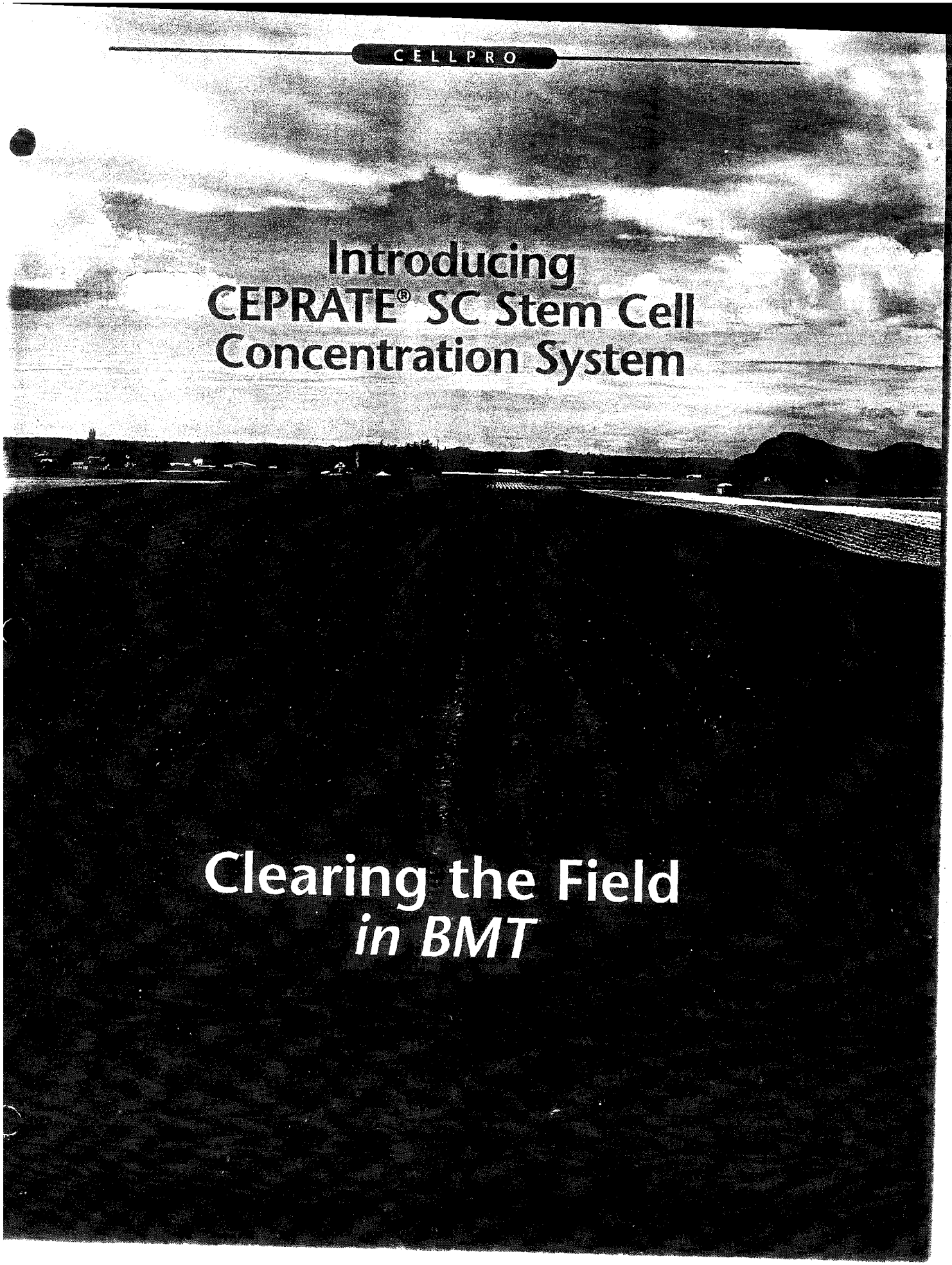
