

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:
September 30, 1996

0-19871
Commission File Number

CYTOTHERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

94-3078125
(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 October 31, 1996, there were 15,428,576 shares of Common Stock, \$.01 par
value, issued and outstanding. There were no issued and outstanding shares of
Preferred Stock.

CYTOTHERAPEUTICS, INC.

INDEX

PART I. FINANCIAL INFORMATION	Page Number
-----	-----
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets (unaudited) September 30, 1996 and December 31, 1995	3
Condensed Consolidated Statements of Operations (unaudited) Three and nine months ended September 30, 1996 and 1995	4
Condensed Consolidated Statements of Cash Flows (unaudited) Nine months ended September 30, 1996 and 1995	5
Notes to Condensed Consolidated Financial Statements (unaudited)	6-8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9-15
PART II. OTHER INFORMATION	

Item 1. Legal Proceedings	16
Item 6. Exhibits and Reports on Form 8-K	16
SIGNATURES	17

CYTOTHERAPEUTICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,844,952	\$ 9,548,579
Marketable securities	24,771,708	34,643,160
Receivables from collaborative agreement	40,673	167,906
Other current assets	1,207,460	1,303,379
	-----	-----
Total current assets	36,864,793	45,663,024
Property, plant and equipment, net	9,987,535	7,892,763
Other assets	3,811,892	3,251,718
	-----	-----
Total assets	\$ 50,664,220	\$ 56,807,505
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,059,566	\$ 3,082,419
Deferred revenue	1,750,000	1,750,000
Current maturities of capitalized lease obligations	573,242	668,325
Current maturities of long term debt	601,049	474,245
	-----	-----
Total current liabilities	5,983,857	5,974,989
Capitalized lease obligations, less current maturities	4,122,879	4,498,957
Long term debt, less current maturities	1,230,769	942,181
Convertible subordinated debt	1,920,461	--
Stockholders' equity:		
Common stock	154,235	151,770
Additional paid in capital	105,880,242	104,271,658
Accumulated deficit	(68,499,586)	(59,163,536)
Deferred compensation	(106,823)	--
Equity adjustment from translation	966	--
Unrealized gain (loss) on marketable securities	(22,780)	131,486
	-----	-----
Total stockholders' equity	37,406,254	45,391,378
	-----	-----
Total liabilities and stockholders' equity	\$ 50,664,220	\$ 56,807,505
	=====	=====

See accompanying notes to condensed consolidated financial statements.

CYTOTHERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
Revenue from collaborative arrangements	\$ 1,790,665	\$ 1,986,002	\$ 5,305,514	\$ 9,845,018
Operating expenses:				
Research and development	4,205,121	3,729,751	12,285,621	10,734,279
General and administrative	1,611,152	1,035,009	4,018,421	3,252,492
	-----	-----	-----	-----
	5,816,273	4,764,760	16,304,042	13,986,771
	-----	-----	-----	-----
Loss from operations	(4,025,608)	(2,778,758)	(10,998,528)	(4,141,753)
Other income (expense):				
Investment income	525,773	406,867	1,733,042	1,051,290
Interest expense	(162,718)	(150,628)	(467,458)	(440,177)
Other income	54,394	--	396,894	--
	-----	-----	-----	-----
	417,449	256,239	1,662,478	611,113
	-----	-----	-----	-----
Net loss	<u>(\$ 3,608,159)</u>	<u>(\$ 2,522,519)</u>	<u>(\$ 9,336,050)</u>	<u>(\$ 3,530,640)</u>
Net loss per share	<u>(\$ 0.23)</u>	<u>(\$ 0.19)</u>	<u>(\$ 0.61)</u>	<u>(\$ 0.29)</u>
Shares used in calculation	<u>15,413,723</u>	<u>13,372,113</u>	<u>15,352,760</u>	<u>12,302,234</u>

See accompanying notes to condensed consolidated financial statements.

CYTOTHERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
Cash flows from operating activities:		
Net loss	(\$ 9,336,050)	(\$ 3,530,640)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	1,218,629	1,105,408
Compensation expense relating to the grant of stock options	46,592	143,761
Changes in operating assets and liabilities	234,226	(945,514)
Net cash used in operating activities	(7,836,603)	(3,226,985)
Cash flows from investing activities:		
Proceeds from sale of marketable securities	12,800,806	16,552,602
Purchases of marketable securities	(3,083,620)	(26,141,651)
Purchase of property, plant and equipment	(3,262,684)	(1,084,032)
Acquisition of other assets	(610,892)	(123,940)
Other investments	--	(500,100)
Net cash provided by (used in) investing activities	5,843,610	(11,297,121)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	1,424,674	10,262,794
Proceeds from convertible subordinated debt	1,920,461	
Proceeds from financing transactions	821,172	326,291
Principal payments under capitalized lease obligations and mortgage payable	(876,941)	(787,893)
Net cash provided by financing activities	3,289,366	9,801,192
Increase (decrease) in cash and cash equivalents	1,296,373	(4,722,914)
Cash and cash equivalents, January 1	9,548,579	8,715,890
Cash and cash equivalents, September 30	\$ 10,844,952	\$ 3,992,976

See accompanying notes to condensed consolidated financial statements.

PART I - ITEM 1 - FINANCIAL STATEMENTS

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

NOTE 1. BASIS OF PRESENTATION

The accompanying, unaudited, condensed consolidated 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 nine months ended September 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. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and Modex Therapeutiques SA, a 50% owned subsidiary. Significant intercompany accounts have been eliminated in consolidation.

NOTE 3. 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 4. FOREIGN CURRENCY TRANSLATION

Assets and liabilities of operations outside the United States are translated into United States dollars using current exchange rates; revenue and expense items are translated into United States dollars using a weighted average exchange rate for the period. The gains and losses resulting from such translation are accumulated as a separate component of shareholders' equity, whereas gains and losses resulting from foreign currency transactions generally are included in results of operations.

NOTE 5. 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 6. FORMATION OF SUBSIDIARY

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

In exchange for a 50% stake in Modex, the Company has 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 of 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 of 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 nine months ended September 30, 1996 and 1995 should be read in conjunction with the accompanying unaudited condensed consolidated 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 SEPTEMBER 30, 1996 AND 1995**

For the quarter ended September 30, 1996 and 1995, revenues from collaborative agreements totaled \$1,791,000 and \$1,986,000, 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 \$4,205,000 for the three months ended September 30, 1996, compared with \$3,730,000 for the same period in 1995. The increase of \$475,000, or 13%, from 1995 to 1996 is principally due to increases in the number of scientists and increased spending for company sponsored research at academic and other institutions.

General and administrative expenses were \$1,611,000 for the three months ended September 30, 1996, compared with \$1,035,000 for the same period in 1995. The increase of \$576,000, or 56%, from 1995 to 1996 was primarily attributable to increases in spending for administrative salaries, one time hiring bonuses, as well as, consulting costs attributable to the establishment of Modex Therapeutiques SA, a 50% owned Swiss subsidiary.

Interest income for the three months ended September 30, 1996 and 1995 was \$526,000 and \$407,000, respectively. The increase in interest income in 1996 is attributable to the higher average balances, \$37,463,000 and \$26,810,000 in the third quarter of 1996 and 1995, respectively.

Interest expense was \$163,000 for the three months ended September 30, 1996, compared with \$151,000 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 capitalized leases obligations.

Net loss for the three months ended September 30, 1996 was \$3,608,000, or \$0.23 per share, as compared to net loss of \$2,523,000, or \$0.19 per share, for the comparable period in 1995.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995

For the nine months ended September 30, 1996 and 1995, revenues from collaborative agreements totaled \$5,306,000 and \$9,845,000, respectively. 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 \$12,286,000 for the nine months ended September 30, 1996, compared with \$10,734,000 for the same period in 1995. The increase of \$1,552,000, or 14%, from 1995 to 1996 is principally due to increases in the number of scientists and associated supplies, increased spending for company sponsored research at academic and other institutions, scientific consulting and clinical trials.

General and administrative expenses were \$4,018,000 for the nine months ended September 30, 1996, compared with \$3,252,000 for the same period in 1995. The

increase of \$766,000, or 24%, from 1995 to 1996 was primarily attributable to increases in patent related expenses, spending for administrative salaries, one time hiring bonuses, as well as, consulting costs attributable to the establishment of Modex Therapeutiques SA, a 50% owned Swiss subsidiary.

Other income in the amount of \$397,000 consists primarily of funds received in May 1996 for settlement of a legal suit filed on behalf of the Company.

Interest income for the nine months ended September 30, 1996 and 1995 was \$1,733,000 and \$1,051,000, respectively. The increase in interest income in 1996 is primarily attributable to the higher average balances, \$39,505,000 and \$21,701,000 for the first nine months of 1996 and 1995, respectively.

Interest expense was \$467,000 for the nine months ended September 30, 1996, compared with \$440,000 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 capitalized leases obligations.

Net loss for the nine months ended September 30, 1996 was \$9,336,000 or \$0.61 per share, as compared to net loss of \$3,531,000, or \$0.29 per share, for the comparable period in 1995. The initial one-time payment of \$5,000,000 from Astra is principally 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 has unrestricted cash, cash equivalents, and marketable securities totaling \$35,617,000 at September 30, 1996. Cash equivalents and marketable securities are invested in agencies of the U.S. government, investment grade corporate notes, time deposits 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 September 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 an anticipated increase in the number of employees, the Company's current facilities will not be sufficient to accommodate the Company's needs past the first half of 1997. The Company has purchased land and a building and will begin construction of a new headquarters and laboratory facility in the fourth quarter. The total cost of the project is estimated to be \$7,600,000.

In October 1996, the Company obtained financing of \$5,500,000 from a bank, secured by a mortgage on the new facility. No funds have been borrowed under this agreement as of September 30, 1996. Any unused commitment expires October 31, 1997. Quarterly principal payments of 1/40 of the loan obligation commence September 30, 1997 with the balance due at maturity, October 2001. The loan agreement requires the Company provide cash collateral in the amount of 25% of the obligation if the Company's unencumbered cash balance falls below \$25,000,000, 50% cash collateral if the Company's unencumbered cash balance falls below \$20,000,000 and full cash collateral if the Company's unencumbered cash balance falls below \$15,000,000.

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 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 \$250,000 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 offering, 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 6

EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

- Exhibit 10.54 Employment agreement, Sandra Nusinoff Lehrman, MD dated as of July 2, 1996.
- Exhibit 10.55 Consulting agreement dated as of September 1, 1996 between Dr. Edwin C. Cadman and the Registrant.
- Exhibit 10.56 Convertible loan agreement dated as of July 10, 1996 between the Company and Modex Therapeutiques S.A.
- Exhibit 10.57** Cross license agreement dated as of July 10, 1996 between the Company and Modex Therapeutiques S.A.
- Exhibit 10.58 Modex Therapeutiques S.A. stockholders voting agreement dated as of July 10, 1996 among Modex, the Company, the Societe Financiere Valoria S.A. and the other stockholders listed therein.
- Exhibit 10.59 CTI individual stockholders option agreement dated as of July 10, 1996 among the Company and the individuals listed therein.
- Exhibit 10.60 CTI - Valoria option agreement dated of July 10, 1996 between the Company and the Societe Financiere Valoria S.A.
- Exhibit 99 Cautionary factors relevant to forward looking statements.

** Confidential treatment requested as to certain portions. The term "confidential treatment" and the mark "**" as used throughout the Exhibit mean that material has been omitted and separately filed with the Commission.

(b) Reports on Form 8-K

The Registrant filed a Current Report on Form 8-K on July 16, 1996 relating to the formation of Modex Therapeutiques S.A.

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)

NOVEMBER 13, 1996

(Date)

/s/ DANIEL E. GEFFKEN

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

July 2, 1996

Sandra Nusinoff Lehrman, MD
60 Watch Hill
East Greenwich, RI 02818-1677

Dear Sandra:

This letter will confirm our understanding regarding your employment by CytoTherapeutics, Inc. (the "Company") as President and Chief Operating Officer.

1. Joining the Company. You will begin your employment with the Company on the Starting Date, which will be July 22, 1996, unless we mutually agree on an alternative Starting Date.

2. Position and Duties. As President and Chief Operating Officer, you will devote your full business time and best efforts to the advancement of the Company's interests and to the performance of your duties and responsibilities on the behalf of the Company, as these may be designated from time to time by the Company's Chief Executive Officer. Those duties and responsibilities may include without limitation various matters related to the Company's research and development programs and clinical trials; the establishment by the Company of, and performance under, corporate partnerships and other similar arrangements; relationships with outside researchers and collaborators; human resources; the execution and review of compliance with strategic, marketing and operations plans; responsibility for various financial matters; general management of the day-to-day operations of the Company and such other duties and responsibilities as may be assigned to you from time to time by the Company's Chief Executive Officer. In addition, at the first Board of Directors meeting following your employment by the Company, you shall be elected as a member of the Board of Directors of the Company (the "Board").

3. Salary and Bonuses.

a. Your base salary will be at the rate of \$230,000 per year, subject to review and adjustment from time to time by the Board, in its sole discretion. Your base salary, as from time to time adjusted, is referred to in this letter as your "Base Salary".

b. In addition to your Base Salary, no later than two weeks following the Starting Date, you will be paid a one-time cash bonus of \$50,000. If you terminate your employment with the Company other than for "good reason" (as defined in Paragraph 7(d) within twelve (12) months of the Starting Date, you will repay such bonus to the Company. Further bonuses, if any, may be paid from time to time by the Board in its sole discretion.

4. Stock Options. Through the Company's Stock Option Plan, and subject to the terms and conditions of such Plan, you will receive options to acquire 175,000 shares of common stock of the Company (the "Option Shares"). The exercise price of these options will be determined as follows: You will receive the maximum number of Incentive Stock Options (ISOs) as permitted by the Internal Revenue Code; the remaining options will be issued as Non-Qualified options at an option price equal to \$11.00 or equal to the closing sale price on the Starting Date, whichever is lower. Subject to your continued employment by the Company, these options will vest over 48 months, as follows: (i) there will be no vesting during the first twelve months; (ii) options to acquire shares will vest on the first anniversary of your Starting Date; and (iii) options to acquire 1/48th of such Option Shares will vest each month thereafter for the next 36 months.

5. Benefits. You will be entitled to participate in any or all employee benefit plans, medical and dental insurance plans, life insurance, disability income plans, savings plans and other benefit plans from time to time in effect for senior management of the Company generally, except to the extent that such plans are duplicative of benefits otherwise provided to you under this Agreement. Such participation shall be subject to (i) the terms of the applicable plan documents, (ii) generally applicable policies of the Company and (iii) the discretion of the Board of Directors or any administrative or other committee provided for in or contemplated by such plan. To the extent not provided pursuant to the foregoing provisions of this Paragraph, the Company shall provide you with life insurance in an amount equal to no less than the lesser of (i) two times your base salary or (ii) \$500,000, subject to any requirement of the plan to show proof of good health.

6. Confidentiality and Restricted Activities. You agree that some restrictions on your activities during and after employment are necessary to protect the goodwill, Confidential Information and other legitimate interests of the Company;

a. During your employment and thereafter, except as required by applicable law or for the proper performance of your duties and responsibilities hereunder, you shall not disclose to any other person, corporation or other entity, or use for your own benefit or gain or otherwise, any Confidential Information (as defined below). You understand that this restriction shall continue to apply after your employment terminates, regardless of the reason for such termination.

b. While you are employed by the Company and for a period of one (1) year thereafter you shall not, directly or indirectly, engage in any activity, whether as owner, partner, investor, consultant, employee, agent or otherwise, that is competitive with the business of the Company.

c. You further agree that during your employment and for one (1) year thereafter, you will not, directly or indirectly, attempt to hire any employee of the Company, assist in such hiring by any other person, corporation or entity, otherwise solicit, induce or encourage any employee of the Company to terminate his or her relationship with the Company.

d. You agree that you will not, during your employment with the Company, improperly use or disclose any proprietary information or trade secrets of any former or concurrent employer, or other such person or entity with whom you have an agreement or duty to keep in confidence information acquired by you in confidence, if any; and that you will not bring onto Company premises any unpublished document or

proprietary information belonging to any such employer, person or entity, unless consented to in writing by such employer, person or entity.

e. At the time of leaving the Company's employ, you will deliver to the Company (and not keep in your possession or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items developed by you pursuant to your employment with the Company, or otherwise belonging to the Company, its successors or assigns, or containing or constituting Confidential Information.

f. You agree that the Company shall, in addition to any other remedies available to it, be entitled to preliminary and permanent injunctive relief against any breach by you of the covenants contained in this Paragraph 6, without having to post bond. In the event that any provisions of this Paragraph shall be determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, it shall be interpreted to extend only over the maximum period of time, geographic area or range of activities as to which it may be enforceable.

g. For purposes of this Agreement:

i. A business shall be deemed to be competitive with the Company if it engages or proposes to engage in any business activity (i) utilizing or seeking to develop technology capable of utilizing the transplanted cells as a therapeutic agent for the diagnosis, prevention or treatment of human disease, injury or condition or (ii) in any field the Company is currently pursuing or has pursued within the previous two years.

ii. Confidential Information means any and all information of whatever type (including, without limitation, data, results, technology and all other information) of or relating to the Company including, without limitation, information relating to (1) the development, research, testing, production and marketing activities of the Company, (2) the products and services of the Company, (3) patients and clinical trials, (4) the costs, sources of supply and strategic plans of the Company, (5) the identity and special needs of the customers of the Company, (6) patents, trade secrets and other intellectual property and (7) people and organizations with whom the company has business relationships and those relationships. Confidential Information also includes comparable information that the Company has received or may receive in the future of or relating to third parties where the Company has a duty to keep such information confidential. Confidential Information does not, however, include information that has become publicly known and generally available other than through a wrongful act by you.

