

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 1997

or

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

Commission File Number 0-15006

T CELL SCIENCES, INC.  
(Exact name of registrant as specified in its charter)

Delaware 13-3191702  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

119 Fourth Avenue, Needham, Massachusetts 02194  
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (781) 433-0771

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:  
common stock, par value \$.001

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of common stock held by non-affiliates as of March 2, 1998 was \$48,115,239 (excludes shares held by directors and executive officers). Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the actions of the management or policies of the Registrant, or that such person is controlled by or under common control with the Registrant. The number of shares of common stock outstanding at March 2, 1998 was: 26,478,864 shares.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 13, 1998, are incorporated by reference into Part III of this Form 10-K.

-1-

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements contained in this report, including Part I, Item 1: Business, that are not historical facts may be forward-looking statements that are subject to a variety of risks and uncertainties. There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statements made by the registrant. These factors include, but are not limited to: (i) the registrant's ability to successfully complete product research and development, including pre-clinical and clinical studies, and commercialization; (ii) the registrant's ability to obtain substantial additional funding; (iii) the registrant's ability to obtain required governmental approvals; (iv) the registrant's ability to attract manufacturing, sales, distribution and marketing partners and other strategic alliances; and (v) the registrant's ability to develop and commercialize its products before its competitors.

PART I

Item 1. BUSINESS

A. General

T Cell Sciences, Inc. (the "Company," "T Cell" or "TCS") is a biopharmaceutical company creating value by using novel applications of immunology to prevent and treat cardiovascular, pulmonary and immune disorders. The Company's technology platforms are based on its understanding of the ways in which the body triggers its natural defense mechanisms. The Company's product development efforts are focused on three therapeutic programs. The most advanced program, which includes clinical trials with T Cell Sciences' lead product TP10, focuses on compounds

that inhibit the inappropriate activation of the complement cascade in a variety of acute and chronic diseases. Second, the Company is engaged in the discovery and development of T cell activation regulators for the prevention of transplant rejection and treatment of autoimmune disorders. The Company's third program focuses on the development of a therapeutic vaccine for the management of atherosclerosis, one of the leading causes of death worldwide.

In 1996, the Company realigned certain of its operations to focus on these three ongoing therapeutic drug discovery programs. The Company sold the operations and research product line of its wholly owned subsidiary, T Cell Diagnostics, Inc. ("TCD") to Endogen, Inc. ("Endogen"), while retaining the TRAX(R) diagnostic product franchise (see Section C: "Diagnostic Business"). T Cell has outsourced distribution and manufacture of TRAX products, which are used primarily for monitoring T cell levels in HIV-infected individuals.

During the past year, T Cell received three grants totaling \$874,000 in support of the development of its cholesterol-lowering cholesteryl ester transfer protein ("CETP") vaccine for the prevention and treatment of atherosclerosis. (See Section B: "Therapeutic Drug Discovery Programs" Item 3. "CETP Vaccine"). In February 1997, the National Institutes of Health ("NIH") awarded the Company a \$100,000 Phase I Small Business Innovation Research ("SBIR") grant for the development of a novel plasmid-based vaccine to prevent or treat atherosclerosis. In September 1997, the Company was awarded a \$678,000 Phase II SBIR grant which provides funding over a two year period for the development of a novel transgenic rat model of atherosclerosis. In January 1998, T Cell received a \$96,000 Phase I grant for the development of a novel peptide vaccine to prevent or treat atherosclerosis. In preclinical studies, rabbits treated with the vaccine showed an improvement in the balance of cholesterol between HDL (high-density lipoprotein, or "good" cholesterol) and LDL (low-density lipoprotein, or "bad" cholesterol). When fed a high fat diet, vaccinated rabbits exhibited reduced atherosclerotic lesions in their blood vessels compared with untreated rabbits.

In June 1997, the Company received a milestone payment from its corporate partner, Astra AB ("Astra"), as one of the products derived from the Company's T cell antigen receptor ("TCAR") program entered clinical trials for the treatment of multiple sclerosis (see Section B: "Therapeutic Drug Discovery Programs" Item 4. "T Cell Antigen Receptor"). The product, ATM027, a humanized monoclonal antibody, represents the Company's second drug candidate to enter human testing. In February 1998, the Company announced progress from the Phase I clinical trial. Astra, which is conducting the development of ATM027, announced that Phase I data has shown an effect on the target cells and there have been no serious adverse effects in the study to date. Astra also announced that it is scheduling Phase II studies to begin later in 1998.

In October 1997, the Company presented positive preliminary results from the efficacy portion of its Phase I/II clinical trial of its lead therapeutic compound, TP10 (see Section B: "Therapeutic Drug Discovery Programs" Item 1. "Complement Inhibition"). The trial was aimed at evaluating the ability of TP10 to reduce reperfusion injury and improve lung function in patients with end-stage pulmonary disease who had undergone lung transplant surgery. The preliminary results showed that fewer patients receiving TP10 required ventilation 24 hours after surgery compared to control patients. Treated patients undergoing cardiopulmonary by-pass as part of the transplantation procedure showed significantly decreased intubation time and time on ventilation and a trend toward reduced time in the intensive care unit. Final trial results, including an analysis of the six-month safety review which concluded in November 1997, are scheduled for presentation in April 1998 at the International Society of Heart and Lung Transplantation conference.

Also in October 1997, T Cell announced that it had entered into an option agreement with Novartis Pharma AG relating to the development of TP10 for use in xenotransplantation (animal organs into humans) and allotransplantation (human to human). The option agreement provides for annual option fees and supplies of TP10 for clinical trials, the combination of which are valued at up to \$5,000,000, in return for granting a two-year option to license TP10 with exclusive worldwide marketing rights (except Japan) in xenotransplantation and allotransplantation. Should Novartis exercise its option to license TP10 and continue development, it will provide an equity investment, licensing fees and milestone payments based upon attainment of certain development and regulatory goals. The combined option agreement and license is valued at up to \$25,000,000. Additionally, T Cell may receive funding for research as well as royalty payments on any eventual product sales.

In October 1997, T Cell announced a collaboration designed to utilize the Company's proprietary T cell screening and functional assay technology platform to identify small molecule immunoregulatory therapeutic compounds (see Section B: "Therapeutic Drug Discovery Programs", Item 2. "Small Molecule Immunoregulators"). The strategic alliance with Repligen, Inc. will provide access to Repligen's proprietary, combinatorial chemical library.

In November 1997, T Cell announced that it had reached a settlement of its outstanding litigation with Forest City, its former landlord at 38 Sidney Street in Cambridge, Massachusetts and PNC Bank, N.A., the landlord's mortgagee. T Cell agreed to pay a total of \$2,358,800 in cash with \$858,800 payable on November 17, 1997 and additional payments of \$750,000 each on November 16, 1998 and November 15, 1999. In addition, T Cell agreed to issue a total of 1,500,000 shares of its common stock to Forest City and to exchange mutual releases. The settlement, valued at \$6,108,800, has been recorded as non-operating expense.

In December 1997, the Company completed its Phase IIa trial evaluating the use of the Company's lead complement inhibitor, TP10, in patients with adult respiratory distress syndrome ("ARDS"). The Phase IIa trial was an open-label, single-dose trial conducted at three clinical sites. The trial enrolled nine patients with ARDS arising from a number of different medical conditions. The trial was designed to determine the effect of TP10 on respiratory performance in patients with ARDS and to study the ability of TP10 to improve the clinical outcome of patients with established ARDS. The trial results showed that patients receiving TP10 tended towards improved respiratory performance and improved blood oxygenation. Because the trial included few patients and no placebo control was used, no definitive claims about efficacy could be made.

During 1997, T Cell's board of directors experienced significant change as James D. Grant, Chairman since 1986, retired along with Directors, John P. Munson and John Simon. The Company announced the election of several new board members during 1997 including Harry H. Penner, Jr., President and CEO of Neurogen Corporation (January 1997), Ronald M. Urvater, Managing Partner, Aurora Capital Corporation (June 1997) and William J. Ryan, Senior Vice President, Arquest, Inc. and former Chairman and CEO of CytoRad, Inc. (August 1997).

In March 1998, the Company completed a financing, raising net proceeds of approximately \$3,708,000 through a private placement of approximately 2,043,000 shares of common stock. The Company has agreed to register these shares for resale under the Securities Act of 1933, as amended.

## B. Therapeutic Drug Discovery Programs

### 1. Complement Inhibition

T Cell's lead therapeutic program is focused on developing compounds that inhibit a part of the immune system called the complement system. The complement system is a series of proteins that are important initiators of the body's acute inflammatory response against disease, infection and injury. Excessive complement activation also plays a role in certain chronic inflammatory conditions. When complement is activated, it helps to identify and eliminate infectious pathogens and damaged tissue. In certain situations, however, excessive complement activation may destroy viable and healthy tissue and tissue which, though damaged, might recover. This excessive response compounds the effects of the initial injury or introduces unwanted tissue destruction in clinical situations such as organ transplants, cardiovascular surgeries and treatment for heart attacks. Many independent, published studies have reported that the Company's lead compound, TP10, a soluble form of naturally occurring Complement Receptor 1 ("sCR1"), effectively inhibits the activation of the complement cascade in animal models. The Company believes that regulation of the complement system could have therapeutic and prophylactic applications in several acute and chronic conditions, including reperfusion injury from surgery or ischemic disease, organ transplant, multiple sclerosis, Alzheimer's disease, rheumatoid arthritis, myasthenia gravis and ARDS. In the United States, several million people are afflicted with these complement-mediated conditions.

T Cell started the complement program in 1988. From 1989 through 1994, TP10 was under development in a joint program with SmithKline Beecham, p.l.c., ("SB") and Yamanouchi Pharmaceutical Co. ("YPC"). During 1994, T Cell and SB negotiated various amendments to the agreement and, in February 1995, the two companies agreed to a mutual termination by which T Cell regained all rights to the program except for co-marketing rights in Japan, which are retained by SB and YPC.

Under T Cell's direction, in 1995 the first Phase I clinical trial of TP10 in 24 patients at risk for ARDS was completed. Results of this trial were presented in October 1995 at The American College of Chest Physicians meeting. A second Phase I safety trial for reperfusion injury was completed in December 1995 in 25 patients with first-time myocardial infarctions. This study was presented at the American Heart Association's Joint Conference on Thrombosis, Arteriosclerosis and Vascular Biology in February 1996. In each trial, TP10 demonstrated excellent safety and pharmacokinetic profiles, had a terminal phase half-life of at least 72 hours and was able to inhibit complement activity in a dose-dependent manner.

Based on these favorable results, in January 1996, TCS initiated a Phase IIa trial in patients with established ARDS. This trial was an open-label, single-dose feasibility trial to determine the potential for efficacy of TP10 in reducing neutrophil accumulation in the lungs and improved clinical outcome of patients with ARDS. During the second half of 1996, the Company initiated a series of steps, including broadening enrollment criteria, to modify this trial to improve the rate of patient accrual. In December 1997, the Company completed this Phase IIa trial after it had enrolled nine patients with ARDS arising from a number of different medical conditions. The trial results showed that patients receiving TP10 tended towards improved respiratory performance and improved blood oxygenation. Because the trial included few patients and no placebo control was used, no definitive claims about efficacy could be made.

The Company also began enrollment in a Phase I/II clinical trial in patients undergoing lung transplantation, in August 1996. A goal of the trial was to determine the ability of TP10 to reduce reperfusion injury and improve lung function in patients with end-stage pulmonary disease who were undergoing lung transplant surgery. This study was a randomized, placebo-controlled, double-blind trial consisting of single dosages of 10 mg/kg of TP10 as an intravenous infusion over 30 minutes. The trial was conducted at multiple centers in North America and included a total of 60 patients. In May 1997, the Company announced the completion of patient accrual and in October 1997, the Company presented positive preliminary results from the efficacy portion of the trial. The preliminary results showed that fewer patients receiving TP10 required ventilation 24 hours after surgery compared to control patients. Treated patients undergoing cardiopulmonary by-pass as part of the transplantation procedure showed significantly decreased intubation time and time on ventilation and a trend toward reduced time in the intensive care unit. Final trial results, including an analysis of the six month safety review which concluded in

December 1997, are scheduled for presentation in April 1998 at the International Society of Heart and Lung Transplantation conference.

In addition to TP10, TCS has identified other product candidates to inhibit activation of the complement system. The lead candidate under research evaluation is a form of sCR1 (TP10) which has been modified to add sLe(x) carbohydrate structures. sLe(x) is a carbohydrate structure which mediates binding of neutrophils to selectin proteins, which appear on the surface of activated endothelial cells as an early inflammatory event. Selectin-mediated binding of neutrophils to activated endothelial cells is a critical event in inflammation. The combined sCR1sLe(x) molecule has demonstrated increased functional benefits in in vitro and early in vivo experiments. During 1996, the Company confirmed the presence of the desired carbohydrate structures and their function in in vivo experiments and confirmed the presence of both anti-complement and selectin-binding functions in in vitro experiments. During 1997, the Company produced additional sCR1sLe(x) material and began preclinical studies in disease-relevant animal models. In November 1997, the Company received a notice of allowance of claims from the U.S. Patent and Trademark Office for a patent covering sCR1sLe(x).

sCR1sLe(x) may create new and expanded opportunities for the Company in complement and selectin-dependent indications such as stroke and myocardial infarction. The Company believes that sCR1sLe(x) has the ability to target the complement-inhibiting activity of sCR1 to the site of inflammation and, at the same time, inhibit the leukocyte/endothelial cell adhesion process.

## 2. Small Molecule Immunoregulators ("SMIR")

As a direct result of over thirteen years of experience working with T cells and building on the Company's evaluation capabilities in molecular and cellular immunology and small-animal immunology models, the Company has developed a proprietary screening platform to identify small molecule compounds which can regulate T cell activation. These whole cell screens are based on signal transduction and gene regulation directed to cytokine gene targets. T cell activation plays an important role in solid organ transplant rejection as well as in certain autoimmune diseases. The Company is seeking to develop an alternative treatment to existing immunosuppressants such as Cyclosporin and FK506 which, due to their toxicity, have limited application. Despite this limitation, worldwide sales of Cyclosporin in 1995 exceeded \$1 billion. TCS' basic approach is to combine the biological skills and proprietary screens it has developed with the small molecule libraries created by other biotechnology companies.

In March 1996, T Cell announced a series of collaboration agreements designed to utilize the Company's proprietary T cell screening and functional assay technology platform to identify small molecule immunoregulatory therapeutic compounds. The Company entered into a strategic alliance with ArQule, Inc., which provides access to ArQule's proprietary non-peptidic small molecule arrays. The Company also signed a collaborative agreement with MYCOsearch, Inc., (which was subsequently acquired by OSI Pharmaceuticals, Inc.) which enables T Cell to screen that company's natural products libraries. In December 1997, the Company completed its initial screening program with OSI Pharmaceuticals, Inc. and agreed to study a series of lead compounds for further development. In October 1997, the Company entered into a strategic alliance with Repligen, Inc., which provides access to Repligen's proprietary, combinatorial chemical library. Under each of these agreements, T Cell and its partners will share rights to compounds identified using T Cell's screens. As of March 1998, the Company has identified a number of immunostimulator and immunosuppressor hits from its screening activities. Further research directed to pinpointing the mechanisms of activity, optimizing potency, and testing in animals is underway.

## 3. CETP Vaccine

The Company is developing a therapeutic vaccine against endogenous cholesteryl ester transfer protein ("CETP") which may be useful in reducing risk factors for atherosclerosis. CETP is a key intermediary in the balance of high-density lipoprotein ("HDL" or "good" cholesterol) and low-density lipoprotein ("LDL" or "bad" cholesterol). T Cell is developing a vaccine to stimulate an immune response against CETP which it believes may improve the ratio of HDL to LDL cholesterol and reduce the progression of atherosclerosis. The Company has conducted preliminary studies of rabbits which had been administered the CETP vaccine and fed a high-cholesterol, high-fat

diet. In these studies, vaccine-treated rabbits exhibited reduced lesions in their blood vessels compared to a control group of untreated rabbits which developed significant blood vessel lesions. These studies have demonstrated, in animal models, the Company's ability to break immune tolerance, produce autoreactive antibodies to CETP and reduce the development of blood vessel lesions.

Atherosclerosis is one of the leading causes of morbidity and mortality in the United States and most of the Western world. Current pharmacologic treatments require daily administration and can result in high costs and poor patient compliance. In 1995, the market for cholesterol-lowering drugs exceeded \$4 billion worldwide. A vaccine directed at lowering CETP activity, such as the one being developed by the Company, may offer several advantages over conventional approaches, including requiring less frequent dosing, lower costs, reduced side effects, and improved patient compliance.

In September 1996, the NIH awarded the Company a \$100,000, Phase I SBIR grant for the development of a novel transgenic rat atherosclerosis model, affording better comparison to human atherosclerosis. In February 1997, the NIH awarded T Cell a second \$100,000 Phase I SBIR grant to develop a novel plasmid-based vaccine to prevent or treat atherosclerosis. In September 1997, the Company was awarded a \$678,000 Phase II SBIR grant from the NIH which provides funding over a two year period for the continued development of the novel transgenic rat model of atherosclerosis. In January 1998, T Cell received a \$96,000 Phase I SBIR grant from the NIH for the development of a novel peptide vaccine to prevent or treat atherosclerosis.

#### 4. T Cell Antigen Receptor (TCAR)

In early 1992, TCS entered into a joint development program with Astra AB ("Astra") to develop products resulting from TCS' proprietary TCAR technology, which utilizes the T cell antigen receptor for selectively targeting the T cells involved in autoimmune diseases such as multiple sclerosis and rheumatoid arthritis. The original agreement was modified in December 1993 with Astra assuming all responsibility for the development of the lead antibody products and TCS retaining leadership of the first peptide product candidate. Under the original and modified agreements, TCS received funding support of approximately \$15 million in the early years with the potential of up to \$17 million of additional funding based on clinical progress. By the end of 1995, T Cell had received substantially all of the original funding payments.

In December 1996, the Company amended its agreement with Astra to transfer certain of its rights to the TCAR technology, including two therapeutic products, ATM027-mono-clonal and ATP012-peptide, to Astra, who will be solely responsible for further clinical development and commercialization. Under the amended agreement, TCS could receive royalties from product sales, as well as milestone payments which may total up to \$4 million as certain clinical milestones are achieved.

In June 1997, the Company announced that it received a milestone payment from Astra as one of the products derived from the Company's TCAR program entered clinical trials for the treatment of multiple sclerosis. In February 1998, Astra announced that Phase I data has shown an effect on the target cells and that there have been no serious adverse effects in the study to date. Astra also announced that it is scheduling Phase II studies to begin later in 1998. This represents the Company's second therapeutic product to enter human testing.