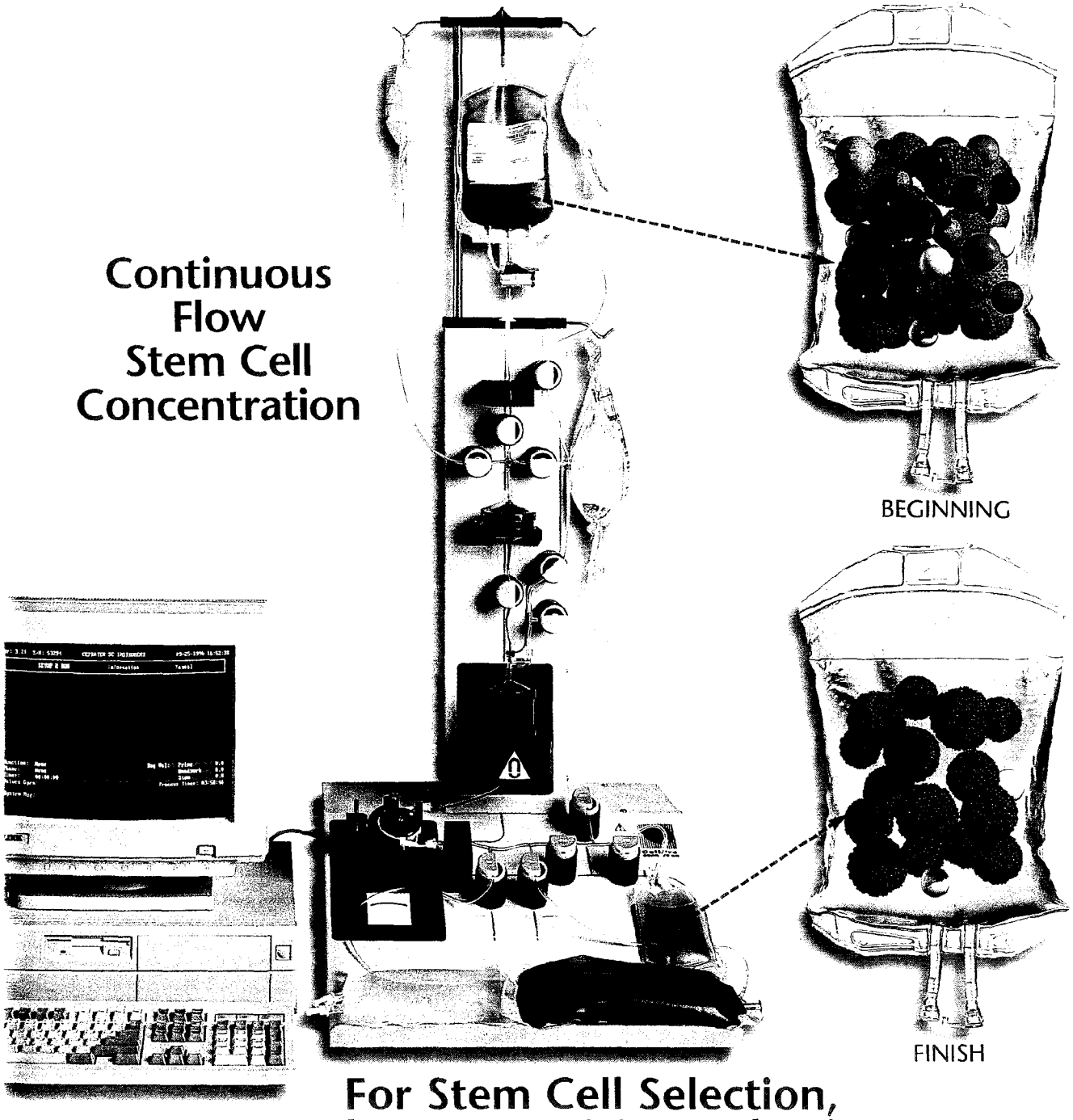

