1707622
*(I.R.S. Employer
Identification Number)*

**1124 Columbia Street, Suite 130
Seattle, Washington 98104**
(Address of principal executive offices and zip code)

(206) 262-6200
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

On May 17, 2005, Xcyte Therapies, Inc. (the "Company") entered into a Separation Agreement and Mutual Release (the "Separation Agreement") with Stewart Craig, Ph.D., the Company's Chief Operating Officer and Vice President. The Separation Agreement is filed with this report as Exhibit 10.1 and its contents are incorporated by reference into this Item 1.01. The material terms and conditions of the Separation Agreement are summarized in the Item 5.02 below and the content of such summary is incorporated into this Item 1.01 by reference.

Item 2.02. Results of Operations and Financial Condition.

On May 16, 2005, the Company issued a press release announcing financial results for its fiscal quarter ended March 31, 2005 and announcing the updates to its clinical development plans, a copy of which is attached hereto as Exhibit 99.1 and incorporated into this Form 8-K by reference.

Item 2.05. Costs Associated with Exit or Disposal Activities.

On May 16, 2005, the Company issued a press release announcing its decision to focus its research and development efforts on HIV and to discontinue the planned Phase II/III clinical trial in CLL due primarily to delays and uncertainties regarding the Company's ability to reach agreement with the United States Food and Drug Administration on a clinical trial protocol that would be feasible and affordable for the Company to pursue. A copy of this press release is attached hereto as Exhibit 99.1 and incorporated into this Form 8-K by reference. As a result of this more limited clinical development plan, the Company reduced its workforce by approximately 14%, from 83 to 71 employees, on May 17, 2005. The Company will record a charge in the second quarter of 2005 of approximately \$255,000, consisting of severance, benefits and outplacement services.

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

- (b) On May 17, 2005, the Company terminated the employment of Stewart Craig, Ph.D., the Company's Chief Operating Officer and Vice President. Pursuant to the Separation Agreement, Dr. Craig will receive \$139,090 as severance, which amount consists of six months of his base salary (subject to applicable tax withholding) and includes the Company's payment of COBRA benefits through November 30, 2005. Additionally, the vesting of the options to purchase shares of the Company's common stock held by Dr. Craig shall accelerate such that an additional six months of vesting shall be credited to such options as of May 17, 2005. Dr. Craig has agreed to release the Company from any claims arising from or related to his employment relationship with the Company. The Separation Agreement is filed with this report as Exhibit 10.1 and its contents are incorporated by reference into this Item 5.02.

Robert Kirkman, M.D., the Company's Chief Business Officer and Vice President, will assume most of the duties formerly performed by Dr. Craig with the balance of Dr. Craig's duties assumed by Ronald Berenson, M.D., the Company's Chief Executive Officer. The principal terms of Dr. Kirkman's employment are summarized in the Company's proxy statement for its 2005 annual meeting of stockholders filed with the SEC on April 29, 2005 and his employment agreement dated January 15, 2004 was previously filed as an exhibit to the Company's Registration Statement on Form S-1(File No. 333-109653), originally filed with the SEC on October 10, 2003 as amended. Such summary and such exhibit are incorporated by reference into this Item 5.02.

Item 7.01. Regulation FD Disclosure.

Based on our more limited clinical development plan and the reduction in force described above, we believe that our current cash, cash equivalents and investments will be adequate to satisfy our capital needs through at least the end of 2006. We will likely seek additional financing prior to that time to, among other things, support our continuing product development, manufacturing and clinical trials in future periods. Furthermore, we expect to require additional funding before we are able to generate revenue, if at all, from our potential products. Additional financing may not be available on favorable terms, if at all. If we are unable to raise additional funds when we need them, we may have to delay, reduce or eliminate some or all of our development programs or our clinical trials. We also may have to license our technologies to others, including technologies that we would prefer to develop internally, to raise capital.

Item 9.01. Financial Statements and Exhibits.**(c) Exhibits.**

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| 10.1 | Separation Agreement and Mutual Release (the "Separation Agreement") dated May 17, 2005 between Xcyte Therapies, Inc. and Stewart Craig, Ph.D. |
| 99.1 | Press Release of Xcyte Therapies, Inc. dated May 16, 2005. |

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 hereunto duly authorized.