7. Termination and Termination Benefits. Your employment with the Company is "at will", which means that either you or the Company may terminate your employment at any time, with or without cause or good reason.

a. The Company may terminate your employment other than for "cause" at any time upon written notice to you and, in that event, (i) the Company will continue to pay you your Base Salary for the Severance Period (as defined below) or until you obtain other employment, whichever occurs first and (ii) all options which would have become vested during such Severance Period shall be treated as vested at the time of such termination. If, under these circumstances, you obtain other employment within the

Severance Period, the Company will pay you the amount, if any, by which your Base Salary exceeds your total compensation from your new employment for the remainder of the Severance Period. The Severance Period shall be six months plus two weeks for each completed continuous year of employment with the Company, up to a maximum period of nine months. Notwithstanding any other provision of this Agreement, if the value of your Option Compensation is greater than eight times your Base Salary, the Company shall have no obligation to continue to pay your Base Salary following your termination. Option Compensation shall mean an amount equal to the sum of the following (determined, in each case, by reference to the last closing sale price of the Company's Common Stock prior to the date of your termination and including options awarded to you by the Company pursuant to this Agreement or otherwise): (i) the aggregate spread on all your vested but unexercised in-the-money stock options; (ii) the market value of any stock of the Company obtained by you on exercise of your stock options and still held by you, less the aggregate exercise price paid by you to obtain such stock; and (iii) the proceeds realized by you on the sale of any stock obtained by you on exercise of your stock options, less the aggregate exercise price paid by you to obtain such stock. In the event that you purchase stock from the Company (other than through the Company's Employee Stock Purchase Plan, the Company's 401(K) plan or as part of and on the same terms as a public or private offering of securities to investors) or are granted stock by the Company, Option Compensation shall also include (i) an amount equal to the market value of any such stock still owned by you, less the amount paid by you for such stock and (ii) the amount realized by you on the sale of any such stock sold by you, less the amount paid by you for such stock. For these purposes, the Company's stock shall be considered to have a "value" only if there is a market for the stock or the Company will agree to repurchase such options provided the Company has sufficient liquidity. Stock options will not continue to vest after your termination in the event of a resignation without good reason or termination with cause.

b. The Company may terminate your employment upon written notice to you in the event that you become disabled during your employment through any illness, injury, accident or condition of either physical or psychological nature and, as a result, you are unable to perform substantially all of your duties and responsibilities hereunder for ninety (90) days during any three hundred and sixty-five calendar days. In that event, the Company will continue to pay you your Base Salary (i) for a period of six (6) months following such termination; (ii) until you obtain other employment; or (iii) until you become eligible for disability income under any disability income plan provided by the Company, whichever of these events shall occur first.

c. The Company may terminate your employment hereunder for cause at any time upon written notice to you setting forth in reasonable detail the nature of such cause. The following as determined by the Company in its reasonable judgment, shall constitute "cause" for termination:

- (1) Your failure to perform, or material negligence in the performance of, (i) your principal duties and responsibilities to the Company (which, to the extent assigned to you, shall include those duties and responsibilities described in Section 2) or (ii) any other of your duties and responsibilities following written notice from the Company and a 10-business day opportunity to cure any curable failure or negligence;
- (2) Any misconduct by you which is substantially injurious to the business or interests of the Company;

(3) Your violation of any federal, state or local law, regulation or other requirement applicable to the business of the Company;

(4) Your conviction of, plea of "no contest" to, any felony; or

(5) Any material breach by you of any provision of this Agreement.

d. You may terminate your employment at any time, with or without good reason, upon written notice to the Company. If you terminate your employment with good reason, the Company will be obligated to you to the same extent as if the Company had terminated your employment other than for cause, and the Provisions of Paragraph 7 (a), including the acceleration of option vesting and the limitations on the Company's obligations contained therein, shall apply. The following shall constitute "good reason" for termination: material breach by the Company of any provision of this Agreement which breach continues for more than ten (10) business days following written notice from you to the Company setting forth in reasonable detail the nature of such breach.

e. If you resign other than for good reason or your employment is terminated by the Company for cause, the Company shall have no further obligation to you other than for Base Salary earned through the date of termination. No severance pay or other benefits of any kind will be provided.

8. Withholding. All payments and reimbursements made by the Company under this Agreement shall be reduced by any tax or other amounts required to be withheld by the Company under applicable law.

9. Assignment. This Agreement shall inure to the benefit of the Company and any successor of the Company by reorganization, merger, consolidation or liquidation and any assignee of all or substantially all of the business or assets of the Company or any division or line of business of the Company with which you are associated. The Company requires your personal services and you may not assign this Agreement.

10. Waiver. Except as otherwise expressly provided in this Agreement, no waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of either party to require performance of any term or obligation of this Agreement, or the waiver by either party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

11. Severability. Should any provision of this Agreement, or portion thereof, be found invalid in any circumstance, such invalidity shall not affect any other provision or circumstance, and such provision shall be construed by limiting it so as to be enforceable to the maximum extent compatible with applicable law.

12. Notices. Any notices, requests, demands and other communications provided for by this Agreement shall be in writing and shall be effective when delivered in person or deposited in the United States mail, postage prepaid, registered or certified, and addressed to you at your last known address on the books of the Company or, in the case of the Company, at its main office, attention of the Chief Executive Officer.

13. Captions. The captions and headings in this Agreement are for convenience only and in no way define or describe the scope or content of any provision of this Agreement.

14. Entire Agreement. This Agreement sets forth the entire agreement and understanding between you and the Company and supersedes all prior communications, agreements and understandings, written and oral, with respect to the terms and conditions of your employment. This Agreement may not be changed or modified except by an agreement in writing signed by you and the Chief Executive Officer or other specifically authorized representative of the Company.

15. Governing Law. This Agreement shall be governed, construed and enforced in accordance with the laws of Rhode Island, without regard to principles of conflicts of law.

16. No Conflicting Agreements. You hereby represent to the Company that neither your execution and delivery of this Agreement nor your acceptance of employment with the Company nor your anticipated service as President, Chief Operating Officer and a Director of the Company will conflict with or result in a breach of any of the terms, conditions or provisions of any agreement to which you are a party or any order, injunction, judgment or decree of any court or governmental authority or any court or governmental authority or any arbitration award applicable to you.

17. Inventions. You hereby represent to the Company and agree that, except as described on Exhibit A, you have no inventions, original works of authorship, developments, improvements or trade secrets that were made by you prior to your employment with the Company and which relate to the Company's current or proposed business, products, or research and development. You will promptly make full written disclosure to the Company, hold in trust for the Company's sole right and benefit, and hereby assign to the Company or its designee, all of your right, title and interest in any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registerable under copyright or similar laws, that you may solely or jointly conceive, develop, reduce to practice or cause to be conceived or developed, or reduced to practice, during the period of time you are employed by the Company (collectively referred to as the "Inventions"). You further acknowledge that all original works of authorship made by you solely or jointly with others within the scope of your employment and protectible by copyright are "works made for hire", as that term is defined in the United States Copyright Act. You agreed to keep and maintain adequate and current records of all inventions made by you solely or jointly with others during the term of your employment with the Company. Such records will be in the form of notes, sketches, drawings or any other format that may be specified by the Company. These records will be available through, and remain the sole property of, the Company at all times. You agree to assist the Company or its designee, at the Company's expense, in every proper way, to secure the Company's rights in the Inventions and copyrights, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments that the Company shall deem necessary in order to apply for and obtain such rights, and in order to assign and convey to the Company, its successors, designees and nominees the sole and exclusive right, title, and interest in and to such Inventions, and any copyrights, patents, or other intellectual property rights relating thereto, both during your employment by the Company and thereafter. In the event that the Company is unable for any reason to secure or to prosecute any patent application with respect to such Invention (including, without limitation, renewals, extensions, continuations, divisions or continuations in part thereof), you hereby irrevocably designate and appoint the Company and its duly authorized officers and agents, as your agents and attorney-in-fact to act for and in your behalf and

instead of you, to execute and file any such application and to do all other lawfully permitted acts to further the prosecution and issuance of patents thereon with the same legal force and effect as if executed by you. You agree that you will assist the Company in the prosecution and enforcement of the Company's intellectual property after termination of your employment, at the Company's expense.

18. Compliance With Agreement. The Company's obligations under this Agreement and its obligation to deliver stock under the terms of the stock options granted pursuant to the terms of this Agreement (or otherwise granted to you during the course of your employment) are conditioned on your compliance with the terms and conditions of this Agreement and the accuracy of the representations made to the Company by you herein.

If the foregoing is acceptable to you, please sign the enclosed copy of this letter in the space provided below and return it to me, whereupon this letter and such copy will constitute a binding agreement between you and the Company on the basis set forth above as of the date of the first above written.

Sincerely yours,
CYTOTHERAPEUTICS, INC.

By: /s/ Seth A. Rudnick, MD

Chief Executive Officer

Accepted and agreed:

/s/ Sandra Nusinoff Lehrman, MD

Date: _____

AGREEMENT FOR CONSULTING SERVICES

This Agreement is made by and between CytoTherapeutics, Inc. (the "Company") and Dr. Edwin C. Cadman (the "Consultant") as of September 2, 1996.

1. SERVICES. The Consultant shall provide to the Company the services set forth in Exhibit A/Item 1 in accordance with the terms and conditions contained in this Agreement.

2. TERM. Unless terminated in accordance with the provisions of Section 8 below, the services provided by the Consultant to the Company shall be performed during the period indicated in Exhibit A/Item 2. The anticipated number of days per year during which the Consultant shall provide the consulting services set forth in Item 1 above is set forth in Exhibit A/Item 3; provided, however, that the actual number of days the Consultant shall provide services shall be based upon the number of days necessary to accomplish the project set forth in Exhibit A/Item 1. The Consultant shall coordinate his work efforts and report his progress regularly to the individual set forth in Exhibit A/Item 4.

3. PAYMENT FOR SERVICE RENDERED. For providing the consulting services as defined herein, the Company shall pay the Consultant the amount set forth in Exhibit A/Item 5. The Company shall reimburse the Consultant for all approved expenses, including travel.

4. CONSULTANT'S WARRANTIES. The Consultant hereby warrants that no other person has rights to his services in the specific areas described herein and that the Consultant is in no way compromising any rights or trust relationships between any other party and the Consultant, or creating a conflict of interest or any possibility thereof for the Consultant or for the Company.

5. NATURE OF RELATIONSHIP. The Consultant is an independent contractor and will not act as an agent nor shall he be deemed an employee of the Company for the purposes of any employee benefit programs, income tax withholding, FICA taxes, unemployment benefits or otherwise. The Consultant shall not enter into any agreement or incur any obligations on the Company's behalf, or commit the Company in any manner without the Company's prior written consent.

6. INVENTIONS, PATENTS AND TECHNOLOGY. The Consultant shall promptly and fully disclose to the Company any and all inventions, improvements, discoveries, developments, original works of authorship, trade secrets, or other intellectual property ("Proprietary Information") conceived, developed or reduced to practice by the Consultant during the performance of the consulting services performed for the Company hereunder. The Consultant shall treat all Proprietary Information as the confidential information of the

Company. The Consultant agrees and does hereby assign to the Company and its successors and assigns, without further consideration, the entire right, title and interest in and to each of the Proprietary Information whether or not patentable or copyrightable. The Consultant further agrees to execute all applications for patents and/or copyrights, domestic or foreign, assignments and other papers necessary to secure and enforce rights relating to the Proprietary Information. The parties acknowledge that all original works of authorship that are made by the Consultant within the scope of his consulting services and that are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act (17 USCA Section 101).

7. CONFIDENTIALITY. The Consultant agrees that he shall not use (except for the Company's benefit) or divulge to anyone -- either during the term of this Agreement or thereafter -- any of the Company's trade secrets or other proprietary data, or information of any kind whatsoever acquired by the Consultant in carrying out the terms of this Agreement and, he will turn over to the Company, or make such disposition thereof as may be directed or approved by the Company, any notebook, data, information or other material acquired or compiled by the Consultant in carrying out the terms of this Agreement.

8. TERMINATION. Either party may terminate this Agreement upon the material default of the other which remains uncorrected 30 days after written notice. Such termination shall be effective in the manner and upon the date specified in said notice and shall be without prejudice to any claims that the Company may have against the Consultant. The Company's sole obligation in the event of such termination shall be to reimburse the Consultant for services actually performed by the Consultant up to the effective date of termination. Termination shall not relieve the Consultant of his continuing obligations under this Agreement, particularly the requirements of Sections 6 and 7 above, which shall survive the termination or expiration of this Agreement.

9. CONSULTANT'S COVENANTS. Consultant hereby covenants and agrees that, during the term of this Agreement, he shall not become employed by, nor perform consulting services for, any person or commercial entity reasonably determined by the Company to constitute an actual or potential competitor in the Company's field of business; Consultant shall give the Company notice of any potential commercial competition with whom he consults.

10. MISCELLANEOUS.

a. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby, or by any related document or by law.

b. This Agreement shall be deemed to be a contract made under the law of the State of Rhode Island and for all purposes it, plus any related or supplemental documents and notices shall be construed in accordance with and governed by the law of such state.

c. This Agreement may not be and shall not be deemed or construed to have been modified, amended, rescinded, canceled or waived, in whole or in part, except by written instruments signed by the parties hereto.

d. This Agreement, including the exhibits attached hereto and made a part hereof, constitutes and expresses the entire Agreement and understanding between the parties. All previous discussions, promises, representations and understandings between the parties relative to this Agreement, if any, have been merged into this document.

e. The Consultant may not subcontract any part or all of the services to be provided without the prior consent of the Company.

In witness whereof, the parties have executed this Agreement as of the date first set forth above.

CytoTherapeutics, Inc.

Dr. Edwin C. Cadman

By /s/ Frederic A. Eustis, III

/s/ Edwin C. Cadman

Consultant Signature

Title Vice President and General Counsel

Address

City, State, Zip

Social Security Number

EXHIBIT A

1. Description of consulting services: Consulting in the field of therapeutic and diagnostic applications of encapsulated and unencapsulated cells.
2. Term of Agreement: Until September 1, 1997
3. Minimum number of days per year: 12 days/year
4. The Consultant shall report to: Dr. Seth Rudnick
5. Payment for services: One Thousand Dollars (\$1,000) per month. This payment is in lieu of all Board of Directors' meeting and Committee fees.

CONVERTIBLE LOAN AGREEMENT

This Agreement dated as of July 10, 1996, is among Modex Therapeutiques SA, a Swiss corporation ("Modex") and CytoTherapeutics, Inc. ("CTI"), a Delaware corporation.

CTI currently owns 6'500 shares of Modex common stock.

Modex wishes to borrow from CTI, and CTI wishes to lend to Modex, a total amount of SFr. 3'600'000.-- in the form of a convertible subordinated loan.

Parties refer to Section 7 of the Statutes of Modex which provides for a conditional capital stock increase, in order to enable Modex to issue the necessary number of shares required in case of conversion of the hereunder defined loan, and of the loan agreed today with Societe Financiere Valoria SA, another shareholder of Modex.

Parties agree as follows:

1. Total Amount of Loan

The total amount of the loan is of SFr. 3'600,000.--

2. Delivery of the Funds by CTI

2.1. CTI will immediately provide for a transfer to the bank account of Modex at Banque Cantonale Vaudoise no.-911.58 12 the amount of SFr. 1'200'000.--. Modex will acknowledge receipt of that amount and acknowledge owing SFr. 1'200'000.-- to CTI, with reference to the present Agreement.

2.2. On the second anniversary of the present Agreement, a similar transfer of the amount of SFr. 1'400'000.-- will be made by CTI, provided that on or before such second anniversary Modex has achieved one of the following milestones (1) anemia: the earlier of (a) delivery for at least 90 days of 300 units per day of EPO in a large animal model or functional evidence of a therapeutic benefit of EPO in large animal model or (b) commencement of a Phase I clinical trial in humans or (2) diabetes: large animal off insulin for 90 days or (3) obesity: the earlier of (a) FaFa rat returned to normal body weight or (b) demonstrated weight loss in large animal model or in humans. Modex will acknowledge receipt of that amount similarly.

3. Repayment of Loan by Modex

All unpaid principal shall be due and payable on the earlier to occur of the tenth anniversary of the CTI/LOC Option Agreement or the closing of an underwritten public offering of Modex common stock (such date is referred to as "Due Date").

Reservation is made for provisions of Section 6.2 hereunder.

4. Prepayment

Modex may not prepay any portion of the principal sum prior to the Due Date, unless authorized to do so in writing by CTI.