#### C. Diagnostic Business

In March 1996, the Company realigned certain of its operations and sold the operations and research product line of its wholly owned subsidiary, T Cell Diagnostics, Inc. ("TCD") to Endogen, Inc. ("Endogen") for \$3.0 million, while retaining the Company's TRAX(R) diagnostic product franchise. T Cell received a five year convertible subordinated note for \$2.0 million combined with approximately \$1.0 million used to repay obligations under the Company's operating lease. T Cell recognized a gain on this transaction of \$0.3 million. On February 10, 1997, T Cell received approximately \$1.8 million following the conversion of the remaining balance of the Endogen note into shares of Endogen common stock, which were subsequently sold.

T Cell retained all rights to the TRAx product franchise and has agreed to source the manufacture of TRAx kits from Endogen in a separate supply contract. TCD signed a sales and distribution contract for the United States market with Diamedix Corporation in December 1995. Diamedix is a wholly owned subsidiary of Ivax Corporation with a history of selling enzyme immunoassays in the in vitro diagnostics market. The contract covers the TRAx microtiter plate format products. The Company has deferred filing a 510(K) application with the Food and Drug Administration (FDA) for clearance to market TRAx CD8 in the United States while it focuses on establishing a partnership for the TRAx technology.

#### D. Patents and Proprietary Rights

The successful development and marketing of products by the Company will depend in part on its ability to create and maintain intellectual property, including patent rights. The Company has established a proprietary patent position in the areas of complement inhibitor molecules and diagnostic technologies, and is the owner or exclusive licensee of numerous patents and pending applications around the world, including 11 U.S. patents. Although the Company continues to pursue patent protection for its products, no assurance can be given that any pending application will issue as a patent, that any issued patent will have a scope which will be of commercial benefit or that the Company will be able to successfully enforce its patent position against competitors.

In the area of complement molecules, T Cell has an exclusive license to patent rights, which it co-owns with The Johns Hopkins University and Brigham & Women's Hospital, covering CR1 inventions. These rights are based in part on the work of Dr. Douglas Fearon and include U.S. patents which claim the nucleic acid sequences of recombinant CR1, soluble CR1 (sCR1) and active fragments, and pharmaceutical uses of CR1. TCS also owns or has rights to a number of other patent applications relating to CR1, sCR1sLe(x) and other complement inhibitor molecules. In November 1997, the Company received a notice of allowance of claims from the U.S. Patent and Trademark Office for a patent application covering sCR1sLe(x).

In April 1996, the Company announced that it had licensed portions of its patent and technology rights regarding CR1 to CytoTherapeutics, Inc. for use in protecting CytoTherapeutics' proprietary cell-based products for the delivery of therapeutic substances to the central nervous system.

In December 1996, the Company amended its agreement with Astra to transfer certain of its patent rights and licenses to the TCAR technology to Astra. This transfer includes patent applications which have resulted to date in U.S. patents covering the DNA, protein, protein fragments and antibodies relating to the Alpha TCAR and the DNA, full-length proteins and antibodies relating to Beta TCAR, and two European patents covering Beta TCAR inventions. In addition, the Company has transferred recent filings on new T cell antigen receptor inventions resulting from the partnership with Astra.

In the area of diagnostics, T Cell is the owner of several patents relating to TRAx CD4 and CD8 and other applications of the TRAx product technologies. The first U.S. patent covering the TRAx CD4 and CD8 products issued on June 11, 1996. In February 1998, the Company received a notice of allowance of claims for the U.S. Patent and Trademark Office for a patent application covering the TRAx(R) Test Kit.

The Company is aware that others, including universities and companies, have filed patent applications and have been granted patents in the United States and other countries which claim subject matter potentially useful or necessary to the commercialization of the Company's products. The ultimate scope and validity of existing or future patents which have or may be granted to third parties, and the availability and cost of acquiring rights to those patents which are necessary to the manufacture, use or sale of the Company's products presently cannot be determined by the Company.

Trade secrets and confidential know-how are important to the Company's scientific and commercial successes. Although the Company takes measures to protect its proprietary information, there can be no assurance that others will not either develop independently or obtain access to this information.

#### E. Competition

The Company is engaged in a rapidly expanding area of biotechnology in which research is being conducted worldwide by universities, public and private institutions, and biotechnology and pharmaceutical companies. A number of these entities are developing product candidates which may become competitors of the Company's products in development. Several such companies are involved in product development efforts aimed at treatments for autoimmune diseases and inflammatory conditions and some are specifically developing products based on T cell receptors and the human complement system. There can be no assurance that the Company's products will be commercialized or that other companies, universities and public and private foundations, among others, many of which have greater financial resources than the Company, will not be able to develop competing proprietary positions or products.

The Company's competitive position also depends upon its ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary technology and products, and secure sufficient capital resources to fund product ideas to commercialization. There can be no assurance that the Company will be successful in its efforts in these areas.

#### F. Government Regulation

The product testing, manufacture, safety and efficacy requirements, labeling, storage, record keeping, approval, advertising, promotion and sale of the Company's present and future products are closely regulated by federal and other governmental authorities. The FDA and comparable government agencies in foreign countries have established mandatory procedures and safety and efficacy standards which must be met before the appropriate authority approves the clinical testing, manufacturing and marketing of a human health care product.

The steps required before a pharmaceutical product may be marketed in the United States include (i) in vitro and in vivo preclinical testing, (ii) submission to the FDA of an Investigational New Drug application (IND) and clearance to begin human clinical trials, (iii) adequate human clinical trials to establish the safety and efficacy of the drug, (iv) the submission of a New Drug Application ("NDA") or Product License Application ("PLA") to the FDA, and (v) FDA approval of the NDA or PLA prior to commercial sale or shipment of the product. In addition to obtaining FDA approval for each product, each drug manufacturing establishment must be registered with and approved by the FDA.

The steps required before an in vitro diagnostic product may be marketed in the United States include (i) clinical trials which demonstrate that the product's results are substantially equivalent to results obtained from a product currently on the market, or if no product is currently marketed for the intended use, then clinical trials which correlate assay results with the intended clinical use, (ii) the submission of a 510(k) or Premarket Approval ("PMA") application to the FDA, and (iii) FDA clearance to market the product. Under a 510(k) or PMA, the facility in which products are produced must comply with the FDA's Good Manufacturing Practices regulations.

The Company's present and future business activities are and will be subject to regulation under additional federal, state and local laws and regulations, including regulations by the U.S. Environmental Protection Agency and the U.S. Occupational Safety and Health Administration. The Company also will be subject to widely varying foreign regulations governing clinical trials and pharmaceutical sales. Whether or not FDA approval has been obtained, approval of a product by the comparable regulatory authorities of foreign countries must be obtained prior to the commencement of marketing of the product in those countries. The approval process varies from country to country and the time period may be longer or shorter than that required for FDA approval. The Company intends to rely on foreign licensees to obtain regulatory approvals to market products in foreign countries.



Regulatory approval often takes a number of years and involves the expenditure of substantial resources. Approval times also depend on a number of factors, including the severity of the disease in question, the availability of alternative treatments and the risks and benefits demonstrated in clinical trials.

G. Employees; Scientific Consultants

As of March 2, 1998, the Company employed 36 full time persons, 13 of whom have doctoral degrees. Of these employees, 26 were engaged in or directly supported research and development.

T Cell has also retained a number of scientific consultants and advisors in various fields and has entered into consulting agreements with each of them. These consultants include the following members of the Scientific Advisory Board: Dr. Mark Davis, Stanford University; Dr. Tak Mak, Ontario Cancer Institute; Dr. Peter Ward, University of Michigan School of Medicine; Dr. Hans Wigzell, Karolinska Institute; Dr. Peter Henson, National Jewish Center for Immunology and Respiratory Medicine; and Dr. Peter Libby, Brigham and Women's Hospital.

Item 2. PROPERTIES

The Company leases approximately 54,000 square feet of laboratory and office space in Needham, Massachusetts, of which it subleases approximately 13,000 square feet of excess laboratory and office space to a tenant. The lease has an initial term of six years which expires in April 2002. Under the lease agreement, the Company is obligated to pay a base annual rent of \$676,400 until June 1997 and \$756,400 until the end of the initial term. The sublease has an initial term of four years which expires in April 2000. Under the sublease agreement, the Company will receive base annual subrental income of \$110,500 until June 1997 and \$133,600 until the end of the initial term. Aggregate net base rental payments for the years end December 31, 1997 and 1996 for this facility were \$594,400 and \$598,500, respectively.

Item 3. LEGAL PROCEEDINGS

In December 1994, the Company filed a lawsuit in the Superior Court of Massachusetts against the landlord of its former Cambridge, Massachusetts headquarters to recover the damages incurred by the Company resulting from the evacuation of the building due to air quality problems, which caused skin and respiratory irritation to a significant number of employees. The landlord defendant filed counterclaims, alleging the Company breached its lease obligations. The court ordered a limited trial between the Company and the landlord on certain factual issues which began on November 20, 1996. Closing arguments for the limited trial were heard on January 13, 1997. In a separate lawsuit, the landlord's mortgagee filed claims against the Company for payment of the same rent alleged to be owed. A motion for summary judgment filed by the bank was denied by the court. In August 1997, the Superior Court of Massachusetts entered findings of fact and conclusions of law on the limited trial of the Company's lawsuit against the landlord. In its findings, the Court concluded that the Company had not proved, as alleged by the Company, that any fireproofing fibers contaminated the Company's space, the Company's space was not uninhabitable because of contamination from fireproofing fibers and the Company was not justified in terminating its lease on the grounds that its office and laboratories were uninhabitable. In November 1997, the Company reached a settlement of the litigation with its former landlord and the landlord's mortgagee. The Company agreed to pay \$858,800 in cash on November 17, 1997 and issue a total of 1,500,000 shares of its common stock. In addition, the Company signed a note for \$750,000 payable on November 16, 1998 secured by \$750,000 cash collateral and a note for \$750,000 due November 15, 1999 secured by 132,500 shares of its common stock. The total settlement, valued at \$6,108,800, is comprised of the cash and notes totaling \$2,358,800 and common stock valued at \$3,750,000 as of October 31, 1997 and is included in non-operating expense for the year ended December 31, 1997. The common stock to be issued is subject to restrictions on transfer per the settlement agreement. The settlement agreement also provides for certain registration rights for the shares of common stock to become effective no later than September 30, 1998. Upon such registration, however, the settlement agreement limits the number of shares that may be sold over a given period of time.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

None.

## PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded in the over-the-counter market and is quoted in the Nasdaq National Market under the symbol TCEL. The following table sets forth for the periods indicated the high and low closing sales prices for the Company's common stock as reported by Nasdaq.

| Fiscal Period                | High   | Low    |
|------------------------------|--------|--------|
| Year Ended December 31, 1996 |        |        |
| 1Q (Jan. 1 - March 31, 1996) | \$3.38 | \$2.50 |
| 2Q (April 1 - June 30, 1996) | 4.38   | 2.63   |
| 3Q (July 1 - Sep. 30, 1996)  | 3.75   | 1.94   |
| 4Q (Oct. 1 - Dec. 31, 1996)  | 2.38   | 1.59   |
| Year Ended December 31, 1997 |        |        |
| 1Q (Jan. 1 - March 31, 1997) | \$2.38 | \$1.47 |
| 2Q (April 1 - June 30, 1997) | 2.09   | 1.28   |
| 3Q (July 1 - Sep. 30, 1997)  | 2.34   | 1.38   |
| 4Q (Oct. 1 - Dec. 31, 1997)  | 3.16   | 1.75   |

As of March 2, 1998, there were approximately 665 shareholders of record of the Company's common stock. The price of the common stock was \$1.91 as of the close of the market on March 2, 1998. The Company has not paid any dividends on its common stock since its inception and does not intend to pay any dividends in the foreseeable future. Declaration of dividends will depend, among other things, upon the operating and future earnings of the Company, the capital requirements of the Company and general business conditions.

Item 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below for the years ended December 31, 1997, 1996, 1995, 1994 and 1993 have been derived from the audited consolidated financial statements of the Company. All amounts are in thousands except per share data.

CONSOLIDATED STATEMENTS  
OF OPERATIONS DATA

Year Ended December 31,

|  | 1997       | 1996       | 1995      | 1994       | 1993      |
|--|------------|------------|-----------|------------|-----------|
| <b>OPERATING REVENUE:</b>                                      |            |            |           |            |           |
| Product Sales, Product Development and Distribution Agreements | \$ 1,192   | \$ 1,115   | \$ 3,963  | \$ 6,968   | \$ 9,018  |
| <b>OPERATING EXPENSE:</b>                                      |            |            |           |            |           |
| Research and Development                                       | 5,257      | 6,036      | 8,005     | 8,697      | 9,438     |
| Other Operating Expense  | 3,494      | 6,832      | 7,821     | 9,365      | 8,841     |
| Total Operating Expense  | 8,751      | 12,868     | 15,826    | 18,062     | 18,279    |
| Non-Operating Income (Expense), Net                            | (5,549)    | 963        | 3,605     | (490)      | 1,193     |
| Net Loss Before Minority Interest                              | (13,108)   | (10,790)   | (8,258)   | (11,584)   | (8,068)   |
| Minority Interest Share of Loss                                | --         | --         | --        | --         | 310       |
| Net Loss   | \$(13,108) | \$(10,790) | \$(8,258) | \$(11,584) | \$(7,758) |
| Basic and Diluted Net Loss Per Common Share                    | \$ (0.52)  | \$ (0.50)  | \$ (0.47) | \$ (0.68)  | \$ (0.56) |
| Weighted Average Common Shares Outstanding                     | 25,140     | 21,693     | 17,482    | 17,053     | 13,931    |

CONSOLIDATED BALANCE  
SHEET DATA

December 31,

|                             | 1997     | 1996      | 1995      | 1994      | 1993      |
|-----------------------------|----------|-----------|-----------|-----------|-----------|
| Working Capital             | \$ 4,629 | \$ 11,673 | \$ 11,208 | \$ 15,027 | \$ 26,088 |
| Total Assets                | 9,827    | 17,224    | 18,532    | 20,685    | 33,067    |
| Other Long Term Obligations | 750      | --        | 182       | 500       | 500       |
| Accumulated Deficit         | (70,237) | (57,129)  | (46,339)  | (38,081)  | (26,497)  |
| Total Stockholders' Equity  | 6,316    | 15,619    | 16,000    | 17,586    | 29,134    |

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In January 1997, the Securities and Exchange Commission issued Financial Reporting Release No. 48, which expands the disclosure requirements for certain derivatives and other financial instruments. The Company does not utilize derivative financial instruments. See Notes 1 and 2 to the Consolidated Financials Statements for a description of the Company's use of other financial instruments.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements contained in the following, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, that are not historical facts may be forward-looking statements that are subject to a variety of risks and uncertainties. There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statements made by the Company. These factors include, but are not limited to: (i) the Company's ability to successfully complete product research and development, including pre-clinical and clinical studies, and commercialization; (ii) the Company's ability to obtain substantial additional funding; (iii) the Company's ability to obtain required governmental approvals; (iv) the Company's ability to attract manufacturing, sales, distribution and marketing partners and other strategic alliances; and (v) the Company's ability to develop and commercialize its products before its competitors.

#### Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

T Cell Sciences' principal activity since its inception has been research and product development conducted on its own behalf, as well as through joint development programs with several pharmaceutical companies. The Company was incorporated in the State of Delaware in December 1983.

A significant portion of the Company's revenue has consisted of payments by others to fund sponsored research, milestone payments under joint development agreements, payments for material produced for preclinical studies, and sales of test kits and antibodies. Certain portions of the collaborative payments are received in advance, recorded as deferred revenue and recognized when earned in later periods.

Inflation and changing prices have not had a significant effect on continuing operations and are not expected to have any in the near future.

#### OVERVIEW

The Company's technology platforms are based on its understanding of the ways in which the body triggers its natural defense mechanisms. Product development efforts focus on three therapeutic programs: developing compounds that inhibit inappropriate complement activation, which is part of the body's immune defense system; discovery and development of T cell activation regulators for the prevention of transplant rejection and treatment of autoimmune diseases; and development of a therapeutic vaccine for the management of atherosclerosis.

The Company's most advanced program is focused on complement inhibition and includes clinical trials with its lead therapeutic compound, TP10. In October 1997, the Company released preliminary positive results demonstrating clinical efficacy from its Phase I/II clinical trial for TP10 in patients undergoing lung transplantation. Final trial results, including an analysis of the six-month safety review which concluded in November 1997, are scheduled for presentation in April 1998. In December 1997, the Company completed its Phase IIa clinical trial for TP10 in patients with adult respiratory distress syndrome ("ARDS"). While trial results showed that patients receiving TP10 tended towards improvement in respiratory performance and blood oxygenation, no definitive claims of efficacy could be made due to the size and structure of the clinical trial.

In addition to advancement of its lead program in the clinic, the Company entered into an agreement with Novartis Pharma AG, Basel, Switzerland ("Novartis") in October 1997, relating to the development of TP10 for use in xenotransplantation (animal organs into humans) and allotransplantation (human to human). In exchange for granting Novartis a two-year option to license TP10 with exclusive worldwide marketing rights (except Japan) in the fields of xenotransplantation and allotransplantation, the Company will receive annual option fees and supplies of TP10 for clinical trials. If Novartis exercises its option to license TP10, it will provide licensing fees, an equity investment and milestone payments. The Company may also receive funding for research as well as royalty payments on eventual product sales.

During 1997, the Company was awarded two Small Business Innovation Research ("SBIR") grants from the National Institutes of Health ("NIH") which will contribute to the Company's program to develop a vaccine for the management of atherosclerosis. A Phase I SBIR grant for \$100,000 was received in February 1997 for the development of a novel DNA vaccine for the prevention and treatment of atherosclerosis and a Phase II SBIR grant for \$678,000 over two years was awarded in September 1997 for the development of a novel transgenic rat model of atherosclerosis. The Company was awarded its fourth SBIR grant from the NIH in February 1998. Funding from the grant will contribute to the Company's program for the development of a vaccine for the management of atherosclerosis.

In November 1997, the Company reached a settlement of the outstanding litigation with its former landlord and the landlord's mortgagee. Under the settlement agreement, the Company made a cash payment of \$858,800 in November 1997 and issued 1,500,000 shares of its common stock valued at \$3,750,000 as of October 31, 1997. In addition, the Company signed two notes for \$750,000 each due on November 16, 1998 and November 15, 1999, respectively. The total settlement was valued at \$6,108,800 and is included as non-operating expense for the year ended December 31, 1997.