XCYTE THERAPIES, INC.

By: /s/ Kathi L. Cordova

Kathi L. Cordova
Duly Authorized Officer of Registrant
Senior Vice President of Finance and Treasurer

Date: May 18, 2005

SEPARATION AGREEMENT AND RELEASE

This Separation Agreement and Release ("Agreement") is entered into as of this 17th day of May, 2005 (hereinafter "Execution Date") by and between Stewart Craig (hereinafter "Employee"), and Xcyte Therapies, Inc., its affiliates, successors and assigns (hereinafter the "Company"). Employee and the Company are sometimes collectively referred to as the "Parties."

1. Employee's employment with the Company terminates effective May 17, 2005 (hereinafter "Termination Date"). The parties have agreed to avoid and resolve any alleged existing or potential disagreements between them arising out of or connected with Employee's employment with the Company. The Company expressly disclaims any wrongdoing or any liability to Employee.

2. The Company agrees to provide Employee the following severance benefits, after the expiration of the seven-day revocation period described in Paragraph 9 below upon which the Agreement becomes effective (hereinafter "Effective Date"), provided Employee has not revoked this Agreement as described in that Paragraph:

- (a) A lump sum payment in the gross amount of \$131,984 which equals six (6) months salary as of the Termination Date. Standard employee withholding taxes and any amounts owed by Employee to the Company will be deducted from this lump sum payment, in accordance with the Company's regular payroll practices. Employee agrees that said payment will be mailed to Employee's home on the next regular payroll date that is at least five (5) calendar days after the Effective Date;
- (b) Upon Employee's timely election of COBRA continuation coverage under the Company's health plan, the Company will pay one hundred percent (100%) of the COBRA premium for coverage through November 30, 2005;
- (c) If applicable, the Company will continue to administer Employee's personal account within the Company's existing 401(k) Plan, provided you meet the minimum balance requirement;
- (d) Payment for any vacation time accrued above the current 120 hour vacation accrual payout limit (but below the 180 hour maximum), if applicable; and
- (e) Vesting of Employee's option(s) to purchase shares of Common Stock granted to Employee under the Company's Amended and Restated 1996 Stock Option Plan and/or 2003 Stock Plan shall include, effective as of the termination date, options which would have become vested and exercisable under the original terms of the Employee's Stock Option Agreement(s) through November 17, 2005 (resulting in a total of 99,418 vested option shares). In accordance with the terms of the Stock Option Agreement, the vested options will be exercisable until August 17, 2005 (3 months following the Termination Date). Employee acknowledges and agrees that Employee has no other right, title or interest in or any Common Stock, stock options or any other capital stock of the Company as of the Termination Date, except as provided for in this Agreement.

Employee specifically acknowledges and agrees that this consideration exceeds the amount Employee would otherwise be entitled to receive upon termination of Employee's employment, and that this lump sum payment and other benefits are in exchange for entering into this Agreement. Employee agrees that Employee will not at any time seek consideration from the Company other than what is set forth in this Agreement. Employee specifically acknowledges and agrees that the Company has made no representations to Employee regarding the tax consequences of any amounts received by Employee or for Employee's benefit pursuant to this Agreement.

3. Employee represents that Employee has not filed, and will not file, any complaints, lawsuits, administrative complaints or charges arising from or relating to Employee's recruitment by, employment with, or termination from, the Company. Notwithstanding any provision of law which provides that a general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing a release, Employee agrees to release the Company, its Board of Directors, officers, employees, agents and assigns, from any and all claims, charges, complaints, causes of action or demands of whatever kind or nature that Employee