CELLPRO
Introducing
CEPRATE® SC Stem Cell
Concentration System
Clearing the Field
in BMT

CELLPRO

CEPRATE® SC System

The First Stem Cell Concentration System for BMT

Continuous Flow Stem Cell Concentration



BEGINNING

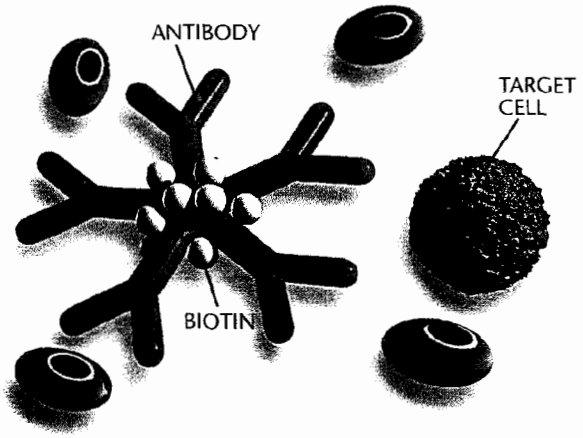
FINISH

For Stem Cell Selection, Volume & Toxicity Reduction

CEPRATE® SC System

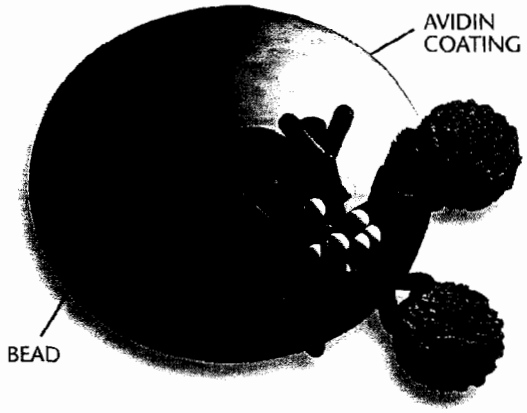
Technology for Today & Tomorrow

1. INCUBATION



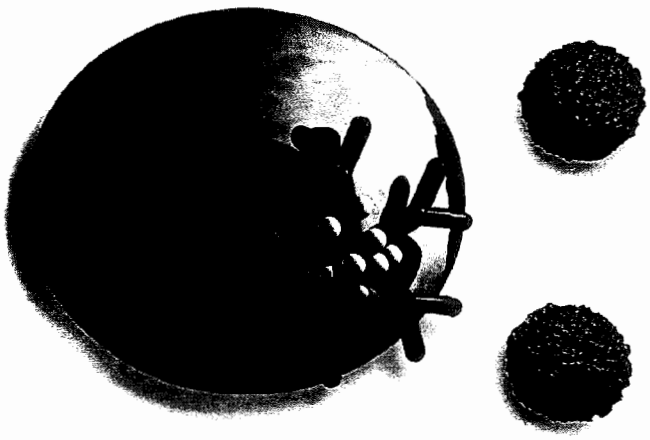
A biotinylated monoclonal antibody directed against a target cell antigen is incubated with a cell mixture.

2. SELECTION



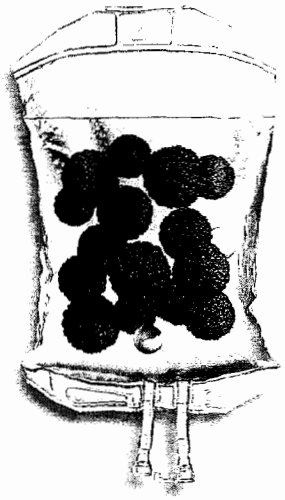
After washing, the mixture flows through an immunoadsorption column filled with avidin beads. The high affinity between biotin and avidin causes the antibody-cell complex to adhere to the beads.

3. ELUTION



After unlabeled cells are washed away, the selected target cells are removed by gentle agitation.

4. COLLECTION



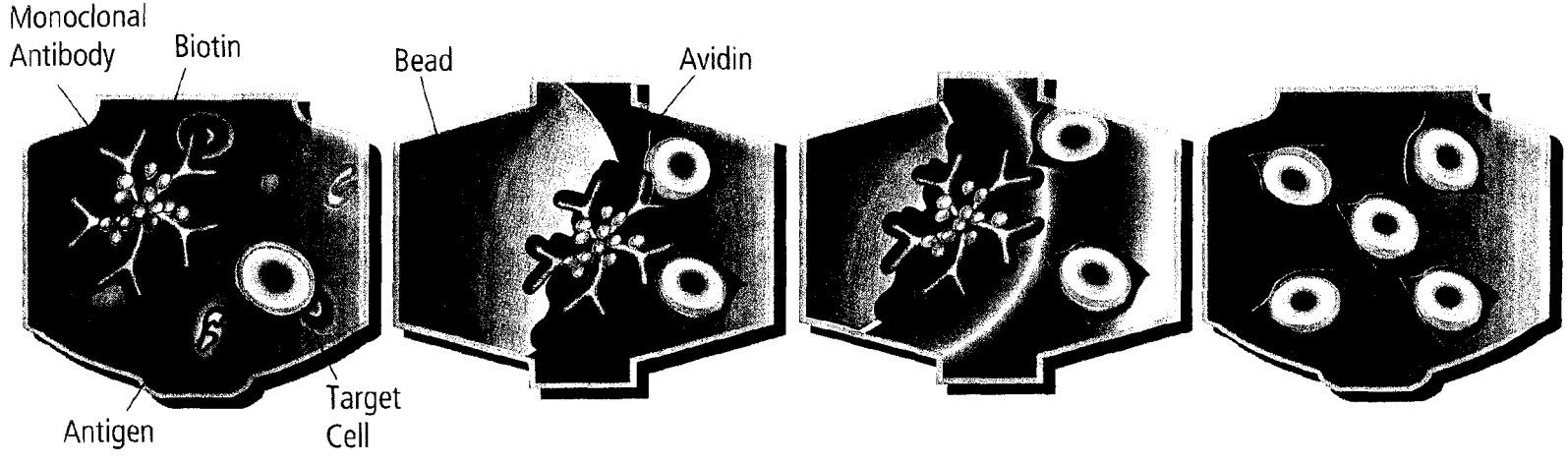
Selected cells are collected, concentrated and ready for use.

Versatile & Selective Immunoadsorption System

CEPRATE® SC

Stem Cell Concentration System

Continuous Flow Technology



Incubation

A biotinylated monoclonal antibody directed against a target cell antigen is incubated with a cell mixture.

Selection

After washing to remove unbound antibody, the incubated mixture is passed through a continuous flow immunoadsorption column filled with avidin-coated beads. The high-affinity interaction between biotin and avidin causes the biotinylated antibody-cell complex to adhere to the avidin-coated beads.

Elution

After unlabeled cells are washed away, the selected target cells are removed by gentle agitation.