#### RESULTS OF OPERATIONS

The Company reported a net loss of \$13,108,000 or \$0.52 per share for the year ended December 31, 1997, compared with a net loss of \$10,790,100 or \$0.50 per share for the year ended December 31, 1996 and a net loss of \$8,257,900 or \$0.47 per share for the year ended December 31, 1995. The net loss for the year ended December 31, 1997 includes a charge to earnings of \$6,108,800 for the settlement of the Company's litigation with its former landlord and the landlord's mortgagee. The net operating loss of \$7,558,700 for the year ended December 31, 1997 includes total operating revenue of \$1,192,100 offset by total operating expense of \$8,750,800. The net operating loss of \$11,753,300 for the year ended December 31, 1996 includes total operating revenue of \$1,114,500 offset by total operating expense of \$12,867,800. The net operating loss for the year ended December 31, 1995 of \$11,862,500 includes total operating revenue of \$3,963,100 offset by total operating expense of \$15,825,600. Total operating expense for 1996 includes a charge to earnings of \$1,751,600 for the write-off of certain capitalized patent costs relating to the Company's T cell antigen receptor program ("TCAR") and a \$425,300 charge resulting from a severance agreement with the Company's former President and Chief Executive Officer. Excluding these charges from 1996, the net operating loss for 1997 decreased \$2,017,700 or 21.1% compared to 1996 and the net operating loss for 1996 decreased \$2,286,100 or 19.3% compared to 1995.

In 1997, revenue from collaborative product development and distribution agreements of \$1,147,600 increased 94.1% from \$591,200 in 1996 and decreased 28.7% from \$1,608,700 in 1995. Revenue from collaborative product development included milestone payments of \$650,000 from the Company's collaborative partner Astra AB ("Astra") for the year ended December 31, 1997 compared to \$453,300 of TCAR project funding from Astra for the same period last year. In December 1996, the Company's collaborative agreement with Astra was amended, transferring certain of the Company's rights to the TCAR technology to Astra who assumed sole responsibility for further clinical development and commercialization. In May 1997, the Company completed the transfer of certain of its rights to the TCAR technology to Astra and in June 1997, Astra received approval to initiate clinical trials for one of the products derived from the TCAR technology platform for the treatment of multiple sclerosis. In 1997, the Company was awarded two SBIR grants from the NIH and one SBIR grant was received in 1996. Revenue recognized from these grants was \$247,600 in 1997 compared to \$37,900 in 1996. The Company also recognized \$250,000 in product development revenue from a non-refundable option fee associated with an agreement granting Novartis the right to license the Company's lead therapeutic compound, TP10, with exclusive worldwide marketing rights (except Japan) in the fields of xenotransplantation and allotransplantation. Included in product development revenue in 1996 is a \$100,000 non-refundable execution fee associated with an agreement granting CytoTherapeutics, Inc. a worldwide, nonexclusive license to the Company's technology and patent rights relating to Compliment Receptor 1 in return for a series of milestone payments and royalties. In 1997 and 1996, the Company did not have any distribution agreement revenue compared to \$175,000 in 1995, which represents a signing fee related to the distribution and marketing agreement for TRAX products with Diamedix Corporation.

Product sales revenue decreased 91.5% to \$44,500 for the year ended December 31, 1997 from \$523,300 for the year ended December 31, 1996. Sales in 1997 included TRAx product sales only compared to 1996 which included two months of research product sales prior to the sale of the research products and operations of the Company's wholly owned subsidiary, T Cell Diagnostics, Inc. ("TCD"), in March 1996, in addition to a full year of TRAx product sales. Product sales for 1996 decreased 77.8% from \$2,354,400 in 1995 primarily due to the sale of the research products and operations of TCD, which resulted in research product sales for the first two months of the 1996 only compared to twelve months in 1995.

Cost of product sales amounted to \$21,000, or 47.2% of product sales, \$358,700, or 68.5% of product sales and \$1,879,400, or 79.8% of product sales for 1997, 1996 and 1995, respectively. The fluctuation in gross margin is the result of several factors including: contract manufacturing costs for TRAx kits in 1997 compared to costs associated with manufacturing the Company's former research product lines in 1996 and 1995, and costs associated with replacing the manufacturing facility in 1995.

Research and development expense decreased 12.9% to \$5,256,900 in 1997 compared to \$6,036,500 in 1996. The decrease is primarily due to a decrease in staff costs combined with a reduction in costs associated with a Phase I/II clinical trial of the Company's complement inhibitor, TP10, in patients undergoing lung transplantation and a Phase IIa clinical trial of TP10 in ARDS patients. Included in research and development expense for 1996 was two months of TCD costs prior to the sale of the research products and operations of TCD in March 1996. Research and development expense decreased 24.6% to \$6,036,500 in 1996 compared to \$8,004,600 in 1995 primarily due to the sale of the research products and operations of TCD in March 1996, combined with the full-year impact of a restructuring program implemented in the third quarter of 1995, and was partially offset by costs associated with the Phase I/II and Phase IIa clinical trials initiated in 1996.

General and administrative expense for the year ended December 31, 1997 was \$3,375,500, which represents a decrease of 43.3% compared to 1996. In 1996, general and administrative expense included a \$425,300 charge resulting from the severance agreement with the Company's former President and Chief Executive Officer and a \$1,751,600 write-off of certain capitalized patent costs relating to the Company's TCAR technology. Excluding these charges from 1996, general and administrative costs decreased 10.7% or \$404,200 in 1997 compared to 1996. The decrease is primarily due to lower legal fees in 1997 compared to 1996 which resulted from the settlement of the litigation and reduced license fees caused by the transfer of certain of its rights and responsibilities to Astra of the Company's TCAR technology. General and administrative expense for the year ended December 31, 1996, excluding the charge resulting from the severance agreement with the Company's former President and Chief Executive Officer and the write-off of certain capitalized patent costs relating to the Company's TCAR technology, decreased 13.0% or \$564,000 compared to \$4,343,700 in 1995. The decrease was primarily due to the sale of the research products and operations of TCD in March 1996.

Marketing and sales costs decreased 81.1% in 1997 to \$97,400 compared to 1996 and decreased 67.7% in 1996 to \$516,000 compared to 1995. The decreases are primarily due to the sale of the research products and operations of TCD to Endogen in March 1996. Marketing and sales costs in 1997 and 1996 included costs related to the TRAx product franchise which the Company continues to market in conjunction with its distribution partner, Diamedix Corporation.

Non-operating expense of \$5,549,300 in 1997 includes interest income of \$577,300 and a charge to earnings of \$6,108,800 from the settlement of the Company's litigation with its former landlord and the landlord's mortgagee. Interest income decreased \$102,900 or 15.1% compared to interest income of \$680,200 in 1996 primarily due to lower cash balances coupled with lower interest rates. In 1996, non-operating expense included a \$283,000 gain recognized from the sale of the research products and operations of TCD to Endogen in March 1996 and interest income of \$680,200. Other non-operating income of \$3,604,600 in 1995, included \$2,900,000 received from the settlement of a lawsuit the Company brought against its insurance carrier and interest income of \$604,600.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents at December 31, 1997 is \$6,436,300 compared to \$12,591,800 at December 31, 1996. Cash used in operations was \$7,695,400 in 1997, compared with \$9,675,800 and \$7,947,600 in 1996 and 1995, respectively.

In November 1997, the Company reached a settlement of the litigation with its former landlord and the landlord's mortgagee. As part of the settlement, the Company agreed to pay \$858,800 in cash on November 17, 1997 and issue a total of 1,500,000 shares of its common stock. In addition, the Company signed a note for \$750,000, due on November 16, 1998 secured by \$750,000 cash and a note for \$750,000 due November 15, 1999 secured by 132,500 shares of common stock. The total settlement, valued at \$6,108,800, is comprised of the cash and notes totaling \$2,358,800 and common stock valued at \$3,750,000 as of October 31, 1997. The common stock is subject to restrictions on transfer in accordance with the settlement agreement. The settlement agreement also provides for certain registration rights for the shares of common stock to become effective no later than September 30, 1998. Upon such registration, however, the settlement agreement limits the number of shares that may be sold over a given period of time.

In March 1996, the Company received from Endogen a convertible subordinated note in the principal amount of \$2,003,000 in connection with the sale of the research products and operations of TCD to Endogen. Pursuant to the terms of the note, on February 10, 1997 the Company converted the \$1,802,700 outstanding principal balance of the note into shares of common stock of Endogen which the Company subsequently sold. The realized gain on the stock sale was not significant.

During 1994, the Company entered into an agreement providing the Company with the right to lease up to \$2,000,000 of equipment for up to a five-year term. The lease arrangement contains certain restrictive covenants, determined at the end of each fiscal quarter which, for the quarter ended September 30, 1995 included a minimum cash, cash equivalents and short-term investments balance of \$10,000,000. At September 30, 1995 the Company's cash, cash equivalents and short-term investment balance was below \$10,000,000. As a result, in accordance with the lease agreement, the Company pledged as collateral cash equal to the amount outstanding on the lease which is to remain in a certificate of deposit until the end of the lease, or as otherwise agreed by the lessor and the Company. At December 31, 1997, the Company had \$525,000 pledged as collateral recorded as long-term restricted cash. In March 1996, the Company repaid approximately \$980,000 of the outstanding obligation under the lease in conjunction with the sale of the research products and operations of its subsidiary.

In March 1998, the Company completed a private placement of approximately 2,043,000 shares of common stock to institutional investors at a price of \$1.90 per share. Net proceeds from the common stock issuance totaled approximately \$3,708,000. The Company believes that the private placement proceeds, together with cash inflows from existing SBIR grants and collaborations, interest income on invested funds and its current cash and cash equivalents, net of restricted amounts, will be sufficient to meet estimated working capital requirements and fund operations beyond December 31, 1998 and into the first half of 1999. The working capital requirements of the Company are dependent on several factors including, but not limited to, the costs associated with research and development programs, preclinical and clinical studies and the scope of collaborative arrangements. During 1998, the Company expects to take steps to raise additional capital including, but not limited to, licensing of technology programs with existing or new collaborative partners, possible business combinations, or issuance of common stock via private placement and public offering.

During 1997, the Financial Accounting Standards Board issued Statement of Accounting Standards Nos. 128, "Earnings Per Share" ("SFAS 128"), 129, "Disclosures about Information of Capital Structure" ("SFAS 129"), 130, "Reporting Comprehensive Income" ("SFAS 130"), and 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 128 and SFAS 129 were effective for the year ended December 31, 1997 and were appropriately adopted by the Company with no significant impact on the financial condition or results of operations of the Company. SFAS 130 and SFAS 131 are effective for the year ending December 31,



1998 and are not expected to have a significant impact on the Company's financial condition or results of operations.

In January 1997, the Securities and Exchange Commission issued Financial Reporting Release No. 48, which expands the disclosure requirements for certain derivatives and other financial instruments. The Company does not utilize derivative financial instruments. See Notes 1 and 2 to the Consolidated Financials Statements for a description of the Company's use of other financial instruments.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

|  | Page |
|--|------|
| Index to Consolidated Financial Statements and Supplementary Schedules   | 18   |
| Report of Independent Accountants  | 19   |
| Consolidated Balance Sheet at December 31, 1997 and<br>December 31, 1996   | 20   |
| Consolidated Statement of Operations for the Years Ended December 31,<br>1997, December 31, 1996 and December 31, 1995           | 21   |
| Consolidated Statement of Stockholders' Equity for the Years Ended<br>December 31, 1997, December 31, 1996 and December 31, 1995 | 22   |
| Consolidated Statement of Cash Flows for the Years Ended<br>December 31, 1997, December 31, 1996, and December 31, 1995          | 23   |
| Notes to Consolidated Financial Statements   | 24   |

Report of Independent Accountants

To The Board of Directors and Shareholders of  
T Cell Sciences, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of T Cell Sciences, Inc., and its subsidiary at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years ended December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP  
Boston, Massachusetts  
March 25, 1998

CONSOLIDATED BALANCE SHEET

|  | December 31,<br>1997 | December 31,<br>1996 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| <b>Current Assets:</b>   |                      |                      |
| Cash and Cash Equivalents  | \$ 6,436,300         | \$ 12,591,800        |
| Current Portion Restricted Cash  | 750,000              | --                   |
| Accounts Receivable, Net of the Allowance for Doubtful<br>Accounts of \$6,000 at December 31, 1997                                     | 22,900               | 19,500               |
| Current Portion Convertible Note Receivable  | --                   | 400,600              |
| Inventories  | 15,000               | 24,000               |
| Prepaid and Other Current Assets   | 165,400              | 241,500              |
| <b>Total Current Assets</b>  | <b>7,389,600</b>     | <b>13,277,400</b>    |
| Property and Equipment, Net  | 364,500              | 511,600              |
| Restricted Cash  | 525,000              | 685,000              |
| Convertible Note Receivable  | --                   | 1,402,100            |
| Other Assets   | 1,547,500            | 1,347,600            |
| <b>Total Assets</b>  | <b>\$ 9,826,600</b>  | <b>\$ 17,223,700</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                      |                      |
| <b>Current Liabilities:</b>  |                      |                      |
| Accounts Payable   | \$ 201,200           | \$ 326,000           |
| Accrued Expenses   | 1,059,900            | 1,278,500            |
| Deferred Revenue   | 750,000              | --                   |
| Short-Term Note Payable  | 750,000              | --                   |
| <b>Total Current Liabilities</b>   | <b>2,761,100</b>     | <b>1,604,500</b>     |
| Long-Term Note Payable   | 750,000              | --                   |
| <b>Commitments and Contingent Liabilities (Notes 3 and 13)</b>   |                      |                      |
| <b>Stockholders' Equity:</b>   |                      |                      |
| Common Stock, \$.001 Par Value; 50,000,000 Shares Authorized;<br>26,487,400 Issued and 26,477,700 Outstanding at<br>December 31, 1997; |                      |                      |
| 24,965,400 Issued and 24,946,600 Outstanding at<br>December 31, 1996   | 26,500               | 25,000               |
| Additional Paid-In Capital   | 76,561,400           | 72,791,800           |
| Less: 9,700 and 18,800 Common Treasury Shares at Cost at<br>December 31, 1997 and 1996, respectively                                   | (35,800)             | (69,000)             |
| Accumulated Deficit  | (70,236,600)         | (57,128,600)         |
| <b>Total Stockholders' Equity</b>  | <b>6,315,500</b>     | <b>15,619,200</b>    |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b>\$ 9,826,600</b>  | <b>\$ 17,223,700</b> |

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

CONSOLIDATED STATEMENT OF OPERATIONS

|  | Year Ended<br>December 31,<br>1997 | Year Ended<br>December 31,<br>1996 | Year Ended<br>December 31,<br>1995 |
|--|------------------------------------|------------------------------------|------------------------------------|
| -----  |                                    |                                    |                                    |
| OPERATING REVENUE:                                 |                                    |                                    |                                    |
| Product Development and<br>Distribution Agreements | \$ 1,147,600                       | \$ 591,200                         | \$ 1,608,700                       |
| Product Sales                                      | 44,500                             | 523,300                            | 2,354,400                          |
| -----  |                                    |                                    |                                    |
| Total Operating Revenue                            | 1,192,100                          | 1,114,500                          | 3,963,100                          |
| -----  |                                    |                                    |                                    |
| OPERATING EXPENSE:                                 |                                    |                                    |                                    |
| Cost of Product Sales                              | 21,000                             | 358,700                            | 1,879,400                          |
| Research and Development                           | 5,256,900                          | 6,036,500                          | 8,004,600                          |
| General and Administrative                         | 3,375,500                          | 5,956,600                          | 4,343,700                          |
| Marketing and Sales                                | 97,400                             | 516,000                            | 1,597,900                          |
| -----  |                                    |                                    |                                    |
| Total Operating Expense                            | 8,750,800                          | 12,867,800                         | 15,825,600                         |
| -----  |                                    |                                    |                                    |
| Operating Loss                                     | (7,558,700)                        | (11,753,300)                       | (11,862,500)                       |
| Non-Operating Income (Expense), Net                | (5,549,300)                        | 963,200                            | 3,604,600                          |
| -----  |                                    |                                    |                                    |
| Net Loss   | \$(13,108,000)                     | \$(10,790,100)                     | \$ (8,257,900)                     |
| =====  |                                    |                                    |                                    |
| Basic and Diluted Net Loss Per Common Share        | \$ (0.52)                          | \$ (0.50)                          | \$ (0.47)                          |
| =====  |                                    |                                    |                                    |
| Weighted Average Common<br>Shares Outstanding      | 25,139,900                         | 21,693,400                         | 17,482,100                         |
| =====  |                                    |                                    |                                    |

