Cyclacel Pharmaceuticals, Inc.
Form 424B3
August 15, 2012

PROSPECTUS SUPPLEMENT NO. 2
(TO PROSPECTUS DATED APRIL 26, 2012)

Filed pursuant to Rule 424(b)(3)
under the Securities Act of 1933
in connection with Registration
Statement No. 333- 173291

3,808,823 Shares of Common Stock

of

CYCLACEL PHARMACEUTICALS, INC.

Issuable Upon Exercise of Outstanding Warrants
Issued in an Underwritten Offering

This Prospectus Supplement No. 2 supplements and amends the prospectus dated April 26, 2012, as supplemented by the Prospectus Supplement No. 1 dated May 16, 2012, collectively referred to herein as the Prospectus, relating to the registration of 3,808,823 shares of common stock, par value $0.001 per share, of Cyclacel Pharmaceuticals, Inc. (**we**, **us**, **our company**, or **the Company**), which we may issue upon exercise of warrants to purchase common stock at an exercise price of $1.36 per share which we issued on July 7, 2011 as part of an underwritten offerings, such warrants expiring on July 7, 2016. We refer to these warrants as the July 2011 Warrants.

To the extent any holder of our July 2011 Warrants determines to exercise its warrants, we will receive the payment of the exercise price in connection with such exercise. We will not receive any proceeds from the sale of the common stock issuable upon exercise of the July 2011 Warrants by their holders.

This prospectus supplement should be read in conjunction with the Prospectus, including any supplements or amendments to it. This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, including any supplements or amendments to it.

On August 14, 2012, we filed our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. That Form 10-Q, without exhibits, is attached hereto.

Investing in our common stock involves risks. See Risk Factors beginning on page 19 of the Prospectus, as well as the section entitled Risk Factors included in our recent quarterly and annual reports filed with the Securities and Exchange Commission.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the Prospectus to which it relates are truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is August 14, 2012.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

Commission file number 0-50626

CYCLACEL PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**91-1707622**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
200 Connell Drive, Suite 1500	
Berkeley Heights, New Jersey	**07922**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting filer x

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

As of August 13, 2012 there were 59,007,990 shares of the registrant s common stock outstanding.

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CYCLACEL PHARMACEUTICALS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEETS

(In $000s, except share amounts)

	December 31, 2011	June 30, 2012 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,449	$ 19,964
Inventory	182	50
Prepaid expenses and other current assets	1,200	1,639
Total current assets	25,831	21,653
Property, plant and equipment (net)	167	149
Total assets	$ 25,998	$ 21,802
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,763	$ 1,544
Accrued liabilities and other current liabilities	4,664	4,174
Economic rights		1,007
Other liabilities measured at fair value	71	21
Total current liabilities	6,498	6,746
Total liabilities	6,498	6,746
Stockholders equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized at December 31, 2011 and June 30, 2012; 1,213,142 shares issued and outstanding at December 31, 2011 and June 30, 2012. Aggregate preference in liquidation of $13,708,505 and $14,072,447 at December 31, 2011 and June 30, 2012, respectively	1	1
Common stock, $0.001 par value; 100,000,000 shares authorized at December 31, 2011 and June 30, 2012; 54,220,458 and 59,001,229 shares issued and outstanding at December 31, 2011 and June 30, 2012, respectively	54	59
Additional paid-in capital	276,452	278,514
Accumulated other comprehensive loss	57	78
Deficit accumulated during the development stage	(257,064)	(263,596)
Total stockholders equity	19,500	15,056
Total liabilities and stockholders equity	$ 25,998	$ 21,802