Collection

Selected cells are collected and ready for use.

CellPro, Incorporated
2215 26th Avenue SE, Bothell, Washington 98021
Telephone: (206) 485-7644
Customer Service:
Telephone: 1-800-221-2778 • Fax: (206) 489-8750

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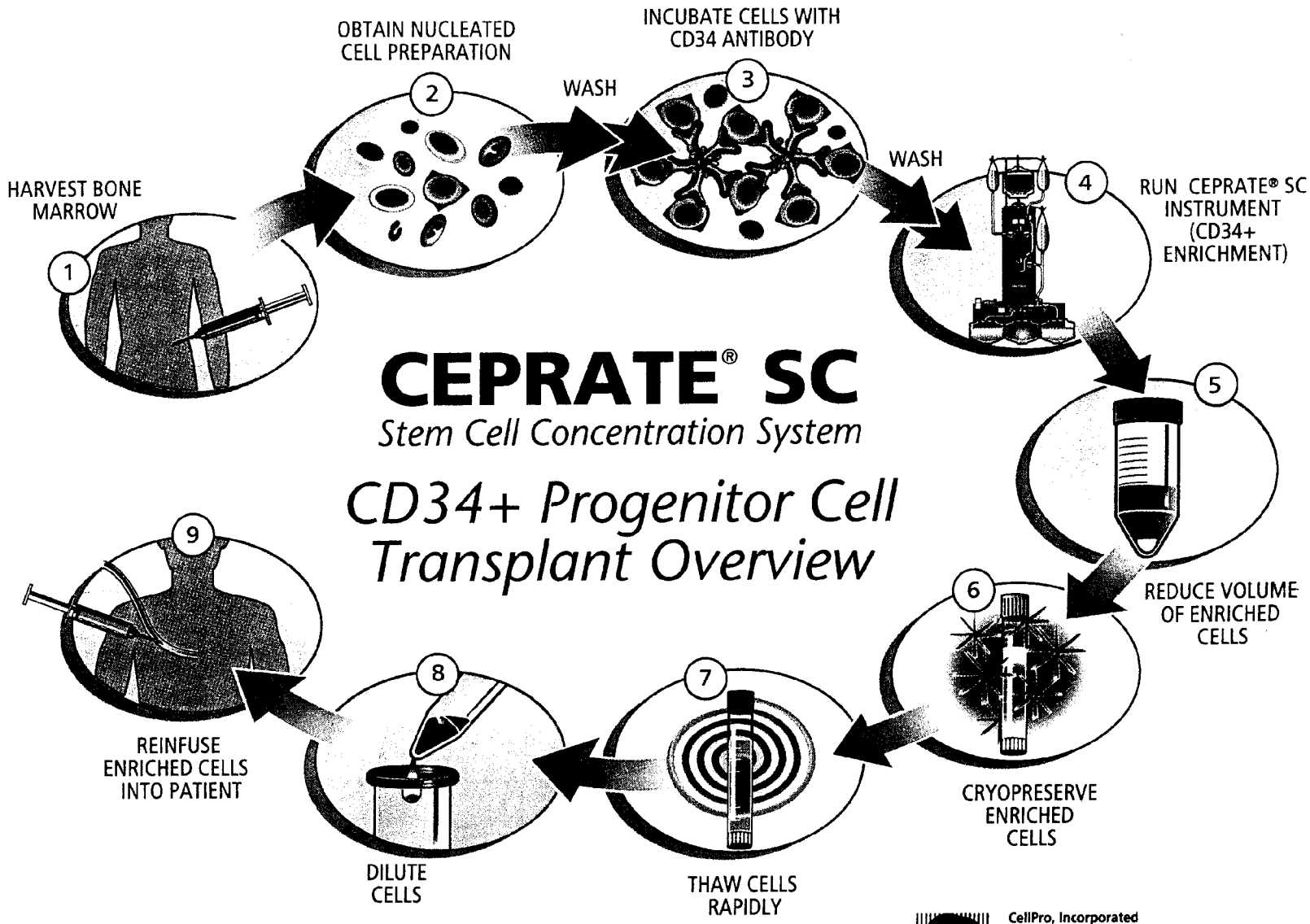

CEPRATE® SC

Stem Cell Concentration System

CD34+ Progenitor Cell Transplant Overview

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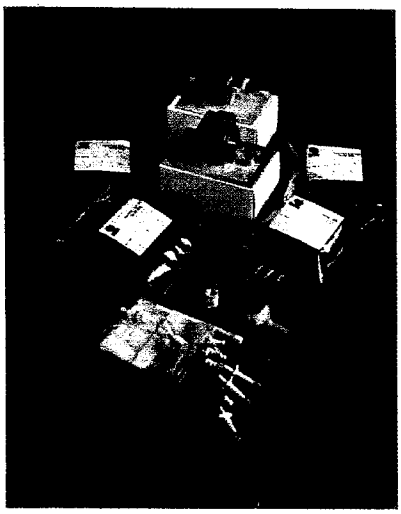
CEPRATE® SC

Stem Cell Concentration System



CEPRATE® SC Disposable Kit

Components:

The CEPRATE® SC Disposable Kit consists of prepackaged, single-use, sterile components.