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

|   | Common<br>Shares | Stock<br>Par Value | Additional<br>Paid-In<br>Capital | Treasury<br>Stock<br>Cost | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|---|------------------|--------------------|----------------------------------|---------------------------|------------------------|----------------------------------|
| Balance at<br>December 31, 1994   | 17,054,200       | \$17,100           | \$55,726,100                     | \$(76,900)                | \$(38,080,600)         | \$ 17,585,700                    |
| Issuance at \$.60 to \$4.25<br>per Share upon Exercise<br>of Stock Options                | 88,700           | 100                | 244,600                          | --                        | --                     | 244,700                          |
| Employee Stock Purchase<br>Plan Issuance at \$2.13<br>and \$2.71 per Share                | --               | --                 | (23,200)                         | 47,900                    | --                     | 24,700                           |
| Private Placement Proceeds<br>Issuance at \$1.65 upon<br>Exercise of Stock Warrants       | 2,550,000        | 2,500              | 6,102,400                        | --                        | --                     | 6,104,900                        |
| Purchase of 16,466 Shares of<br>Treasury Stock at Cost                                    | --               | --                 | --                               | (51,500)                  | --                     | (51,500)                         |
| Net Loss for the Year<br>Ended December 31, 1995  | --               | --                 | --                               | --                        | (8,257,900)            | (8,257,900)                      |
| Balance at<br>December 31, 1995   | 19,904,700       | \$19,900           | \$62,399,200                     | \$(80,500)                | \$(46,338,500)         | \$ 16,000,100                    |
| Issuance at \$.60 to \$3.56<br>per Share upon Exercise<br>of Stock Options                | 60,700           | 100                | 161,600                          | --                        | --                     | 161,700                          |
| Employee Stock Purchase<br>Plan Issuance at \$2.71<br>per Share                           | --               | --                 | (3,000)                          | 11,500                    | --                     | 8,500                            |
| Net Proceeds from Stock Issuance<br>Compensation Expense Associated<br>with Stock Options | 5,000,000        | 5,000              | 10,063,700                       | --                        | --                     | 10,068,700                       |
| Net Loss for the Year<br>Ended December 31, 1996  | --               | --                 | 170,300                          | --                        | --                     | 170,300                          |
|   | --               | --                 | --                               | --                        | (10,790,100)           | (10,790,100)                     |
| Balance at<br>December 31, 1996   | 24,965,400       | \$25,000           | \$72,791,800                     | \$(69,000)                | \$(57,128,600)         | \$ 15,619,200                    |
| Issuance at \$1.81 to \$2.13<br>per Share upon Exercise<br>of Stock Options               | 12,000           | --                 | 22,400                           | --                        | --                     | 22,400                           |
| Employee Stock Purchase<br>Plan Issuance at \$1.38 and<br>\$1.39 per Share                | --               | --                 | (20,700)                         | 33,200                    | --                     | 12,500                           |
| Issuance at \$2.50 per Share for<br>Settlement of Litigation                              | 1,500,000        | 1,500              | 3,748,500                        | --                        | --                     | 3,750,000                        |
| Compensation Expense Associated<br>with Issuance at \$1.94 per<br>Share                   | 10,000           | --                 | 19,400                           | --                        | --                     | 19,400                           |
| Net Loss for the Year<br>Ended December 31, 1997  | --               | --                 | --                               | --                        | (13,108,000)           | (13,108,000)                     |
| Balance at<br>December 31, 1997   | 26,487,400       | \$26,500           | \$76,561,400                     | \$(35,800)                | \$(70,236,600)         | \$ 6,315,500                     |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

|   | Year<br>Ended<br>December 31,<br>1997 | Year<br>Ended<br>December 31,<br>1996 | Year<br>Ended<br>December 31,<br>1995 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|
| Increase in Cash and Cash Equivalents   |                                       |                                       |                                       |
| -----   |                                       |                                       |                                       |
| Cash Flows From Operating Activities:   |                                       |                                       |                                       |
| Net Loss  | \$(13,108,000)                        | \$(10,790,100)                        | \$(8,257,900)                         |
| Adjustments to Reconcile Net Loss to Cash<br>Used by Operating Activities:      |                                       |                                       |                                       |
| Depreciation and Amortization   | 353,800                               | 464,800                               | 719,600                               |
| Write-off of Capitalized Patent Costs   | 51,100                                | 1,751,600                             | --                                    |
| Decrease in Collaborator Advance  | --                                    | (181,500)                             | (318,400)                             |
| Non-Cash Portion of Litigation Settlement                                       | 5,250,000                             | --                                    | --                                    |
| Compensation Expense Associated with<br>Stock Issuance                          | 19,400                                | --                                    | --                                    |
| Compensation Expense Associated with<br>Stock Options                           | --                                    | 170,300                               | --                                    |
| Gain on Sale of Research Products and Operations<br>of T Cell Diagnostics, Inc. | --                                    | (283,000)                             | --                                    |
| Changes in Assets and Liabilities:  |                                       |                                       |                                       |
| Increase in Current Portion Restricted Cash                                     | (750,000)                             | --                                    | --                                    |
| Accounts Receivable   | (3,400)                               | (24,400)                              | 132,600                               |
| Inventories   | 9,000                                 | 14,100                                | 6,000                                 |
| Prepaid and Other Current Assets  | 76,100                                | 119,700                               | 18,700                                |
| Accounts Payable and Accrued Expenses   | (343,400)                             | (796,200)                             | (369,300)                             |
| Deferred Revenue  | 750,000                               | (121,100)                             | 121,100                               |
| -----   |                                       |                                       |                                       |
| Net Cash Used by Operating Activities   | (7,695,400)                           | (9,675,800)                           | (7,947,600)                           |
| -----   |                                       |                                       |                                       |
| Cash Flows From Investing Activities:   |                                       |                                       |                                       |
| Redemption of Short-Term Investments  | --                                    | --                                    | 8,539,700                             |
| Purchases of Property and Equipment   | (76,900)                              | (135,200)                             | (577,300)                             |
| Increase in Patents and Licenses  | (381,200)                             | (507,400)                             | (1,216,900)                           |
| (Increase) Decrease in Long-Term Restricted Cash                                | 160,000                               | 165,000                               | (850,000)                             |
| Payment Received on Convertible Note Receivable                                 | 1,802,700                             | 200,300                               | --                                    |
| Other   | 400                                   | 30,800                                | 10,400                                |
| -----   |                                       |                                       |                                       |
| Net Cash Provided (Used) by Investing Activities                                | 1,505,000                             | (246,500)                             | 5,905,900                             |
| -----   |                                       |                                       |                                       |
| Cash Flows From Financing Activities:   |                                       |                                       |                                       |
| Net Proceeds from Stock Issuance  | 12,500                                | 10,077,200                            | 6,129,600                             |
| Proceeds from Exercise of Stock Options   | 22,400                                | 161,700                               | 244,700                               |
| Proceeds from Exercise of Stock Warrants  | --                                    | --                                    | 349,500                               |
| Purchases of Treasury Stock   | --                                    | --                                    | (51,500)                              |
| -----   |                                       |                                       |                                       |
| Net Cash Provided by Financing Activities                                       | 34,900                                | 10,238,900                            | 6,672,300                             |
| -----   |                                       |                                       |                                       |
| Increase (Decrease) in Cash and Cash Equivalents                                | (6,155,500)                           | 316,600                               | 4,630,600                             |
| Cash and Cash Equivalents at Beginning of Period                                | 12,591,800                            | 12,275,200                            | 7,644,600                             |
| -----   |                                       |                                       |                                       |
| Cash and Cash Equivalents at End of Period                                      | \$ 6,436,300                          | \$ 12,591,800                         | \$12,275,200                          |
| =====   |                                       |                                       |                                       |

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Nature of Business

T Cell Sciences, Inc. (the "Company") is a biopharmaceutical company engaged in the discovery and development of innovative drugs using novel applications of immunology to prevent and treat cardiovascular, pulmonary and immune disorders. The Company develops and commercializes products on a proprietary basis and in collaboration with established pharmaceutical partners, including Novartis Pharma AG, Astra AB and Yamanouchi Pharmaceutical Co., Ltd.

In March 1998, the Company completed a private placement of approximately 2,043,000 shares of common stock to institutional investors at a price of \$1.90 per share. Net proceeds from the common stock issuance totaled approximately \$3,708,000. The Company believes that the private placement proceeds, together with cash inflows from existing SBIR grants and collaborations, interest income on invested funds and its current cash and cash equivalents, net of restricted amounts, will be sufficient to meet estimated working capital requirements and fund operations beyond December 31, 1998 and into the first half of 1999. The working capital requirements of the Company are dependent on several factors including, but not limited to, the costs associated with research and development programs, preclinical and clinical studies and the scope of collaborative arrangements. During 1998, the Company expects to take steps to raise additional capital including, but not limited to, licensing of technology programs with existing or new collaborative partners, possible business combinations, or issuance of common stock via private placement and public offering.

In March 1996, the Company sold substantially all of the assets of its wholly-owned subsidiary, T Cell Diagnostics, Inc. ("TCD") while retaining all rights to the TRAx(R) product franchise. The Company will continue to commercialize the TRAx line of diagnostic products which are used in the detection and monitoring of immune-related disorders.

(B) Basis of Presentation

The consolidated financial statements include the accounts of T Cell Sciences, Inc. and its wholly owned subsidiary, T Cell Diagnostics, Inc. All intercompany transactions have been eliminated.

(C) Cash Equivalents and Investments

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Short-term investments are those with maturities in excess of three months but less than one year. All cash equivalents and short-term investments have been classified as available for sale and are reported at fair market value with unrealized gains and losses included in stockholders' equity.

The Company invests its nonoperating cash in debt instruments of financial institutions, government entities and corporations, and mutual funds. The Company has established guidelines relative to credit ratings, diversification and maturities that maintain safety and liquidity.

(D) Fair Value of Financial Instruments

The Company enters into various types of financial instruments in the normal course of business. Fair values for cash, cash equivalents, short-term investments, accounts and notes receivable, accounts and notes payable and accrued expenses approximate carrying value at December 31, 1997 and 1996, due to the nature and the relatively short maturity of these instruments.



(E) Revenue Recognition

The Company has entered into various license and development agreements with pharmaceutical and biotechnology companies. Revenue derived from such agreements is recognized over the specified development period as research and development or discovery activities are performed. Cash received in advance of activities being performed is recorded as deferred revenue. Signing fees, received by the Company for entering into license and development agreements are recognized when received if the fees are nonrefundable and the Company has no obligations to perform under the agreement. Revenues from product sales are recorded when the product is shipped.

(F) Research and Development Costs

Research and development costs are expensed as incurred.

(G) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

(H) Property and Equipment

Property and equipment is stated at cost and depreciated over the estimated useful lives of the related assets using the straight-line method. Laboratory equipment and office furniture and equipment are depreciated over a five year period and computer equipment is depreciated over a three year period. Leasehold improvements are amortized over the shorter of the estimated useful life or the noncancelable term of the related lease.

(I) Licenses, Patents and Trademarks

Included in other assets are the costs of purchased licenses and certain costs associated with patents and trademarks which are capitalized and amortized over the shorter of the estimated useful lives or ten years using the straight-line method. The Company periodically evaluates the recoverability of these assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of ("SFAS 121")."

(J) Loss Per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"), which changed the method of calculating earnings per share. SFAS 128, which the Company adopted in the fourth quarter of 1997, requires the presentation of "basic" earnings per share and "diluted" earnings per share. As a result of the Company's net loss, both basic and diluted earnings per share are computed by dividing the net loss available to common shareholders by the weighted average number of shares of common stock outstanding.

(K) Stock Compensation

The Company's employee stock compensation plans are accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The Company adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" (see Note 7).

(L) Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

2. SHORT-TERM INVESTMENTS AND RESTRICTED CASH

The Company currently invests in only high quality, short-term investments which are considered highly liquid and are available to support current operations. At December 31, 1997 and 1996, the Company's investments met the definition of cash equivalents and were recorded at cost, which approximated fair value in all material respects.

At December 31, 1997, the Company had pledged as collateral \$750,000 and \$525,000 which is recorded as current portion restricted cash and long-term restricted cash, respectively. At December 31, 1996, the Company had pledged as collateral \$685,000 which is recorded as long-term restricted cash. Pursuant to the terms of the settlement agreement between the Company and its former landlord, the Company pledged as collateral \$750,000 at December 31, 1997 (see Note 13). The Company also has \$525,000 and \$685,000 pledged as collateral at December 31, 1997 and 1996, respectively, in accordance with the terms of the operating lease (see Note 3).

3. PROPERTY, EQUIPMENT AND LEASES

Property and equipment includes the following:

|  | December 31,<br>1997 | December 31,<br>1996 |
|--|----------------------|----------------------|
| Laboratory Equipment                           | \$ 2,080,100         | \$ 2,055,000         |
| Office Furniture and Equipment                 | 767,800              | 751,500              |
| Leasehold Improvements                         | 255,000              | 219,500              |
| Property and Equipment, Total                  | 3,102,900            | 3,026,000            |
| Less Accumulated Depreciation and Amortization | (2,738,400)          | (2,514,400)          |
|  | \$ 364,500           | \$ 511,600           |

Depreciation expense related to equipment and leasehold improvements was approximately \$224,000, \$290,800 and \$465,300 for the years ended December 31, 1997, 1996 and 1995, respectively.

In May 1996, the Company entered into a six-year lease for laboratory and office space in Needham, Massachusetts. The lease replaced two-year lease and sublease agreements entered into in March 1995 for the same location and increased the amount of office and laboratory space available. In March 1996, the Company sold certain property and equipment to Endogen as part of the sale of the research products and operations of TCD. In addition, certain lease obligations of the Company were assigned to Endogen in conjunction with the sale (see Note 14).

In August 1994, the Company entered into a lease agreement providing the Company with the right to lease up to \$2,000,000 of equipment for up to a five-year term. The lease agreement contains certain restrictive covenants determined at the end of each fiscal quarter which, for the quarter ended September 30, 1995, included a minimum cash, cash equivalents and short-term investments balance of \$10,000,000. At September 30, 1995 the Company's cash and cash equivalents balance was below \$10,000,000. As a result, in accordance with the lease agreement, the Company pledged cash as collateral to the lessor equal to the amount outstanding on the lease which is to remain in a certificate of deposit until the end of the lease or as otherwise agreed by the lessor and the Company. The Company has recorded \$525,000 and \$685,000 as long-term restricted cash at December 31, 1997 and 1996, respectively.

Obligations for base rent, net of sublease income, under these and other noncancelable operating leases as of December 31, 1997 are approximately as follows:

|                               |             |
|-------------------------------|-------------|
| Year ending December 31, 1998 | \$ 835,900  |
| 1999                          | 834,000     |
| 2000                          | 764,600     |
| 2001                          | 756,400     |
| 2002                          | 252,100     |
| Thereafter                    | --          |
|                               | -----       |
| Total minimum lease payments  | \$3,443,000 |
|                               | -----       |

The Company's total rent expense was approximately \$851,400, \$903,100 and \$1,091,600 for the years ended December 31, 1997, 1996 and 1995, respectively.

4. OTHER ASSETS

Other assets include the following:

|                               | December 31,<br>1997 | December 31,<br>1996 |
|-------------------------------|----------------------|----------------------|
|                               | -----                | -----                |
| Capitalized Patent Costs      | \$1,900,700          | \$1,570,500          |
| Accumulated Amortization      | (519,100)            | (397,900)            |
|                               | -----                | -----                |
| Capitalized Patent Costs, Net | 1,381,600            | 1,172,600            |
| Other Non Current Assets, Net | 165,900              | 175,000              |
|                               | -----                | -----                |
|                               | \$1,547,500          | \$1,347,600          |
|                               | =====                | =====                |

During the second quarter of 1996, as part of the Company's realignment of certain of its operations, the Company suspended internal funding of the research and development of its T cell antigen receptor program pending completion of negotiations to transfer certain of its patent and license rights related to such technology to Astra AB. In June 1996, in accordance with SFAS 121, the Company evaluated and subsequently wrote off approximately \$1,751,600 of capitalized patent costs relating to its T cell antigen receptor program which is included in operating expense as general and administrative expense for the year ended December 31, 1996.

Amortization expense for the years ended December 31, 1997, 1996 and 1995 relating to the capitalized costs of purchased licenses and patents and trademarks was approximately \$129,800, \$174,000 and \$254,300, respectively.

5. ACCRUED EXPENSES

Accrued expenses include the following:

|                                       | December 31,<br>1997 | December 31,<br>1996 |
|---------------------------------------|----------------------|----------------------|
| Accrued License Fees                  | \$ 60,000            | 55,000               |
| Accrued Payroll and Employee Benefits | 222,600              | 208,400              |
| Accrued Clinical Trials               | 448,100              | 364,800              |
| Accrued Consulting                    | 119,000              | 96,000               |
| Other Accrued Expenses                | 210,200              | 554,300              |
|                                       | \$1,059,900          | \$1,278,500          |

6. INCOME TAXES

|   | Year Ended December 31,  |                          |                          |
|---|--------------------------|--------------------------|--------------------------|
|   | 1997                     | 1996                     | 1995                     |
| Income tax benefit:                     |                          |                          |                          |
| Federal                                 | \$ 4,539,100             | \$ 3,696,100             | \$ 2,984,800             |
| State                                   | 529,000                  | 388,000                  | 354,800                  |
| Deferred tax assets valuation allowance | 5,068,100<br>(5,068,100) | 4,084,100<br>(4,084,100) | 3,339,600<br>(3,339,600) |
|   | \$ --                    | \$ --                    | \$ --                    |

Deferred tax assets are comprised of the following at December 31:

|   | December 31,<br>1997 | December 31,<br>1996 |
|---|----------------------|----------------------|
| Net Operating Loss Carryforwards        | \$ 25,775,200        | \$ 21,346,700        |
| Tax Credit Carryforwards                | 3,143,800            | 3,043,900            |
| Other                                   | 1,521,500            | 981,800              |
| Gross Deferred Tax Assets               | 30,440,500           | 25,372,400           |
| Deferred Tax Assets Valuation Allowance | (30,440,500)         | (25,372,400)         |
|   | \$ --                | \$ --                |

Reconciliation between the amount of reported income tax expenses and the amount computed using the U.S. Statutory rate of 35% follows:

|  | 1997          | 1996          | 1995          |
|--|---------------|---------------|---------------|
| Loss at Statutory Rates  | \$(4,587,800) | \$(3,776,500) | \$(2,890,300) |
| Research and Development Credits   | (172,100)     | (189,400)     | (255,800)     |
| State tax benefit, net of federal tax liabilities                                | (591,500)     | (337,400)     | (231,200)     |
| Other  | 283,300       | 219,200       | 37,700        |
| Benefit of losses and credits not recognized,<br>increase in valuation allowance | 5,068,100     | 4,084,100     | 3,339,600     |
|  | \$ --         | \$ --         | \$ --         |

The Company has provided a full valuation allowance for deferred tax assets as management has concluded that it is more likely than not that the Company will not recognize any benefits from its net deferred tax asset. The timing and amount of future earnings will depend on numerous factors, including the Company's future profitability. The Company will assess the need for a valuation allowance as of each balance sheet date based on all available evidence.

At December 31, 1997, the Company has U.S. net operating loss carryforwards of \$67,224,700, U.S. capital loss carryforwards of \$1,852,300, and U.S. tax credits of \$2,593,800 which expire at various dates from 1999 through 2010. Under the Tax Reform Act of 1986, certain substantial changes in the Company's ownership could result in an annual limitation on the amount of net operating loss carryforwards, research and development tax credits, and capital loss carryforwards which could be utilized.

#### 7. STOCKHOLDERS' EQUITY

##### (A) Public and Private Stock Offerings

On August 26, 1996, the Company completed a public offering of 5,000,000 newly issued shares of common stock. Net proceeds were approximately \$10,069,000 after deducting all associated expenses.

On November 7, 1995, the Company completed a private placement of 2,550,000 newly issued shares of common stock. Net proceeds were approximately \$6,100,000 after deducting all associated expenses.

##### (B) Preferred Stock

At December 31, 1997 and 1996, the Company had authorized preferred stock comprised of 1,163,102 shares of convertible Class B and 3,000,000 shares of convertible Class C of which 350,000 shares has been designated as Class C-1 Junior Participating Cumulative, the terms of which are to be determined by the Company's Board of Directors. There was no preferred stock outstanding at December 31, 1997 and 1996.

##### (C) Stock Compensation and Employee Stock Purchase Plans

###### Stock Compensation

The Company's 1991 Stock Compensation Plan (the "1991 Plan"), which is an amendment and restatement of the Company's 1985 Incentive Option Plan, permits the granting of incentive stock options (intended to qualify as such under Section 422A of the Internal Revenue Code of 1986, as amended), non-qualified stock options, stock appreciation rights, performance share units, restricted stock and for other awards of restricted stock in lieu of cash bonuses to employees, consultants and outside directors.

The Plan allows for a maximum of 3,700,000 shares of common stock to be issued prior to December 1, 2001. The Board of Directors determines the term of each option, option price, number of shares for which each option is granted and the rate at which each option vests. The term of each option cannot exceed ten years (five years for options granted to holders of more than 10% of the voting stock of the Company). The exercise price of stock options shall not be less than the fair market value of the common stock at the date of grant (110% of fair market value for options granted to holders of more than 10% of the voting stock of the Company).

