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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED:
JUNE 30, 1996

0-19871
COMMISSION FILE NUMBER

CYTOTHERAPEUTICS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	94-3078125
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No)

TWO RICHMOND SQUARE
PROVIDENCE, RI 02906
(Address of principal executive offices including zip code)

(401) 272-3310
(Registrant's telephone number, including area code)

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 twelve months (or for such shorter periods that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes___X____ No_____

At July 31, 1996, there were 15,398,067 shares of Common Stock, $.01 par value, issued and outstanding. There were no issued and outstanding shares of Preferred Stock.

CYTOTHERAPEUTICS, INC.

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CYTOTHERAPEUTICS, INC.

CONDENSED BALANCE SHEETS
(unaudited)

	JUNE 30, 1996	DECEMBER 31, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	$7,084,064	$9,548,579
Marketable securities	31,332,247	34,643,160
Receivables from collaborative agreement	23,600	167,906
Other current assets	1,636,212	1,303,379
Total current assets	40,076,123	45,663,024
Property, plant and equipment, net	8,268,984	7,892,763
Other assets	3,535,845	3,251,718
Total assets	$51,880,952	$56,807,505
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$2,598,335	$3,082,419
Deferred revenue	1,750,000	1,750,000
Current maturities of capitalized lease obligations	614,015	668,325
Current maturities of long term debt	525,119	474,245
Total current liabilities	5,487,469	5,974,989
Capitalized lease obligations, less current maturities	4,229,008	4,498,957
Long term debt, less current maturities	1,539,313	942,181
Stockholders' equity		
Common stock	153,813	151,770
Additional paid in capital	105,541,128	104,271,658
Accumulated deficit	(64,891,427)	(59,163,536)
Deferred compensation	(122,356)	-
Unrealized gain (loss) on marketable securities	(55,996)	131,486
Total stockholders' equity	40,625,162	45,391,378
Total liabilities and stockholders' equity	$51,880,952	$56,807,505

See accompanying notes to condensed financial statements.

CYTOTHERAPEUTICS, INC.

CONDENSED STATEMENTS OF OPERATIONS

(unaudited)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1996	1995	1996	1995
Revenue from collaborative arrangements	$1,850,632	$1,543,830	$3,514,849	$7,859,016
Operating expenses:				
Research and development	4,175,341	3,583,999	8,080,500	7,004,528
General and administrative	1,173,221	1,093,439	2,407,269	2,217,483
	5,348,562	4,677,438	10,487,769	9,222,011
Loss from operations	(3,497,930)	(3,133,608)	(6,972,920)	(1,362,995)
Other income (expense):				
Investment income	572,744	399,294	1,207,269	644,423
Interest expense	(149,145)	(146,808)	(304,740)	(289,549)
Other income	342,500	-	342,500	-
	766,099	252,486	1,245,029	354,874
Net loss	($2,731,831)	($2,881,122)	($5,727,891)	($1,008,121)
Net loss per share	($0.18)	($0.23)	($0.37)	($0.09)
Shares used in calculation	15,368,009	12,322,203	15,320,989	11,758,266

See accompanying notes to condensed financial statements.

CYTOTHERAPEUTICS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)	SIX MONTHS ENDED JUNE 30, 1996	1995
Cash flows from operating activities:		
Net loss	($5,727,891)	($1,008,121)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	794,645	782,296
Compensation expense relating to the grant of stock options	31,061	65,408
Changes in operating assets and liabilities	(639,653)	1,953,678
Net cash provided by (used in) operating activities	(5,541,838)	1,793,261
Cash flows from investing activities:		
Proceeds from sale of marketable securities	6,207,051	7,013,834
Purchases of marketable securities	(3,083,620)	(18,012,435)
Purchase of property, plant and equipment	(1,149,202)	(661,474)
Acquisition of other assets	(305,791)	(25,598)
Other investments	-	(500,100)
Net cash provided by (used in) investing activities	1,668,438	(12,185,773)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	1,085,138	9,992,215
Proceeds from financing transactions	821,172	148,785
Principal payments under capitalized lease obligations and mortgage payable	(497,425)	(550,906)
Net cash provided by financing activities	1,408,885	9,590,094
Decrease in cash and cash equivalents	(2,464,515)	(802,418)
Cash and cash equivalents, January 1	9,548,579	8,715,890
Cash and cash equivalents, June 30	$7,084,064	$7,913,472