(1) Avidin Column
(1) Precolumn
(1) Tubing Set
(3) Sterile, Non-pyrogenic Phosphate Buffered Saline (PBS), 1,000 mL
(1) Sterile, Non-pyrogenic RPMI 1640, 1000 mL
(1) 40 µm Pall SQ40S Blood Filter
(1) Anti-Human CD34 Biotinylated Monoclonal Antibody (murine), 3.0 mL vial

Box Dimensions:

Components*	L	W	D
Disposable Kit	21.0	12.0	9.0 in.
Antibody	9.5	7.25	12.0 in.

**The disposable kit will be shipped in two boxes.*

Catalog Number:

SC34-KT1

Pricing:

$4325.00 each
Minimum order quantity of two.
Shipping/handling charges not included

Storage Requirements:

The antibody component is shipped on dry ice and must be stored at -70°C. The disposable kit is shipped at ambient temperature and contains two boxes that require two different storage conditions. The columns and RPMI solution require storage under refrigeration (2° - 8°C). Do not freeze. The other components are shipped in a package which is stored at room temperature (15° - 30°C).

CEPRATE® SC Instrument System

Components:

- Instrument
- Computer
- CEPRATE® SC Automation Software

Box Dimensions:

Components*	L	W	D
Instrument	23.0	23.0	36.0 in.
Computer/monitor	24.0	24.0	36.0 in.

**The instrument system will be shipped in two boxes.*

Catalog Number:

I0001

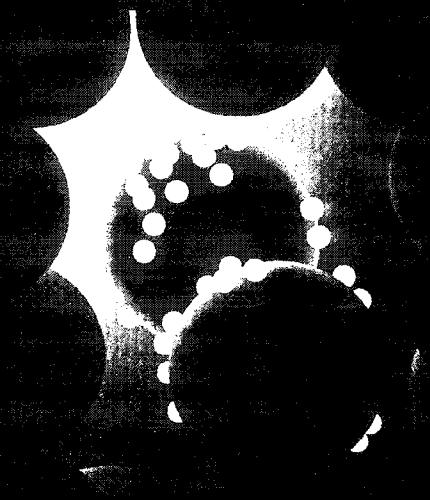
Pricing:

$24,985.00 each
Leasing options available

CellPro, Incorporated
22215 26th Avenue SE,
Bothell, Washington 98021
Telephone: (206) 485-7644

Customer Service:
Call: 1-800-221-2778
Monday - Friday
7:00 a.m. - 5:00 p.m. PST
Fax: (206) 489-8750

CellPro®



CellPro, Incorporated

Annual Report

1996

Making Cell Therapy a Reality

Our Mission:

Nickie Kendricks

CellPro's corporate mission is to make cell therapy a reality. Reality is 11-year old Nickie Kendricks of Carrollton, Georgia. Her mother says Nickie is thrilled to have completed her first uninterrupted school year since being diagnosed with acute lymphocytic leukemia (ALL) at age six. Following years of chemotherapy, tests and many hospital visits, two years ago Nickie and her family finally faced the prospect of a bone marrow transplant for her relapsed ALL. Unable to find a tissue-type-matched donor for the transplant, the Kendricks turned to a pioneering transplantation procedure at Emory University and Egleston Children's Hospital in Atlanta. This procedure permits parents, whose blood cells partially match those of their children, to be transplant donors. Emory's physicians, directed by Andrew M. Yeager, MD, used CellPro's CEPRATE® SC Stem Cell Concentration System to select and purify stem cells from Nickie's father for transplantation, reducing the potential for severe graft-versus-host disease that is a major risk with mismatched transplantation.

This recent photograph of Nickie speaks for itself. She now requires no medication, has normal blood cell counts and—best of all—has no signs of leukemia. Today's cell-therapy reality for the Kendricks family is a healthy Nickie. The employees of CellPro are pleased to have contributed to this happy ending.

FY 1996 Highlights:

FDA Approval Back on Track

The US Food and Drug Administration (FDA) approval process for the CEPRATE® SC Concentration System made significant progress. Processing of this file had experienced a lengthy delay while CellPro collected and analyzed long-term follow-up data requested by the FDA. In February 1996, the FDA's Biological Response Modifiers Advisory Committee voted unanimously to recommend that the Company's pre-market approval (PMA) application be approved. The committee's recommendation was followed in April 1996, by an "approvable" letter from the FDA stating the product was approvable for marketing in the US subject to certain conditions.