#### Employee Stock Purchase Plan

The 1994 Employee Stock Purchase Plan (the "1994 Plan") was adopted on June 30, 1994. All full time employees of the Company are eligible to participate in the 1994 Plan. A total of 150,000 shares are reserved for issuance under this plan. An employee may participate voluntarily in any offering for up to 15% of their compensation to purchase up to 500 shares per year and may withdraw from any offering at any time before stock is purchased. Participation terminates automatically upon termination of employment. The purchase price per share of common stock in an offering is 85% of the lower of its fair market value at the beginning of the offering period or the applicable exercise date.

A summary of stock option activity for the years ended December 31, 1997, 1996 and 1995 is as follows:

|  | 1997        |   | 1996      |   | 1995      |   |
|--|-------------|---|-----------|---|-----------|---|
|  | Shares      | Weighted Average Exercise Price per Share | Shares    | Weighted Average Exercise Price per Share | Shares    | Weighted Average Exercise Price per Share |
| Outstanding at January 1,                                  | 2,303,196   | \$5.94                                    | 2,516,313 | \$5.82                                    | 2,559,820 | \$6.42                                    |
| Granted  | 492,750     | 1.77                                      | 472,600   | 2.82                                      | 620,523   | 3.06                                      |
| Exercised  | (12,000)    | 1.86                                      | (60,710)  | 2.66                                      | (88,668)  | 2.45                                      |
| Canceled   | (1,010,704) | 8.78                                      | (625,007) | 3.39                                      | (575,362) | 6.05                                      |
| Outstanding at December 31,                                | 1,773,242   | \$3.20                                    | 2,303,196 | \$5.94                                    | 2,516,313 | \$5.82                                    |
| At December 31,  |             |   |           |   |           |   |
| Options exercisable  | 1,039,437   |   | 1,740,310 |   | 1,498,401 |   |
| Available for grant  | 1,296,716   |   | 678,762   |   | 571,516   |   |
| Weighted average fair value of options granted during year |             | \$0.92                                    |           | \$1.26                                    |           | \$1.36                                    |

The following table summarizes information about the stock options outstanding at December 31, 1997:

| Range of Exercise Prices | Options Outstanding                     |   |   |
|--------------------------|---|---|---|
|                          | Number Outstanding at December 31, 1997 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price per Share |
| \$ 1.50 - 1.84           | 435,250                                 | 9.14  | \$ 1.75                                   |
| 1.94 - 2.50              | 416,989                                 | 6.18  | 2.39                                      |
| 2.59 - 3.13              | 332,202                                 | 7.78  | 2.96                                      |
| 3.19 - 5.25              | 374,601                                 | 4.51  | 3.87                                      |
| 5.51 - 8.50              | 214,200                                 | 3.88  | 6.89                                      |
| \$ 1.50 - 8.50           | 1,773,242                               |   |   |

## Options Exercisable

| Range of Exercise Prices | Number<br>Exercisable at<br>December 31, 1997 | Weighted Average<br>Exercise Price<br>per Share |
|--------------------------|---|---|
| \$ 1.50 - 1.84           | 35,000  | \$ 1.81   |
| 1.94 - 2.50              | 273,281                                       | 2.34  |
| 2.59 - 3.13              | 194,915                                       | 2.96  |
| 3.19 - 5.25              | 322,041                                       | 3.95  |
| 5.51 - 8.50              | 214,200                                       | 6.89  |
| \$ 1.50 - 8.50           | 1,039,437                                     |   |

## Fair Value Disclosures

Had compensation costs for the Company's stock compensation plans been determined based on the fair value at the grant dates, consistent with SFAS 123, the Company's net loss, and net loss per share for the years ending December 31, 1997, 1996 and 1995 would be as follows:

|  | 1997         | 1996         | 1995        |
|--|--------------|--------------|-------------|
| Net Loss:                                |              |              |             |
| As reported                              | \$13,108,000 | \$10,790,100 | \$8,257,900 |
| Pro forma                                | \$13,514,100 | \$11,269,900 | \$8,471,400 |
| Basic and Diluted Net Loss<br>Per Share: |              |              |             |
| As reported                              | \$0.52       | \$0.50       | \$0.47      |
| Pro forma                                | 0.54         | 0.52         | 0.48        |

The fair value of the option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

|                                 | 1997        | 1996        | 1995        |
|---------------------------------|-------------|-------------|-------------|
| Expected dividend yield         | 0%          | 0%          | 0%          |
| Expected stock price volatility | 57%         | 51%         | 51%         |
| Risk-free interest rate         | 5.5% - 6.4% | 4.9% - 6.7% | 5.4% - 7.5% |
| Expected option term            | 2.7 Years   | 2.6 Years   | 2.6 Years   |

Because the determination of the fair value of all options granted includes an expected volatility factor in addition to the factors detailed in the table above, and because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effects of reported net income for future years.

## (D) Shareholder Rights Plan

On November 10, 1994, the Company's Board of Directors declared a dividend of one preferred share purchase right for each share of common stock outstanding. Each right entitles the holder to purchase from the Company one-one thousandth of a share of Series C-1 Junior Participating Cumulative Preferred Stock (a "Unit"), par value \$.01 at a price of \$16.00 per one-one thousandth of a share, subject to certain adjustments. The Units are exercisable only if a person or a group acquires 15% or more of the outstanding common stock of the Company or commences a tender offer which would result in the ownership of 15% or more of the Company's outstanding common stock. Once a Unit becomes exercisable, the plan allows the Company's shareholders to purchase common stock at a substantial discount. Unless earlier redeemed, the Units expire on November 10, 2004. The Company is entitled to redeem the Units at \$.01 per Unit subject to adjustment for any stock split, stock dividend or similar transaction.

As of December 31, 1997, the Company has authorized the issuance of 350,000 shares of Series C-1 Junior Participating Cumulative Preferred Stock for use in connection with the shareholder rights plan.

(E) Severance Agreement Charge

On May 29, 1996 the Company announced changes in its senior management. As part of the reorganization, the Company recorded a \$425,300 charge to earnings resulting from a severance agreement with the Company's former President and Chief Executive Officer. The charge included a \$255,000 severance payment and a non-cash charge of approximately \$170,300 relating to the acceleration of certain stock option vesting rights.

8. RESEARCH AND LICENSING AGREEMENTS

The Company has entered into licensing agreements with several universities and research organizations. Under the terms of these agreements, the Company has received licenses or options to license technology, certain patents or patent applications. The Company made required payments of nonrefundable license fees and royalties which amounted to approximately \$65,000, \$205,000 and \$200,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

9. PRODUCT DEVELOPMENT AND DISTRIBUTION AGREEMENTS

The Company's product development revenues were received from contracts with different organizations. Total revenue received by the Company in connection with these contracts for the years ended December 31, 1997, 1996 and 1995 were approximately \$1,147,600, \$591,200 and \$1,608,700, respectively. A summary of these contracts follows:

(A) Novartis Pharma AG

In October 1997, the Company entered into an option agreement with Novartis Pharma AG ("Novartis"), a worldwide pharmaceutical company headquartered in Basel, Switzerland, relating to the development of TP10 for use in xenotransplantation (animal organs into humans) and allotransplantation (human to human). The agreement granted Novartis a two-year option to license TP10 with exclusive worldwide marketing rights (except Japan) in the fields of xenotransplantation and allotransplantation. In exchange for granting the two-year option, the Company will receive annual option fees and supplies of clinical grade TP10 with a combined value of up to \$5 million. Should Novartis exercise its option to license TP10 and continue development within the fields of xenotransplantation and allotransplantation, it will provide equity to the Company in the form of investment, licensing fees and milestone payments based upon attainment of certain development and regulatory goals. The Company may also receive from Novartis funding for research as well as royalty payments on eventual products sales.

Under the terms of the agreement Novartis paid the Company a non-refundable option fee related to the first option period which commenced in October 1997. During the option period, Novartis is granted sole access to the technology for use in xenotransplantation and allotransplantation. The Company is recording the option fee as revenue over the one year option period.

(B) Astra AB

In January 1992, the Company entered into a product development and distribution agreement with Astra AB ("Astra"), a worldwide pharmaceutical company headquartered in Sodertalje, Sweden, for the joint development and marketing of therapeutic products using T Cell Sciences' proprietary T cell antigen receptor ("TCAR") technology. The products developed exclusively and jointly with Astra were monoclonal antibodies and protein-



derived immunomodulators that may have efficacy in treating autoimmune diseases such as multiple sclerosis, Crohn's disease, and rheumatoid arthritis.

In June 1996, the Company suspended further internal funding of the research and development of the TCAR program. In December 1996, the Company further amended its agreement with Astra to transfer certain of its rights to the TCAR technology to Astra in addition to sole responsibility for further development and commercialization of the TCAR technology. Under the amended agreement, the Company received an initial signing fee of \$100,000 and could receive future milestone and royalty payments upon Astra's successful development and commercialization of the TCAR technology.

The Company recognized revenue from milestone payments in 1997 of \$650,000. The Company recognized TCAR funding revenue of \$453,400 in 1996 and \$1,433,700 in 1995 which included \$181,600 and \$318,400, respectively, from the reduction of the collaborator advance liability. The funds were advanced from Astra for the expansion of additional space dedicated to joint TCAR product research.

(C) CytoTherapeutics

In April 1996, the Company licensed portions of its patent and technology rights regarding Complement Receptor 1 ("CR1") to CytoTherapeutics, Inc. for use in CytoTherapeutics' cell-based products for the delivery of therapeutic substances to the central nervous system. Under the agreement, the Company granted non-exclusive rights for the use of CR1 in any encapsulated-cell product. The license does not include rights to use CR1 for therapeutic effects. In 1996, the Company received a non-refundable \$100,000 signing fee and may receive additional milestone payments and royalty payments from commercialized products resulting from the license.

(D) Diamedix Corporation

In December 1995, the Company received a \$175,000 signing fee associated with an exclusive distribution agreement it entered into with Diamedix Corporation to market TRAX CD4 and TRAX CD8 microtiter plate diagnostic kits to clinical diagnostic laboratories in the United States. The Company retained the rights to sell these kits to certain research laboratories and pharmaceutical companies. The agreement was modified in 1997 from an exclusive agreement to a non-exclusive agreement.

(E) SmithKline Beecham, p.l.c

In 1989, the Company signed an exclusive development and distribution contract for TP10 (sCR1) with SmithKline Beecham. The Company entered into a new agreement in October 1994 with SmithKline Beecham, which superseded the original agreement. Under the new agreement, the Company regained exclusive rights to sCR1 in North America, including clinical development and marketing rights and SmithKline Beecham was granted an option for clinical development and marketing of injectable sCR1 outside of North America. The Company and SmithKline Beecham mutually agreed to terminate the October agreement in February 1995, returning all rights to the Company with no future financial obligations to either party.

10. NON-OPERATING INCOME (EXPENSE)

Non-operating income (expense) includes the following:

|  | Year Ended December 31, |                  |                    |
|--|-------------------------|------------------|--------------------|
|  | 1997                    | 1996             | 1995               |
| Interest and Dividend Income                   | \$ 577,300              | \$680,200        | \$ 604,600         |
| Gain on Sale of Portion of Diagnostic Business | --                      | 283,000          | --                 |
| Legal Settlement (see Note 13)                 | (6,108,800)             | --               | 2,900,000          |
| Gain on Sale of Investments                    | (17,800)                | --               | 100,000            |
|  | <u>\$(5,549,300)</u>    | <u>\$963,200</u> | <u>\$3,604,600</u> |

11. DEFERRED SAVINGS PLAN

Under section 401(k) of the Internal Revenue Code of 1986, as amended, the Board of Directors adopted, effective May 1990, a tax-qualified deferred compensation plan for employees of the Company. Participants may make tax deferred contributions up to 15%, or \$9,500, of their total salary in 1997. The Company may, at its discretion, make contributions to the plan each year matching up to 1% of the participant's total annual salary. Company contributions amounted to \$20,600, \$33,000 and \$39,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

12. FOREIGN SALES

Foreign Sales:

Product sales were generated geographically as follows:

| Net Product Sales for the Twelve Months Ended | Europe   | USA       | Asia    | Other     | Total     |
|---|----------|-----------|---------|-----------|-----------|
| December 31, 1997                             | \$ 5,000 | \$ 29,000 | \$ --   | \$ 11,000 | \$ 45,000 |
| December 31, 1996                             | 145,000  | 240,000   | 130,000 | 8,000     | 523,000   |
| December 31, 1995                             | 732,000  | 992,000   | 491,000 | 139,000   | 2,354,000 |

13. LITIGATION

In December 1994, the Company filed a lawsuit in the Superior Court of Massachusetts against the landlord of its former Cambridge, Massachusetts headquarters to recover the damages incurred by the Company resulting from the evacuation of the building due to air quality problems, which caused skin and respiratory irritation to a significant number of employees. The landlord defendant filed counterclaims, alleging the Company breached its lease obligations. The court ordered a limited trial between the Company and the landlord on certain factual issues which began on November 20, 1996. Closing arguments for the limited trial were heard on January 13, 1997. In a separate lawsuit, the landlord's mortgagee filed claims against the Company for payment of the same rent alleged to be owed. A motion for summary judgment filed by the bank was denied by the court. In August 1997, the Superior Court of Massachusetts entered findings of fact and conclusions of law on the limited trial of the Company's lawsuit against the landlord. In its findings, the Court concluded that the Company had not proved, as alleged by the Company, that any fireproofing fibers contaminated the Company's space, the Company's space was

not uninhabitable because of contamination from fireproofing fibers and the Company was not justified in terminating its lease on the grounds that its office and laboratories were uninhabitable. In November 1997, the Company reached a settlement of the litigation with its former landlord and the landlord's mortgagee. The Company agreed to pay \$858,800 in cash on November 17, 1997 and issue a total of 1,500,000 shares of its common stock. In addition, the Company signed a note for \$750,000 payable on November 16, 1998 secured by \$750,000 cash collateral and a note for \$750,000 due November 15, 1999, secured by 132,500 shares of common stock. The total settlement, valued at \$6,108,800, is comprised of the cash and notes totaling \$2,358,800 and common stock valued at \$3,750,000 as of October 31, 1997 and is included in non-operating expense for the year ended December 31, 1997. The common stock issued is subject to restrictions on transfer per the settlement agreement. The settlement agreement also provides for certain registration rights for the shares of common stock to become effective no later than September 30, 1998. Upon such registration, however, the settlement agreement limits the number of shares that may be sold over a given period of time.

#### 14. SALE OF PORTION OF DIAGNOSTIC BUSINESS

On March 5, 1996 the Company sold to Endogen, Inc. the research products and operations of TCD for a purchase price of approximately \$2,880,000, while retaining the TRAx diagnostic product franchise. The consideration for this sale to Endogen was paid in the form of a convertible subordinated note receivable (the "Convertible Note") in the principal amount of \$2,003,000 and a combination of cash and a short-term note used to repay approximately \$980,000 of obligations under the Company's operating lease. On February 10, 1997, the Company converted the outstanding principal balance, or \$1,803,000, of the Convertible Note into shares of Endogen common stock which it subsequently sold. Additionally, the Company may receive a royalty on certain of Endogen's sales of research products.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON  
ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information under the Sections "Proposal 1 - Election of Directors" and "Management" in the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 13, 1998, is hereby incorporated by reference.

Item 11. EXECUTIVE COMPENSATION

The information under the Section "Management" of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 13, 1998, is hereby incorporated by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information under the Section "Beneficial Ownership of Common Stock" of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 13, 1998, is hereby incorporated by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information under the Sections "Proposal 1 - Election of Directors" and "Management" of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 13, 1998, is hereby incorporated by reference.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) The following documents are filed as part of this Form 10-K:

(1) Financial Statements:

See "Index to Consolidated Financial Statements" at Item 8.

(2) Financial Statement Schedules:

Schedules are omitted since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or Notes thereto.

(3) Exhibits:

| No.  | Description  | Page No.  |
|------|--|---|
| 2.1  | Agreement of Merger among the Company, T Cell Acquisition Corp. and T Cell Diagnostics, Inc. dated August 20, 1993 relating to reconsolidation of the Company's subsidiary | Incorporated by reference to the Company's report on form 8-K filed September 22, 1993                            |
| 2.2  | Asset Purchase Agreement among Endogen, Inc., T Cell Diagnostics, Inc., with the Company dated March 4, 1996   | Incorporated by reference to the Company's report on form 8-K filed March 20, 1996                                |
| 3.1  | Third Restated Certificate of Incorporation of the Company   | Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended April 30, 1991           |
| 3.2  | Certificate of Amendment of Third Restated Certificate of Incorporation of the Company   | Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992        |
| 3.3  | Certificate of Designation for series C-1 Junior Participating Cumulative Preferred Stock  | Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994        |
| 3.4  | Amended and Restated By-Laws of the Company as of November 10, 1994  | Incorporated by reference to the Company's report on Form 8-K dated November 10, 1994                             |
| 4.1  | Form of Purchase Agreement dated November 23, 1993 relating to the Company's private placement of Common Stock   | Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-3 (Reg. No. 33-72172) |
| 4.2  | Shareholder Rights Agreement dated November 10, 1994 between the Company and State Street Bank and Trust Company as Rights Agent   | Incorporated by reference to the Company's report on Form 8-K dated November 10, 1994                             |
| 4.3  | Form of Stock Purchase Agreement dated October 27, 1995 relating to the Company's private placement of Common Stock  | Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-3 (Reg. No. 33-64021) |
| 4.4  | Form of Stock Purchase Agreement dated November 3, 1995 relating to the Company's private placement of Common Stock  | Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-3 (Reg. No. 33-64021) |
| 10.1 | Amended and Restated 1991 Stock Compensation as of April 1, 1995   | Incorporate by reference to the Company's Annual Report on Form 10K for the fiscal year ended December 31, 1995   |
| 10.2 | 1994 Employee Stock Purchase Plan  | Incorporated by reference to the Company's Registration Statement on Form S-8 filed June 8, 1994                  |

|       |  |   |
|-------|--|---|
| 10.3  | Product Development and Distribution Agreement between Astra AB and the Company dated January 30, 1992, portions of which are subject to confidential treatment                        | Incorporated by reference to the Company's report on Form 8-K filed on February 13, 1992                                |
| 10.4  | Commercial Lease Agreement of October 15, 1994 between T Cell Diagnostics, Inc. and Cummings Properties Management   | Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994              |
| 10.5  | Performance Plan of the Company  | Incorporated by reference to the Company's Annual Report on Form 10-K for the transition period ended December 31, 1992 |
| 10.6  | Form of Agreement relating to Change of Control  | Incorporated by reference to the Company's Annual Report on Form 10-K for the transition period ended December 31, 1992 |
| 10.7  | Termination Agreement between the Company and SmithKline Beecham p.l.c. relating to SCR1 dated April 7, 1995, portions of which are subject to confidential treatment                  | Incorporated by reference to the Company's report on Form 8-K filed April 27, 1995                                      |
| 10.8  | Pledge Agreement between the Company and Fleet Credit Corporation dated October 24, 1995   | Incorporated by reference to the Company's Quarterly Report on Form 10-Q for September dated September 30, 1995         |
| 10.9  | Employment Agreement between the Company and Una S. Ryan, Ph.D. dated May 28, 1996   | Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996       |
| 10.10 | Severance Agreement between the Company and Norman W. Gorin dated June 1, 1996   | Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996       |
| 10.11 | Consulting Agreement between the Company and James D. Grant dated May 28, 1996   | Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996       |
| 10.12 | Second Amended and Restated Product Development and Distribution Agreement between Astra AB and the Company dated May 1, 1996, portions of which are subject to confidential treatment | Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996       |
| 10.13 | Commercial Lease Agreement of May 1, 1997 between the Company and Fourth Avenue Ventures Limited   | Incorporated by reference to the Company's report on Form 10-Q for the quarterly period ended September 30, 1996        |
| 10.14 | Option Agreement by and between the Company and Novartis Pharma AG dated as of October 31, 1997, portions of which are subject to a request for confidential treatment                 | Incorporated by reference to the Company's report on Form 10-Q for the quarterly period ended September 30, 1997        |
| 10.15 | Settlement Agreement between the Company and Forest City 38 Sidney Street, Inc.; Forest City Management, Inc.; and Forest City Enterprises, Inc.                                       | Page 41   |
| 21.0  | List of Subsidiaries   | Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993       |
| 23.0  | Consent of Independent Accountants   | Page 83   |
| 27.0  | Financial Data Schedule  | Page 84   |

(B) Reports on Form 8-K.