now has or has ever had against the Company, whether known or unknown, arising from or relating to Employee's recruitment by, employment with or discharge from the Company, including but not limited to: wrongful or tortious termination, specifically including actual or constructive termination in violation of public policy; implied or express employment contracts and/or estoppel; discrimination and/or retaliation under any federal, state or local statute or regulation, specifically including any claims Employee may have under the Fair Labor Standards Act, Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Americans with Disabilities Act, Title VII of the Civil Rights Act of 1964 as amended, and the Family and Medical Leave Act; the Washington Minimum Wage Act and the Washington Law Against Discrimination; any and all claims brought under any applicable federal, state or local employment discrimination or other statutes; any claims brought under any federal or state statute or regulation for non-payment of wages, USERRA (Military Leave) or other compensation (including expense reimbursements and/or bonuses due after the Termination Date), including stock and stock options; and libel, slander, fraud, misrepresentation or breach of contract other than the breach of this Agreement. This release specifically excludes claims, charges, complaints, causes of action or demands of whatever kind or nature that post-date the Termination Date or the Effective Date, whichever is later, and that are based on factual allegations that do not arise from or relate to Employee's present employment with or discharge from the Company.

4. Employee acknowledges and affirms that Employee has previously executed a Proprietary Information and Inventions Agreement and that the terms and conditions of said agreement that survive the employment relationship are not affected by this Separation Agreement and Release. Employee represents that Employee has returned all property belonging to the Company. Employee will direct all employment verification inquiries to the Director of Human Resources. In response to inquiries regarding Employee's employment with the Company, the Company, by and through its speaking agent(s) agrees to provide only the following information: Employee's date of hire, the date Employee's employment ended and rates of pay.

5. Employee warrants that no promise or inducement has been offered for this Agreement other than as set forth herein and that this Agreement is executed without reliance upon any other promises or representations, oral or written. Any modification of this Agreement must be made in writing and be signed by Employee and the Company. This Agreement supersedes all prior understandings between the Parties and represents the entire Agreement between the Parties with respect to all matters involving Employee's employment with or termination from the Company.

6. If any provision of this Agreement or compliance by Employee or the Company with any provision of this Agreement constitutes a violation of any law, or is or becomes unenforceable or void, then such provision, to the extent only that it is in violation of law, unenforceable or void, will be deemed modified to the extent necessary so that it is no longer in violation of law, unenforceable or void, and such provision will be enforced to the fullest extent permitted by law. If such modification is not possible, said provision, to the extent that it is in violation of law, unenforceable or void, will be deemed severable from the remaining provisions of this Agreement, which provisions will remain binding on both Employee and the Company. This Agreement is governed by the laws of the State of Washington.

7. The King County Superior Court, Seattle, Washington shall have exclusive jurisdiction of any lawsuit arising from or relating to Employee's employment with, or termination from, the Company, or arising from or relating to this Agreement. Employee consents to such venue and personal jurisdiction. The prevailing party in any such lawsuit will be entitled to an award of attorneys' fees and reasonable litigation costs. Employee agrees that Employee will indemnify and hold the Company harmless from any breach of this Agreement by Employee. Employee further agrees that if Employee challenges this Agreement or files any claims against the Company arising from or relating to Employee's employment with, or termination from, the Company, excluding any claim challenging the validity of Employee's waiver of rights under the Age Discrimination in Employment Act, Employee will return all monies and benefits received by Employee from the Company pursuant to this Agreement. In the event Employee challenges the validity of Employee's waiver of rights under the Age Discrimination in Employment Act, Employee agrees that the Company may recover money and benefits paid under this Agreement if Employee's challenge and subsequent Age Discrimination in Employment Act claim are successful and Employee obtains a monetary award.

8. Employee specifically agrees and acknowledges: (A) that Employee's waiver of rights under this Agreement is knowing and voluntary as required under the Older Workers Benefit Protection Act; (B) that Employee understands the terms of this Agreement; (C) that Employee has been advised in writing by the Company to consult with an attorney prior to executing this Agreement; (D) that the Company has given Employee a period of up to forty-five (45) days within which to consider this Agreement; (E) that, following Employee's execution of this Agreement Employee has seven (7) days in which to revoke Employee's agreement to this Agreement and that, if

Employee chooses not to so revoke, the Agreement shall then become effective and enforceable and the payment and extension of benefits listed above shall then be made to Employee in accordance with the terms of this Agreement; and (F) nothing in this Agreement shall be construed to prohibit Employee from filing a charge or complaint, including a challenge to the validity of the waiver provision of this Agreement, with the Equal Employment Opportunity Commission or participating in any investigation conducted by the Equal Employment Opportunity Commission. However, Employee has waived any right to monetary relief. To cancel this Agreement, Employee understands that Employee must give a written revocation to Erin Shackelford, Director of Human Resources at 1124 Columbia Street, Suite 130, Seattle, Washington, 98104, either by hand delivery or certified mail within the seven-day period. If Employee revokes the Agreement, it will not become effective or enforceable and Employee will not be entitled to any of the benefits set forth above.