Jury Unanimous for CellPro

In August 1995, a unanimous Delaware jury found in CellPro's favor in the Company's long-standing litigation with Baxter Healthcare Corporation (Baxter), Becton Dickinson and Company (BD) and The Johns Hopkins University (Hopkins). Filed in March 1994, the suit against CellPro claimed infringement of a patent held by the plaintiffs asserted to cover an antibody used for identifying and selecting stem cells for transplantation. CellPro had counterclaimed that three other patents relating to the use of certain monoclonal antibodies in selecting stem cells and transplanting them were also invalid and not infringed by CellPro. The jury found by unanimous vote that all the claims of these four patents were either invalid or not infringed by CellPro's use or sale of its CEPRATE® SC Stem Cell Concentration System and its CEPRATE® LC Laboratory Cell Separation System.

CEPRATE® SC System Wins CE Marking and ISO 9002

CellPro announced in May 1996, that its product sales for the fiscal year ended March 31, 1996, had increased 61% over those of the previous year, reaching $6.8 million. Product sales in the fourth quarter reached $2.3 million, a gain of 66% over the same quarter of the previous fiscal year. Product sales were primarily derived from sales of the CEPRATE® SC System in Europe.

Product sales growth was stimulated by certification of the CEPRATE® SC System for both CE marking in the European Economic Area (EEA) and the worldwide ISO 9002 Product Quality Assurance standard. The Communauté Européene (CE) marking is awarded for the 18-nation EEA representing a market of 376 million people. Receipt of the CE marking removes the necessity of seeking marketing approval from the individual nations of the EEA. To achieve the ISO 9002 certification, CellPro's quality systems were audited according to the strict guidelines established by the International Organization for Standardization (ISO), an organization of over 100 countries.

Clinical Trial Program Continues

CellPro's clinical trial program continued its strong forward momentum through participation in numerous trials in leading hospitals and clinics around the world. Most of these trials are sponsored by investigators and their institutions. This enables CellPro to participate in clinical research with some of the world's outstanding researchers. New trials include a multidrug resistance gene therapy trial to treat advanced ovarian cancer and a trial to demonstrate tumor cell purging from peripheral blood transplants in treating small cell lung cancer. A gene therapy trial for the treatment of Gaucher's disease and a pilot study in purging chronic lymphocytic leukemia tumor cells from peripheral blood transplants were also started during the year.

Key clinical research from some of the world's leading researchers was presented at CellPro's fourth annual educational symposium held in conjunction with the yearly meeting of the American Society of Hematology. During the meetings, CellPro researchers shared in a coveted Merit Award for their research into dendritic cell precursors.

CellPro's own clinical trials continued to make excellent progress. The Company's second Phase III trial is expected to complete patient enrollment at mid-year. The objective of this 15-site trial is to demonstrate the CEPRATE® SC System's ability to deplete tumor cells from peripheral blood stem cell harvests in treating multiple myeloma patients. Preliminary trials evaluating the CEPRATE® SC System in matched related and mismatched related donor transplants were successfully concluded.

R&D Intensifies Focus on Lymphocytes

CellPro has established a new long-term research collaboration with Corixa Corporation, a Seattle-based biotechnology company focusing on the discovery and development of new vaccines for use in oncology and infectious diseases. The new research program will identify and optimize methods and conditions for the *ex vivo* growth and stimulation of tumor-antigen-specific lymphocytes and antigen-presenting cells to treat cancer. The objective of the program is to develop commercial products that combine CellPro's *ex vivo* cell-separation and cell-culture technology with Corixa's knowledge and access to proprietary tumor antigens, antigen delivery systems and adjuvants.

Summary Financial Information

Statement of Operations Data

Years ended March 31,

	1996	1995	1994	1993	1992
Product sales	$ 6,801,985	$ 4,215,910	$ 1,365,374	$ 301,173	$ 52,377
Related party revenue	6,000,000	•	•	•	•
Contract revenue	41,600	•	2,933,000	•	•
Interest income	4,303,897	3,979,652	2,148,765	1,431,929	974,344
	17,147,482	8,195,562	6,447,139	1,733,102	1,026,721
Costs and expenses:					
Cost of product sales	3,723,421	2,429,573	1,266,840	286,114	49,758
Research and development	16,474,133	15,417,405	9,944,617	9,215,430	4,955,178
Selling, general and administrative	12,515,870	9,177,505	6,224,706	3,439,921	1,914,546
Interest	86,718	157,034	205,838	210,787	160,830
Litigation provision	•	•	3,926,530	•	3,000,000
Total costs and expenses	32,800,142	27,181,517	21,568,531	13,152,252	10,080,312
Net loss	$ (15,652,660)	$ (18,985,955)	$ (15,121,392)	$ (11,419,150)	$ (9,053,591)
Net loss per share	$ (1.13)	$ (1.45)	$ (1.27)	$ (1.23)	$ (1.25)
Weighted average number of shares outstanding during the period	13,847,929	13,059,985	11,936,094	9,252,139	7,256,429