See accompanying notes to condensed financial statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 1996 AND 1995

NOTE 1. BASIS OF PRESENTATION

The accompanying, unaudited, condensed financial statements have been prepared by the Company in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial statements include all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. Results of operations for the three and six months ended June 30, 1996 are not necessarily indicative of the results that may be expected for the entire fiscal year ended December 31, 1996.

For further information, refer to the audited financial statements and footnotes thereto as of December 31, 1995 included in the Company's Annual Report to Stockholders and the Annual Report on Form 10-K filed with the Securities and Exchange Commission.

NOTE 2. NET LOSS PER SHARE

Net loss per share is computed using the weighted average number of shares of common stock outstanding. Common equivalent shares from stock options and warrants are excluded as their effect is antidilutive.

NOTE 3. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

The Company has adopted Statement of Financial Accounting Standards No. 121 ("SFAS 121"), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, which requires impairment losses to be recorded on the long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. SFAS 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The adoption of SFAS 121 had no impact on the financial position or results of operations of the Company as no indicators of impairment currently exist.

The Company has adopted the disclosure provisions of Financial Accounting Standards No. 123 ("SFAS 123"), Accounting and Disclosure of Stock-Based Compensation. The Company will continue to account for its stock-based compensation arrangements under the provisions of APB 25, Accounting for Stock Issued to Employees.

NOTE 4. SUBSEQUENT EVENT

On July 10, 1996, The Company participated in the establishment of Modex Therapeutiques SA, as a 50% owned, Swiss subsidiary to pursue extensions of the Company's encapsulated-cell technology for applications outside the central nervous system. Modex is headquartered in Lausanne, Switzerland.

The Company has initially invested $2 million in Modex, with a commitment to invest an additional $2 million on the second anniversary of the agreement if Modex has, prior to that time, achieved one or more specified scientific milestones, in exchange for a 50% stake in Modex. An investment fund, managed by a Swiss private bank, has invested $2 million in Modex, with a commitment to invest an additional $1 million on the second anniversary of the agreement, in exchange for a 15% stake in the company. The remaining 35% of Modex is owned by the scientific founders of Modex.

The Company has granted to Modex an exclusive, royalty-bearing license to the Company's proprietary encapsulated-cell technology for three applications outside the central nervous system (diabetes, obesity, and anemia). Modex granted the Company an exclusive royalty-bearing license to any technology developed or obtained by Modex for application to diseases, conditions, and disorders which affect the central nervous system. In addition to its royalty obligations, the Company is also obligated to issue to Modex up to 300,000 shares of the Company's Common Stock on the achievement by Modex of certain scientific milestones. Substantially all of these shares are expected to be awarded by Modex as incentive compensation to Modex' founding scientists and other researchers upon the achievement of such milestones.

Under the terms of its agreement with the investment fund, during the first two years following closing, the Company has the right to acquire the fund's interest in Modex for the greater of a 30% annual return or $3 million. Following this two-year period, the Company has the right to purchase the fund's interest at 110% of fair market value. Following the second anniversary of the agreement and prior to the tenth anniversary of the agreement, if no public market exists for the Common Stock of Modex, the fund has the right to require the Company to purchase the fund's interest in Modex for 90% of the fair market value of such interest. Any purchase made by the Company under any of the circumstances described in this paragraph may be made at the Company's option in cash or shares of the Company's Common Stock valued at the market price at the time of purchase. The Company also has the right to acquire, and the founders have the right to require the Company to acquire, the founders' initial equity interest in Modex in exchange for the issuance of an aggregate of approximately 92,000 shares of the Company's Common Stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of the Company for the three and six months ended June 30, 1996 and 1995 should be read in conjunction with the accompanying unaudited condensed financial statements and the related footnotes thereto.