During 1997, the following report on Form 8-K was filed: Form 8-K dated August 26, 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

T CELL SCIENCES, INC.

Date

by:/s/Una S. Ryan

March 30, 1998

-----  
Una S. Ryan  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

| Signature  | Title   | Date           |
|--|---|----------------|
| /s/Una S. Ryan<br>-----<br>(Una S. Ryan)                       | President, Chief Executive Officer                  | March 30, 1998 |
| /s/Norman W. Gorin<br>-----<br>(Norman W. Gorin)               | Vice President, Finance and Chief Financial Officer | March 30, 1998 |
| /s/Patrick C. Kung<br>-----<br>(Patrick C. Kung)               | Director  | March 30, 1998 |
| /s/Thomas R. Ostermueller<br>-----<br>(Thomas R. Ostermueller) | Director  | March 30, 1998 |
| /s/Harry H. Penner, Jr.<br>-----<br>(Harry H. Penner, Jr.)     | Director  | March 30, 1998 |
| /s/William J. Ryan<br>-----<br>(William J. Ryan)               | Director  | March 30, 1998 |
| /s/Ronald M. Urvater<br>-----<br>(Ronald M. Urvater)           | Director  | March 30, 1998 |



Settlement Agreement Between the Company and Forest City 38 Sidney Street, Inc.; Forest City Management, Inc.; And Forest City Enterprises, Inc.

SETTLEMENT AGREEMENT

This Settlement Agreement (the "Agreement") is entered into this 14th day of November, 1997, by and among T Cell Sciences, Inc., and T Cell Diagnostics, Inc., both of which are Delaware corporations with a principal place of business at 119 Fourth Avenue, Needham, Massachusetts (jointly "T Cell"), and Forest City 38 Sidney Street, Inc.; Forest City Commercial Management, Inc. (successor in interest to "Forest City Management, Inc."); and Forest City Enterprises, Inc., all of which are Ohio corporations with a principal place of business at 1100 Terminal Tower, Cleveland, Ohio (jointly "Forest City").

WHEREAS, T Cell Sciences, Inc. formerly leased and occupied certain space located at 38 Sidney Street, Cambridge, Massachusetts ("38 Sidney Street"), from Forest City 38 Sidney Street, Inc., pursuant to a lease dated August 1, 1987;

WHEREAS, in connection with that lease, T Cell, Forest City, and Pittsburgh National Bank, now PNC Bank, N.A. ("PNC"), entered into a Tri-Party Agreement, dated June 30, 1988, pursuant to which T Cell assumed certain obligations to PNC;

WHEREAS, T Cell and Forest City disagreed as to their respective rights and obligations, under the lease and otherwise, in light of the alleged indoor air quality problems at 38 Sidney Street and T Cell's decision to vacate the premises and cease paying rent;

WHEREAS, T Cell brought a civil action against Forest City, styled T Cell Sciences, Inc., et al. v. Forest City 38 Sidney Street, Inc., et al., Civil Action No. 94-6770 (Middlesex County Superior Court) (the "Forest City Action"), in order to resolve the parties' dispute;

WHEREAS, Forest City asserted counterclaims against T Cell in the Forest City Action;

WHEREAS, T Cell and Forest City each denied any liability to the other in the Forest City Action;

WHEREAS, the Court in the Forest City Action conducted a bench trial on certain bifurcated issues and, on August 22, 1997, entered an interlocutory decision adverse to T Cell's position in that case;

WHEREAS, following T Cell's discontinuation of rent payments to Forest City, T Cell and PNC disagreed as to their respective rights and obligations under the Tri-Party Agreement;

WHEREAS, PNC brought a civil action against T Cell, styled PNC Bank, N.A. v. T Cell Sciences, Inc., Civil Action No. 95-1499 (Norfolk County Superior Court) (the "PNC Action"), in order to resolve the dispute arising under the Tri-Party Agreement;

WHEREAS, in the PNC Action, T Cell denied any liability to PNC and asserted third-party claims against Forest City;

WHEREAS, Forest City asserted third-party counterclaims against T Cell in the PNC Action;

WHEREAS, T Cell and Forest City each denied any liability to the other in the PNC Action;

WHEREAS, in order to avoid the expense, uncertainty and risks of further litigation, and without any admission of liability, T Cell and Forest City mutually desire

to resolve by settlement all of the claims and counterclaims asserted in the Forest City Action and the PNC Action;

WHEREAS, Forest City and PNC have entered into a separate agreement which has enabled Forest City to obtain PNC's cooperation in resolving the PNC Action as part of this Agreement;

NOW THEREFORE, in consideration of the promises, mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, T Cell and Forest City do hereby agree and promise as follows:

1. Cash Payments. T Cell shall pay to Forest City a total of \$2,3589,755 in cash, in three payments, each to be made by wire transfer to a designated account in the name of "Forest City Rental Properties" with Huntington Bank in Columbus, Ohio (or as otherwise mutually agreed in writing), as follows:

- (a) the first payment, in the amount of \$858,755, is to be made no later than Monday, November 17, 1997;
- (b) the second payment, in the amount of \$750,000, is to be made no later than Monday, November 16, 1998; and
- (c) the third and final payment, in the amount of \$750,000, is to be made no later than Monday, November 15, 1999.

2. Security. To secure the payments described in paragraphs 1(b) and 1(c) above, the parties agree as follows:

- (a) by November 17, 1997, T Cell shall sign and deliver to Forest City two secured promissory notes, the forms of which are attached hereto as Exhibits "A" and "B";
- (b) also by November 17, 1997, T Cell Sciences, Inc. shall secure the payment due on November 16, 1998 by executing a "Control Agreement" in the form attached hereto as Exhibit "C," and providing cash collateral in a form reasonably acceptable to Forest City and maintained in the account known as the "T Cell Sciences, Inc. Pledged Collateral Account" with assets having a cash value of \$750,000 as of November 17, 1997; provided, however, that Forest City promises not to exercise any rights it may have as Assignee under the Control Agreement to direct any withdrawal or transfer, or issue any instruction or entitlement order, with respect to any of the assets maintained in the T Cell Sciences, Inc. Pledged Collateral Account described in that Control Agreement, prior to November 16, 1998, except with the prior written consent of T Cell Sciences, Inc.;
- (c) also by November 17, 1997, T Cell shall secure the payment due on November 15, 1999 by issuing 132,500 unregistered shares of T Cell Sciences, Inc. common stock to Forest City 38 Sidney Street, Inc. and delivering to Forest City 38 Sidney Street, Inc. two restricted stock certificates, each in the amount of 66,250 shares, to reflect the same; provided, however, that Forest City 38 Sidney Street may not transfer such shares or certificates to any other party until after May 15, 1998,

but shall instead hold the two stock certificates in escrow, in its own name, and further dispose of them as follows:

- (i) if, on or before December 31, 1997, T Cell provides cash collateral in a form reasonably acceptable to Forest City in the amount of \$750,000 and designates that money as payable only to Forest City to satisfy the November 15, 1999 payment obligation described in paragraph 1(b) above (or, in the alternative, provides other collateral which Forest City deems acceptable), then Forest City 38 Sidney Street, Inc. shall immediately return to T Cell Sciences, Inc. the two stock certificates reflecting all of the 132,500 shares of stock described above, free and clear of all liens and encumbrances, together with an assignment of such stock to T Cell Sciences, Inc., executed on behalf of Forest City 38 Sidney Street, Inc. The payment due to Forest City on November 15, 1999 shall thereby be deemed fully collateralized, and no further collateral or security shall be provided by T Cell;
- (ii) if, after December 31, 1997 but on or before May 15, 1998, provides cash collateral in a form reasonably acceptable to Forest City in the amount of \$750,000 and designates that money as payable only to Forest City to satisfy the November 15, 1999 payment obligation described in paragraph 1(b) above (or, in the alternative, provides other collateral which Forest

City deems acceptable), then Forest City 38 Sidney Street, Inc. shall immediately return to T Cell Sciences, Inc. one stock certificate reflecting half, or 66,250, of the shares of stock described above, free and clear of all liens and encumbrances, together with an assignment of such stock to T Cell Sciences, Inc., executed on behalf of Forest City 38 Sidney Street, Inc., and retain for itself, or otherwise dispose of in any manner it chooses, subject to applicable law and any other restrictions contained in this Agreement, the remaining stock certificate reflecting the balance of 66,250 shares. The payment due to Forest City on November 15, 1999 shall thereby be deemed fully collateralized, and no further collateral or security shall be provided by T Cell;

- (iii) if, by May 15, 1998, T Cell fails to provide cash collateral in a form reasonably acceptable to Forest City in the amount of \$750,000 and designate that money as payable only to Forest City to satisfy the November 15, 1999 payment obligation described in paragraph 1(b) above (or, in the alternative, provide other collateral which Forest City deems acceptable), then Forest City 38 Sidney Street, Inc. shall retain for itself, or otherwise dispose of in any manner it chooses, subject to applicable law and any other restrictions contained in this

Agreement, the two stock certificates reflecting all of the 132,500 shares of stock described above; and

- (iv) provided further, that in the event that any stock certificate to be returned to T Cell Sciences, Inc. as set forth in this paragraph is not immediately returned by Forest City 38 Sidney Street, Inc. when due, with the appropriate assignment, then T Cell Sciences, Inc. shall be entitled to cancel the original issuance of stock reflected by that certificate and void the certificate, as of the date when such certificate was due to be returned, and Forest City will pay to T Cell upon demand all reasonable legal and other costs and expenses of every kind, including reasonable attorneys' fees and disbursements, relating to the enforcement of Forest City 38 Sidney Street, Inc.'s obligation to return any stock certificate and deliver the appropriate assignment to T Cell Sciences, Inc.

3. Release of Escrow Amounts from Letter of Credit and Equipment. By November 17, 1997, T Cell shall execute and deliver to counsel for Forest City a "First Authorization for Escrow Agent to Release Certain Funds," in the form attached hereto as Exhibit "D," and a "Second Authorization to Escrow Agent to Release Certain Funds," in the form attached hereto as Exhibit "E," in order to release to Forest City all escrow amounts held by Massery, Gillis & Guiney which, as of November 10, 1997, totaled \$141,245, as follows:

- (a) principal and interest of \$104,180, from the proceeds of a letter of credit for \$93,000; and
- (b) principal and interest of \$37,065, from the rental of \$300,000 worth of T Cell equipment in use at 38 Sidney Street.

4. Transfer of Equipment. T Cell shall transfer the title and ownership of its equipment located at 38 Sidney Street, Cambridge, Massachusetts, to Forest City 38 Sidney Street, Inc., by November 17, 1997, by executing and delivering to Forest City a bill of sale in the form attached hereto as Exhibit "F."

5. Stock Issuance. By November 17, 1997, T Cell shall issue to Forest City 38 Sidney Street, Inc. 1,367,500 unregistered shares of T Cell Sciences, Inc. common stock, and deliver to Forest City 38 Sidney Street, Inc. a restricted stock certificate reflecting the same. T Cell warrants and represents that the unregistered shares of T Cell Sciences, Inc. common stock to be delivered pursuant to this paragraph and paragraph 2(c) of this Agreement are duly and validly issued shares, and that the issuance and delivery of those shares to Forest City does not constitute an event of default under the articles or by-laws of T Cell Sciences, Inc., or under any loan or other agreement to which T Cell Sciences, Inc. is a party. T Cell further warrants and represents that upon delivery of these shares, Forest City shall have good and marketable title to those shares, subject only to the matters provided for in this Agreement.

6. Stock Registration. T Cell shall provide to Forest City 38 Sidney Street, Inc., or its designee, the right to include up to 1.5 million shares of T Cell Sciences, Inc. common stock in a registration by T Cell, only as follows:



- (a) Forest City 38 Sidney Street, Inc., or its designee, shall have a "piggyback" registration right, pursuant to which Forest City shall be entitled to include up to 1.5 million shares in a registration by T Cell in connection with any public offering of common stock that T Cell may make between November 17, 1997 and September 30, 1998. Provided, however, as follows:
- (i) this piggyback registration right is subject to the discretionary approval of the underwriter of any such public offering, and the underwriter's discretion shall not be subject to challenge; and
  - (ii) if, but only if, a piggyback registration takes place after May 15, 1998, it may, at the option of Forest City 38 Sidney Street, Inc., or its designee, include any or all of the 132,500 shares of common stock issued as security for the payment due on November 15, 1999 in accordance with paragraph 2(c) above, to the extent those shares are then still held by Forest City in accordance with paragraph 2(c); and
- (b) without regard to the timing of any public offering or the ability to "piggyback" on any public offering, at the request of Forest City 38 Sidney Street, Inc., or its designee, T Cell shall register up to 1.5 million shares of T Cell Sciences, Inc. common stock, on a registration statement on Form S-3, to become effective, subject to the necessary governmental approvals, as of September 30, 1998. T Cell

shall register those shares and bear the costs associated with such registration. Provided, however, that upon such registration:

- (i) Forest City 38 Sidney Street, Inc., or its designee, shall sell no more than 375,000 shares of T Cell Sciences, Inc. stock per month, until it has disposed of a total of 1.5 million shares; and
- (ii) Forest City 38 Sidney Street, Inc., or its designee, agrees, if requested by T Cell's underwriters or financial advisors in an offering of T Cell securities pursuant to a registration statement filed with the Securities and Exchange Commission, not to effect any public sale or distribution of any shares of T Cell common stock during the fifteen (15) day period prior to, and during the ninety (90) day period beginning on, the date of such public offering, but in no event shall Forest City 38 Sidney Street, Inc., or its designee be required to enter into any such agreement unless all directors, officers and 5% shareholders of T Cell shall have entered into similar agreements.

7. Approval by PNC. Forest City represents that it has obtained the assent of PNC to the terms of this agreement. Forest City further represents that it can and shall obtain a release and stipulation of dismissal executed by PNC as set forth in paragraphs 10 and 11 below, and in the forms attached hereto as Exhibits "G" and "I."

8. Release by T Cell. T Cell hereby irrevocably releases and forever discharges Forest City, its subsidiaries, affiliates, predecessors and successors, and its respective past,

present and future officers, directors, stockholders, employees, agents, attorneys, representatives, successors and assigns, from any and all claims, actions, causes of action, contracts, demands, debts or obligations of any kind for damages, costs, expenses, fees, payments or any other kind of liability, whether known or unknown, which T Cell has ever had or may now have against Forest City, including but not limited to any claims which arise out of T Cell's lease of space at 38 Sidney Street, Cambridge, Massachusetts, and/or the so-called "Tri-Party Agreement," dated June 30, 1988, between and among T Cell, Forest City, and PNC, and including but not limited to all claims that were or could have been asserted in the Forest City Action or the PNC Action.

9. Release by Forest City. Forest City hereby irrevocably releases and forever discharges T Cell, its subsidiaries, affiliates, predecessors and successors, and its respective past, present and future officers, directors, stockholders, employees, agents, attorneys, representatives, successors and assigns, from any and all claims, actions, causes of action, contracts, demands, debts or obligations of any kind for damages, costs, expenses, fees, payments or any other kind of liability, whether known or unknown, which Forest City has ever had or may now have against T Cell, including but not limited to any claims which arise out of T Cell's lease of space at 38 Sidney Street, Cambridge, Massachusetts, and/or the so-called "Tri-Party Agreement," dated June 30, 1988, between and among T Cell, Forest City, and PNC, and including but not limited to all claims that were or could have been asserted in the Forest City Action or the PNC Action.

10. Release by PNC. By November 17, 1997, Forest City shall have obtained from PNC an executed original release in the form attached hereto as Exhibit "G," and delivered said release to T Cell's counsel, Lisa C. Goodheart, at Hill &

Barlow, A Professional Corporation, One International Place, 100 Oliver Street, Boston, Massachusetts, 02110-2607.

11. Stipulations of Dismissal. By November 17, 1997, T Cell and Forest City, by their respective counsel, shall execute stipulations of dismissal of the Forest City Action and the PNC Action in the forms attached hereto as Exhibits "H" and "I." Also by November 17, 1997, Forest City shall have obtained the signature of counsel for PNC on the stipulation of dismissal of the PNC Action, in the form attached hereto as Exhibit "I." Forest City shall promptly deliver both stipulations, executed on behalf of Forest City and PNC as required, to counsel for T Cell, Lisa C. Goodheart. T Cell, through its counsel, shall arrange for Federal Insurance Company, an intervenor in the Forest City Action, also to execute the stipulation of dismissal of that case. T Cell, through its counsel, shall arrange to file the fully-executed stipulations of dismissal of the Forest City Action and the PNC Action with the Superior Court for Middlesex and Norfolk Counties, respectively.

12. Public Disclosures. The parties understand that appropriate arrangements must be made with respect to the public disclosure of this settlement, as required by law, and all parties agree to cooperate with respect to the substance and timing of those arrangements. As part of such cooperation, each party shall give each other party a reasonable opportunity to review and comment on, but not to veto or prohibit, the terms of its public disclosures about this settlement, before those disclosures are made.

13. No Admission of Liability. None of the parties to this Agreement admits any liability or responsibility with respect to any of the claims asserted by or

between any of them, and this Agreement shall not be construed as an admission of liability on the part of any of the parties hereto.