5. Interest

No interest shall be due on the principal.

6. Subordination

6.1. Principle

In the event of any receivership, insolvency or bankruptcy proceedings instituted by or against Modex, or execution sale of any of the assets of Modex, or proceedings, whether or not judicial, for dissolution or liquidation of Modex, or any distribution or division, partial or complete, of all or any part of the assets of Modex, the claim derived from this loan agreement and that of other loans similarly subordinated will be subordinated to the payment in full of all third party claims (classes 1 - 5 according to Article 219 of Swiss Bankruptcy Law).

6.2. Possibility of Conditional Waiver

Furthermore, before any receivership, insolvency or bankruptcy proceedings, in the event that excessive debt of Modex would require steps to be taken according to Article 725 of the Swiss Code of Obligations, CTI will accept, unless it exercises its conversion option according to Section 7 hereunder, to draft an agreement, together with the holders of other subordinated loans, according to which its claim against Modex would be conditionally waived, i.e. until the balance sheet of Modex would show again that the assets cover all loans.

7. Conversion

7.1. Conversion at the Option of CTI

At the option of CTI, all or part (corresponding to the conversion of any possible number of shares) of the unpaid principal then outstanding may be converted into shares of common stock of Modex, at any time starting from the day after the first payment according to Section 2.1 until Due Date, providing that CTI gives a thirty day notice in writing

7.2. Conversion Price

Subject to adjustment as provided in Sections 7.3 and 7.7 below, the price per share of common stock into which the part of outstanding loan shall be converted is SFr. 1'400.--. However, in the event that Modex has failed to complete one at least of the milestones set forth in Section 2.2 here above by midnight, on the second anniversary of this Agreement, then the initial conversion price, still subject to adjustments as set forth below, shall be deemed to be SFr. 480.- per share. Upon such conversion, the amount of outstanding principal so converted shall be deemed paid and no longer outstanding hereunder.

7.3. Adjustments to Conversion Price

In the event the outstanding shares of common stock shall be combined or consolidated (by reclassification or otherwise) into a lesser number of shares of common stock, the conversion price in effect immediately prior to such combination or consolidation shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased. In the event the outstanding shares of common stock shall be subdivided (by stock split, by stock dividend or otherwise) into a greater number of shares of common stock, the conversion price in effect immediately prior to such subdivision shall, concurrently with the effectiveness of such subdivision, be proportionately decreased.

7.4. Conversion Modalities

CTI will notify Modex in writing, with the thirty day notice mentioned at Section 7.1, its will to exercise the option to convert, specifying the number of shares converted and the amount of the loan paid, and the day of the conversion. Such notice will refer to Section 7 of the Statutes of Modex related to the conditional increase of capital.

No later than the day of conversion, CTI will serve a formal declaration of compensation to Banque Cantonale Vaudoise (Article 653 e) al.2 of the Swiss Code of Obligations).

7.5. Dividend

Modex shares obtained through conversion will give the right to receive all dividends payable with respect to such shares by Modex following such conversion.

7.6. Stamp duty

The stamp duty levied by the capital increase will be paid by Modex.

7.7. Conversion at the Option Market

At the option of Modex, all or part (corresponding to the conversion of any possible number of shares) of the unpaid principal then outstanding may be converted into shares of common stock of Modex on (i) the closing of an underwritten public offering of the common stock of Modex or (ii) the Due Date. The conversion price shall be as provided in Section 7.2 above, and shall be subject to the adjustments provided in Section 7.3. Conversion at the closing of a such public offering shall be automatic. Conversion on the Due Date shall occur if Modex shall have so notified CTI at least 30 days prior to Due Date. Such notice shall refer to Article 7 of the Statutes of Modex related to the conditional increase of capital. No later than one day of any conversion under this Section 7.8, CTI will serve a formal declaration of compensation to Banque Cantonale Vaudoise (Art. 653 e) lit. b of Swiss Code of Obligations).

8. Attorney's Fees

If the principle is not paid in full when due, Modex hereby agrees to pay to CTI, in addition to such amount owed to pursuant to the loan, all costs and expenses of collection, including a reasonable sum for attorneys fees.

9. Course of Dealing

No course of dealing between Modex and CTI shall operate as a waiver of any of CTI's rights according to the loan. No delay or omission on the part of CTI, in exercising any right according to the loan, shall operate as a waiver of such right. No amendment or waiver hereof shall be binding unless it is in writing and signed by CTI.

10. Governing Law

This Agreement shall be governed by and construed in accordance with the internal laws of Switzerland.

11. Dispute Resolution

All disputes, differences, controversies or claims arising in connection with, or questions occurring under, this Agreement shall be settled as provided in Exhibit A.

Modex Therapeutiques S.A.

CytoTherapeutics, Inc.

By /s/ Patrick Aebischer

By /s/ John S. Swen

Title: President

Title: Vice President

By: /s/ Max Wilhelm

By /s/ Seth A. Rudnick

Title:

Title: CEO

CROSS LICENSE AGREEMENT

BY AND BETWEEN

CYTOTHERAPEUTICS, INC.

AND

MODEX THERAPEUTICS, S.A.

DATED AS OF JULY 10, 1996

TABLE OF CONTENTS

1.	DEFINITIONS.....	1
1.1.	Confidential Information.....	1
1.2.	CTI Field.....	2
1.3.	CTI Licensed Products.....	2
1.4.	CTI Patents.....	2
1.5.	CTI Sublicensee.....	2
1.6.	CTI Third Party Royalty Amount.....	2
1.7.	CTI Technology.....	2
1.8.	Dollar and \$.....	2
1.9.	Field.....	2
1.10.	First Commercial Sale.....	2
1.11.	Fully Burdened Manufacturing Cost.....	3
1.12.	Joint Technology.....	3
1.13.	Licensed Products.....	3
1.14.	Modex Field.....	3
1.15.	Modex Licensed Products.....	3
1.16.	Modex Patents.....	3
1.17.	Modex Technology.....	3
1.18.	Modex Sublicensee.....	4
1.19.	Modex Third Party Royalty Amount.....	4
1.20.	Net Sales.....	4
1.21.	Party.....	5
1.22.	Person.....	5
1.23.	Sublicensees.....	5
2.	LICENSE TERMS.....	5
2.1.	License Grant to Modex.....	5
2.2.	License Grant to CTI.....	5
2.3.	Limited Rights.....	5
2.4.	Joint Technology.....	5
	2.4.1 Modex License to Joint Technology.....	5
	2.4.2 CTI License to Joint Technology.....	6
2.5.	Sublicensees.....	6
2.6.	Technology Transfer.....	6
2.7.	Other Agreements.....	6
3.	ROYALTIES AND MILESTONE PAYMENTS.....	7
3.1.	Royalties Payable by Modex.....	7

3.2.	Royalties Payable by CTI.....	7
3.3.	Milestone Payments.....	10
3.4.	Termination of Royalty Obligations.....	10
3.5.	Payment Dates and Statements.....	10
3.6.	Records and Accounting.....	10
3.7.	Currency of Payments.....	11
3.8.	Tax Withholding.....	11
4.	PATENTS AND TECHNOLOGY.....	11
4.1.	Ownership of Technology.....	11
4.2.	Modex Technology.....	11
4.3.	Joint Patents.....	11
4.4.	Infringement of Patents.....	12
4.5.	Survival.....	12
5.	CONFIDENTIAL INFORMATION.....	12
5.1.	Treatment of Confidential Information.....	12
5.2.	Release from Restrictions.....	12
5.3.	Confidential Agreements.....	13
6.	SUPPLY OF MODEX LICENSED PRODUCT.....	13
6.1.	General.....	13
6.2.	Supply of Modex Licensed Product for Clinical Trials...	13
6.3.	Supply of Modex Licensed Products for Commercial Sale..	13
6.4.	Specifications.....	15
6.5.	Additional Manufacturing Facility.....	15
7.	TERM AND TERMINATION.....	15
7.1.	Term.....	16
7.2.	Breach.....	16
7.3.	Insolvency or Bankruptcy.....	16
7.4.	Effect of Termination.....	16
8.	MISCELLANEOUS PROVISIONS.....	17
8.1.	No Partnership.....	17
8.2.	Assignments.....	17
8.3.	Force Majeure.....	18
8.4.	No Trademark Rights.....	18
8.5.	Public Announcements.....	18
8.6.	Entire Agreement of the Parties; Amendment.....	18
8.7.	Severability.....	18
8.8.	Captions.....	19
8.9.	Notice and Delivery.....	19

8.10. Limitation of Liability..... 19
8.11. Modex Indemnification..... 19
8.12. CTI Indemnification..... 20
8.13. Liability Insurance..... 20
8.14. Governing Law..... 20

9. RESOLUTION OF DISPUTES..... 20
9.1. General..... 21
9.2. Dispute Resolution Process..... 21
9.3. Arbitration Costs..... 22

CROSS LICENSE AGREEMENT

This AGREEMENT, dated as of July 10, 1996 by and between CYTOTHERAPEUTICS, INC. ("CTI"), a Delaware corporation having its principal office at Two Richmond Square, Providence, Rhode Island 02906 and MODEX THERAPEUTIQUES, SA ("Modex"), a Swiss (Vaud) corporation having its principal office at 27 Rue du Bugnon, 1005 Lausanne.

WHEREAS, CTI has or may obtain rights to certain technology which CTI desires to license to Modex and which Modex desires to license from CTI; and

WHEREAS, Modex has or may obtain rights to certain technology which Modex desires to license to CTI and which CTI desires to license from Modex; and

WHEREAS, Modex desires to arrange for CTI to manufacture certain products to be developed by Modex and CTI wishes to manufacture such products;

NOW, THEREFORE, CTI and Modex hereby agree as follows:

1. DEFINITIONS. The following capitalized terms shall have the meanings given below:

1.1. "Confidential Information" shall mean any and all information of or about a Party including all information relating to any technology, product, process or intellectual property of such Party (including, but not limited to, owned or licensed intellectual property rights, data, know-how, samples, technical and non-technical materials, and specifications) as well as any business plan, financial information, or other confidential commercial information of or about such other Party. Notwithstanding the foregoing, specific information shall not be considered "Confidential Information" with respect to such Party to the extent that the other Party possessing such information can demonstrate by written record or other suitable physical evidence that:

- (i) such specific information was lawfully in such other Party's possession or control prior to the time such information was disclosed to such other Party by the Party to whom the information relates;
- (ii) such specific information was developed by such other Party without such Party having access to the Confidential Information;
- (iii) such specific information was lawfully obtained by such other Party from a third Party under no obligation of confidentiality to the Party to whom such information relates; or

- (iv) such specific information was at the time it was disclosed or obtained by such other Party, or thereafter became, publicly known otherwise than through a breach by such other Party of such other Party's obligations to the Party to whom such information relates.

1.2. "CTI Field" shall mean the diagnosis, prevention and treatment of diseases, conditions and disorders which effect or involve the central nervous system, including, without limitation, pain.

1.3. "CTI Licensed Products" shall mean any product (i) the manufacture, use or sale of which would, absent the license granted by Modex to CTI herein, infringe an issued patent constituting a part of the Modex Patents or any portion thereof; or (ii) the manufacture, use or sale of which makes use of all or a portion of the Modex Technology.

1.4. "CTI Patents" shall mean any patents (including all additions, divisions, continuations, continuations-in-part, substitutions, extensions, patent term extensions and renewals thereof), and patent applications (including patents issued thereon) that are or become owned by CTI or under which CTI now has, or in the future obtains, the right to grant licenses to Modex in the Modex Field during the term of this Agreement.

1.5. "CTI Sublicensee" shall mean any Person to whom CTI grants a sublicense of the rights granted to CTI to pursuant to Section 2.2 hereof.

1.6. "CTI Third Party Royalty Amount" shall mean any amounts CTI may from time to time be obligated to pay in respect of the sale or other disposition by Modex or its Sublicensees of Modex Licensed Products.

1.7. "CTI Technology" shall mean (i) the CTI Patents, and (ii) all inventions, concepts, processes, information, data, biological materials, know-how and the like which is Confidential Information of CTI now or hereafter owned by CTI or under which CTI has, or may in the future have, the right to grant licenses to Modex that are used or useful in the use or sale of Modex Licensed Products in the Modex Field. CTI Technology shall not include Modex Technology or Joint Technology and CTI Technology shall not include any invention, concept, process, information, data, biological material or know-how if the foregoing ceases to be Confidential Information of CTI.

1.8. "Dollar" and "\$" shall mean United States dollars.

1.9. "Field" shall mean collectively the CTI Field and the Modex Field.

1.10. "First Commercial Sale" shall mean, with respect to each Licensed Product in each country, the first bona fide, arms' length sale of such Licensed Product in such country following receipt of all regulatory approvals necessary to commence regular, commercial scale

sales of such Licensed Product in such country. Sales prior to receipt of all approvals necessary to commence commercial sales, such as so-called "named patient sales" and "compassionate use" sales, shall not be First Commercial Sales.

1.11. "Fully Burdened Manufacturing Cost" shall mean the actual cost of the production of a Licensed Product or other implant, which shall be comprised of the sum of (a) the cost of goods produced as determined in accordance with United States generally accepted accounting principles as consistently applied by CTI, including, but not limited to, direct labor, packaging, shipping and insurance costs, and material and product testing costs incurred in connection with the manufacture or quality control testing of Modex Licensed Products or other implants, as well as overhead and amortized capital depreciation allocated to the manufacture of Modex Licensed Products or other implants in accordance with United States generally accepted accounting principles as consistently applied by CTI, and (b) all royalties (earned or paid up) and other amounts payable to third parties under license(s) taken by CTI in connection with such Modex Licensed Products, to the extent such royalties or other amounts are not included in the CTI Third Party Royalty Amount.

1.12. "Joint Technology" -- see Section 4.1.

1.13. "Licensed Products" shall mean collectively the CTI Licensed Products and the Modex Licensed Products.

1.14. "Modex Field" shall mean the diagnosis, prevention and treatment, through encapsulated cell therapy, of diabetes, obesity or anemia. The Modex Field shall not include the diagnosis, prevention or treatment of diabetes utilizing encapsulated primary islet cells.

1.15. "Modex Licensed Products" shall mean any product (i) the manufacture, use or sale of which would, absent the license granted by CTI to Modex herein, infringe an issued patent constituting a part of the CTI Patents, or any portion thereof, or (ii) the manufacture, use or sale of which makes the use of all or a portion of the CTI Technology.

1.16. "Modex Patents" shall mean any patents (including all additions, divisions, continuations, continuations-in-part, substitutions, extensions, patent term extensions and renewals thereof), and patent applications (including patents issued thereon) that are or become owned by Modex or under which Modex now has, or in the future obtains, the right to grant licenses to CTI in the CTI Field during the term of this Agreement.

1.17. "Modex Technology" shall mean (i) the Modex Patents, and (ii) all inventions, concepts, processes, information, data, biological materials, know-how and the like which is Confidential Information of Modex now or hereafter owned by Modex or under which Modex has, or may in the future have, the right to grant licenses to CTI that are used or useful in the use, manufacture or sale of CTI Licensed Products in the CTI Field. Modex Technology shall not include CTI Technology or Joint Technology and Modex Technology shall not include any

invention, concept, process, information, data, biological material, or know-how if the foregoing ceases to be Confidential Information of Modex.

1.18. "Modex Sublicensee" shall mean any Person to whom Modex grants a sublicense of the rights granted to Modex pursuant to Section 2.1 hereof.

1.19. "Modex Third Party Royalty Amount" shall mean any amounts Modex may from time to time be obligated to pay in respect of the sale or other disposition by CTI or its Sublicensees of the CTI Licensed Products.

1.20. "Net Sales" shall mean as to any period for each Licensed Product in a given country, the gross invoiced sales price for all such Licensed Product sold or commercially disposed of for value in such country by a Party, or such Party's Sublicensees, in arm's length sales to independent third parties in that period, after deduction of the following items incurred by a Party or such Party's Sublicensees, as the case may be, during such period with respect to sales of Licensed Products hereunder regardless of the period in which such sales were made, provided that such items are included in the price charged, and do not exceed reasonable and customary amounts in the country in which such sale occurred:

- (i) trade and quantity discounts or rebates actually taken or allowed;
- (ii) credits or allowances given or made for rejection or return of previously sold Licensed Products actually taken or allowed;
- (iii) any tax or government charge (including any tax such as a value added or similar tax or government charge other than an income tax) levied on the sale, transportation or delivery of a Licensed Product and borne by the seller thereof; and
- (iv) any charges for freight or insurance billed to the final customer.

If a Licensed Product is sold, leased or otherwise commercially disposed of for value (including, without limitation, disposition in connection with the delivery of other products or services) in a transaction that is not an arm's length transaction with an independent third Party, and is not for resale, etc. to an independent Party in an arm's length transaction, then the gross sales price in such transaction shall be deemed to be the greater of the actual sales price or the gross sales price in the most similar substantially contemporaneous arm's length sale to an independent third Party for such Licensed Product, or if there is none, for the most similar Licensed Product for which there is a transaction. Net Sales shall also include any consideration received by a Party or its Sublicensees in respect of the sale, distribution or transfer of a Licensed Product other than in the course of clinical trials.