Balance Sheet Data

As of March 31,

	1996	1995	1994	1993	1992
Cash, cash equivalents and marketable securities	$ 74,143,851	$ 64,649,630	$ 95,505,030	$ 55,898,994	$ 30,339,552
Total assets	97,941,349	89,512,935	110,616,321	62,163,416	35,073,425
Long-term debt, net of current portion	208,001	486,428	754,719	870,957	469,160
Total stockholders' equity	92,213,233	80,760,680	99,376,207	57,367,564	30,008,708

Market Price of Common Stock

The Company's common stock trades on the Nasdaq Stock Market under the symbol "CPRO." Prior to the Company's initial public offering in September 1991, no public market existed for the common stock. No cash dividends have been paid to date by CellPro on its common stock. The Company does not anticipate the payment of dividends in the foreseeable future. The high and low sale prices for the common stock as reported by Nasdaq for the quarters since 1992 are summarized as follows:

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year 1992	High	•	15.500	19.500	17.250
	Low	•	12.500	9.750	10.750
	Last	•	14.250	15.500	10.750
Fiscal Year 1993	High	12.000	18.250	25.500	25.250
	Low	7.250	9.500	15.000	13.750
	Last	10.250	15.375	21.000	15.750
Fiscal Year 1994	High	21.500	23.750	36.500	36.250
	Low	11.250	17.250	23.250	23.250
	Last	21.250	23.750	34.750	23.500
Fiscal Year 1995	High	27.250	28.000	20.500	13.000
	Low	17.250	19.000	9.625	8.125
	Last	19.250	20.000	9.875	11.250
Fiscal Year 1996	High	13.750	16.750	16.750	20.375
	Low	8.625	11.500	10.000	13.000
	Last	13.375	13.500	16.000	15.750

To Our Stockholders:

In last year's report, we discussed the numerous challenges facing CellPro at the end of fiscal 1995. In this report, we are pleased to be able to report on how the Company met, and continues to meet, those challenges.

CEPRATE® SC System "Approvable."

First, we have made significant progress toward commercializing our lead product, the CEPRATE® SC Stem Cell Concentration System, in the United States—a considerable turnaround from this time last year! In February 1996, an advisory panel to the FDA unanimously agreed that the CEPRATE® SC System was both safe and efficacious, and recommended that our PMA be approved. That critical decision was followed by a letter from the FDA in April stating that the device was approvable subject to certain conditions. Primary among these was an inspection of our manufacturing facility to assure that it met with device Good Manufacturing Practice Regulations. Assuming our manufacturing facility passes inspection, and all other conditions have been fulfilled to the FDA's satisfaction, we believe our PMA will be approved on a timely basis, and the CEPRATE® SC System will be available for commercial sale in the US during the second half of fiscal 1997.

Corange Collaboration Yields $90 Million.

Another major achievement was the resolution of a dispute concerning our collaboration with Corange International Ltd. During the year, the parties mutually agreed to a settlement of the dispute under which Corange paid CellPro $30 million in exchange for one million CellPro common shares (in addition to the 1.2 million initially purchased) and nonexclusive rights to purchase CEPRATE® Systems for Corange gene therapy applications. All diagnostic and other therapeutic rights to CellPro products were returned to CellPro, and all previous agreements were terminated. In summary, Corange holds a 15% interest in CellPro and the nonexclusive purchase rights referred to previously. In return, CellPro received a total of $90 million (less expenses) over the course of about 18 months.

CellPro Victorious in Court.

A third major accomplishment was a total victory in the patent litigation trial with Baxter Healthcare Corporation, Becton Dickinson and Company and The Johns Hopkins University. In August, a Delaware jury unanimously found in CellPro's favor on all counts of a patent dispute involving the use of a monoclonal antibody employed in the CEPRATE® SC System. The jury determined that the disputed patents were either invalid or not infringed by CellPro. This litigation is now in the post-trial motion stage.

This litigation originally was initiated by CellPro in April 1992, asking that several patents relating to a monoclonal antibody be declared invalid and not infringed and seeking redress from Baxter and BD for alleged violations of federal antitrust laws and certain state laws prohibiting unfair competition. Hopkins, the original holder of the patents, later joined Baxter and BD in suing CellPro in Delaware for patent infringement. All claims in the various actions were later transferred to Delaware and the patent question separated for trial from the antitrust, unfair competition and other claims. The Company expects to vigorously pursue these remaining claims once the post-trial motions are decided upon by the court.

CE Marking Won.

Also noteworthy was CellPro's completion of all requirements leading to the granting of our use of the CE marking for the CEPRATE® SC System. The CE marking designates full marketing approval throughout the 18-nation EEA. CellPro was one of the first US biotechnology companies to demonstrate the necessary commitment to quality management and product safety required to exhibit the CE marking on any of its products.

Clinical Use Continues to Grow.

Partially as a result of the CE marking, clinical use of the CEPRATE® SC System continued to expand rapidly. We have installed instruments in more than 250 clinics in 28 countries. Over 3,500 patients have thus far been treated in an increasing variety of procedures and a growing number of diseases and genetic disorders. This is more than double the number treated at this time a year ago. Clinical trials continued in over 60 leading cancer research and gene therapy clinics in the US.