This report may contain certain forward-looking statements regarding, among other things, the Company's results of operations, the progress of the Company's product development programs, the Company's need for, and required timing of, additional capital, capital expenditures and need for additional facilities. The Company's actual results may vary materially from those contained in such forward-looking statements. See "Cautionary Factors Relevant to Forward-Looking-Information" filed herewith as Exhibit 99 and incorporated herein by reference.

OVERVIEW

Since its inception in 1988, the Company has been primarily engaged in research and development of human therapeutic products. No revenues have been derived from the sale of any products, and the Company does not expect to receive revenues from product sales for at least several years. The Company expects that its research and development expenditures will increase substantially in future years as research and product development efforts accelerate and clinical trials are broadened or initiated. The Company has incurred annual operating losses since inception and expects to incur substantial operating losses in the future. As a result, the Company is dependent upon external financing from equity and debt offerings and revenues from collaborative research arrangements with corporate sponsors to finance its operations. The Company's results of operations have varied significantly from period to period and may vary significantly in the future due to the occurrence of material, nonrecurring events, including without limitation, the receipt of one-time, nonrecurring licensing payments. Results may vary from quarter to quarter and results of one quarter may not be representative of the actual results for the year.

RESULTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 1996 AND 1995

For the quarter ended June 30, 1996 and 1995, revenues from collaborative agreements totaled $1,851,000 and $1,544,000, respectively. The revenues were earned solely from a Development, Marketing and License Agreement with Astra AB, which was signed in March 1995.

Research and development expenses totaled $4,175,000 for the three months ended June 30, 1996, compared with $3,584,000 for the same period in 1995 The increase of $591,000, or 16%, from 1995 to 1996 is principally due to increases in the number of scientists and increased spending for research agreements and clinical trials.

General and administrative expenses were $1,173,000 for the three months ended June 30, 1996, compared with $1,093,000 for the same period in 1995. The increase of $80,000, or 7%, from 1995 to 1996 was primarily attributable to increased spending for general patent costs, as well as, increases in spending for administrative salaries, offset by a decrease in legal expenses.

Other income in the amount of $343,000 was received in May 1996 for settlement of a legal suit filed on behalf of the Company.

Interest income for the three months ended June 30, 1996 and 1995 was $573,000 and $399,000, respectively. The average investment balances were $38,807,000 and $21,574,000 in the second quarter of 1996 and 1995, respectively. The increase in interest income in 1996 is attributable to the higher average balances.

Interest expense was $149,000 for the three months ended June 30, 1996, compared with $147,000 for the same period in 1995. The increase from 1996 to 1995 was attributable to additional collateralized loan obligations recorded in connection with equipment financings offset, in part, by decreasing balances of existing capital leases.

Net loss for the three months ended June 30, 1996 was $2,732,000, or $0.18 per share, as compared to net loss of $2,881,000, or $0.23 per share, for the comparable period in 1995.

RESULTS OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 1996 AND 1995

For the six months ended June 30, 1996 and 1995, revenues from collaborative agreements totaled $3,515,000 and $7,859,000. The revenues were earned solely from a Development, Marketing and License Agreement with Astra AB, which was signed in March 1995. Included in the 1995 revenues was a non-refundable, one-time payment from Astra totaling $5,000,000.

Research and development expenses totaled $8,081,000 for the six months ended June 30, 1996, compared with $7,005,000 for the same period in 1995. The increase of $1,076,000, or 15%, from 1995 to 1996 is principally due to increases in the number of scientists and associated supplies, increased spending for research agreements, scientific consulting and clinical trials.

General and administrative expenses were $2,407,000 for the six months ended June 30, 1996, compared with $2,217,000 for the same period in 1995. The

increase of $190,000, or 9%, from 1995 to 1996 was primarily attributable to increases in patent related expenses, as well as, increases in spending for administrative salaries.