1.21. "Party" shall mean each of CTI and Modex and their respective successors and permitted assigns.

1.22. "Person" shall mean any person, entity, organization or body.

1.23. "Sublicensees" shall mean collectively the CTI Sublicensees and the Modex Sublicensees.

2. LICENSE TERMS

2.1. License Grant to Modex. Subject to the terms and conditions of this Agreement, CTI hereby grants to Modex an exclusive, royalty-bearing, worldwide license, including the right to grant sublicenses, under the CTI Technology to use, sell and have sold Modex Licensed Products in the Modex Field.

2.2. License Grant to CTI. Subject to the terms and conditions of this Agreement, Modex hereby grants to CTI (i) an exclusive, royalty-free, worldwide license, including the right to grant sublicenses, under the Modex Technology to manufacture, and have manufactured, the Modex Licensed Products, and (ii) an exclusive, royalty-bearing, worldwide license, including the right to grant sublicenses, under the Modex Technology to manufacture, have manufactured, use, sell and have sold CTI Licensed Products in the CTI Field.

2.3. Limited Rights. The rights granted hereunder shall be limited to the rights expressly stated to be granted hereunder and no additional right or licenses are implied. Without limiting the generality of the foregoing, nothing in this Agreement shall be construed to grant (i) to Modex rights under any CTI Technology to sell or have sold any products other than the Modex Licensed Products in the Modex Field or (ii) to CTI (A) rights under any Modex Technology to make or have made any products other than the Modex Licensed Products or (B) rights under any Modex Technology to make, have made, use, sell or have sold any products other than the CTI Licensed Products in the CTI Field, except as provided in (A) above.

2.4. Joint Technology. Subject to the provisions of this Section 2.4, each Party shall have the right to exploit the Joint Technology without being obligated to account to the other Party.

2.4.1 Modex License to Joint Technology. In the event during the term of this Agreement Modex desires to obtain exclusive rights to the Joint Technology to use, sell and have sold products in the Modex Field, Modex shall give notice to CTI of its desire and CTI shall agree not to use, sell or have sold products in the Modex Field utilizing the Joint Technology or any portion thereof. In such event, Modex shall pay to CTI a royalty equal to [*** ***** ****] of Net Sales for each such product. Such royalties shall be subject to and payable in accordance with the provisions of Section 3.

* This confidential portion has been omitted and filed separately with the Commission

2.4.2 CTI License to Joint Technology. In the event during the term of this Agreement CTI desires to obtain exclusive rights to the Joint Technology to make, have made, use, sell and have sold products in the CTI Field, CTI shall give notice to Modex of its desire and Modex shall agree not to make, have made, use, sell or have sold products in the CTI Field utilizing the Joint Technology or any portion thereof. In such event, CTI shall pay to Modex a royalty equal to [*** ***** ****] of Net Sales for each such product. Such royalties shall be subject to and payable in accordance with the provisions of Section 3.

2.5. Sublicensees. Each Party shall give notice to the other of any Sublicensee appointed by it. The Party appointing a Sublicensee shall be responsible for all obligations of such Sublicensee hereunder, including without limitation their obligation to pay royalties on sales of Licensed Products, and the obligation of such Sublicensees not to sell Licensed Products outside, in the case of the Modex Sublicensees, the Modex Field, and, in the case of CTI Sublicensees, the CTI Field. In the event that the license granted to Modex hereunder by CTI shall terminate for any reason, any Sublicensee under any such terminated license shall continue automatically to have the rights and license previously licensed by CTI to Modex under such terminated license and shall be entitled to enforce such rights and license directly against CTI, provided that any such Sublicensee agrees in writing with CTI that CTI shall be entitled to enforce the provisions of such terminated license directly against such Sublicensee. In the event that the license granted to CTI hereunder by Modex shall terminate for any reason, any Sublicensee under any such terminated license shall continue automatically to have the rights and license previously licensed by Modex to CTI under such terminated license and shall be entitled to enforce such rights and license directly against Modex, provided that any such Sublicensee agrees in writing with Modex that Modex shall be entitled to enforce the provisions of such terminated license directly against such Sublicensee. At the request of either Party, the other Party shall enter into a direct contractual arrangement with any Sublicensee of the requesting Party providing for such Sublicensee to have such rights and obligations as described in the two preceding sentences, effective upon any termination of the license granted hereunder from the requested Party to the requesting Party.

2.6. Technology Transfer. Each Party shall, at its own expense, provide the other Party with reasonable cooperation in order to permit each such Party to exploit the rights granted to it hereunder.

2.7. Other Agreements. Nothing in this Agreement (including without limitation the provisions of Section 2) shall limit in any way, and the rights of the parties to this Agreement are subject to, and may be limited by, the rights and licenses set forth in (i) the Development Collaboration and License Agreement dated as of March 10, 1994 between CTI and Genentech, Inc., as such agreement may be amended from time to time, and (ii) the Development, License and Marketing Agreement dated March 30, 1995 between the Company and Astra AB, as such agreement may be amended from time to time.

* This confidential portion has been omitted and filed separately with the Commission

3. ROYALTIES AND MILESTONE PAYMENTS

3.1. Royalties Payable by Modex. Except as otherwise provided herein, following the First Commercial Sale of each Modex Licensed Product, Modex shall pay to CTI a royalty equal to (i) [*** ***** ****] of Net Sales for each Modex Licensed Product in each calendar quarter, plus (ii) any CTI Third Party Royalty Amount payable in respect of such Modex Licensed Products. The royalty payable shall be calculated separately for each country and for each Modex Licensed Product. Modex shall be responsible for the payment of, and shall remit to CTI, all royalties payable to CTI hereunder. No multiple royalties shall be payable because the manufacture, use or sale of any Modex Licensed Product (i) shall be covered by more than one CTI Patent and/or any patent included in Joint Technology or (ii) uses or incorporates more than one aspect of the CTI Technology and/or Joint Technology or both (i) and (ii) apply.

3.2. Royalties Payable by CTI. Except as otherwise provided herein, following the First Commercial Sale of each CTI Licensed Product, CTI shall pay to Modex a royalty equal to (i) [*** ***** ****] of Net Sales for each CTI Licensed Product in each calendar quarter, plus (ii) the Modex Third Party Royalty Amount payable in respect of such CTI Licensed Products. The royalty payable shall be calculated separately for each country and for each CTI Licensed Product. CTI shall be responsible for the payment of, and shall remit to Modex, all royalties payable to Modex hereunder. No multiple royalties shall be payable because the manufacture, use or sale of any CTI Licensed Product (i) shall be covered by more than one Modex Patent and/or any patent included in Joint Technology or (ii) uses or incorporates more than one aspect of the Modex Technology and/or Joint Technology or both (i) and (ii) apply.

3.3. Milestone Payments. On achievement of each of the milestones specified in Schedule A at any time prior to January 1, 2011, CTI shall issue to Modex the number of shares of CTI Common Stock specified therein with respect to such milestone. The number of shares of CTI Common Stock issuable in regard to any milestone shall be appropriately adjusted to reflect any stock dividend, stock split, reverse stock split, recapitalization or similar transaction by CTI.

- (a) Regulation S Shares and Private Placement Shares. Modex understands and agrees that the issuance of the shares of CTI Common Stock to Modex provided for hereunder will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any foreign securities laws. Except to the extent that Modex notifies CTI in connection with the achievement of any milestone that Modex is unable, with respect to some or all of the shares of CTI Common Stock to be issued to Modex on achievement of such milestone, to comply with the restrictions contained in subparagraph (b) below, such shares of CTI Common Stock shall be issued to Modex by CTI in reliance upon Regulation S under the Securities Act and shall be subject only to the

* This confidential portion has been omitted and filed separately with the Commission

restrictions contained in such subparagraph (b); any such shares so issued pursuant to Regulation S are referred to herein as the "Regulation S Shares." Any shares of CTI Common Stock (the "Private Placement Shares") to be issued to Modex hereunder other than Regulation S Shares shall be issued to Modex by CTI pursuant to the so-called "private placement" exemption to the registration requirements of the Securities Act under Section 4(2) of the Securities Act and shall be subject to the restrictions contained in subparagraph (c) below.

- (b) Restrictions Applicable to Regulation S Shares. During the 40 day period commencing on the date of issuance of Regulation S Shares to Modex (the "Restricted Period"), Modex agrees not to offer or sell any Regulation S Shares (i) in the United States or (ii) to or for the account or benefit of a "U.S. Person" (as defined in Rule 902(o) of Regulation S). Modex acknowledges and agrees that CTI will not authorize any transfer or sale of any Regulation S Shares in the United States or to a U.S. Person other than in accordance with Regulation S and U.S. federal securities laws. In connection with the issuance to Modex of any Regulation S Shares, Modex will not engage in any prearranged transfer of any such shares by Modex to any purchaser located in the United States or any purchaser who is a U.S. Person or take any other action which is part of any plan or scheme to evade the registration provisions of the Securities Act. During the Restricted Period, Modex will not enter into any arrangement or understanding to resell any Regulation S Shares, or enter into any put option, short position or similar instrument or position with respect to such Shares. The Regulation S Shares may be transferred by Modex to consultants or employees of Modex provided (i) that any such transfer occurs outside the United States, (ii) that any such transferee is not a U.S. Person and is not acquiring such CTI Common Stock for the account or benefit of a U.S. Person and (iii) that any such transferee is bound or agrees to be bound by the same restrictions applicable to Modex with respect to such shares hereunder (including the provisions of subparagraph (d)). Each certificate representing Regulation S Shares shall bear a legend in substantially the form set forth below:

The securities represented by this certificate have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and have been issued pursuant to an exemption from the registration requirements of the Securities Act pursuant to Regulation S under the Securities Act. These shares cannot be transferred, offered or sold in the United States or to a U.S. Person (as that term is defined in Regulation S) unless any such transfer, offer or sale is registered under

the Securities Act or is exempt from such registration. The offer or sale of these shares to a U.S. Person (as such term is defined in Regulation S) or in the United States is subject to certain restrictions as set forth in a Cross License Agreement dated July 10, 1996 between the issuer and the original holder of these shares, a copy of which will be made available to any subsequent holder by the issuer upon request.

- (c) Restrictions Applicable to Private Placement Shares. Modex acknowledges and agrees that the Private Placement Shares are being transferred to Modex pursuant to an exemption from the registration requirements of the Securities Act and accordingly, must be held indefinitely by Modex unless they are later transferred in a transaction that is either registered under the Securities Act or exempt from such registration. Modex agrees not to sell or otherwise dispose of the Private Placement Shares in violation of the provisions of the Securities Act. Modex understands that CTI is under no obligation to register the Private Placement Shares under the Securities Act or to file for or comply with an exemption from registration, and recognizes that exemptions from registration, in any case, are limited and may not be available when Modex may wish to sell, transfer or dispose of the shares. Modex acknowledges that the Private Placement Shares are "restricted securities" as such term is defined in Rule 144 under the Securities Act and may be transferred under such Rule only in compliance with the terms and conditions of such Rule, including the holding periods provided for therein. The Private Placement Shares may be transferred by Modex to consultants or employees of Modex provided that any such transferee is bound or agrees to be bound by the same restrictions applicable to Modex with respect to such shares hereunder (including the provisions of subparagraph (d)). Each certificate representing Private Placement Shares shall bear a Legend substantially the form set forth below:

The shares of stock represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be sold, signed, pledged or otherwise transferred in the absence of an effective Registration Statement under the Securities Act covering such transfer or an opinion of counsel satisfactory to the issuer that registration under such Act is not required.

- (d) Market Stand-Off Provisions Applicable to All CTI Shares. Modex hereby acknowledges and agrees that, without the prior written consent of CTI, Modex will not, directly or indirectly, offer, sell, contract to sell, cause or in any way permit to be sold or otherwise dispose of the shares of CTI Common Stock acquired hereunder for a period of 90 days beginning on the effective date of a

registration statement under the Securities Act relating to an underwritten public offering of CTI Common Stock (or securities convertible into such Common Stock) or at such earlier or later time as may be agreed to in writing by the selling stockholders in such offering or stockholders who own in the aggregate at least 20 percent of CTI's outstanding shares of Common Stock immediately prior to such offering.

3.4. Termination of Royalty Obligations. With respect to each Licensed Product in each country, the royalty obligations of each of Modex and CTI shall cease upon the later of (i) the last to expire of the patents covering such Licensed Product in such country, and (ii) the date that is ten years from the First Commercial Sale of such Licensed Product.

3.5. Payment Dates and Statements. Within forty-five (45) days of the end of each calendar quarter in which Net Sales occur, each Party shall calculate the royalty amount owed under this Section 3 and shall remit such amount to the other Party. Such payment shall be accompanied by a statement showing the calculation of the amount owed for each country, the total Net Sales of each Licensed Product by country for that quarter, and the exchange rate (as determined pursuant to Section 3.6) used to directly convert any royalty amounts into Dollars. For purposes of determining when a sale of a Licensed Product occurs, the sale shall be deemed to occur on the earlier of: (i) the date the Licensed Product is shipped by CTI, or (ii) the date of the invoice to the purchaser of the Licensed Product. Any payment owed under this Section 3 that is not paid on or before the date such payment is due under this Agreement shall bear interest, to the extent permitted by applicable law, at two percentage points (2%) over the prime rate of interest as reported in the New York edition of The Wall Street Journal on the due date of such payment calculated on the number of days such payment is delinquent.

3.6. Records and Accounting. Each Party shall keep, and shall cause its Sublicensees to keep, complete and accurate records of the latest three (3) years of its Net Sales. Each Party shall have the right annually at its own expense to have an independent, certified public accountant to which the other Party has no reasonable objection, review such records upon reasonable notice and during reasonable business hours for the purposes of verifying royalties payable to it hereunder and Net Sales by the other Party and its Sublicensees. Results of such review shall be made available to both parties. If the review reflects an underpayment of royalties, such underpayment shall be promptly remitted to the Party to whom such royalties are payable with interest as provided in Section 3.4. If the underpayment is equal to or greater than five percent (5%) of the royalty amount that was otherwise due, the Party to whom such royalties are payable shall be entitled to have the other Party pay all of the costs of such review. Each Party shall cause its accountant undertaking a review of the other Party's records pursuant to this Section 3.5 to treat all information of such Party's records as Confidential Information of such Party and such accountant shall disclose to its client only such information as is relevant to determining the accuracy of the royalties paid.

3.7. Currency of Payments. All payments under this Agreement shall be made in Dollars by wire transfer to such bank account as the Party to whom royalties are payable may designate from time to time. Any payments due hereunder on Net Sales outside of the United States shall be payable in Dollars at the rate of exchange of the currency of the country in which the Net Sales are made as reported in the New York edition of The Wall Street Journal for the last business day of the quarter for which the royalties are payable. Where royalties are due hereunder for Net Sales in a country where, by reason of currency regulations or taxes of any kind, it is illegal for the Party obligated to transfer royalty payments out of such country for Net Sales in that country, such royalties shall be deposited in a currency that is permitted for the Party not able to make the transfer for the benefit or credit of the other Party.

3.8. Tax Withholding. Modex and CTI shall use all reasonable and legal efforts to reduce tax withholding on payments made to hereunder. Notwithstanding such efforts, if the Parties conclude that tax withholdings are required with respect to payments made hereunder. The Party making such payments shall withhold the required amount and pay it to the appropriate governmental authority. In such a case, the Party paying such amount will promptly provide the other Party with original receipts or other evidence sufficient to allow the other Party to obtain the benefits of such tax withholdings.

4. PATENTS AND TECHNOLOGY

4.1. Ownership of Technology. Each Party shall retain sole title to any technology which it develops solely. Except as provided in this Agreement, neither Party shall have any right to use or license technology to which the other Party has sole title. Each Party shall own a 50% undivided interest in all technology, know-how, inventions, concepts, processes and the like (whether or not patentable) made, conceived, reduced to practice or generated jointly by or on behalf of both parties ("Joint Technology").

4.2. Modex Technology. CTI shall prepare, file and prosecute patent applications claiming any technology which Modex may from time to time develop. Modex shall reimburse CTI for reasonable expenses incurred by CTI in connection with such patent application or the maintenance of any patents issuing thereon. In the event Modex proposes to withdraw or abandon any of such patent applications, CTI shall have the option for a period of 30 days to assume the rights to such patent or patent application. Following such abandonment or withdrawal Modex shall have no further rights under the patent or patent application in question and no further obligation to pay for the costs associated therewith, provided that such patent or patent application shall remain subject to the licenses hereunder.

4.3. Joint Patents. CTI shall prepare, file and prosecute patent applications, covering any Joint Technology in the countries of CTI's choice with appropriate credit to Modex, including naming representatives of Modex as inventors where appropriate. CTI and Modex shall share equally all of the costs associated with the preparation, filing and

prosecution of such patent applications in such countries. The parties shall assist each other to the maximum extent reasonable in securing intellectual property rights resulting from their respective research programs. Either Party may withdraw from or abandon any jointly-owned patent or patent application, on notice to the other in which case any such patent or patent application shall become the sole property of the other Party.