9. Employee further specifically agrees that modifications to this Agreement, whether material or immaterial, do not restart the running of the forty-five (45) day period referenced in Paragraph 9.

10. **Exhibit A**, attached hereto and incorporated herein, contains the eligibility criteria for inclusion in the employment termination and severance package program, and Employee hereby acknowledges receipt of same. **Exhibit B**, entitled Employer Disclosure Regarding Ages of Individuals Selected and Not Selected for Severance Package, attached hereto and incorporated herein, describes the ages and job titles of all persons selected for the layoff and eligible for the severance package, and the ages and job titles of all persons in the relevant job classification or department who will not be laid off and Employee hereby acknowledges receipt of same. These attachments are provided to meet applicable legal requirements for group layoffs.

11. EMPLOYEE ACKNOWLEDGES AND AGREES THAT EMPLOYEE HAS CAREFULLY READ AND VOLUNTARILY SIGNED THIS AGREEMENT, THAT EMPLOYEE HAS HAD AN OPPORTUNITY TO CONSULT WITH AN ATTORNEY OF EMPLOYEE'S CHOICE, AND THAT EMPLOYEE SIGNS THIS AGREEMENT WITH THE INTENT OF RELEASING THE COMPANY AND ITS OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS FROM ANY AND ALL CLAIMS.

ACCEPTED AND AGREED TO:

/s/ Ronald Jay Berenson, M.D.

/s/ Stewart Craig

Ronald Jay Berenson, M.D.
Chief Executive Officer & President
Xcyte Therapies, Inc.

Stewart Craig

Dated: May 17, 2005

Dated: May 17, 2005

FOR IMMEDIATE RELEASE

Contact:

Robert Kirkman, MD
Chief Business Officer & VP
Xcyte Therapies, Inc.
(206) 262-6219

**XCYTE THERAPIES, INC. ANNOUNCES FIRST QUARTER 2005 FINANCIAL
RESULTS AND REVISES CLINICAL DEVELOPMENT STRATEGY**

Seattle, WA-May 16, 2005 - Xcyte Therapies, Inc. (Xcyte, the "Company") (Nasdaq: XCYT; XCYTP) reported today a net loss applicable to common stockholders of \$7.3 million, or \$0.37 per basic and diluted share, for the three months ended March 31, 2005, compared with a net loss applicable to common shareholders of \$27.3 million, or \$7.98 per basic and diluted share, for the three months ended March 31, 2004. Revenue for the first quarter of 2005 was approximately \$16,000, compared with approximately \$12,000 for the year earlier quarter. Research and development expenses were \$5.5 million for the first quarter of 2005, compared with \$4.2 million for the first quarter of 2004. General and administrative expenses were \$2.0 million in the first quarter of 2005, compared with \$1.6 million in the first quarter of 2004.

Interest expense decreased to \$60,000 for the three months ended March 31, 2005, from \$12.6 million for the three months ended March 31, 2004, due primarily to non-cash interest expense in the first quarter of 2004 associated with the convertible promissory notes issued in October 2003. In addition, the net loss applicable to common stockholders for the three months ended March 31, 2004, included a non-cash charge of \$9.0 million related to the valuation of preferred stock at issuance.

The loss per basic and diluted share for the three months ended March 31, 2005, is based upon a weighted average of the number of common shares outstanding for the period of 19.6 million shares. As of March 31, 2005, there were 19.7 million shares outstanding.

At March 31, 2005, Xcyte had cash, cash equivalents and short term investments of \$39.5 million, compared with \$47.3 million at December 31, 2004.