Other income in the amount of $343,000 was received in May 1996 for settlement of a legal suit filed on behalf of the Company.

Interest income for the six months ended June 30, 1996 and 1995 was $1,207,000 and $644,000, respectively. The average investment balances were $40,517,000 and $19,878,000 for the first six months of 1996 and 1995, respectively. The increase in interest income in 1996 is primarily attributable to the higher average balances.

Interest expense was $305,000 for the six months ended June 30, 1996, compared with $290,000 for the same period in 1995. The increase from 1995 to 1996 was attributable to additional collateralized loan obligations recorded in connection with equipment financings offset, in part, by decreasing balances of existing capital leases.

Net loss for the six months ended June 30, 1996 was $5,728,000, or $0.37 per share, as compared to net loss of $1,008,000, or $0.09 per share, for the comparable period in 1995. The initial one-time payment of $5,000,000 from Astra is responsible for the Company's decreased loss in the first six months of 1995.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has financed its operations through the sale of common and preferred stock, the issuance of long-term debt and capitalized lease obligations, revenues from collaborative agreements, research grants and interest income.

The Company had unrestricted cash, cash equivalents, and marketable securities totaling $38,416,000 at June 30, 1996. Cash equivalents and marketable securities are invested in agencies of the U.S. government, investment grade corporate notes and money market funds.

In May 1996, the Company secured an equipment loan facility with a bank in the amount of $2,000,000. The Company has borrowed $741,000 under this agreement as of June 30, 1996. The loan requires interest payments only for the first year, principal payments are payable over a three-year period beginning May 1997. Any unused commitment expires on May 15, 1997. The loan is secured by equipment purchased with the proceeds of the credit facility.

The Company currently occupies all of its laboratory and administrative office space, other than that at its pilot manufacturing site, under the terms of operating leases subject to termination upon nine months notice by the Company. As a result

of a potential increase in the number of employees, the Company's current facilities may not be sufficient to accommodate the Company's needs past the first half of 1997. The Company is currently evaluating a proposals under which it will lease new office and laboratory facilities.

In July 1996, the Company invested $2 million in Modex, a 50% owned Swiss subsidiary, to pursue extensions of the Company's encapsulated-cell technology for applications outside the central nervous system, with a commitment to invest an additional $2 million on the second anniversary of the agreement if Modex has, prior to that time, achieved one or more specified scientific milestones. An investment fund, managed by a Swiss private bank, has invested $2 million in Modex, with a commitment to invest an additional $1 million on the second anniversary of the agreement, in exchange for a 15% stake in the company. The remaining 35% of Modex is owned by the scientific founders of Modex. The Company has granted to Modex an exclusive, royalty-bearing license to the Company's proprietary encapsulated-cell technology for three applications outside the central nervous system (diabetes, obesity and anemia). Modex granted the Company an exclusive royalty-bearing license to any technology developed or obtained by Modex for application to diseases, conditions, and disorders which affect the central nervous system. In addition to its royalty obligations, the Company is also obligated to issue to Modex up to 300,000 shares of the Company's Common Stock on the achievement by Modex of certain scientific milestones. Substantially all of these shares are expected to be awarded by Modex as incentive compensation to Modex' founding scientists and other researchers upon the achievement of such milestones.

Under the terms of its agreement with the investment fund, during the first two years following closing, the Company has the right to acquire the fund's interest in Modex for the greater of a 30% annual return or $3 million. Following this two-year period, the Company has the right to purchase the fund's interest at 110% of fair market value. Following the second anniversary of the agreement and prior to the tenth anniversary of the agreement, if no public market exists for the Common Stock of Modex, the fund has the right to require the Company to purchase the fund's interest in Modex for 90% of the fair market value of such interest. Any purchase made by the Company under any of the circumstances described in this paragraph may be made at the Company's option in cash or shares of the Company's Common Stock valued at the market price at the time of purchase. The Company also has the right to acquire, and the founders have the right to require the Company to acquire, the founders' initial equity interest in Modex in exchange for the issuance of an aggregate of approximately 92,000 shares of the Company's Common Stock.