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

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CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In $000s, except share and per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Period from August 13, 1996 (inception) to June 30,
	2011	2012	2011	2012	2012
Revenues:					
Collaboration and research and development revenue	$	$	$	$	$ 3,100
Product revenue	168	120	360	281	3,302
Grant revenue		26		26	3,674
	168	146	360	307	10,076
Operating expenses:					
Cost of goods sold	72	89	178	183	1,935
Research and development	1,859	1,717	4,939	3,064	188,863
Selling, general and administrative	2,034	2,350	3,840	4,346	93,833
Goodwill and intangible impairment					7,934
Restructuring costs					2,634
Total operating expenses	3,965	4,156	8,957	7,593	295,199
Operating loss	(3,797)	(4,010)	(8,597)	(7,286)	(285,123)
Other income (expense):					
Costs associated with aborted 2004 IPO					(3,550)
Payment under guarantee					(1,652)
Change in valuation of Economic Rights		146		90	90
Change in valuation of other liabilities measured at fair value	125	8	203	50	6,377
Foreign exchange (losses)/gains	(19)	117	(87)	231	(4,098)
Interest income	13	6	24	12	13,737
Interest expense					(4,677)
Other income		29		76	76
Total other income (expense)	119	306	140	459	6,303
Loss before taxes	(3,678)	(3,704)	(8,457)	(6,827)	(278,820)
Income tax benefit	126	127	317	295	18,739
Net loss	(3,552)	(3,577)	(8,140)	(6,532)	(260,081)
Dividends on preferred ordinary shares					(38,123)
Deemed dividend on convertible exchangeable preferred shares					(3,515)
Dividend on convertible exchangeable preferred shares	(182)	(182)	(364)	(364)	(4,021)
Net loss applicable to common shareholders	$ (3,734)	$ (3,759)	$ (8,504)	$ (6,896)	$ (305,740)
Net loss per share Basic and diluted	$ (0.08)	$ (0.06)	$ (0.18)	$ (0.12)	
Weighted average common shares outstanding	**46,582,915**	**58,997,078**	**46,577,577**	**56,879,349**	

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

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CYCLACEL PHARMACEUTICALS, INC.
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In $000s, except share and per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Period from August 13, 1996 (inception) to June 30,
	2011	2012	2011	2012	2012
Comprehensive loss	(3,521)	(3,564)	(8,132)	(6,511)	(260,003)

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

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

	Six Months Ended June 30,		Period from August 13, 1996 (inception) to June 30,
	2011	2012	2012
Cash flows from operating activities:			
Net loss	$ (8,140)	$ (6,532)	$ (260,081)
Adjustments to reconcile net loss to net cash used in operating activities:			
Accretion of interest on notes payable, net of amortization of debt premium			100
Amortization of investment premiums, net			(2,297)
Change in valuation of Economic Rights		(90)	(90)
Change in valuation of other liabilities measured at fair value	(203)	(50)	(6,377)
Depreciation and amortization	172	30	12,585
Amortization of intangible assets			886
Fixed asset impairment			221
Unrealized foreign exchange loss	21		7,747
Deferred revenue			(98)
Compensation for warrants issued to non-employees			1,215
Shares issued for IP rights			446
(Gain) loss on disposal of property, plant and equipment		(62)	38
Goodwill and intangibles impairment			7,934
Stock based compensation	455	211	19,234
Provision for restructuring			1,779
Amortization of issuance costs of Preferred Ordinary C shares			2,517
Transaction costs on sale of Economic Rights		33	33
Changes in operating assets and liabilities:			
Prepaid expenses, inventory and other current assets	(279)	(307)	(365)
Accounts payable, accrued liabilities and other current liabilities	(482)	(709)	(6,022)
Net cash used in operating activities	(8,456)	(7,476)	(220,595)
Investing activities:			
Purchase of ALIGN			(3,763)
Purchase of property, plant and equipment		(10)	(8,847)
Proceeds from sale of property, plant and equipment		62	225
Purchase of short-term investments			(156,657)
Redemptions of short-term investments, net of maturities			162,729
Net cash provided by (used in) investing activities		52	(6,313)
Financing activities:			
Payment of capital lease obligations			(3,719)
Proceeds from issuance of ordinary and preferred ordinary shares, net of issuance costs			121,678
Proceeds from issuance of common stock, warrants and economic rights, net of issuance costs	(80)	2,886	94,557
Net proceeds from stock options and warrants exercised	3	34	207
Payment of preferred stock dividend	(364)		(1,898)
Repayment of government loan			(455)
Government loan received			414

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

	Six Months Ended June 30,		Period from August 13, 1996 (inception) to June 30,
	2011	**2012**	**2012**
Loan received from Cyclacel Group Plc.			9,103
Proceeds of committable loan notes issued from shareholders			8,883
Loans received from shareholders			1,645
Cash and cash equivalents assumed on stock purchase			17,915
Costs associated with stock purchase			(1,951)
Net cash (used in) provided by financing activities	(441)	2,920	246,379
Effect of exchange rate changes on cash and cash equivalents	16	19	493
Net increase (decrease) in cash and cash equivalents	(8,881)	(4,485)	19,964
Cash and cash equivalents at beginning of period	29,495	24,449	
Cash and cash equivalents at end of period	$ 20,614	$ 19,964	$ 19,964
Supplemental disclosure of cash flows information:			
Cash received during the period for:			
Interest	11	8	11,754
Taxes			18,207
Cash paid during the period for:			
Interest			(1,914)
Schedule of non-cash transactions:			
Acquisitions of equipment purchased through capital leases			3,470
Issuance of common shares in connection with license agreements			592
Issuance of ordinary shares on conversion of bridging loan			1,638
Issuance of preferred ordinary C shares on conversion of secured convertible loan notes and accrued interest			8,893
Issuance of ordinary shares in lieu of cash bonus			164
Issuance of other long term payable on ALIGN acquisition			1,122

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

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CYCLACEL PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations

Cyclacel Pharmaceuticals, Inc. (Cyclacel or the Company) is a development-stage biopharmaceutical company dedicated to the development ar commercialization of novel, mechanism-targeted drugs to treat human cancers and other serious diseases. Cyclacel s strategy is to build a diversified biopharmaceutical business focused in hematology and oncology based on a development pipeline of novel drug candidates.