14. Choice of Law. This Agreement and the legal relations between and among the parties hereto shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts, without regard to its conflicts of law rules.

15. Authorization of Signatories. Each person executing this Settlement Agreement represents that he or she is duly authorized to do so by the party on whose behalf he or she has signed.

16. Complete Agreement. This Agreement constitutes the entire agreement and understanding between and among T Cell and Forest City with respect to the matters referenced herein. No representation, promise, understanding or agreement of any kind whatsoever regarding the matters referenced herein that is not set forth in this Agreement shall be valid, binding or enforceable. All prior negotiations of T Cell and Forest City or their agents are merged into this Agreement. This Agreement supersedes all prior agreements, promises, covenants, arrangements, representations or warranties, whether oral or written, between T Cell and Forest City, relating to any matter, whether addressed herein or otherwise, including but not limited to the "Stipulation Concerning Damages, Agreement to Transfer Ownership Rights and Escrow Agreement" dated October 20, 1995, and the "Escrow Agreement" dated May of 1995, between and among T Cell, Forest City and others.

17. Advice of Counsel and Payment of Legal Fees. T Cell and Forest City hereby represent that they have each had the opportunity to obtain advice of counsel

of their own choosing in the negotiation and preparation of this Agreement; that their undersigned representatives have read this Agreement and had it fully explained to them by their counsel; and that they are fully aware of its contents and legal effect. T Cell and Forest City further represent and agree that each of them is and shall be responsible for payment of its own legal fees and costs incurred in the negotiation for and preparation of this Agreement.

18. Modifications in Writing. No supplement, modification, change or waiver of this Agreement of any provision thereof shall be binding unless executed in writing by the parties to be bound thereby.

19. Execution in Counterparts. For the convenience of the parties hereto, this Agreement may be executed in two counterparts. Each such counterpart shall be deemed to be an original instrument, and both counterparts shall together constitute the same agreement.

IN WITNESS WHEREOF, T Cell and Forest City have each executed this Agreement under seal, by their duly authorized representatives.

T CELL SCIENCES, INC.

By:            /s/ Una S. Ryan  
                  -----  
                  Una S. Ryan, President

Witness:       /s/ Selma L. Carlson  
                  -----

T CELL DIAGNOSTICS, INC.

By: /s/ Una S. Ryan  
-----  
Una S. Ryan, Director

Witness: /s/ Selma L. Carlson  
-----

FOREST CITY 38 SIDNEY STREET, INC.

By: /s/ James A. Ratner  
-----  
Name  
  
President  
-----  
Title

Witness: /s/ Donna Anderson  
-----

FOREST CITY COMMERCIAL MANAGEMENT, INC.

By: /s/ David J. LaRue  
-----  
Name  
  
Secretary  
-----  
Title

Witness: /s/ Donna Anderson  
-----

FOREST CITY ENTERPRISES, INC.

By: /s/ James A. Ratner  
-----  
Name  
Executive Vice President  
-----  
Title

Witness: /s/ Donna Anderson  
-----



LIST OF ATTACHMENTS

- Exhibit A Form of Secured Promissory Note Due November 16, 1998.
- Exhibit B Form of Secured Promissory Note Due November 15, 1999.
- Exhibit C Form of Control Agreement.
- Exhibit D First Authorization for Escrow Agent to Release Certain Funds.
- Exhibit E Second Authorization for Escrow Agent to Release Certain Funds.
- Exhibit F Bill of Sale for T Cell Equipment.
- Exhibit G Release from PNC Bank, N.A.
- Exhibit H Stipulation of Dismissal of the Forest City Action.
- Exhibit I Stipulation of Dismissal of the PNC Action.

SECURED PROMISSORY NOTE  
DUE NOVEMBER 16, 1998

\$750,000

November 17, 1997

FOR VALUE RECEIVED, the undersigned, T Cell Sciences, Inc., a Delaware corporation having a principal place of business at 119 Fourth Avenue, Needham, Massachusetts, 02194-2725 ("T Cell Sciences"), and T Cell Diagnostics, Inc., a Delaware corporation having a principal place of business at 119 Fourth Avenue, Needham, Massachusetts, 02194-2725 ("T Cell Diagnostics") (T Cell Sciences and T Cell Diagnostics being collectively referred to herein as the "Makers"), hereby jointly and severally promise to pay to the order of Forest City 38 Sidney Street, Inc., an Ohio corporation having a principal place of business at 1100 Terminal Tower, Cleveland, Ohio, 44113 (together with its assigns, the "Holder"), the principal amount of Seven Hundred Fifty Thousand Dollars, in lawful money of the United States of America, on or before November 16, 1998. Principal shall be payable at maturity. This Note shall not bear interest, except as hereinafter provided.

All payments due under this Note shall be made to the Holder at the address shown above or at such other place as the Holder may designate from time to time in writing at least ten (10) days before any such payment is due.

The principal of this Note may be prepaid in whole or in part at any time or from time to time at the option of the Makers, without premium or penalty. Any such prepayment shall be applied to the payment due at maturity, and no such prepayment will affect the Makers' obligation to make any subsequent required payment or prepayment until this Note shall have been paid in full.

This Note is secured by and entitled to the benefits of Paragraph 2(b) of a Settlement Agreement dated November 14, 1997 (the "Settlement Agreement") by and among the Makers, the Payee, Forest City Management, Inc. and Forest City Enterprises, Inc., which provides certain security, among other things, for the indebtedness of the Makers under this Note.

If Makers shall fail to make any payment on this Note when due and payable, or if the Makers shall fail to comply with or perform any other of the terms of this Note or Paragraph 2(b) of the Settlement Agreement within fourteen (14) days of receipt by the Makers of written notice from the Holder of such failure to comply, or if either of Makers shall become unable to meet their obligations as they become due, or shall begin or be the subject of any bankruptcy or other proceedings for the relief of debtors, or any substantial part of the property of either of the Makers shall be taken on attachment or by foreclosure, then, in any such case, the Holder may at its option declare this Note, including the entire unpaid principal amount then outstanding, to become due and payable immediately. From

and after the date on which the Note becomes due and payable, such unpaid principal amount shall bear interest at the prime rate as of November 17, 1997, or \_\_\_%, per annum.

The parties hereto, including the Makers and all endorsers and guarantors of this Note, hereby waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance or enforcement of this Note.

The failure of any party to insist, on any one or more occasions, upon performance of any of the terms or conditions of this Note, shall not be construed as a waiver or relinquishment of any rights granted hereunder or the future performance of any such term, covenant or condition.

The Makers will pay to the Holder upon demand all reasonable legal and other costs and expenses of every kind, including reasonable attorneys' fees and disbursements, relating to the collection and/or enforcement of this Note, but only in the event of any default under this Note by the Makers.

Any notice given hereunder shall be in writing and shall be deemed effective when actually received in hand or by telecopy or other electronic transmission or when sent by certified or registered mail, return receipt requested, addressed to the Makers at the address set forth above, or such other address of which notice has been provided hereunder.

This Note may not be amended except in writing signed by the party against whom such amendment is sought to be enforced. This Note shall be interpreted under and governed by the laws of The Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the undersigned have duly executed this Note as an instrument under seal as of the day and year first above written.

T CELL SCIENCES, INC.

By:

-----  
Una S. Ryan  
President

T CELL DIAGNOSTICS, INC.

By:

-----  
Una S. Ryan  
Director

SECURED PROMISSORY NOTE  
DUE NOVEMBER 15, 1999

\$750,000

November 17, 1997

FOR VALUE RECEIVED, the undersigned, T Cell Sciences, Inc., a Delaware corporation having a principal place of business at 119 Fourth Avenue, Needham, Massachusetts, 02194-2725 ("T Cell Sciences"), and T Cell Diagnostics, Inc., a Delaware corporation having a principal place of business at 119 Fourth Avenue, Needham, Massachusetts, 02194-2725 ("T Cell Diagnostics") (T Cell Sciences and T Cell Diagnostics being collectively referred to herein as the "Makers"), hereby jointly and severally promise to pay to the order of Forest City 38 Sidney Street, Inc., an Ohio corporation having a principal place of business at 1100 Terminal Tower, Cleveland, Ohio, 44113 (together with its assigns, the "Holder"), the principal amount of Seven Hundred Fifty Thousand Dollars, in lawful money of the United States of America, on or before November 15, 1999. Principal shall be payable at maturity. This Note shall not bear interest, except as hereinafter provided.

All payments due under this Note shall be made to the Holder at the address shown above or at such other place as the Holder may designate from time to time in writing at least ten (10) days before any such payment is due.

The principal of this Note may be prepaid in whole or in part at any time or from time to time at the option of the Makers, without premium or penalty. Any such prepayment shall be applied to the payment due at maturity, and no such prepayment will affect the Makers' obligation to make any subsequent required payment or prepayment until this Note shall have been paid in full.

This Note is secured by and entitled to the benefits of Paragraph 2(c) of a Settlement Agreement dated November 14, 1997 (the "Settlement Agreement") by and among the Makers, the Payee, Forest City Management, Inc. and Forest City Enterprises, Inc., which provides certain security, among other things, for the indebtedness of the Makers under this Note.

If Makers shall fail to make any payment on this Note when due and payable, or if the Makers shall fail to comply with or perform any other of the terms of this Note or Paragraph 2(c) of the Settlement Agreement within fourteen (14) days of receipt by the Makers of written notice from the Holder of such failure to comply, or if either of Makers shall become unable to meet their obligations as they become due, or shall begin or be the subject of any bankruptcy or other proceedings for the relief of debtors, or any substantial part of the property of either of the Makers shall be taken on attachment or by foreclosure, then, in any such case, the Holder may at its option declare this Note, including the entire unpaid principal amount then outstanding, to become due and payable immediately. From and after the date on which the Note becomes due and payable, such unpaid principal amount shall bear interest at the prime rate as of November 17, 1997, or \_\_\_%, per annum.

The parties hereto, including the Makers and all endorsers and guarantors of this Note, hereby waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance or enforcement of this Note.

The failure of any party to insist, on any one or more occasions, upon performance of any of the terms or conditions of this Note, shall not be construed as a waiver or relinquishment of any rights granted hereunder or the future performance of any such term, covenant or condition.

The Makers will pay to the Holder upon demand all reasonable legal and other costs and expenses of every kind, including reasonable attorneys' fees and disbursements, relating to the collection and/or enforcement of this Note, but only in the event of any default under this Note by the Makers.

Any notice given hereunder shall be in writing and shall be deemed effective when actually received in hand or by telecopy or other electronic transmission or when sent by certified or registered mail, return receipt requested, addressed to the Makers at the address set forth above, or such other address of which notice has been provided hereunder.

This Note may not be amended except in writing signed by the party against whom such amendment is sought to be enforced. This Note shall be interpreted under and governed by the laws of The Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the undersigned have duly executed this Note as an instrument under seal as of the day and year first above written.

T CELL SCIENCES, INC.

By:

-----  
Una S. Ryan  
President

T CELL DIAGNOSTICS, INC.

By:

-----  
Una S. Ryan  
Director

CONTROL AGREEMENT

Merrill Lynch Account Number: \_\_\_\_\_

Date: NOVEMBER 17, 1997  
-----

T CELL SCIENCES, INC. (hereinafter "Assignor"), FOREST CITY 38 SIDNEY STREET, INC. (hereinafter "Assignee") and Merrill Lynch, Pierce, Fenner & Smith Incorporated (hereinafter "Merrill Lynch") hereby agree as follows:

Assignor has granted a security interest in the Collateral Account (hereinafter defined) to Assignee, and in connection therewith, Assignor instructs Merrill Lynch to:

- 1) Establish a cash security account, which is to be known as the "T CELL SCIENCES, INC. Pledged Collateral Account for FOREST CITY 38 SIDNEY STREET, INC." (which account together with all of the securities (as such term is defined in revised (1994) Uniform Commercial Code - Investment Securities) and other financial assets and cash evidenced thereby and all Assignor's security entitlement (as such term is defined under revised (1994) Uniform Commercial Code - Investment Securities) associated therewith, together with any replacement thereof is herein called the "Collateral Account"; and
- 2) place the assets listed in Exhibit A into the Collateral Account.

Assignor, Assignee and Merrill Lynch agree that the following terms and conditions of this Control Agreement ("Agreement") will govern the Collateral Account:

1. Control

By the execution and delivery of this Agreement, Merrill Lynch (a) agrees that it will comply only with instructions and/or entitlement orders (as such term is defined under revised (1994) Uniform Commercial Code Investment Securities) in regard to or in connection with the Collateral Account, originated by an Authorized Officer of Assignees without further notice or consent of Assignor, and (b) acknowledges Assignee's security interest and lien in and to the Collateral Account.

The following paragraph must be initiated by both Assignee and Assignor if an Authorized Officer of Assignor will give trading instructions in the Collateral Account. (Disregard this paragraph if only Assignee will give trading instructions.)

\_\_\_\_\_ Notwithstanding the above, Merrill Lynch shall take trading instructions with respect to the financial assets held in the Collateral Account at the direction of an Authorized Officer of Assignor.

All parties agree that (a) Merrill Lynch is a "Securities Intermediary" as such term is defined under revised (1994) Uniform Commercial Code - Investment Securities and, (b) all property held by

Merrill Lynch in the Collateral Account will be treated as, "financial assets" as such term is defined under revised (1994) Uniform Commercial Code - Investment Securities.

All instructions and entitlement orders given to Merrill Lynch in reference to the Collateral Account shall be in writing.

## 2. No Withdrawals

Except as provided herein, Merrill Lynch shall neither accept nor comply with any entitlement orders from Assignor directing it to withdraw any financial assets from the Collateral Account or to deliver any such financial assets to Assignor with respect to the Account without the specific prior written consent of Assignee.

The following paragraph must be initiated by all parties if interest and dividends generated with respect to the financial assets held in the Collateral Account are to be distributed out of the Collateral Account to Assignor without additional instruction. (Disregard this paragraph if interest and dividends are to remain in the account.)

Notwithstanding the above, Assignor or Assignor's designee is entitled to receive all income with respect to the financial assets held in the Collateral Account, including interest and dividends (but not stock splits, stock dividends, cash equity distributions, liquidating distributions or other non cash principal disbursements) (hereinafter "income"), and therefore, Assignor and Assignee hereby instruct Merrill Lynch to transfer all such income on a monthly basis to account number 64M07P26 in the name of T CELL SCIENCES, INC.

## 3. Priority of Lien

Merrill Lynch represents that: (a) the assets held in the Collateral Account will be held in the name of Merrill Lynch; (b) it will not agree to comply with any third party orders or instructions concerning the Collateral Account without the prior written consent of Assignee and Assignor; and (c) it will hold the Collateral Account and all assets therein as bailee of Assignee.

Assignor warrants and represents that he has not granted a security interest in the Collateral Account to any party other than Assignee.

Merrill Lynch subordinates its right to offset any security interest in and to the Collateral Account or any financial asset held in the Collateral Account in favor of Assignee, except for (i) payment owed to Merrill Lynch for open trade commitments for purchases of financial assets in and for the Collateral Account, and (ii) negotiable instruments (i.e., checks and drafts) received by Merrill Lynch as a holder in due course, the proceeds of which are deposited into the Collateral Account, but which negotiable instruments are later returned to Merrill Lynch as uncollectible.

#### 4. Authorized Officers

For purposes of this Agreement, the term "Authorized Officer of Assignor" shall refer in the singular to either: UNA S. RYAN, PRESIDENT or NORMAN W. GORIN, CHIEF FINANCIAL OFFICER.

For purposes of this Agreement, the term "Authorized Officer of Assignee" shall refer in the singular to either: THOMAS G. SMITH, SECRETARY or JAMES A. RATNER, PRESIDENT.

In the event that the Assignor or Assignee shall find it advisable to designate a replacement of their Authorized Officer, written notice of any such replacement shall be given to Merrill Lynch.

#### 5. Statements

So long as this agreement remains in effect, Assignee shall be entitled to receive duplicates of any and all notices and statements of account that Assignor of such Collateral Account is entitled to receive. Such statements shall be sent to the following address:

FOREST CITY 38 SIGNEY STREET, INC.  
ATTENTION: THOMAS G. SMITH  
1100 TERMINAL TOWER  
CLEVELAND, OHIO 44113

#### 6. Limited Responsibility of Merrill Lynch

If an Authorized Officer of Assignor is permitted to effect transactions in the Collateral Account, Merrill Lynch shall have no responsibility or liability to Assignee for accepting and processing instructions relating to such transactions. Merrill Lynch shall have no responsibility or liability to Assignor for complying with entitlement orders concerning the Collateral Account originated by the Assignee. Merrill Lynch shall have no responsibility or liability to Assignee with respect to the value of the Collateral account or any asset held therein. Merrill Lynch shall have no duty to investigate or make any determination as to whether a default exists under any agreement between Assignee and Assignor. This Agreement does not create any obligation or duty of Merrill Lynch other than those expressly set forth herein.

#### 7. Indemnification

Assignor hereby agrees to indemnify and hold harmless Merrill Lynch, its affiliates, officers and employees from and against any and all claims, causes of action, liabilities, lawsuits, demands and/or damages, including, without limitations, any and all court costs and reasonable attorney's fees, in any way related to or arising out of or in connection with the assignment, this Agreement, and/or the Collateral Account.

#### 8. Choice of Law



The terms of this Agreement shall be binding upon and inure to the benefit of the successors and assigns of the respective parties hereto and shall be construed in accordance with the laws of the State of New York without regard to its conflict of law principles. However, all issuance in any way concerning collateral, security interests or perfection arising out of this Agreement shall be governed by the laws of the COMMONWEALTH OF MASSACHUSETTS.

Assignor and Assignee represent and warrant to Merrill Lynch that this Agreement and its terms are in compliance with applicable law, including, without limitation, the federal securities credit laws.

9. Miscellaneous

Assignor acknowledges that this agreement supplements Assignor's existing agreement(s) with Merrill Lynch and in no way is this Agreement intended to abridge any rights that Merrill Lynch might otherwise have, except as provided by this Agreement.

Merrill Lynch may terminate this agreement on thirty (30) days notice to the Assignor and Assignee.

This Agreement represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. The invalidity, illegality or unenforceability of any provision of this Agreement shall not affect the validity, legality or enforceability of any of the other provisions of this Agreement which shall remain effective.

IN WITNESS WHEREOF, Assignor, Assignee and Merrill Lynch have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

T CELL SCIENCES, INC.

FOREST CITY 38 SIDNEY STREET, INC.