In March 1995, the Company signed a collaborative research and development agreement with Astra for the development and marketing of certain encapsulated-cell products to treat pain. Astra made an initial, nonrefundable payment of $5,000,000 and may make up to $16,000,000 in additional payments subject to the achievement of certain development milestones. Under the agreement, the Company is obligated to conduct certain research and development pursuant to a

four-year research plan agreed upon by the parties. Over the term of the agreement, the Company expects to receive annual research payments from Astra of $5 million to $7 million, which the Company expects should approximate the research and development costs incurred by the Company under the plan. Subject to the successful development of such products and obtaining necessary regulatory approvals, Astra is obligated to conduct all clinical trials of products arising from the collaboration and to seek approval for their sale and use. Astra has the exclusive worldwide right to market products covered by the agreement. Until the later of either the last to expire of all patents included in the licensed technology or a specified fixed term, the Company is entitled to a royalty on the worldwide net sales of such products in return for the license granted to Astra and the Company's obligation to manufacture and supply products. Astra has the right to terminate the agreement after April 1, 1998.

In March 1994, the Company entered into a Development Collaboration and License Agreement with Genentech, Inc. relating to the development of products for the encapsulation of certain neurotrophic factors. The initial focus of the collaboration has been the development of encapsulated NGF-producing cells for the treatment of Alzheimer's disease. In addition to NGF, the agreement also covers the neurotrophic factors NT-3, NT-4/5 and two other neurotrophic factors to be chosen by Genentech. The agreement provides that Genentech and the Company will work exclusively with each other to develop and commercialize NGF-producing encapsulated-cell products; that Genentech will not work with any third party in the field of the treatment of neurological disease by the administration of encapsulated neurotrophic factor-producing mammalian cells, without the Company's consent; and that the Company will not work with the neurotrophic factors NGF, NT-3 and NT-4/5 with any third party, without Genentech's consent. Under the Agreement, the Company granted to Genentech an exclusive license to use any of the company's existing and future technology to sell NGF-producing encapsulated-cell products in the field of the treatment of any human neurological disorder or condition by the administration of neurotrophic-factor producing encapsulated cells. Upon execution of the Agreement, Genentech made a $1,250,000 payment to CytoTherapeutics, and purchased 334,428 shares of the Company's Common Stock for $3,500,000. Under the Agreement, the Company was obligated to undertake certain preclinical development projects and studies and to fund the $3,750,000 cost of such projects and 40% of such cost thereafter.

The Company and Genentech have decided that Alzheimer's disease is not the most appropriate disease state to emphasize at this time under their collaboration agreement and are discussing other applications of the technologies. The Company has expended approximately $1,500,000 to fund the preclinical development projects and studies contemplated under the Agreement and does not currently expect to incur any further material expenditures for such projects and studies. The Company expects that future collaborations, if any, will involve new commitments and funding mechanisms.

In March 1994, the Company entered into a contract research and license agreement with NeuroSpheres, Ltd. Under the agreement, the Company obtained from NeuroSpheres an exclusive worldwide royalty-bearing license for the commercial development and use of certain neural stem cells for transplantation to treat human disease. Terms of the agreement provide future research funding of $325,000 through February 1998. Upon the achievement of certain milestones, the Company will make payments to NeuroSpheres totaling a maximum of $3,750,000, payable at NeuroSpheres' option, in cash or in shares of the Company's common stock at a price of $12.50 per share. Upon commercial sale of a product utilizing the licensed technology, the Company is obligated to pay a range of royalties based on product revenues and market share, subject to certain minimum royalties. In order to maintain exclusivity, the Company is also obligated to expend additional amounts to support research related to development of products under the agreement.