4.4. Infringement of Patents. If a Party has reason to believe that any of the patents of the other is being infringed by a third Party, the former shall promptly notify the latter and shall provide it with any evidence of any infringement which is reasonably available. The Party owning such patent shall have the first opportunity at its own expense to attempt to resolve such infringement by appropriate steps including suit. In such event, the other Party will assist in taking such steps, including suit, within reasonable limits, and any amount recovered as a result thereof shall first be applied to reimbursing the Party taking such action for its out-of-pocket expenses, then for reimbursing the other Party for its out-of-pocket expenses incurred in connection with such action, and the remainder, if any, shall be for the account of the Party owning such patent. In the event the Party owning such patent fails to cause such infringement to cease or institute suit or other legal action with respect to any such infringement within a period of six months following such notice of infringement, the other Party shall have the right to take any appropriate steps, including filing suit against the infringer at its own expense and in the name of the Party owning the patent, if necessary. In such event, the other Party shall assist the Party bringing suit as reasonably requested and shall permit the Party bringing suit to prosecute such infringement in the name of the owner of the patent. The expenses reasonably incurred in taking such steps, including suit and legal action, and any amount recovered as a result thereof shall be first applied to reimbursing the Party taking such action for out-of-pocket expenses, and then to reimbursing the Party not taking such action for its out-of-pocket expenses incurred in connection with such action, and the remainder, if any, shall be for the account of the Party taking such action.

4.5. Survival. This Section 4 shall survive the termination or expiration of this Agreement.

5. CONFIDENTIAL INFORMATION

5.1. Treatment of Confidential Information. Each Party hereto shall maintain the Confidential Information of the other Party in confidence, and shall not disclose, divulge or otherwise communicate such Confidential Information to others, or use it for any purpose, except pursuant to, and in order to carry out, the terms and objectives of this Agreement, and each Party hereby agrees to exercise every reasonable precaution to prevent and restrain the unauthorized disclosure of such Confidential Information by any of its directors, officers, employees, consultants, subcontractors, sublicensees or agents.

5.2. Release from Restrictions. The provisions of Section 5.1 shall not apply to any Confidential Information disclosed hereunder which is: required to be disclosed by the

receiving Party to comply with applicable laws, or to comply with laws or regulations (including without limitation testing and marketing regulations), in each case only to the extent required to carry out the work contemplated by this Agreement or other legal obligations provided that the receiving Party provides prior written notice of such disclosure to the other Party and takes reasonable and lawful actions to avoid and/or minimize the degree of such disclosure.

5.3. Confidential Agreements. Each Party shall maintain employment agreements with their respective employees and representatives providing for confidentiality and nonuse commitments consistent with its obligations hereunder and will require all of their employees, consultants, agents or others who have access to any Confidential Information of the other Party to execute confidentiality agreements covering all Confidential Information subject to Section 5 and will exercise its reasonable best efforts to obtain compliance therewith.

6. SUPPLY OF MODEX LICENSED PRODUCT

6.1. General. CTI will have the option to manufacture and supply all or any portion of the Modex Licensed Products and other implants (e.g. placebos for clinical trial use) on behalf of Modex, and the Modex Sublicensees, including Modex Licensed Products and other implants for research, clinical trials and commercial sale.

6.2. Supply of Modex Licensed Product for Clinical Trials. The transfer price to Modex of all Modex Licensed Products and other implants used in the clinical trials of Modex Licensed Products shall be CTI's Fully Burdened Manufacturing Cost of such Modex Licensed Products and implants. CTI shall not be required to supply more than 10 implants in any week through the completion of Phase II clinical trials and no more than 25 implants per week during Phase III clinical trials. Modex shall provide CTI with reasonable lead time to manufacture implants for clinical trial use.

6.3. Supply of Modex Licensed Products for Commercial Sale.

6.3.1 Transfer Price. The transfer price for all Modex Licensed Products other than those used in such clinical trials shall be calculated in accordance with the following formula (the "Commercial Transfer Price"):

$$CTP = [***** *****]$$

Where: CTP = Commercial Transfer Price

FBMC = CTI's Fully Burdened Manufacturing Cost of such Modex Licensed Product

* This confidential portion has been omitted and filed separately with the Commission

6.3.2 Estimate of Need for Modex Licensed Product. At least two (2) years before the expected first launch of any Modex Licensed Product in any country, Modex shall inform CTI of its best estimate of the quantity of such Modex Licensed Product needed by Modex for use or sale during the initial two (2) years after launch. Such estimates will thereafter be updated annually.

To assist CTI in preparing for its supply of Modex Licensed Product, Modex will provide CTI with the following "signals" for each Licensed Product:

Signal -----	Timing -----	Forecast -----
1	Prior to Phase II studies	Market potential estimates based on market research.
2	Prior to Phase III studies	Market potential estimate based on more comprehensive market research, targeted indications or suggested by Phase II data.
3	Prior to 1st Worldwide NDA filing or similar filing (1-1 1/2 yrs before launch)	Final pre-launch forecast based on extensive market research using Phase III results and considering reimbursement issues.

The estimates given by Modex pursuant to this Paragraph 6.3.2 will be used by CTI only for the purpose of preparing CTI's production capacity for Modex Licensed Product.

6.3.3 Quarterly Forecast. Starting twelve (12) months prior to the expected first launch, Modex will, before each January 1, April 1, July 1 and October 1, present to CTI a written forecast estimating the monthly quantities of Modex Licensed Products to be delivered during the next twelve (12) month period. With such forecast, Modex will provide CTI with a summary of its inventory, if any.

Modex will place firm orders for delivery not less than ninety (90) days prior to the start of the calendar quarter for which shipment is ordered, and CTI will be obliged (subject to such orders being within CTI's supply capacity), to deliver all ordered quantities of Modex Licensed Product by the delivery date stated in the order, except to the extent that such delivery would exceed either of the following:

- (a) 130% of the twelve (12) months forecast for such quarter made twelve (12) months prior to the start of such quarter; and

- (b) 120% of the six (6) months forecast for such quarter made six (6) months prior to the start of such quarter.

Similarly, such firm order shall not be less than either of the following:

- (c) 70% of the twelve (12) months forecast for such quarter made twelve (12) months prior to the start of such quarter; and
- (d) 80% of the six (6) months forecast for such quarter made six (6) months prior to the start of such quarters.

In addition, the firm order for any quarter shall not require delivery of more than forty percent (40%) of such order in any one month.

CTI will, however, make reasonable efforts also to supply quantities of Modex Licensed Product in excess of forecast amounts if ordered by Modex.

6.3.4 Payment and Delivery Terms. Each delivery of Modex Licensed Product will be effected ex works (CTI's plant) (Incoterms 1990 as published by the International Chamber of Commerce). All quantities of Modex Licensed Product will be delivered in finished form, ready for sale and suitably packed for transportation. Payment for Modex Licensed Products shall be made upon delivery.

6.3.5 Circumstances Affecting Supply. Each party will promptly notify the other party of any circumstances that it believes may be of importance as to CTI's ability to supply Modex with Modex Licensed Product.

6.4. Specifications. All Modex Licensed Products manufactured by CTI pursuant to this Agreement shall, upon delivery to Modex, conform to the specifications for such Modex Licensed Product to be agreed upon by Modex and CTI.

6.5. Additional Manufacturing Facility. If prior to the termination of Modex' rights and licenses hereunder, the parties determine that CTI will be required to construct an additional facility to meet the demand for the supply of Modex Licensed Products, CTI agrees to use reasonable efforts to locate such facility in Switzerland. CTI's obligation to use reasonable efforts to construct such facility in Switzerland is subject to CTI's determination that such facility would be commercially practicable in light of the demand for CTI's other products and the agreement by the Parties on minimum purchase obligations on the part of Modex that would make such facility profitable. CTI would be permitted to utilize any such facility for the manufacture of products other than Modex Licensed Products.

7. TERM AND TERMINATION

7.1. Term. The term of this Agreement (the "Term") shall commence as of the Effective Date. Unless sooner terminated pursuant to Section 7.2 or 7.3, the term of this Agreement shall expire at such time as neither Party shall have any further obligations to pay royalties on the sale of Licensed Products.

7.2. Breach. Failure by a Party to comply with any of its material obligations contained in this Agreement shall entitle the other Party to give to the Party in default notice specifying the nature of the default and requiring it to cure such default. If such default is not cured within 30 days after the receipt of such notice (or 90 days in event such breach cannot be reasonably expected to be cured within 30 days, and the defaulting Party gives notice to the other Party of its inability to cure such default within a 30 day period and the defaulting Party thereafter uses reasonable efforts to cure such default as soon as practicable), the notifying Party shall be entitled, without prejudice to any of its other rights under this Agreement, and in addition to any other remedies available to it by law or in equity, to terminate the rights and licenses of the defaulting Party under Agreement by giving notice to that effect to the defaulting Party. The right of either Party to terminate the rights and licenses granted to the other Party under this Agreements as hereinabove provided, shall not be affected in any way by its waiver or failure to take action with respect to any previous default.

7.3. Insolvency or Bankruptcy. Either Party may, in addition to any other remedies available to it by law or in equity, terminate the rights and licenses granted to the Other Party under this Agreement by written notice to the other Party in the event (i) the other Party shall have become insolvent or bankrupt, or shall have made an assignment for the benefit of its creditors, or (ii) there shall have been appointed a trustee or receiver of the other Party or for all or a substantial part of its property, or (iii) any case or proceeding shall have been commenced or some other action taken by or against the other Party in bankruptcy or seeking reorganization, liquidation, dissolution, winding-up, arrangement, composition or readjustment of its debts or any other relief under any bankruptcy, insolvency, reorganization or other similar act or law of any jurisdiction now or hereafter in effect or there shall have been issued a warrant of attachment, execution, distraint or similar process against any substantial part of the property of the other Party, and any such event or action shall have continued for 60 days undismitted, unbounded and undischarged; provided, however, that no such right to terminate shall pertain solely by virtue of a voluntary reorganization for the purpose of solvent amalgamation or reconstruction.

7.4. Effect of Termination.

- (a) Upon termination of this Agreement for any reason, nothing herein shall be construed to release either Party from any obligation that matured prior to the effective date of such termination.
- (b) The termination pursuant to Sections 7.2 or 7.3 of the rights and licenses granted to a Party under this Agreement shall not effect the rights and licenses

of the other Party under this Agreement, provided such other Party continues to comply with its obligations hereunder.

- (c) Upon the termination of a Party's rights and licenses granted under this Agreement for any reason, the terminated Party shall return and deliver to the other Party all materials and documents developed during the performance of this Agreement, all data and records required by the FDA or other regulatory authorities to be maintained with respect to the sale, storage, handling, shipping and use of the Licensed Products of the other Party, all reimbursement approval files, all documents, data and information related to clinical trials and other studies of Licensed Products required by the FDA or other regulatory authorities, and all copies and facsimiles of such materials, documents, information and files. Such other Party shall have the right to utilize and allow others to utilize all such materials, documents and records in connection with the development, regulatory approval, manufacture and sale of its Licensed Products and the terminated Party shall provide such other Party with reasonable cooperation, including without limitation, providing such other Party with a letter authorizing such other Party to cross reference the terminated Party's files with the FDA or other regulatory body.
- (d) The provisions of Sections 2.2(i) (License to CTI), 4 (Patents and Technology), 5 (Confidential Information), 8.11 (Modex Indemnification), 8.12 (CTI Indemnification), 8.13 (Liability Insurance) and 14 (Resolution of Disputes) shall survive termination of this Agreement or termination of any Party's rights and licenses for any reason. Provided the rights and licenses granted to Party under this Agreement have not been previously terminated, upon expiration of the Term of this Agreement, the licenses granted to such Party hereunder shall become nonexclusive and royalty free.

8. MISCELLANEOUS PROVISIONS

8.1. No Partnership. Nothing in this Agreement is intended or shall be deemed to constitute a partnership, agency, employer, employee or joint venture relationship between the parties. Neither Party shall incur any debts or make any commitments for the other.

8.2. Assignments. Except as otherwise provided herein, neither this Agreement nor any interest hereunder shall be assignable by either Party by operation of law or otherwise without the prior written consent of the other; provided, however, that either Party may assign this Agreement to any wholly-owned subsidiary or to any successor by merger or sale of substantially all of its assets to which this Agreement relates in a manner such that the assignor shall remain liable and responsible for the performance and observance of all its duties and obligations hereunder, or if the assignor disappears because of such transaction, the assignee

must agree to abide by the terms and conditions of this Agreement. This Agreement shall be binding upon the successors and permitted assigns of the parties.

8.3. Force Majeure. Neither Party shall be liable to the other for loss or damages or shall have any right to terminate this Agreement for any default or delay (including, without limitation, an inability to supply Licensed Product) attributable to any act of God, earthquake, flood, fire, explosion, strike, lockout, labor dispute, casualty or accident, war, revolution, civil commotion, act of public enemies, blockage or embargo, injunction, law, order, proclamation, regulation, ordinance, demand or requirement of any government or subdivision, authority (including, without limitation, drug regulatory authorities) or representative of any such government, or any other cause beyond the reasonable control of such Party, if the Party affected shall give prompt notice of the commencement and cessation of any such cause to the other Party. The Party given such notice shall thereupon be excused from such of its obligations hereunder as it is so disabled and for 30 days thereafter. Notwithstanding the foregoing, nothing in this Section shall excuse or suspend the obligation to make any payment due hereunder in the manner and at the time provided.

8.4. No Trademark Rights. No right, express or implied, is granted by this Agreement to use in any manner any trade name or trademark of CTI or Modex in connection with the performance of this Agreement or the exploitation of any license granted hereunder.

8.5. Public Announcements. Except as required by law or the rules of any exchange or quotation system on which a Party's capital stock is then traded or listed, neither Party will issue any press release or make any public announcement of the existence or terms of this Agreement without prior consultation with and approval by the other Party, which consent shall not be unreasonably withheld or delayed.

8.6. Entire Agreement of the Parties; Amendment. This Agreement constitutes and contains the entire understanding and agreement of the parties and cancel and supersede any and all prior negotiations, correspondence and understandings and agreements, whether verbal or written, between the parties respecting the subject matter hereof. No waiver, modification or amendment of any provision of this Agreement shall be valid or effective unless made in writing and signed by a duly authorized officer of each of the parties.

8.7. Severability. In the event any one or more of the provisions of this Agreement should for any reason be held by any court or authority having jurisdiction over this Agreement or either of the parties to be invalid, illegal or unenforceable, such provision or provisions shall be validly reformed by addition or deletion of wording as appropriate to avoid such result and as nearly as possible approximate the intent of the parties and, if unreformable, shall be divisible and deleted in such jurisdiction; elsewhere, this Agreement shall not be affected.

8.8. Captions. The captions to this Agreement are for convenience only, and are to be of no force or effect in construing or interpreting any of the provisions of this Agreement.

8.9. Notice and Delivery. Any notice, requests, delivery, approval or consent required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been sufficiently given if delivered in person, transmitted by internationally recognized courier, telegraph or telecopier (with confirmed answer-back) or sent by registered air mail letter to the Party (which notice shall be considered effective five days after it is sent) to whom it is directed at its address shown below or such other address as such Party shall have last given by notice to the other Party.

If to CTI, addressed to:

CytoTherapeutics, Inc.
Two Richmond Square
Providence, Rhode Island 02906
Attention: Vice President, Licensing
Telephone: (401) 272-3310
Telecopier: (401) 272-3485

with a copy addressed to the General Counsel

If to Modex, addressed to:

Modex Therapeutiques, SA
27 Rue du Bergnon
1005 Lausanne
Switzerland
Attention: Patrick Aebischer
Telephone:
Telecopier:

8.10. Limitation of Liability. Neither Party shall be liable to the other for indirect, incidental or consequential damages arising out of any of the terms or conditions of this Agreement or with respect to their performance or lack thereof.

8.11. Modex Indemnification. Modex shall indemnify, defend and hold CTI and each of its officers, directors, employees, agents and consultants (each a "CTI Indemnitee") harmless from and against all third Party costs, claims, suits, expenses (including reasonable attorneys' fees) and damages arising out of or resulting from (i) any breach or failure by Modex in the performance of its obligations under this Agreement, or (ii) the use by or administration to any person of any Modex Licensed Products that arises out of sales of Modex Licensed Products by Modex, or a Modex Sublicensee (except where such cost, claim,

suit, expense or damage arose or resulted from any negligence of CTI in the manufacture of any Modex Licensed Products by CTI, or the failure of CTI to manufacture Licensed Products in accordance with the specifications for such products), provided that the CTI Indemnitee gives reasonable notice to Modex of any such claim or action, tenders the defense of such claim or action to Modex and assists Modex at Modex's expense in defending such claim or action and does not compromise or settle such claim or action without Modex's prior written consent.

8.12. CTI Indemnification. CTI shall indemnify, defend and hold Modex and each of its officers, directors, employees, agents and consultants (each a "Modex Indemnitee") harmless from and against all third Party costs, claims, suits, expenses (including reasonable attorney's fees) and damages arising out of or resulting from (i) any breach or failure by CTI in the performance of its obligations under this Agreement, or (ii) the use by or administration to any CTI Licensed Products that arises out of sales of CTI Licensed Products by CTI or a CTI Sublicense, or (iii) any negligence of CTI in the manufacture of Licensed Products by CTI, or the failure of CTI to manufacture Licensed Products in accordance with the specifications for such products, provided that such Modex Indemnitee gives reasonable notice to CTI of any such claims or action, tenders the defense of such claim or action to CTI and assists CTI at CTI's expense in defending such claim or action and does not compromise or settle such claim or action without CTI's prior written consent.