By: Una S. Ryan  
Title: President  
Signature: /s/ Una S. Ryan

By: James A. Ratner  
Title: President  
Signature: /s/ James A. Ratner

Merrill Lynch, Pierce, Fenner & Smith Incorporated

By: \_\_\_\_\_  
Resident Vice President

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Division Administrative Manager

Date: \_\_\_\_\_

EXHIBIT A

Assignor has placed the following assets into the T CELL SCIENCES, INC. Pledged Collateral Account for FOREST CITY 38 SIDNEY STREET, INC. Account Number: \_\_\_\_\_ (account number to be assigned when the account is established with Merrill Lynch).

| Quantity | Description                      |
|----------|----------------------------------|
| -----    | Merrill Lynch Institutional Fund |
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If additional pages are necessary please label:  
"Exhibit A for account number \_\_\_\_\_."

CORPORATION AUTHORIZATION  
FOR CASH ACCOUNTS

TO: MERRILL LYNCH PIERCE FENNER & SMITH, INC.

BE IT RESOLVED: That this corporation T CELL SCIENCES, INC. be, and it hereby is, authorized and empowered to open and maintain an account with MERRILL LYNCH PIERCE FENNER & SMITH, INC., and its successors, by merger, consolidation or otherwise, and assigns, hereinafter called the brokers, for the purchase and sale of stocks, bonds, options, securities, or physical commodities, on exchanges of which the brokers are members or otherwise, and that any of the officers hereinafter named be, and he hereby is, authorized to give written or verbal instructions by telephone or telegraph, or otherwise, to the brokers to buy or sell stocks, bonds, options, securities, or physical commodities, either for immediate or future delivery and, if he deems proper to secure payment therefor with property of this corporation; and he shall at all times have authority in every way to bind and obligate this corporation for the carrying out of any contract, arrangement or transaction which shall, for or on behalf of this corporation, be entered into or made with or through the brokers; and that the brokers are authorized to receive from this corporation, checks and drafts drawn upon the funds of this corporation by any officer or employee of this corporation, and to apply the same to the credit of this corporation or to its account with said brokers and the said brokers are authorized to receive from said officer(s) or from any other officer or employee of this corporation, stocks, bonds, options, securities, or physical commodities for the account of this corporation with said brokers; said brokers are further authorized to accept instructions from any officer herein named as to the delivery of stocks, bonds, options, securities, or physical commodities from the account of this corporation and at his direction to cause certificates of stocks, bonds, options, securities or physical commodities held in said account to be transfer to the name of any officer hereinafter named or of this corporation in the discretion of said officer; and delivery to any such officer of such stocks, bonds, options, securities, or physical commodities, issued as directed by him, shall be deemed delivery to this corporation; and any such officer shall have the fullest authority at all times with reference to any transaction deemed by him to be proper to make or enter into for or on behalf of this corporation with the brokers or others. All confirmations, notices and demands upon this corporation may be delivered by the brokers verbally or in writing, or by telegraph, or by telephone to any such officer and he is authorized to empower any person, or persons, that he deems proper, at any time, or at times, to do any and all things that he is hereinbefore authorized to do. That this resolution shall be and remain in full force and effect until written notice of the revocation hereof shall be delivered to the brokers. The officer(s) herein referred to are named as follows to-wit:

UNA S. RYAN, PRESIDENT  
NORMAN W. GORIN, CHIEF FINANCIAL OFFICER

I, STUART M. CABLE, Secretary of T CELL SCIENCES, INC. hereby certify that the forgoing is a full, true and correct copy of a resolution duly and regularly passed and adopted by the unanimous vote of the Board of Directors of said company at a meeting hereof duly called and held at the office of said company on the 12TH DAY OF NOVEMBER 1997, at which meeting all directors were present and voting; that said resolution appears in the minutes of said meeting, and that the same has not been rescinded or modified and is now in full force and effect.

I further certify that said corporation is duly organized and existing, and has the power to take the action called for by the foregoing resolution.

/s/ Stuart M. Cable, Secretary

FIRST AUTHORIZATION FOR ESCROW AGENT  
TO RELEASE CERTAIN FUNDS

Agreement is hereby made this day of November, 1997, by, between and among T Cell Sciences, Inc. ("TCS"), T Cell Diagnostics, Inc. ("TCD"), (hereinafter collectively referred to as "T Cell"), Forest City 38 Sidney Street, Inc. ("FC38S"), Forest City Commercial Management, Inc., as successor-in-interest to Forest City Management, Inc. ("FCM"), (hereinafter collectively referred to as "Forest City"), and PNC Bank, National Association (hereinafter referred to as "PNC").

WHEREAS, T Cell and Forest City (and an affiliate) are in a dispute described in the pleadings filed in a civil action styled T Cell Sciences, Inc. and T Cell Diagnostics, Inc. v. Forest City 38 Sidney Street, Inc. and Forest City Management, Inc., et al., Middlesex Superior Court Civil Action No.94-6670 (hereinafter referred to as "the Middlesex Action"); and

WHEREAS, T Cell, Forest City (and an affiliate) and PNC are in a dispute described in the pleadings filed in a civil action styled PNC Bank, N.A. v. T Cell Sciences, Inc. v. Forest City 38 Sidney Street, Inc.. Forest City Management, Inc., et al., Norfolk Superior Court Civil Action No.95-01499 (hereinafter referred to as "the Norfolk Action"); and

WHEREAS, in May of 1995, TCS, FCM and PNC entered into an agreement entitled "Escrow Agreement" (hereinafter referred to as "the Letter of Credit Escrow Agreement"), to which Massery, Gillis & Guiney (hereinafter referred to as "Escrow Agent") was a signatory as Escrow Agent. (A copy of the Letter of Credit Escrow Agreement is attached hereto as Exhibit "A".); and

WHEREAS, T Cell, Forest City and PNC have agreed to resolve their differences with respect to the Middlesex Action and the Norfolk Action.

NOW THEREFORE, the parties agree as follows:

1. Upon the execution of this First Authorization For Escrow Agent To Release Certain Funds and pursuant to Paragraph No.3 of the Letter of Credit Escrow Agreement, the Escrow Agent is hereby authorized to release and otherwise disburse the Funds, as that term is defined and used in the Letter of Credit Escrow Agreement, and the interest earned thereon, to Forest City or its designee and the Escrow Agent is further authorized to take all necessary steps to close the escrow account established by the Letter of Credit Escrow Agreement.

T CELL SCIENCES, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_

FOREST CITY COMMERCIAL MANAGEMENT, INC.  
(as successor in interest to Forest City Management, Inc.)

By: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_

PNC BANK, NATIONAL ASSOCIATION

By: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_

SECOND AUTHORIZATION FOR ESCROW AGENT  
TO RELEASE CERTAIN FUNDS

Agreement is hereby made this day \_\_\_ of November 1997, by, between and among T Cell Sciences, Inc. and T Cell Diagnostics, Inc. (hereinafter collectively referred to as "T Cell") and Forest City 38 Sidney Street, Inc. and Forest City Commercial Management, Inc.. as successor-in-interest to Forest City Management, Inc. (hereinafter collectively referred to as "Forest City").

WHEREAS, T Cell and Forest City (and an affiliate) are in a dispute described in the pleadings filed in a civil action styled T Cell Sciences, Inc. and T Cell Diagnostics, Inc. v. Forest City 38 Sidney Street, Inc. and Forest City Management, Inc., et al., Middlesex Superior Court Civil Action No.94-6670 (hereinafter referred to as "the Litigation"); and

WHEREAS, on October 20, 1995, T Cell and Forest City entered into an agreement entitled "Stipulation Concerning Damages, Agreement To Transfer Ownership Rights and Escrow Agreement" (hereinafter referred to as "the Equipment Escrow Agreement") to which Massery, Gillis & Guiney (hereinafter referred to as "Escrow Agent") was a signatory as Escrow Agent. (A copy of the Equipment Escrow Agreement is attached hereto as Exhibit "A"); and

WHEREAS, T Cell and Forest City have agreed to resolve their differences with respect to the Litigation.

NOW, THEREFORE, the parties agree as follows:

1. Upon the execution of this Second Authorization For Escrow Agent To Release Certain Funds and pursuant to Paragraph No.9 of the Equipment Escrow Agreement, the Escrow Agent is hereby authorized to release and otherwise disburse the Funds. as that term is defined and used in the Equipment Escrow Agreement, to Forest City or its designee and is further authorized to take all necessary steps to close the escrow account established by the Equipment Escrow Agreement.

T CELL SCIENCES, INC.

FOREST CITY 38 SIDNEY STREET, INC.

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

T CELL DIAGNOSTICS, INC.

FOREST CITY COMMERCIAL MANAGEMENT,  
INC. (as successor-in-interest to Forest  
City Management, Inc.)

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

BILL OF SALE

This Bill of Sale is entered into this 17th day of November, 1997 by and among T Cell Sciences, Inc. and T Cell Diagnostics, Inc., both of which are Delaware corporations having a principal place of business at 119 Fourth Avenue, Needham, Massachusetts, (jointly, "T Cell"), and Forest City 38 Sidney Street, Inc., an Ohio corporation having a principal place of business at 1100 Terminal Tower, Cleveland, Ohio, 44113 ("Forest City").

W I T N E S S E T H:

WHEREAS, T Cell desires to transfer and assign to Forest City 38 Sidney Street, Inc. all of the personal property, equipment and appurtenances listed on Schedule I hereto (the "Assets"), and Forest City 38 Sidney Street, Inc. desires to accept the sale, transfer, conveyance, assignment and delivery thereof;

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein and in a Settlement Agreement dated November 14, 1997 by and among T Cell, Forest City 38 Sidney Street, Inc.; Forest City Commercial Management, Inc.; and Forest City Enterprises, Inc., and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, T Cell hereby irrevocably sells, transfers, conveys, assigns and delivers to Forest City 38 Sidney Street, Inc., free and clear of all liens, restrictions and encumbrances, all of T Cell's right, title and interest in, to and under the Assets, to have and to hold the same unto Forest City 38 Sidney Street, Inc., its successors and assigns, forever.

Forest City 38 Sidney Street, Inc. hereby accepts the sale, transfer, conveyance, assignment and delivery of the Assets.

The parties agree that Assets hereby conveyed by T Cell to Forest City 38 Sidney Street, Inc. hereunder are sold, transferred, conveyed, assigned, delivered AS IS and WHERE IS, in used condition, and T Cell makes no other warranties or representations whatsoever, whether express or implied, with respect to those Assets.

This Bill of Sale may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instruments.

This Bill of Sale shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts without giving effect to the conflicts of laws principles thereof, except that if it is necessary in any other jurisdiction to have the law of such other jurisdiction govern this Bill of Sale in order for this Bill of Sale to be effective in any respect, then the laws of such other jurisdiction shall govern this Bill of Sale to such extent.



IN WITNESS WHEREOF, the undersigned have caused their duly authorized officers to execute this Bill of Sale on the day and year first above written.

T CELL SCIENCES, INC.

By: -----  
Una S. Ryan  
President

T CELL DIAGNOSTICS, INC.

By: -----  
Una S. Ryan  
Director

FOREST CITY 38 SIDNEY STREET, INC.

By: -----  
Name:  
Title:

Schedule I

List of Personal Property, Equipment and Appurtenances

All case work, machinery and equipment owned by T Cell Sciences, Inc. and its affiliates ("T Cell") and currently located on the third, fourth and fifth floors of the laboratory and office space formerly occupied by T Cell at 38 Sidney Street, Cambridge, Massachusetts, including but not necessarily limited to any and all of the following items, with all appurtenances thereto.

- laboratory benches;
- fume hoods;
- acid neutralization system;
- kitchen cabinets;
- darkroom sink and door;
- modular furniture;
- laboratory faucets and sinks;
- CO2 and vacuum system;
- compressed air system;
- hot water heater;
- animal facility equipment and cage washer;
- energy control system; - booster pump system;
- (1) 2.5 h.p. Copco air compressor;
- (1) Hood (formerly located in Room 537);
- (1) Autoclave (formerly located in Room 556);
- (1) Laboratory Washer (formerly located in Room 556);
- (1) Large Washer (formerly located in Room 556); and
- (1) D.M.T. Motor Generator Series III.

RELEASE

AND NOW, this \_\_\_\_ day of November, 1997, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to resolve disputed claims by settlement and without the expense, uncertainty and risks of further litigation, PNC Bank, N.A. hereby irrevocably releases and forever discharges T Cell Sciences, Inc. and T Cell Diagnostics, Inc., their subsidiaries, affiliates, predecessors and successors, and their respective past, present and future officers, directors, stockholders, employees, agents, attorneys, representatives, successors and assigns (collectively, "T Cell"), from any and all claims, actions, causes of action, contracts, demands, debts or obligations of any kind for damages, costs, expenses, fees, payments or any other kind of liability, whether known or unknown, which PNC has ever had or may now have against T Cell, including but not limited to all claims that arise out of T Cell's lease of space at 38 Sidney Street, Cambridge, Massachusetts, and/or the so-called "Tri-Party Agreement," dated June 30, 1988, between and among T Cell, Forest City 38 Sidney Street, Inc., and PNC, and including but not limited to all claims that were or could have been asserted in the litigation

styled PNC Bank, N.A. v. T Cell Sciences, Inc., Civil Action No. 95-1499  
(Norfolk County Superior Court).

IN WITNESS WHEREOF, PNC has executed this Release under seal, by its duly  
authorized representative.

PNC BANK, N.A.

By:

-----  
Name

-----  
Title

Witness:

-----

COMMONWEALTH OF MASSACHUSETTS

MIDDLESEX, SS.

SUPERIOR COURT  
CIVIL ACTION NO. 94-6670

-----  
T CELL SCIENCES, INC. and T CELL )  
DIAGNOSTICS, INC., )  
 )  
Plaintiffs, )  
 )  
v. )  
 )  
FOREST CITY ENTERPRISES, INC., )  
FOREST CITY 38 SIDNEY STREET, INC. )  
and FOREST CITY MANAGEMENT, INC., )  
 )  
Defendants, )  
 )  
and )  
 )  
FEDERAL INSURANCE COMPANY, )  
 )  
Intervenor. )  
-----

STIPULATION OF DISMISSAL

Pursuant to Mass. R. Civ. P. 41(a)(1), all parties to the above-captioned matter, by their counsel, stipulate to the voluntary dismissal of the

above-captioned action, with prejudice, each party to bear its own costs, and all rights of appeal waived.

T CELL SCIENCES, INC. and T CELL  
DIAGNOSTICS, INC.

By their attorneys,

---

Marjorie Sommer Cooke (BBO  
#097800) Barbara Gruenthal  
(BBO #544209) COOKE, CLANCY  
& GRUENTHAL 150 Federal  
Street Boston, MA 02110  
(617) 428-6800

-and-

FOREST CITY ENTERPRISES, INC.,  
FOREST CITY 38 SIDNEY STREET, INC. and  
FOREST CITY MANAGEMENT, INC.

By their attorneys,

---

Louis N. Massery (BBO #323920)  
Thomas G. Guiney (BBO #544421)  
MASSERY, GILLIS & GUINEY  
101 Merrimac Street  
Boston, MA 02114  
(617) 523-1125

-and-

FEDERAL INSURANCE COMPANY

By its attorneys,

---

Thomas W. Porter, Jr. (BBO #403560)  
Robert P. Powers (BBO #544691)  
MELICK & PORTER  
One Joy Street  
Boston, MA 02108  
(617) 523-6200

DATED: November , 1997

COMMONWEALTH OF MASSACHUSETTS

NORFOLK, SS

SUPERIOR COURT  
CIVIL ACTION NO. 95-01499

-----  
PNC BANK, N.A., )  
 )  
 Plaintiff, )  
 )  
 v. )  
 )  
 T CELL SCIENCES, INC., )  
 )  
 Defendant, )  
 )  
 v. )  
 )  
 FOREST CITY ENTERPRISES, INC., )  
 FOREST CITY 38 SIDNEY STREET, INC. )  
 and FOREST CITY MANAGEMENT, INC., )  
 )  
 Third-Party Defendants. )  
-----

STIPULATION OF DISMISSAL

Pursuant to Mass. R. Civ. P. 41(a)(1), all parties to the above-captioned matter, by their counsel, stipulate to the voluntary dismissal of the



above-captioned action, with prejudice, each party to bear its own costs, and all rights of appeal waived.

PNC BANK, N.A.,

By its attorneys,

Robert K. Gad, III (BBO #182160)  
David R. Baron (BBO #561020)  
ROPES & GRAY  
One International Place  
Boston, MA 02110  
(617) 951-7000

-and-

T CELL SCIENCES, INC.

By its attorneys,

---

Marjorie Sommer Cooke (BBO  
#097800) Barbara Gruenthal  
(BBO #544209) COOKE, CLANCY  
& GRUENTHAL 150 Federal  
Street Boston, MA 02110  
(617) 428-6800

-and-

FOREST CITY ENTERPRISES, INC.,  
FOREST CITY 38 SIDNEY STREET, INC. and  
FOREST CITY MANAGEMENT, INC.

By their attorneys,

---

Louis N. Massery (BBO  
#323920) Thomas G. Guiney  
(BBO #544421) MASSERY,  
GILLIS & GUINEY 101 Merrimac  
Street Boston, MA 02114  
(617) 523-1125

DATED: November \_\_ 1997

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on form S-8, as amended, (Nos. 33-43640, 33-54372, 33-80036 and 33-80048) and in the Prospectus constituting part of the Registration Statement on Form S-3 (Nos. 33-72172, 33-69950, 33-64021 and 333-08607) of T Cell Sciences, Inc. of our report dated March 25, 1998 appearing in the Annual Report on Form 10-K for the year ended December 31, 1997.

Price Waterhouse LLP  
Boston, Massachusetts  
March 30, 1998

This schedule contains summary financial information extracted from the condensed financial statements of T Cell Sciences, Inc. for the Year Ended December 31, 1997 and is qualified in its entirety by reference to such financial statements.

US DOLLARS

12-MOS

|              |              |   |
|--------------|--------------|---|
|              | DEC-31-1997  |   |
|              | JAN-01-1997  |   |
|              | DEC-31-1997  |   |
|              | 1            |   |
|              | 6,436,300    |   |
|              | 0            |   |
|              | 22,900       |   |
|              | 0            |   |
|              | 15,000       |   |
|              | 7,389,600    |   |
|              | 3,102,900    |   |
|              | (2,738,400)  |   |
|              | 9,826,600    |   |
| 2,761,100    |              | 0 |
|              | 0            |   |
|              | 0            |   |
|              | 26,500       |   |
|              | 6,289,000    |   |
| 9,826,600    |              |   |
|              | 44,500       |   |
|              | 1,192,100    |   |
|              | 21,000       |   |
|              | 8,750,800    |   |
|              | 6,126,600    |   |
|              | 0            |   |
|              | (577,300)    |   |
|              | (13,108,000) |   |
|              | 0            |   |
| (13,108,000) |              |   |
|              | 0            |   |
|              | 0            |   |
|              | 0            |   |
|              | (13,108,000) |   |
|              | (0.52)       |   |
|              | (0.52)       |   |