Substantial additional funds will be required to support the Company's research and development programs, for acquisition of technologies and intellectual property rights, for preclinical and clinical testing of its anticipated products, pursuit of regulatory approvals, acquisition of capital equipment, expansion of laboratory and office facilities, establishment of production capabilities and for general and administrative expenses. Until the Company's operations generate significant revenues from product sales, cash reserves and proceeds from equity and debt offerings, and funding from collaborative arrangements will be used to fund operations.

The Company intends to pursue opportunities to obtain additional financing in the future through equity and debt financings, lease agreements related to capital equipment and collaborative research arrangements. The source, timing and availability of any future financing will depend principally upon equity market conditions, interest rates and, more specifically, on the Company's continued progress in its exploratory, preclinical and clinical development programs. There can be no assurance that such funds will be available on favorable terms, if at all.

The Company expects that its existing capital resources, revenues from collaborative agreements and income earned on invested capital will be sufficient to fund its operations into the first half of 1998. The Company's cash requirements may vary, however, depending on numerous factors. Lack of necessary funds may require the Company to delay, scale back or eliminate some or all of its research and product development programs or to license its potential products or technologies to third parties.

PART II - ITEM 1

LEGAL PROCEEDINGS

None.

PART II - ITEM 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

(a) On May 14, 1996 the 1996 Annual Meeting of Stockholders was held in Providence, Rhode Island.

(b) Not applicable.

(c) The following is a brief description of each matter voted upon at the meeting and a breakdown of the votes cast for, against or withheld, as well as the number of abstentions voted for each proposal.

1. Proposal to elect the following nominees as Directors of the Company: Edwin C. Cadman, M.D. and Donald R. Conklin.

Dr. Cadman -	10,279,558 votes 33,725 votes withheld
Mr. Conklin -	10,279,558 votes in favor 33,725 votes withheld

2. Proposal to increase by 1,500,000 the number of shares of Common Stock available for issuance under the Company's 1992 Equity Incentive Plan and to make certain other changes to such Plan.

6,812,403 votes in favor
1,827,751 votes against
16,888 votes abstaining
1,656,241 votes Delivered-Not Voted

3. Proposal to increase the awards issuable under the Company's 1992 Stock Option Plan for Non-Employee Directors and to make certain other changes to such Plan.

9,730,782 votes in favor
419,661 votes against
26,740 votes abstaining
136,100 votes Delivered-Not Voted

PART II - ITEM 6

EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

Exhibit 99 - Cautionary Factors Relevant to Forward-Looking-Information.

(b) REPORTS ON FORM 8-K

The Registrant filed a report on Form 8-K on July 10, 1996 relating to the Registant's investment in Modex, a 50% owned subsidiary, which was established to pursue applications of the Registrant's technology outside the central nervous system.

SIGNATURE

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.

CYTOTHERAPEUTICS, INC.

(Name of Registrant)

AUGUST 7, 1996
- ---
(Date)

Daniel E. Geffken

Vice President, Chief Financial Officer and Treasurer
(principal financial officer and principal accounting officer)

EXHIBIT INDEX

Exhibit 99 - Cautionary Factors Relavent to Forward Looking Statements.

6-MOS
DEC-31-1996
JUN-30-1996
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EXHIBIT 99

CAUTIONARY FACTORS RELEVANT TO FORWARD-LOOKING INFORMATION

CytoTherapeutics, Inc. (the "Company") wishes to caution readers that the following important factors, among others, in some cases have affected and in the future could affect the Company's results and could cause actual results and needs of the Company to vary materially from forward-looking statements made in this Quarterly Report by the Company on the basis of management's current expectations. The business in which the Company is engaged is rapidly changing, extremely competitive and involves a high degree of risk, and accuracy with respect to forward-looking projections is difficult.

EARLY STAGE DEVELOPMENT; HISTORY OF OPERATING LOSSES - Substantially all of the Company's revenues to date have been derived, and for the foreseeable future substantially all of the Company's revenues will be derived, from collaborative agreements, research grants and income earned on invested funds. The Company will incur substantial operating losses in the future as the Company conducts its research, development, clinical trial and manufacturing activities. There can be no assurance that the Company will achieve revenues from product sales or become profitable.