8.13. Liability Insurance. The parties agree that CTI will attempt to have Modex covered by CTI's product liability insurance and Modex shall reimburse CTI for its proportionate share of any premiums associated therewith. In the event CTI is unable to arrange for such coverage, each Party shall maintain (subject to availability at a price common in the industry) (i) prior to the first commercial sale of a Licensed product comprehensive general and products liability and completed operations insurance with a Best-rated A-XIV insurance company covering that Party's activities related to this Agreement in an amount of not less than \$1,000,000 and (ii) during the remaining term of this Agreement either (1) net worth of no less than \$50,000,000 or (2) comprehensive general and products liability and completed operations insurance covering that Party's activities related to this Agreement in an amount of not less than \$5,000,000. Upon request, each Party shall provide to the other satisfactory evidence of that Party's compliance with this provision. The obligations under this Section 7.13 shall terminate upon the expiration of the statute of limitations applicable to any liability covered by the above-referenced insurance.

8.14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Rhode Island without regard to the conflict of laws provisions thereof.

9. RESOLUTION OF DISPUTES

9.1. General. In acknowledgment of the benefit to both parties to resolve differences quickly and efficiently with as little disruption of each parties' business as possible, the parties agree to abide by the following provisions in connection with any dispute that should arise between the parties with respect to any matter relating to this Agreement, including any questions regarding the existence, validity or termination thereof.

9.2. Dispute Resolution Process.

- (a) Mediation. In the event of any dispute between the parties with respect to any matter relating to this Agreement, the parties shall first use their best efforts to resolve such dispute among themselves. Prior to seeking any third Party to resolve a dispute, the principal executive officers of CTI and Modex shall meet in a private meeting in New York, New York for at least one-half (1/2) of a day to attempt to resolve the dispute. If the parties are unable to resolve the dispute within 30 days after the principal executive officers have met, the parties will then seek the assistance of one or more unaffiliated third parties to assist in mediating the dispute.
- (b) Selection of Arbitrators. In the event that the parties are unable to resolve a dispute within 30 days after commencement of mediation efforts, either Party may submit the matter to binding arbitration in accordance with the procedures set forth in this Section 14.2. If a Party intends to commence arbitration to resolve a dispute, such Party shall provide written notice to the other Party of such intention, and shall designate one arbitrator. Within 10 days of receipt of such notice, the other Party shall designate in writing a second arbitrator. The two arbitrators so designated shall, within 10 days thereafter, designate a third arbitrator. The arbitrators so designated shall not be employees, consultants, officers, directors or shareholders of or otherwise associated with either Party. Except as modified by the provisions of this Section 9, the arbitration shall be conducted in accordance with the rules of, and under the auspices of, the International Chamber of Commerce and the location of the arbitration shall be New York, New York. The language of such arbitration shall be English and all notices and written submissions provided in such proceeding shall be in English.
- (c) Written Proposals. Within 15 days after the designation of the third arbitrator, the arbitrators and the parties shall meet at which time each Party shall be required to set forth in writing the issues which need to be resolved and a proposed ruling on each such issue. Written submissions shall be limited to 30 pages of text (not including exhibits which may include copies of agreements, or extracts from books and records, but not testimony affidavits).

- (d) Hearing. The arbitrators shall set a date for a hearing, which shall be no later than 20 days after the submission of written proposals, to discuss each of the issues identified by the parties. Each Party shall have the right to be represented by counsel. The arbitrators shall have sole discretion with regard to the admissibility of any evidence. Unless otherwise determined by unanimous agreement of the arbitrators the hearing shall be concluded in one day.
- (e) Ruling. The arbitrators shall use their best efforts to rule on each disputed issue within 20 days after the completion of the hearings described in subsection (d) above. The arbitrators shall, by majority decision, select the ruling proposed by one of the Parties as the arbitrators' ruling. The arbitrators' ruling shall be, in the absence of fraud or manifest error, binding and conclusive upon both Parties and may be enforced in a court of competent jurisdiction. The arbitrators may not award punitive or exemplary damages.

9.3. Arbitration Costs. The arbitrators shall be paid a reasonable fee plus expenses, which fees and expenses shall be paid as designated by the arbitrators or if the arbitrators do not so designate such costs shall be shared equally by the Parties.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized officers as of the day and year set forth below, each copy of which shall for all purposes be deemed to be an original.

CYTOTHERAPEUTICS, INC.

By:/s/ Seth A. Rudnick

Seth A. Rudnick, Chairman, President
and Chief Executive Officer

Date: July 10, 1996

MODEX THERAPEUTIQUES, SA

By:/s/ Patrick Aebischer

Title: President

Date: July 10, 1996

By:/s/ Max Wilhelm

Title: Director

Date: July 10, 1996

Schedule A

Event -----	Total Shares of CTI Common Stock To Be received as Consideration by Modex for License Back to CTI -----
Pigs off insulin for 90 days	8,000
Commencement of Phase I trial for diabetes product	12,000
Commencement of Phase III trial for diabetes product	40,000
Market approval for diabetes product	40,000
The earlier of (a) delivery for at least 90 days of 300 units per day of EPO in a large animal model or functional evidence of a therapeutic benefit of EPO in a large animal model or (b) commencement of a Phase I clinical trial in humans	8,000
Commencement of Phase I trial for anemia product (payable in addition to previous milestone if previous milestone is achieved through Phase I clinical trial)	12,000
Commencement of Phase III trial for anemia product	40,000
Market approval for anemia product	40,000
The earlier of (a) FaFa rat returned to normal body weight or (b) demonstrated weight loss in a large animal model or in humans	8,000
Commencement of Phase I trial for obesity product	12,000
Commencement of Phase III trial for obesity product	40,000
Market approval for obesity product	40,000
Total	300,000

MODEX THERAPEUTIQUES, S.A.

STOCKHOLDERS VOTING AGREEMENT

This STOCKHOLDERS VOTING AGREEMENT (the "Agreement"), is made as of this 10th day of July, 1996 by and among CytoTherapeutics, Inc., a Delaware corporation ("CTI"), Societe Financiere Valoria S.A., a Swiss corporation ("Valoria"), and those individual stockholders listed on the signature page hereto ("Individual Stockholders," together with CTI and Valoria, "Founders," each a "Founder").

WHEREAS, each of the Founders owns that number of shares of the Common Stock ("Common Stock") of Modex Therapeutiques, S.A. ("Modex") set forth next to his or its name on Exhibit A; and

WHEREAS, simultaneously herewith CTI has invested SFr 1.2 million in Common Stock, loaned to Modex an additional SFr 1.2 million pursuant to a Convertible Loan Agreement dated as of the same date as this Agreement and agreed, under such Agreement, to loan Modex an additional SFr 2.4 million on the second anniversary of this Agreement (the "Second Anniversary") if certain conditions are met; and

WHEREAS, simultaneously herewith Valoria has loaned to Modex SFr 2.4 million under the terms of a similar Convertible Loan Agreement dated as of the same date as this Agreement and agreed, under such Agreement, to loan Modex an additional SFr 1.2 million on the Second Anniversary; and

WHEREAS, it was a condition to CTI and Valoria making such investments in Modex that this Agreement be executed by the parties hereto; and

WHEREAS, the Individual Stockholders wish to encourage such investments and to agree with CTI and Valoria as provided herein; and

WHEREAS, all the Founders wish to agree herein as to how all voting securities of Modex held by the Founders shall be voted, and to provide, among other matters, for the election of the Directors of Modex;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Founders hereby agree as follows:

1. Board of Directors.

(a) Each Founder agrees to vote all voting shares of Modex's Common Stock now owned by such Founder and any such shares hereafter acquired or controlled by such Founder (collectively, the "Voting Securities"), and otherwise to use such Founder's best efforts, to set the number of directors on the Board of Directors of Modex at five and to cause and maintain the election to the Board of Directors of: (i) three persons designated by CTI and (ii) two persons designated by a majority of the Individual Stockholders.

The initial designees of CTI pursuant to clause (i) above shall be Dr. Seth A. Rudnick, John Swen and Dr. Peter Simon. The initial designees of the Individual Stockholders pursuant to clause (ii) above shall be Drs. Patrick Aebischer and Max Wilhelm.

(b) In the absence of any designation by CTI, each Founder shall vote to re-elect any director previously designated by CTI then serving on the Board of Directors if such director is still eligible to serve, as provided herein. In the absence of any designation by the Individual Stockholders, each Founder shall vote to re-elect any director previously designated by such Individual Stockholders then serving on the Board of Directors if such director is still eligible to serve, as provided herein.

(c) No Founder shall vote to remove any member of the Board of Directors designated by CTI in accordance with the aforesaid procedure unless CTI so votes, and if CTI so votes then all other Founders shall likewise so vote. No Founder shall vote to remove any member of the Board of Directors designated by the Individual Stockholders in accordance with the aforesaid procedure unless the Individual Stockholders so vote, and if the Individual Stockholders so vote, then all other Founders shall likewise so vote.

(d) Any vacancy on the Board of Directors created by the resignation, removal, incapacity or death of any person designated under this Section 1 by CTI shall immediately be filled by another person designated by CTI and any such vacancy created by the resignation, removal, incapacity or death of any person designated under this Section 1 by the Individual Stockholders shall immediately be filled by another person designated by the Individual Stockholders. Each Founder shall vote such Founder's Voting Securities in accordance with any such new designation, and no such vacancy shall be filled in the absence of a new designation by the original designating party or parties.

2. General Voting Agreement.

Except as otherwise set forth in Section 1, each Founders agrees to vote all shares of Voting Securities in regard to any matter for which such Founder has the right to vote under the Articles of Incorporation of Modex or applicable law as follows:

(a) A percentage of the Founder's Voting Securities equal to the CTI Percentage shall be voted in the manner designated by CTI;

(b) A percentage of the Founder's Voting Securities equal to the IS Percentage shall be voted in the manner designated by a majority of the Individual Stockholders; and

(c) A percentage of the Founder's Voting Securities equal to the Valoria Percentage shall be voted in the manner designated by Valoria.

For purposes of this Agreement, (i) the "CTI Percentage" shall be that percentage equal to (x) the number of shares of Voting Securities held by CTI, on an as-converted basis, multiplied by (y) 100 and divided by (z) the number (the "Total Number") of Voting Securities issued and outstanding and held by all Founders, on an as-converted basis; (ii) the "IS Percentage" shall be that percentage equal to (x) the number of Voting Securities held by the Individual Stockholders, on an as-converted basis, multiplied by (y) 100 and divided by (z) the Total Number; and (iii) the "Valoria Percentage" shall be that percentage equal to (x) the number of Voting Securities held by Valoria, on an as-converted basis, multiplied by (y) 100 and divided by (z) the Total Number. For the purposes of this Agreement, "as converted" means, with respect to any Founder or any group of Founders, the number of shares of Voting Securities held by such Founder or group of Founders after giving effect to the conversion by such Founder or Group of Founders of any Note or other security of Modex convertible into Voting Securities.

3. Termination.

(a) This Agreement shall terminate on the earlier to occur of the tenth anniversary of this Agreement or the closing of an underwritten public offering of the Common Stock.

(b) Unless earlier terminated in accordance with the provisions of Section 3(a), the rights granted to CTI pursuant to Section 1 shall terminate at such time as any Individual Stockholder has notified CTI in writing that the CTI Percentage is less than 50% and CTI has failed to increase the CTI Percentage to more than 50% within ninety (90) days of such notice from such Individual Stockholder.

(c) Subject to Section 10(a), the rights granted to the Individual Stockholders pursuant to Section 1 shall terminate as follows: (i) such rights with respect to each Individual Stockholder shall terminate if such Individual Stockholder has ceased to be a consultant to Modex and (ii) such rights with respect to the Individual Stockholders as a group shall terminate if less than two Individual Stockholders are serving as consultants to Modex.

4. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been received when delivered to the Founders at their respective addresses set forth on Exhibit A, or in any case to such other address as the addressee shall have furnished to the other parties hereto in the manner prescribed by this Section 4.

5. Specific Performance. The rights of the parties under this Agreement are unique and, accordingly, the parties shall, in addition to such other remedies as may be available to any of them at law, have the right to enforce their rights hereunder by actions for specific performance to the extent permitted by law.

6. Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes and cancels all prior agreements and understandings between them or any of them as to such subject matter.

7. Waivers and Further Agreements. This Agreement may only be amended by the written agreement of all of the parties. Any waiver by any party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of that provision or of any other provision hereof. Each of the parties hereto agrees to execute all such further instruments and documents and to take all such further action as any other party may reasonably require in order to effectuate the terms and purposes of this Agreement.

8. Assignment; Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, legal representatives, successors and assigns, including, without limitation, permitted transferees of the Voting Securities. Each party to this Agreement who may wish to transfer any shares of Common Stock of Modex covered by this Agreement shall require as a condition of such transfer that the transferee of such shares agree to be bound by the terms of this Agreement and any applicable provisions of the Articles of Incorporation of Modex, and any transferee of such shares, whether pursuant to such a voluntary transfer, or by operation of law, or otherwise, shall, to the maximum extent permitted by law, be so bound.

9. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10. Section Headings. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of Switzerland.

12. Dispute Resolution. All disputes, differences, controversies or claims arising in connection with, or questions occurring under, this Agreement shall be settled as provided in Exhibit B.

IN WITNESS WHEREOF, the parties have caused this Stockholders Voting Agreement to be duly executed as of the date first above written.

CYTOTHERAPEUTICS, INC.

By/s/ Frederic A. Eustis, III

Title: Vice President and General Counsel

SOCIETE FINANCIERE VALORIA S.A.

By/s/ Christian Puhr

Title: Power of Attorney

/s/ Patrick Aebischer

Patrick Aebischer

/s/ Max Wilhelm

Max Wilhelm

/s/ Bernard Thorens

Bernard Thorens

By/s/ Shimon Efrat

Shimon Efrat

Founder -----	Shares of Common Stock Owned -----
CytoTherapeutics, Inc.	6,500
Wilhelm	1,522
Aebischer	1,826
Thorens	1,826
Efrat	1,826
Societe Financiere Valoria S.A	500

Arbitration

Any and all disputes, controversies or claims arising out of, involving or relating to the existence, validity, performance, amendment, breach or termination of this Agreement shall be referred to, settled and finally resolved exclusively under the rules of arbitration of La Chambre de Commerce et d'Industrie de Geneve ("CCIG") by an arbitral tribunal appointed as set forth herein in accordance with said rules. To the extent not prohibited under applicable law, the arbitral tribunal's decision shall be final and binding on the parties and, to the extent not prohibited under applicable law, the parties hereby exclude any right of appeal to any court on the merits of any dispute.

Subject to the provisions of the last paragraph, each party shall nominate one arbitrator. If a party fails to nominate an arbitrator within thirty (30) days from the date when the claimant's request for arbitration has been communicated to the other party, such appointment shall be made by the rules of CCIG. The two arbitrators so appointed shall agree upon the third arbitrator who shall act as Chair of the arbitral tribunal. If said two arbitrators fail to nominate a Chair within thirty (30) days from the latter of the two appointments, the Chair shall be selected by the rules of CCIG. Such appointment shall be final and binding upon the parties.

The place of arbitration shall be Geneva, Switzerland.

The language to be used in the arbitral proceeding shall be English.

The proceedings shall be governed by the provisions of Chapter 12 of the Swiss Federal Act on International Private Law of December 18, 1987 relating to international arbitration and the rules of arbitration of CCIG.

This Agreement and the arbitral award shall be governed by the law of Switzerland. The award shall be in writing and shall include the arbitral tribunal's decision as to the costs of the arbitration and reasonable legal fees. The award may grant any relief appropriate under the applicable law, including without limitation declaratory relief and/or specific performance. The award will be notified to the parties by the Arbitral Tribunal.

In the event that disputes arise between two parties under this Agreement and any other agreement, document or instrument executed in connection with the transactions contemplated hereby, such disputes shall be resolved in a consolidated arbitral proceeding by the three arbitrators appointed in accordance with the provisions above.

Notwithstanding the foregoing, in the event that disputes arise between more than two parties under this Agreement or under this Agreement and any other agreement, document or instrument executed in connection with the transactions contemplated hereby, such disputes shall be resolved in a consolidated arbitral proceeding by a single arbitrator appointed in accordance with the rules of CCIG.

EXECUTION COPY

CTI - INDIVIDUAL STOCKHOLDERS OPTION AGREEMENT

This Agreement (the "Agreement"), is made as of this 10th day of July, 1996 by and among CytoTherapeutics, Inc., a Delaware corporation ("CTI") and each of those individuals listed as Exhibit A (the "Individual Stockholders").