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

Sapacitabine is being evaluated in the SEAMLESS Phase 3 trial being conducted under a Special Protocol Assessment (SPA) agreement with the US Food and Drug Administration (FDA) for the front-line treatment of acute myeloid leukemia (AML) in the elderly and in Phase 2 studies for AML, myelodysplastic syndromes (MDS), non-small cell lung cancer (NSCLC) and chronic lymphocytic leukemia. Sapacitabine is also being evaluated in a Phase1/2 study in combination with seliciclib, our second clinical candidate.

The Company has ongoing clinical programs with seliciclib in NSCLC and nasopharyngeal cancer (NPC) and once data becomes available and is reviewed, the Company will determine the feasibility of pursuing further development and/or partnering these assets. In addition, the Company markets directly in the United States Xclair® Cream for radiation dermatitis and Numoisyn® Liquid and Numoisyn® Lozenges for xerostomia. On August 10, 2012, the Company entered into an agreement with Sinclair Pharmaceuticals Limited (Sinclair) to early terminate, effective September 30, 2012, the distribution agreements relating to the promotion and sale of Xclair® Cream, Numoisyn® Liquid, and Numoisyn® Lozenges. The agreement includes a minimum royalty arrangement based on future net revenues, under which Sinclair will pay the Company approximately $1.0 million in quarterly installments over the next three years ending on September 30, 2015.

As a development stage enterprise, substantially all efforts of the Company to date have been devoted to performing research and development, conducting clinical trials, developing and acquiring intellectual property, raising capital and recruiting and training personnel. The Company currently anticipates that its cash and cash equivalents of approximately $20.0 million as of June 30, 2012 are sufficient to meet its anticipated short-term working capital needs and to fund its on-going sapacitabine clinical trials for at least the next twelve months. However, the Company cannot be certain that it will be able to raise sufficient funds to complete the development and commercialize any of its product candidates currently in clinical development, should they succeed.

Basis of Presentation

The condensed consolidated balance sheet as of June 30, 2012, the condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2012 and 2011, the condensed consolidated statement of cash flows for the six months ended June 30, 2012 and 2011 and the condensed consolidated statement of operations, comprehensive loss and cash flows for the period from August 13, 1996 (inception) to June 30, 2012, and all related disclosures contained in the accompanying notes are unaudited. The condensed consolidated balance sheet as of December 31, 2011 is derived from the audited consolidated financial statements included in the 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC). The condensed consolidated financial statements are presented on the basis of accounting principles that are generally accepted in the United States (GAAP) for interim financial information and in accordance with the rules and regulations of the SEC. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for a complete set of financial statements. In the opinion of management, all adjustments, which include normal recurring adjustments necessary to present fairly the condensed consolidated balance sheet as of June 30, 2012, and the results of operations, comprehensive loss for the three and six months ended June 30, 2012 and 2011 and for the period from August 13, 1996 (inception) to June 30, 2012, and the consolidated statements of cash flows for the six months ended June 30, 2012 and 2011 and for the period from August 13, 1996 (inception) to June 30, 2012, have been made. The interim results for the three months ended June 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012 or for any other year. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2011, included in the Company s Annual Report on Form 10-K filed with the SEC.

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Recent Developments

Preferred Stock Dividend

On June 22, 2012, the Company s Board of Directors decided not to declare a quarterly cash dividend on the Company s 6% Convertible Exchangeable Preferred Stock (Preferred Stock) with respect to the second quarter of 2012 that would have otherwise been payable on August 1, 2012.

NASDAQ Appeal

Previously, the Company received a determination letter from NASDAQ, notifying the Company that it had not regained compliance with the minimum closing bid price requirements set forth in Listing Rule 5450(a)(1) (the Rule) during the 180 calendar days allowed to regain compliance and that the Company s common stock was subject to delisting from the NASDAQ Global Market.