FUTURE CAPITAL NEEDS; UNCERTAINTY OF ADDITIONAL FUNDING - The development of the Company's products will require the commitment of substantial resources to conduct the time-consuming research, preclinical development and clinical trials that are necessary for regulatory approvals and to establish production and marketing capabilities if such approvals are obtained. The Company will need to raise substantial additional funds to continue its product development efforts and intends to seek such additional funds through partnership, collaborative or other arrangements with corporate sponsors, public or private equity or debt financings, or from other sources. Future cash requirements may vary from projections based on changes in the Company's research and development programs, progress in preclinical and clinical testing, the Company's ability to enter into, and perform successfully under, collaborative agreements, competitive and technological advances, the need to obtain proprietary rights owned by third parties, facilities requirements, regulatory approvals and other factors. Lack of necessary funds may require the Company to delay, reduce or eliminate some or all of its research and product development programs or to license its potential products or technologies to third parties. No assurance can be given that funding will be available when needed, if at all, or on terms acceptable to the Company.

UNCERTAINTIES OF CLINICAL DEVELOPMENT AND NEW MODE OF THERAPY - None of the Company's proposed products has been approved for commercial sale or entered Phase II or III clinical trials. Even if the Company's proposed products appear to be promising at an early stage of research or development such products may later prove to be ineffective, have adverse side effects, fail to receive necessary regulatory approvals, be difficult or uneconomical to manufacture or market on a commercial scale, be adversely affected by government price

controls or limitations on reimbursement, be precluded from commercialization by proprietary rights of third parties or be subject to significant competition from other products. There can be no assurance that the Company will be able to demonstrate, as required, that its implants, on a consistent basis and on a commercial scale, among other things: (i) successfully isolate transplanted cells from the recipient's immune system; (ii) remain biocompatible with the tissue into which they are implanted, including, for certain implants, brain tissue; (iii) adequately maintain the viability of cells contained within the membrane; (iv) safely permit the therapeutic substances produced by the cells within the membrane to pass through the membrane unto the patient in controlled doses for extended periods; and (v) are sufficiently durable for the intended indication.

DEPENDENCE ON OUTSIDE PARTIES--The Company's strategy for the research, development, commercialization and marketing of its products contemplates that the Company will enter into various arrangements with corporate sponsors, pharmaceutical companies, universities, research groups and others. There is no assurance that the Company will be able to enter into any additional arrangements on terms acceptable to the Company, or successfully perform its obligations under its existing or any additional arrangements. If any of the Company's collaborators fails to perform its obligations in a timely manner or terminate their agreement with the Company, the development or commercialization of the Company's product candidate or research program under such collaborative agreement may be adversely affected.

NEED FOR AND UNCERTAINTY OF OBTAINING PATENT PROTECTION--Patent protection for products such as those the Company proposes to develop is highly uncertain and involves complex factual and evolving legal questions. No assurance can be given that any patents issued or licensed to the Company will not be challenged, invalidated or circumvented, or that the rights granted under such patents will provide competitive advantages to the Company.

EXISTENCE OF THIRD PARTY PATENTS AND PROPRIETARY RIGHTS; NEED TO OBTAIN LICENSES--There are pending patent applications or issued patents held by others relating to the Company's proposed products or the technology to be utilized by the Company in the development of its proposed products. If such patents or other patents are determined by the Company or a court to be valid and infringed, the Company may be required to alter its products or processes, pay licensing fees or royalties or cease certain activities. In particular, the Company is aware of one issued patent claiming certain methods for treating defective, diseased or damaged cells in the mammalian CNS by grafting genetically modified donor cells from the same mammalian species. In addition, each of the neurotrophic factors which the Company is currently investigating for use in its proposed products is the subject of one or more claims in patents or patent applications of third parties, and certain other neurotrophic factors are the subject of third party patent applications. The Company may also be required to seek licenses in regard to other cell lines, the techniques used in creating or obtaining such cell lines, the materials used in the manufacture of its implants or otherwise. There can be no assurance that the Company will be able to establish collaborative arrangements or obtain licenses to the

foregoing technology or to other necessary or desirable technology on acceptable terms, if at all, or that the patents underlying any such licenses will be valid and enforceable.