WHEREAS, each of CTI and the Individual Stockholders owns that number of shares of Common Stock ("Common Stock") of Modex Therapeutiques, S.A. ("Modex") set forth next to its or his name on Exhibit A acquired on foundation of Modex; and

WHEREAS, simultaneously herewith CTI has invested SFr 1.2 million to subscribe for certain additional shares of Common Stock, loaned to Modex an additional SFr 1.2 million pursuant to a Convertible Loan Agreement dated as of the same date as this Agreement and agreed, under such Agreement, to loan Modex an additional SFr 2.4 million on the second anniversary of this Agreement (the "Second Anniversary") if certain conditions are met; and

WHEREAS, simultaneously herewith each of the Individual Stockholders, with the possible exception of Shimon Efrat, has entered into a Consulting Agreement of even date herewith (each a "Consulting Agreement") with Modex; and

WHEREAS, it was a condition to CTI making such investments in Modex simultaneously herewith that the Individual Stockholders enter into this Agreement; and

WHEREAS, CTI wishes to arrange for an option to acquire the shares of Common Stock held by the Individual Stockholders, and the Individual Stockholders wish to grant to CTI such an option, on the terms and conditions contained herein; and

WHEREAS, the Individual Stockholders wish to obtain an option to require CTI to purchase the shares of Common Stock held by the Individual Stockholders and CTI is willing to grant such an option, under the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, CTI and the Individual Stockholders hereby agree as follows:

1. Restrictions on Transfer.

(a) Individual Stockholders Shares. None of the shares of Common Stock acquired by any Individual Stockholder on the formation of Modex (collectively, the "Individual Stockholders Shares") may be sold, exchanged, signed, transferred, pledged, hypothecated or otherwise encumbered or disposed of, at any time prior to the expiration of this Agreement except pursuant to the exercise by such Individual Stockholder of the Individual Stockholders Exchange Option, or the exercise by CTI of the CTI Exchange Option (in each case, as defined below).

(b) Certificates to be Held by Notary. The Individual Stockholders Shares shall be held by a Notary acceptable to CTI and the Individual Stockholders under the terms of an Escrow Agreement acceptable to the Notary, CTI and the Individual Stockholders until the earlier of the termination of this Agreement or such time as such Individual Stockholders Shares shall have been exchanged in accordance with the provisions hereof. Any new, additional or different securities which any Individual Stockholder may be entitled to receive by virtue of any stock dividend, stock split, reverse stock split, recapitalization, reorganization, merger, consolidation, split-up or other similar change shall be held by such Notary and subject to the same restrictions, terms and conditions as set forth herein. Each Individual Stockholder shall possess all rights of ownership of his Individual Stockholders Shares, including the right to receive or reinvest dividends with respect to such Individual Stockholders Shares and to vote such Individual Stockholder Shares (subject to the terms of any other agreements applicable thereto) and to receive any and all payments made with respect to such Individual Stockholders Shares, except that such Individual Stockholder shall not be entitled to possession of his Individual Stockholders Shares until the restrictions provided for in this Agreement have lapsed.

2. CTI Option to Acquire Individual Stockholders Shares.

(a) CTI Exchange Option. CTI shall have the option (the "CTI Exchange Option"), at any time and from time to time, to purchase any or all of any Individual Stockholder's Individual Stockholders Shares by exchanging 13.145 shares (subject to adjustment as provided in Section 4 below) of CTI Common Stock, \$.01 par value ("CTI Common Stock") for each share of such Individual Stockholders Shares so acquired.

(b) Efrat Purchase Option. CTI Repurchase of Dr. Efrat's Subject Shares. In the event Dr. Efrat has entered into a Consulting Agreement with Modex dated on or about the date hereof, the provisions of subsection (c) of this Section 2 shall apply and the provisions of this sub-section (b) shall be of no further force or effect. In the event Dr. Efrat has not entered into a Consulting Agreement with Modex dated on or about the date hereof, CTI shall have the right at any time within two (2) years from date hereof to purchase from Dr. Efrat all of Dr. Efrat's Subject Shares (as defined below) for 10 SF per share (the "Efrat Repurchase Right")

(c) CTI Repurchase of Subject Shares. In the event that, within two (2) years of the date hereof, any Individual Stockholder ceases to serve as a consultant to Modex as a result of the termination of such Individual Stockholder's consulting relationship under the Consulting Agreement by Modex for "Cause" (as defined in the Consulting Agreement) or by the Individual Stockholder without "Good Reason" (as defined in the Consulting Agreement), CTI shall thereafter have the right (the "Repurchase Right") to purchase from such Individual Stockholder all of such Individual Stockholder's shares of Modex stock identified on Schedule C as "Subject Shares" (the "Subject Shares") for 10 SF per share.

(d) Call Notice. CTI shall notify any Individual Stockholder of any exercise of the CTI Exchange Option in writing (the "Call Notice") and shall deliver to the Notary for delivery to such Individual Stockholder the aggregate number of shares of CTI Common Stock required hereunder within 30 days of the date of such Call Notice (the "Call Notice Date"). Upon such delivery, the Notary shall promptly release to CTI the acquired Individual Stockholders Shares and deliver to such Individual Stockholder such shares of CTI Common Stock.

(e) Repurchase Notice. CTI shall notify any Individual Stockholder of any exercise of the Repurchase Right or the Efrat Repurchase Right, as the case may be, in writing (the "Repurchase Notice"), which notice shall set forth the number of Subject Shares to be purchased by CTI and the time, date and location in Lausanne, Switzerland (or other location mutually agreeable to CTI and the Individual Stockholder) of the closing of the purchase by CTI of the Subject Shares. At such closing, the Individual Stockholder shall deliver to CTI the stock certificates evidencing the Subject Shares to be purchased duly endorsed in blank and CTI shall deliver to the Individual Stockholder the aggregate purchase price for the Subject Shares to be purchased by CTI by check or wire transfer.

3. Individual Stockholders' Option to Require CTI to Acquire Individual Stockholders Shares.

(a) Each Individual Stockholder's Exchange Option. Each Individual Stockholder shall have the option, at any time and from time to time (the "Individual Stockholders Exchange Option"), to require CTI to acquire any or all of such Individual Stockholder's Individual Stockholders Shares in exchange for 13.145 shares (subject to adjustment as provided in Section 4 below) of CTI Common Stock for each share of such Individual Stockholders Shares so acquired.

(b) Put Notice. Any Individual Stockholder wishing to exercise his Individual Stockholders Exchange Option shall notify CTI of such exercise in writing (the "Put Notice") and shall instruct the Notary to deliver to CTI the Individual Stockholders Shares to be acquired by CTI upon delivery by CTI to the Notary of the shares of CTI Common Stock to be delivered in exchange for such Individual Stockholders Shares. CTI shall deliver to the Notary for delivery to such Individual Stockholder the aggregate number of shares of CTI Common Stock required hereunder within 30 days of the date of such Put Notice (the "Put

Notice Date"). Upon such delivery, the Notary shall promptly release to CTI the acquired Individual Stockholders Shares and deliver to such Individual Stockholder such shares of CTI Common Stock.

4. Adjustments; Fractional Shares.

The number of shares of CTI Common Stock to be exchanged for each share of Individual Stockholders Shares hereunder shall be appropriately adjusted to reflect any stock dividend, stock split, reverse stock split, recapitalization, reorganization, merger, consolidation, split-up or other similar change (occurring at any time prior to the release and delivery of any such shares as provided for in Section 2 or 3 hereunder) with respect to or otherwise affecting the Individual Stockholders Shares or the CTI Common Stock or both. In lieu of the issuance of any fractional shares of CTI Common Stock, CTI shall pay to Individual Stockholder in cash an amount equal to the value of any fractional share, determined on the basis of the closing price for the shares of CTI Common Stock on the Call Notice Date or the Put Notice Date, as the case may be.

5. Representations, Warranties and Agreements.

Each Individual Stockholder hereby acknowledges, represents and warrants to, and agrees with, CTI as follows:

(a) Individual Stockholder understands that the shares of CTI Common Stock that Individual Stockholder may receive hereunder have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any state or foreign securities laws and are expected to be issued in reliance upon Regulation S promulgated under the Securities Act;

(b) Individual Stockholder has been supplied with or has had sufficient access to all other information, including financial statements and other financial information of CTI, to which a reasonable investor would attach significance in making investment decisions, and has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning CTI, so that, as a reasonable investor, Individual Stockholder has been able to make his own independent decision to put himself in a position wherein he may be acquiring such CTI Common Stock;

(c) Individual Stockholder is not a U.S. Person and is not entering into this Agreement in order to acquire any CTI Common Stock for the account or benefit of a U.S. Person. For purposes of this Agreement, "U.S. Person" shall have the meaning set forth in Rule 903(o) of Regulation S under the Securities Act;

(d) Individual Stockholder agrees not to offer or sell such CTI Common Stock in the United States or to or for the account or benefit of a U.S. Person or citizen of the United States prior to the expiration of the forty (40) day period commencing on the date

Individual Stockholder receives any such CTI Common Stock hereunder (the "Restricted Period"). Individual Stockholder acknowledges that CTI will not authorize any transfer or sale of such CTI Common Stock in the United States or to a U.S. Person or citizen of the United States other than in accordance with Regulation S and U.S. federal securities laws. Prior to any sale or transfer of such CTI Common Stock during the Restricted Period or in the United States or to a U.S. Person, CTI may require the written opinion of United States legal counsel addressed to CTI, as to whether such transfer or sale is in compliance with the Securities Act and the rules and regulations applicable thereunder, including Regulation S, and may require certification of the transferor and the transferee of such CTI Common Stock as to such compliance; and

(e) Should Regulation S not be available with regard to any exercise of the Individual Stockholders Exchange Option or the CTI Exchange Option (for example, because Individual Stockholder is or has become a U.S. Person), Individual Stockholder and CTI acknowledge and agree that the Shares of CTI Common Stock to be issued in exchange for Individual Stockholder's Individual Stockholders Shares hereunder shall be issued in a private placement exempt from the registration requirements of the Securities Act pursuant to Section 4.2 of such Act and that any shares of CTI Common Stock so issued shall be subject to the restrictions generally applicable to such securities in transactions which qualify for such exemption.

6. Legend.

Each certificate representing the CTI Common Stock issued hereunder pursuant to Regulation S shall bear a restrictive legend in substantially the form set forth below:

"The securities represented by this certificate have not been registered under the U.S. Securities Act of 1933, as amended (the "Act"), and have been issued pursuant to an exemption from registration pursuant to Regulation S under the Act. These shares cannot be transferred, offered, or sold in the United States or to a U.S. Person (as that term is defined in Regulation S) unless such shares are registered under the Act or an exemption from registration is available. The offer or sale of these shares to a U.S. Person (as that term is defined in Regulation S) or in the United States is subject to certain restrictions as set forth in that certain Option Agreement dated July 10, 1996 between CTI and the original holders of these shares."

Shares of CTI Common Stock, if any, issued in a private placement pursuant to Section 5(e) shall also bear an appropriate restrictive legend.

7. Shares of CTI Common Stock to be Received From Modex Under each Individual Stockholder's Consulting Agreement. Each Individual Stockholder agrees that any shares of CTI Common Stock received by such Individual Stockholder from Modex under such

Individual Stockholder's Consulting Agreement with Modex dated as of the same date as this Agreement shall be subject to the same restrictions provided for in Sections 5 and 6 hereof.

8. Termination.

(a) This Agreement shall terminate on the earlier to occur of the tenth anniversary of this Agreement or the closing of an underwritten public offering of the Common Stock.

9. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been received when delivered to CTI and Individual Stockholder at their respective addresses set forth on Exhibit A, or in any case to such other address as the addressee shall have furnished to the other parties hereto in the manner prescribed by this Section .

10. Specific Performance. The rights of the parties under this Agreement are unique and, accordingly, the parties shall, in addition to such other remedies as may be available to any of them at law, have the right to enforce their rights hereunder by actions for specific performance to the extent permitted by law.

11. Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes and cancels all prior agreements and understandings between them or any of them as to such subject matter.

12. Waivers and Further Agreements. Neither this Agreement nor any provision hereof may be waived, modified, terminated or amended except by a written agreement signed by CTI and all Individual Stockholders. Any waiver by any party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of that provision or of any other provision hereof. Each of the parties hereto agrees to execute all such further instruments and documents and to take all such further action as any other party may reasonably require in order to effectuate the terms and purposes of this Agreement.

13. Assignment; Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, legal representatives, successors and permitted assigns. Without limiting the generality of the foregoing sentence, more particularly, while this Agreement does not contemplate the transfer of any Individual Stockholders Shares except upon an exercise by CTI of the CTI Exchange Option or an exercise by an Individual Stockholder of the Individual Stockholders Exchange Option, should any such transfer occur by agreement of the parties or by operation of law, the transferee of such shares shall, to the maximum extent permitted by law, be bound by the terms of this Agreement and any applicable provisions of the Articles of Incorporation of Modex.

14. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instruments.

15. Section Headings. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

16. Choice of Law. This Agreement shall be governed and construed according to the internal laws of Switzerland.

17. Dispute Resolution. All disputes, differences, controversies or claims arising in connection with, or questions occurring under, this Agreement shall be settled as provided in Exhibit B.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above written.

CYTOTHERAPEUTICS, INC.

By/s/ Frederic A. Eustis, III

Title: Vice President General Counsel

/s/ Patrick Aebischer

Patrick Aebischer

/s/ Max Wilhelm

Max Wilhelm

/s/ Bernard Thorens

Bernard Thorens

/s/ Shimon Efrat

Shimon Efrat

Original Shares -----	Shares of Modex Acquired Upon Formation of Modex -----
CTI	6500
Individual Stockholders	
Patrick Aebischer	1826
Bernard Thorens	1826
Max Wilhelm	1522
Shimon Efrat	1826

Arbitration

Any and all disputes, controversies or claims arising out of, involving or relating to the existence, validity, performance, amendment, breach or termination of this Agreement shall be referred to, settled and finally resolved exclusively under the rules of arbitration of La Chambre de Commerce et d'Industrie de Geneve ("CCIG") by an arbitral tribunal appointed as set forth herein in accordance with said rules. To the extent not prohibited under applicable law, the arbitral tribunal's decision shall be final and binding on the parties and, to the extent not prohibited under applicable law, the parties hereby exclude any right of appeal to any court on the merits of any dispute.

Subject to the provisions of the last paragraph, each party shall nominate one arbitrator. If a party fails to nominate an arbitrator within thirty (30) days from the date when the claimant's request for arbitration has been communicated to the other party, such appointment shall be made by the rules of CCIG. The two arbitrators so appointed shall agree upon the third arbitrator who shall act as Chair of the arbitral tribunal. If said two arbitrators fail to nominate a Chair within thirty (30) days from the latter of the two appointments, the Chair shall be selected by the rules of CCIG. Such appointment shall be final and binding upon the parties.

The place of arbitration shall be Geneva, Switzerland.

The language to be used in the arbitral proceeding shall be English.

The proceedings shall be governed by the provisions of Chapter 12 of the Swiss Federal Act on International Private Law of December 18, 1987 relating to international arbitration and the rules of arbitration of CCIG.

This Agreement and the arbitral award shall be governed by the law of Switzerland. The award shall be in writing and shall include the arbitral tribunal's decision as to the costs of the arbitration and reasonable legal fees. The award may grant any relief appropriate under the applicable law, including without limitation declaratory relief and/or specific performance. The award will be notified to the parties by the Arbitral Tribunal.

In the event that disputes arise between two parties under this Agreement and any other agreement, document or instrument executed in connection with the transactions contemplated hereby, such disputes shall be resolved in a consolidated arbitral proceeding by the three arbitrators appointed in accordance with the provisions above. Notwithstanding the foregoing, in the event that disputes arise between more than two parties under this Agreement or under this Agreement and any other agreement,

11 document or instrument executed in connection with the transactions contemplated hereby, such disputes shall be resolved in a consolidated arbitral proceeding by a single arbitrator appointed in accordance with the rules of CCIG.

Subject Shares

Individual Stockholder -----	Number of Subject Shares -----
Patrick Aebischer	1522
Bernard Thorens	1522
Max Wilhelm	1522
Shimon Efrat	1522

CTI - VALORIA OPTION AGREEMENT

This Agreement (the "Agreement"), is made as of this 10th day of July, 1996 by and among CytoTherapeutics, Inc., a Delaware corporation ("CTI") and Societe Financiere Valoria S.A., a Swiss corporation ("Valoria").