On April 26, 2012, the Company presented its plan to regain compliance with the Rule, which plan included the possibility of effectuating a reverse stock split, before a NASDAQ Listing Qualifications Panel (the Panel). On May, 15, 2012, the Panel approved the Company s plan to regain compliance, and determined to continue the Company s listing pursuant to an exception to the Rule for a maximum of 180 calendar days from the date of the NASDAQ Staff s notification, or through September 11, 2012, provided that the Company has evidenced a closing bid price of $1.00 or more for a minimum of ten consecutive trading days prior to such date.

If the Company is unable to provide evidence of compliance with the Rule, the Company may still transfer its listing to the NASDAQ Capital Market if it meets the initial listing criteria set forth in NASDAQ Marketplace Rule 5505, except for the bid price requirement. In that case, it may have until September 11, 2012 to comply with the minimum bid price requirement. The Company currently meets these initial listing criteria, except for the bid price requirement.

Subsequent Developments

Termination and Settlement Agreement

On August 10, 2012, the Company entered into an agreement with Sinclair to early terminate, effective September 30, 2012, the distribution agreements relating to the promotion and sale of Xclair®, Numoisyn® Lozenges and Numoisyn® Liquid. The agreement includes a minimum royalty arrangement based on future net revenues, under which Sinclair will pay the Company a minimum of approximately $1.0 million in quarterly installments over the next three years ending on September 30, 2015.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Trade Accounts Receivable and Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided, as necessary, on trade receivables based on their respective aging categories and historical collection experience, taking into consideration the type of payer, historical and projected collection outcomes, and current economic and business conditions that could affect the collectability of the Company s receivables. The allowance for doubtful accounts is reviewed, at a minimum, on a quarterly basis. Changes in the allowance for doubtful accounts are recorded as an adjustment to bad debt expense within general and administrative expenses. Material revisions to reserve estimates may result from adverse changes in collection experience. The Company writes off accounts against the allowance for doubtful accounts when reasonable collection efforts have been unsuccessful and it is likely the receivable will not be recovered.

Trade accounts receivable are included in prepaid expenses and other current assets on the consolidated balance sheet and were $0.1 million and approximately $45,000 at December 31, 2011 and June 30, 2012, respectively. All trade accounts receivable were deemed collectible as of December 31, 2011 and June 30, 2012.

For the six months ended June 30, 2011 and 2012, approximately 91% and 88%, respectively, and for the three months ended June 30, 2011 and 2012, approximately 92% and 90%, respectively, of the Company s product sales in the United States were to three wholesalers.

Inventory

Cyclacel values inventories at the lower of cost or market. The Company determines cost using the first-in, first-out method. As of December 31, 2011 and June 30, 2012, all inventories were classified as finished goods. The Company analyzes its inventory levels at least quarterly to identify any items that may expire prior to sale, inventory that has a cost basis in excess of net realizable value, or inventory in excess of expected sales requirements. The determination of whether or not inventory costs will be realizable requires estimates by the Company s management. A critical input in this determination is future expected sales forecasts. The Company writes off inventory that is expected to expire before being sold. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required in future periods.

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There were no inventory write-downs during the three and six month periods ended June 30, 2011 and 2012.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, Economic Rights, and other liabilities measured at fair value. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their respective fair values due to the nature of the accounts, notably their short maturities. Economic Rights and other liabilities measured at fair value employ applicable inputs as described in *Note 3, Fair Value Measurements* .

Revenue Recognition

Product sales

The Company recognizes revenue from product sales when persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the selling price is fixed or determinable; and collectability is reasonably assured.

The Company offers a general right of return on product sales, and has considered the guidance in ASC Subtopic 605-15, *Revenue Recognition -Products* (ASC 605-15) and ASC Subtopic 605 10 *Revenue Recognition - Overall* (ASC 605-10). Under these guidelines, the Company accounts for all product sales using the sell-through method. Under the sell-through method, revenue is not recognized upon shipment of product to distributors. Instead, the Company records deferred revenue at gross invoice sales price less 5% of the current wholesale acquisition price (in accordance with the Company s returns policy) and deferred cost of sales at the cost at which those goods were held in inventory. The Company recognizes revenue and cost of sales when such inventory is sold through to pharmacies. To estimate product sold through to pharmacies, the Company relies on third-party information, including information obtained from significant distributors with respect to their inventory levels and sell-through to pharmacies. At the time of revenue recognition, the Company also estimates a provision for returned products based on historical data and future expectations; this provision is charged against revenues.

Deferred revenue was $0.1 million at December 31, 2011 and June 30, 2012. Deferred cost of goods sold was approximately $22,000 and $19,000 at December 31, 2011 and June 30, 2012, respectively.

Collaboration, research and development, and