GOVERNMENT REGULATION - The Company's research, preclinical development and clinical trials, as well as the manufacturing and marketing of its potential products, are subject to extensive regulation by government authorities in the United States and other countries. The process of obtaining FDA other required regulatory approvals is lengthy, expensive and uncertain. There can be no assurance that the Company or its collaborators will be able to obtain the necessary approvals to commence or continue clinical testing or to manufacture or market its potential products in anticipated time frames, if at all. In addition, several legislative proposals have been made to reform the FDA. If such proposals are enacted they may result in significant changes in the regulatory environment the Company faces. These changes could result in different, more costly or more time consuming approval requirements for the Company's products, in the dilution of FDA resources available to review the Company's products, or in other unpredictable consequences.

SOURCES OF CELLS AND OTHER MATERIALS - The Company's potential products require genetically engineered cell lines or living cells harvested from animal or human sources. There can be no assurance that the Company will successfully identify or develop sources of the cells required for its potential products and obtain such cells in quantities sufficient to satisfy the commercial requirements of its potential products. These supply limitations may apply, in particular, to primary cells which must be drawn directly from animal or human sources, such as the bovine adrenal chromaffin cells currently used in the Company's product for the treatment of pain. As an alternative to primary cells, the Company is developing products based on the used of genetically altered cells. Intellectual property rights to important genetic constructs used in developing such cells, including the constructs used to develop cells producing neurotrophic factors, are or may be claimed by one or more companies, which could prevent the Company from using such cells.

MANUFACTURING UNCERTAINTIES - The Company's pilot manufacturing plant, may not have sufficient capacity to permit the Company to produce all the products for clinical trials it anticipates developing. In addition, the Company has not developed the capability to commercially manufacture any of its proposed products and is unaware of any other company which has manufactured any membrane-escapulsated cell product on a commercial scale. There can be no assurance that the Company will be able to develop the capability of manufacturing any of its proposed products at a cost or in the quantities necessary to make a commercially viable product, if at all.

COMPETITION - Competitors of the Company are numerous and include major pharmaceutical and chemical companies, biotechnology companies, universities and other research institutions. Currently, several of these competitors market and sell therapeutic products for the treatment of chronic pain, Parkinson's disease and other CNS conditions. In addition, most of the Company's competitors have substantially greater capital resources, experiences in obtaining

regulatory approvals and, in the case of commercial entities, experience in manufacturing and marketing pharmaceutical products, than the Company. A number of other companies are attempting to develop methods of delivering therapeutic substances within or across the blood brain barrier. There can be no assurance that the Company's competitors will not succeed in developing technologies and products that are more effective than those being developed by the Company or that would render the Company's technology and products obsolete or non-competitive.

DEPENDENCE ON KEY PERSONNEL - The Company is highly dependent on the principal members of its management and scientific staff and certain of its outside consultants. Loss of the services of any of these individuals could have a material adverse effect on the Company's operations. In addition, the Company's operations are dependent upon its ability to attract and retain additional qualified scientific and management personnel. There can be no assurance the Company will be able to attract and retain such personnel on acceptable terms given the competition among pharmaceutical, biotechnology and health care companies, universities and research institutions for experienced personnel.

REIMBURSEMENT AND HEALTH CARE REFORM - In both domestic and foreign markets, sales of the Company's potential products will depend in part upon the availability and amounts of reimbursement from third-party health care payor organizations, including government agencies, private health care insurers and other health care payors such as health maintenance organizations and self-insured employee plans. There is considerable pressure to reduce the cost of therapeutic products. There can be no assurance that reimbursements will be provided by such payors at all or without substantial delay, or, if such reimbursement is provided, that the approved reimbursement amounts will provide sufficient funds to enable the Company to sell its products on a profitable basis.