Clinical Development Strategy

Xcyte also announced today that the Company will shift further clinical development of its lead product, Xcellerated T Cells, to focus on treating HIV. "We are very excited about the HIV opportunity," said Ron Berenson, M.D., President and Chief Executive Officer of Xcyte. "Encouraging clinical data in recent trials conducted by our collaborators in several different clinical settings have led us to this decision. During the next 12 months, we intend to initiate trials to evaluate the potential therapeutic effects of Xcellerated T Cells on viral load and CD4⁺ T cell counts in patients with HIV." The Company intends to submit an Investigational New Drug application for the HIV indication in the third quarter of this year, and to initiate the first Company-sponsored trial before year end.

As part of the decision to focus on HIV, Xcyte will discontinue current plans for further development of Xcellerated T Cells in chronic lymphocytic leukemia (CLL). "The decision to move away from CLL was difficult, both because of the positive clinical effects we have seen in our Phase I/II trial and the high level of enthusiasm from our investigators and

other CLL experts,” continued Dr. Berenson. “However, we have been unable to reach agreement with the FDA on a pathway for regulatory approval in CLL that is feasible or affordable for Xcyte, and we cannot predict when or if we will be able to reach agreement. In addition, the CLL indication was part of our overall development plan for hematological malignancies. Recent analyses of clinical data from our Phase II trials in multiple myeloma and non-Hodgkin’s lymphoma conducted in preparation for the American Society of Clinical Oncology meeting do not show anti-tumor effects. Additional clinical trials would be needed to determine if Xcellerated T Cells have activity in these diseases. Given the Company’s current resources, we believe it is in the best interest of our investors to discontinue further work at this time in CLL, non-Hodgkin’s lymphoma and multiple myeloma and focus our resources on HIV, where recent trials conducted by our collaborators have shown therapeutic effects.”

“We think it is very important that we focus on the opportunity with the highest likelihood of success, both clinically and financially,” added Christopher Henney, Ph.D., Chairman of the Board of Xcyte. “We also need to concentrate our efforts on an indication we can develop to the next level with our existing resources. HIV meets both of these criteria.”

Xcyte Therapies is developing novel therapies that harness the power of the immune system to treat cancer and other serious illnesses. Xcyte derives its therapeutic products from a patient’s own T cells, which are cells of the immune system that orchestrate immune responses and can detect and eliminate cancer cells and infected cells in the body. Xcyte uses its patented and proprietary Xcellerate Technology to generate activated T cells, called Xcellerated T Cells, from blood that is collected from the patient. Activated T cells are T cells that have been stimulated to carry out immune functions. The Xcellerate Technology is designed to rapidly activate and expand the number of the patient’s T cells outside of the body. These Xcellerated T Cells are then administered to the patient.

Xcyte™, Xcyte Therapies™, Xcellerate™ and Xcellerated T Cells™ are trademarks of Xcyte Therapies, Inc.

Xcyte Therapies, Inc.
Statements of Operations
(Unaudited)
(In thousands, except shares and per share amounts)

	Three months ended March 31,	
	2005	2004
Revenues	\$ 16	\$ 12
Operating expenses:		
Research and development	5,494	4,175
General and administrative	2,020	1,574
Total operating expenses	7,514	5,749
Loss from operations	(7,498)	(5,737)
Other income (expense):		
Interest income	258	42
Interest expense	(60)	(12,589)
Change in valuation of derivative	8	—
Other income (expense), net	206	(12,547)
Net loss	(7,292)	(18,284)
Accretion of preferred stock	—	(8,973)
Net loss applicable to common stockholders	\$ (7,292)	\$ (27,257)
Basic and diluted net loss per share	\$ (0.37)	\$ (7.98)
Shares used in computation of basic and diluted net loss per share	19,595,990	3,414,481

Xcyte Therapies, Inc.
Balance Sheets
(Unaudited)
(In thousands)

	March 31, 2005	December 31, 2004
Cash, cash equivalents and investment securities	\$ 39,543	\$ 47,318
Other current assets	1,453	1,021
Property and equipment, net	6,496	6,208
Other assets	1,085	1,056
Total assets	\$ 48,577	\$ 55,603
Current liabilities	\$ 7,507	\$ 7,412
Long-term obligations and other liabilities	3,923	4,071
Stockholders' equity	37,147	44,120
Total liabilities and stockholders' equity	\$ 48,577	\$ 55,603