WHEREAS, each of CTI and Valoria owns that number of shares of Common Stock ("Common Stock") of Modex Therapeutiques, S.A. ("Modex") set forth next to its name on Exhibit A acquired on foundation of Modex; and

WHEREAS, simultaneously herewith Valoria has loaned SFr 2.4 million to Modex pursuant to a Convertible Loan Agreement (the "Original Valoria Loan") and has agreed, under such Agreement, to loan an additional SFr 1.2 million to Modex on the second anniversary date (the "Second Anniversary") of this Agreement (the "Second Valoria Loan," together with the Original Valoria Loan, the "Valoria Loans"); and

WHEREAS, simultaneously herewith CTI has invested SFr 1.2 million to subscribe for 1,000 additional shares of Common Stock, has loaned SFr 1.2 million to Modex pursuant to a Convertible Loan Agreement and has agreed, under such Agreement, to loan Modex an additional SFr 2.4 million on the Second Anniversary (together with the first Loan, the "CTI Loans"), if certain conditions are met; and

WHEREAS, it was a mutual condition to CTI and Valoria making such investments in Modex simultaneously herewith that each enter into this Agreement; and

WHEREAS, CTI wishes to arrange for an option to acquire the shares of Common Stock held by Valoria and the Valoria Loans, and Valoria wishes to grant to CTI such an option, on the terms and conditions contained herein; and

WHEREAS, Valoria wishes to obtain an option to require CTI to purchase the shares of Common Stock held by Valoria and the Valoria Loans and CTI is willing to grant such an option, under the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, CTI and Valoria hereby agree as follows:

1. Restrictions on Transfer.

(a) Valoria Shares and Notes. None of the shares of Common Stock acquired by Valoria on the formation of Modex or the shares of Common Stock to be acquired by Valoria upon conversion of the Valoria Loans (collectively, the "Valoria Shares") or the Valoria Loans (together with the Valoria Shares, the "Valoria Securities") or any interest therein may be sold, exchanged, signed, transferred, pledged, hypothecated or otherwise encumbered or disposed of, at any time prior to the expiration of this Agreement except pursuant to the exercise by Valoria of the Valoria Exchange Option, or the exercise by CTI of the CTI Exchange Option (in each case, as defined below).

(b) Certificates to be Held by Notary. The Valoria Shares shall be held by a notary (the "Notary") acceptable to CTI and Valoria under the terms of an Escrow Agreement acceptable to CTI, Valoria and the Notary until the earlier of the termination of this Agreement or such time as such Valoria Shares shall have been exchanged in accordance with the provisions hereof. Any new, additional or different securities which Valoria may be entitled to receive by virtue of the conversion of the Valoria Loans or any stock dividend, stock split, reverse stock split, recapitalization, reorganization, merger, consolidation, split-up or other similar change shall be held by such Notary and subject to the same restrictions, terms and conditions as set forth herein. Valoria shall possess all incidents of ownership of the Valoria Shares, including the right to receive or reinvest dividends with respect to the Valoria Shares and to vote such Valoria Shares (subject to the terms of any other agreements applicable thereto), except that Valoria shall not be entitled to possession of the Valoria Shares until the restrictions provided for in this Agreement have lapsed.

2. Exchange Option for Valoria Securities.

(a) CTI Exchange Option. CTI shall have the option (the "CTI Exchange Option") to purchase the Valoria Securities on the following terms and conditions:

- (i) During First Two Years. At any time prior to the Second Anniversary, CTI may purchase all but not less than all of the Valoria Securities for the greater of (i) Sfr 3.6 million or (ii) Sfr 2.4 million plus simple interest thereon at the rate of 30% per year from the Closing Date until the Option Closing Date (as defined below), accruing daily, such consideration to be payable in cash or, at CTI's option, in whole or in part in shares of Common Stock of CTI, par value \$.01 per share ("CTI Common Stock"), valued as described below.
- (ii) After First Two Years. At any time on or after the Second Anniversary, CTI may purchase all but not less than all of the Valoria Securities at a price equal to 110% of the As Converted Value of the Valoria Securities as of the Option Notice Date (as such terms are defined below), such consideration to be payable in cash or, at CTI's

option, in whole or in part, in shares of CTI Common Stock, valued as described below.

(b) CTI Option Notice. CTI shall notify Valoria of its exercise of the CTI Exchange Option in writing (the "CTI Option Notice") and shall indicate in such notice whether CTI intends to purchase such shares with cash or with CTI Common Stock or with cash and CTI Common Stock.

If the CTI Exchange Option is being exercised pursuant to Section 2(a)(i), CTI shall pay to Valoria (in cash or CTI Common Stock) the aggregate purchase price as indicated in Section 2(a)(i) within 30 days of the date of the CTI Option Notice (the "Notice Date") against simultaneous release to CTI by the Notary of all escrowed Valoria Shares and assignment to CTI of all of Valoria's interest (if any) in the Valoria Loans.

If the CTI Exchange Option is being exercised pursuant to Section 2(a)(ii), CTI and Valoria shall have 30 days from Notice Date to agree upon the fair market value of the Valoria Securities determined on the basis of the fair market value of the shares of Modex Common Stock that would be held by Valoria assuming the conversion of all outstanding Valoria Loans into shares of Modex Common Stock and the similar conversion of all outstanding CTI Loans into shares of such Common Stock (the "As Converted Value"). If, by the end of such thirty-day period, no agreement as to the As Converted Value has been reached, the As Converted Value shall be determined by an appraisal. All appraisals shall be undertaken by an independent investment banking firm (initially agreed to be Hambrecht & Quist) acceptable to both CTI and Valoria (the "Appraiser") commencing on the 31st day after the Notice Date. On such date, Valoria and CTI shall each submit to the Appraiser a final estimate of the As Converted Value, and, within 60 days of such submission, the Appraiser shall determine which of such two estimates is closer to the As Converted Value as determined by the Appraiser and such closer estimate shall be deemed to be the As Converted Value. Within 30 days after the determination of the As Converted Value specified above, CTI shall pay Valoria the aggregate purchase price (in cash or CTI Common Stock) as indicated in Section 2(a)(ii) (the date of such payment pursuant to this sentence or pursuant to the last sentence in the previous paragraph being referred to herein as the "Option Closing Date") against simultaneous release to CTI by the Notary of all escrowed Valoria Shares and assignment to CTI of all of Valoria's interest (if any) in the Valoria Loans. The party whose final estimate is not selected as the As Converted Value shall pay the cost of the appraisal.

(c) Valoria Exchange Option. If at any time on or after the Second Anniversary and prior to the tenth anniversary of this Agreement (the "Tenth Anniversary"), no Public Market exists for the Founder's Shares, Valoria shall have the option (the "Valoria Exchange Option") to require CTI to purchase all but not less than all of the Valoria Securities at a price equal to 90% of the As Converted Value as of the Put Notice Date (as defined below), such consideration to be payable in cash or, at CTI's option, in whole or in part in shares of CTI Common Stock, valued as described below. A "Public Market" for the Founder's

Shares will exist if and only if the shares of CTI and Valoria Common Stock are listed for trading on an internationally recognized securities market.

(d) Valoria Put Notice. Valoria shall notify CTI of its exercise of the Valoria Exchange Option in writing (the "Put Notice"). CTI shall indicate in a notice delivered to Valoria within 30 days of the date of such Put Notice (the "Notice Date") whether CTI intends to purchase such shares with cash or with CTI Common Stock or with cash and CTI Common Stock. CTI and Valoria shall have 30 days from the Notice Date to agree upon the As Converted Value. If, by the end of such thirty-day period, no agreement as to the As Converted Value has been reached, the As Converted Value shall be determined by an appraisal, as provided in Section 2(b) above, the cost of which shall be paid as provided therein. Within 30 days after the determination of the As Converted Value, CTI shall pay to Valoria the aggregate purchase price (in cash or CTI Common Stock) indicated in Section 4(c) (the date of such payment being referred to herein as the "Put Closing Date").

(e) Valuation of CTI Common Stock. For purposes of this Section 2, the fair market value of CTI Common Stock shall be the average of the closing prices (as described below) for shares of the CTI Common Stock for each of the 10 consecutive trading days before and each of the 10 consecutive trading days after the Put Notice Date or the Option Notice Date, as the case may be. The closing price for such shares for each day shall be the average of the reported closing bid and asked prices on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended, on which such shares are listed or admitted to trading, or if they are not listed or admitted to trading on any such exchange, the average of the quoted closing bid and asked prices as reported on the Nasdaq Stock Market, or any comparable system, or if such shares are not quoted on the Nasdaq Stock Market, or any comparable system, the average of the closing bid and asked prices as furnished by any market maker in such shares who is a member of the National Association of Securities Dealers, Inc.

(f) Price Protection for Valoria. In the event that CTI sells, transfers, assigns or otherwise disposes any Valoria Securities acquired by CTI from Valoria pursuant to Section 2(a) (or any shares of Modex Common Stock issuable on conversion of any such securities) within 180 days of the Option Closing Date and the price CTI receives for such securities (the "Third Party Price") is in excess of the price received for such Securities by Valoria from CTI on the Option Closing Date (the "Valoria Price"), then CTI shall pay to Valoria the difference between the Third Party Price and the Valoria Price with respect to all such securities so sold, transferred, assigned or otherwise disposed of by CTI, such consideration to be payable in cash or, at CTI's option, in whole or in part in shares of CTI Common Stock, valued at the Option Closing Date as described above.

3. Representations, Warranties and Agreements.

Valoria hereby acknowledges, represents and warrants to, and agrees with, CTI as follows:

(a) Valoria understands that the shares of CTI Common Stock that Valoria may receive hereunder have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any state or foreign securities laws and are expected to be issued in reliance upon Regulation S promulgated under the Securities Act;

(b) Valoria has been supplied with or has had sufficient access to all other information, including financial statements and other financial information of CTI, to which a reasonable investor would attach significance in making investment decisions, and has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning CTI, so that, as a reasonable investor, Valoria has been able to make his own independent decision to put himself in a position wherein he may be acquiring such CTI Common Stock;

(c) Valoria is not a U.S. Person and is not entering into this Agreement in order to acquire any CTI Common Stock for the account or benefit of a U.S. Person. For purposes of this Agreement, "U.S. Person" shall have the meaning set forth in Rule 903(o) of Regulation S under the Securities Act;

(d) Valoria agrees not to offer or sell such CTI Common Stock in the United States or to or for the account or benefit of a U.S. Person or citizen of the United States prior to the expiration of the forty (40) day period commencing on the date Valoria receives any such CTI Common Stock hereunder (the "Restricted Period"). Valoria acknowledges that CTI will not authorize any transfer or sale of such CTI Common Stock in the United States or to a U.S. Person or citizen of the United States other than in accordance with Regulation S and U.S. federal securities laws. Prior to any sale or transfer of such CTI Common Stock during the Restricted Period or in the United States or to a U.S. Person, CTI may require the written opinion of United States legal counsel addressed to CTI, as to whether such transfer or sale is in compliance with the Securities Act and the rules and regulations applicable thereunder, including Regulation S, and may require certification of the transferor and the transferee of such CTI Common Stock as to such compliance; and

(e) Should Regulation S not be available with regard to any exercise of the Valoria Exchange Option or the CTI Exchange Option (for example, because Valoria is or has become a U.S. Person), Valoria and CTI acknowledge and agree that the Shares of CTI Common Stock to be issued in exchange for Valoria's Valoria Securities hereunder shall be issued in a private placement exempt from the registration requirements of the Securities Act pursuant to Section 4.2 of such Act and that any shares of CTI Common Stock so issued shall be subject to the restrictions generally applicable to such securities in transactions which qualify for such exemption.

4. Legend.

Each certificate representing the CTI Common Stock issued hereunder pursuant to Regulation S shall bear a restrictive legend in substantially the form set forth below:

"The securities represented by this certificate have not been registered under the U.S. Securities Act of 1933, as amended (the "Act"), and have been issued pursuant to an exemption from registration pursuant to Regulation S under the Act. These shares cannot be transferred, offered, or sold in the United States or to a U.S. Person (as that term is defined in Regulation S) unless such shares are registered under the Act or an exemption from registration is available. The offer or sale of these shares to a U.S. Person (as that term is defined in Regulation S) or in the United States is subject to certain restrictions as set forth in that certain Option Agreement dated July __, 1996 between CTI and the original holders of these shares."

Shares of CTI Common Stock, if any, issued in a private placement pursuant to Section 3(e) shall also bear an appropriate restrictive legend.

5. Termination.

(a) This Agreement shall terminate on the earlier to occur of the tenth anniversary of this Agreement or the closing of an underwritten public offering of Modex Common Stock.

6. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been received when delivered to CTI and Valoria at their respective addresses set forth on Exhibit A, or in any case to such other address as the addressee shall have furnished to the other party hereto in the manner prescribed by this Section.

7. Specific Performance. The rights of the parties under this Agreement are unique and, accordingly, each party shall, in addition to such other remedies as may be available to it at law, have the right to enforce its rights hereunder by actions for specific performance to the extent permitted by law.

8. Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes and cancels all prior agreements and understandings between them as to such subject matter.

9. Waivers and Further Agreements. Neither this Agreement nor any provision hereof may be waived, modified, terminated or amended except by a written agreement signed by CTI and Valoria. Any waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of that provision or of any other provision hereof. Each of the parties hereto agrees to execute all such further instruments and documents and to take all such further action as any other party may reasonably require in order to effectuate the terms and purposes of this Agreement.

10. Assignment; Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, legal representatives, successors and permitted assigns. Without limiting the general application of

the foregoing sentence, more particularly, while this Agreement does not contemplate the transfer of any Valoria Securities or any interest therein except through the exercise by CTI of the CTI Exchange Option or the exercise by Valoria of the Valoria Exchange Option, should any such other transfer occur by agreement of the parties or by operation of law, the transferee shall, to the maximum extent permitted by law, be bound by the terms of this Agreement and any applicable provisions of the Articles of Incorporation of Modex.

11. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instruments.

12. Section Headings. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

13. Choice of Law. This Agreement shall be governed and construed according to the internal laws of Switzerland.

14. Dispute Resolution. All disputes, differences, controversies or claims arising in connection with, or questions occurring under, this Agreement shall be settled as provided in Exhibit B, except for the determination of As Converted Value, which shall be conclusively determined as provided for in Section 2.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above written.

CYTOTHERAPEUTICS, INC.

By/s/ Seth A. Rudnick

Title: Chief Executive Officer

SOCIETE FINANCIERE VALORIA S.A.

By/s/ Christian Puhr

Title: Power of Attorney

EXHIBIT A - STOCKHOLDERS AGREEMENT

Original Shares -----	Shares Acquired Simultaneously Herewith -----
--------------------------	--

CTI	6,500	1,000
Valoria	500	--

Arbitration

Any and all disputes, controversies or claims arising out of, involving or relating to the existence, validity, performance, amendment, breach or termination of this Agreement shall be referred to, settled and finally resolved exclusively under the rules of arbitration of La Chambre de Commerce et d'Industrie de Geneve ("CCIG") by an arbitral tribunal appointed as set forth herein in accordance with said rules. To the extent not prohibited under applicable law, the arbitral tribunal's decision shall be final and binding on the parties and, to the extent not prohibited under applicable law, the parties hereby exclude any right of appeal to any court on the merits of any dispute.

Subject to the provisions of the last paragraph, each party shall nominate one arbitrator. If a party fails to nominate an arbitrator within thirty (30) days from the date when the claimant's request for arbitration has been communicated to the other party, such appointment shall be made by the rules of CCIG. The two arbitrators so appointed shall agree upon the third arbitrator who shall act as Chair of the arbitral tribunal. If said two arbitrators fail to nominate a Chair within thirty (30) days from the latter of the two appointments, the Chair shall be selected by the rules of CCIG. Such appointment shall be final and binding upon the parties.

The place of arbitration shall be Geneva, Switzerland.

The language to be used in the arbitral proceeding shall be English.

The proceedings shall be governed by the provisions of Chapter 12 of the Swiss Federal Act on International Private Law of December 18, 1987 relating to international arbitration and the rules of arbitration of CCIG.

This Agreement and the arbitral award shall be governed by the law of Switzerland. The award shall be in writing and shall include the arbitral tribunal's decision as to the costs of the arbitration and reasonable legal fees. The award may grant any relief appropriate under the applicable law, including without limitation declaratory relief and/or specific performance. The award will be notified to the parties by the Arbitral Tribunal.

In the event that disputes arise between two parties under this Agreement and any other agreement, document or instrument executed in connection with the transactions contemplated hereby, such disputes shall be resolved in a consolidated arbitral proceeding by the three arbitrators appointed in accordance with the provisions above. Notwithstanding the foregoing, in the event that disputes arise between more than two parties under this Agreement or under this Agreement and any other agreement, document or instrument

11
executed in connection with the transactions contemplated hereby, such disputes shall be resolved in a consolidated arbitral proceeding by a single arbitrator appointed in accordance with the rules of CCIG.

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, fail to gain market acceptance, 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 and 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, the U.S. Public Health Service has published draft "Guidelines on Infectious Disease Issues: Xenotransplantation," which propose recommendations to minimize any potential public health risk associated with xenotransplantation. Xenotransplantation, in this case, is the transplantation into humans of living cells, tissues or organs from a non-human animal source. There have also been several legislative proposals to reform the FDA. If such guidelines and/or proposals are adopted they may result in significant changes in the regulatory environment the Company faces. These changes could (i) result in different, more costly or more time consuming approval requirements for the Company's products, (ii) adversely affect the Company's ability to recruit subjects for clinical trials, (iii) result in the dilution of FDA resources available to review the Company's products, or (iv) result 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 use 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-encapsulated 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.

9-MOS
DEC-31-1996
SEP-30-1996
10,844,952
24,771,708
0
0
36,864,793
16,541,466
6,553,931
50,664,220
5,983,857
7,274,109
0
0
154,235
37,242,019
50,664,220
0
5,305,514
0
16,304,042
0
467,458
(9,336,050)
0
(9,336,050)
0
0
(9,336,050)
(.61)
(.61)