New Applications

An exciting new application of the CEPRATE® SC System was announced in May 1996, with the commencement of a clinical trial at Northwestern University to treat malignant multiple sclerosis with autologous bone marrow transplantation. Malignant multiple sclerosis is a devastating and fatal autoimmune disease, for which there is no known cure. Everyone associated with this new approach to treating this disease is hopeful of a positive outcome. This trial is the first of a series of trials at Northwestern, the Medical College of Wisconsin and UCLA to use myeloablative chemotherapy and radiation accompanied by stem cell rescue to treat autoimmune diseases such as multiple sclerosis, rheumatoid arthritis and lupus.

Looking to New Frontiers

In December, we announced a major new application of our cell-selection technology involving the enrichment of dendritic cells from bone marrow. This was followed in January by the announcement that we had signed a technology-based, multi-year research collaboration and licensing agreement with Corixa Corp. This agreement involves a new research program aimed at identifying and optimizing methods and conditions for the growth, and stimulation of tumor-antigen-specific lymphocytes and antigen-presenting cells outside the body for use in treating cancer. We are making rapid progress in preclinical research in this area and are optimistic that this collaboration and CellPro's own research will lead to the discovery of new and exciting adoptive immunotherapies for oncology.

Well Done!

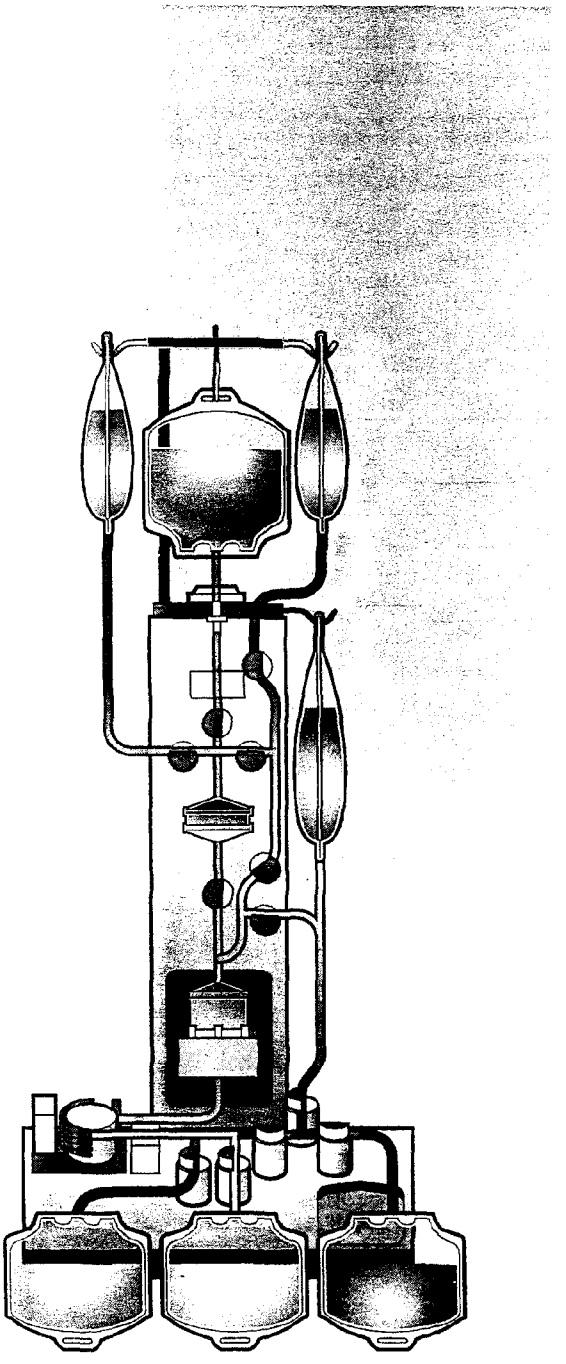
This discussion has touched just the high points of a momentous year for CellPro; a year we hope is the precursor of many more to come. In the US Navy, a "well done" is the highest accolade. To all of our employees, collaborators, vendors and the many others that contributed to the successes of the year, well done and thank you.

Richard D. Murdock

President and Chief Executive Officer

Larry G. Culver

Executive Vice President, Chief Operating Officer and Chief Financial Officer



CellPro Technology:

Tapping the Power of the Cell.

The miracles of modern medical science are increasingly based on understanding how human cells communicate with each other and relate to the outside world. CellPro's proprietary cell-separation technology provides a platform enabling ideas for new cell therapies to find expression in the clinic and laboratory. Purified human cell populations are a basic requirement for many of these studies. The Company's focus has been on obtaining purified hematopoietic stem cells. CellPro is also focusing research and collaborative resources on selecting cells of the immune system.

CellPro Cell-Selection Technology

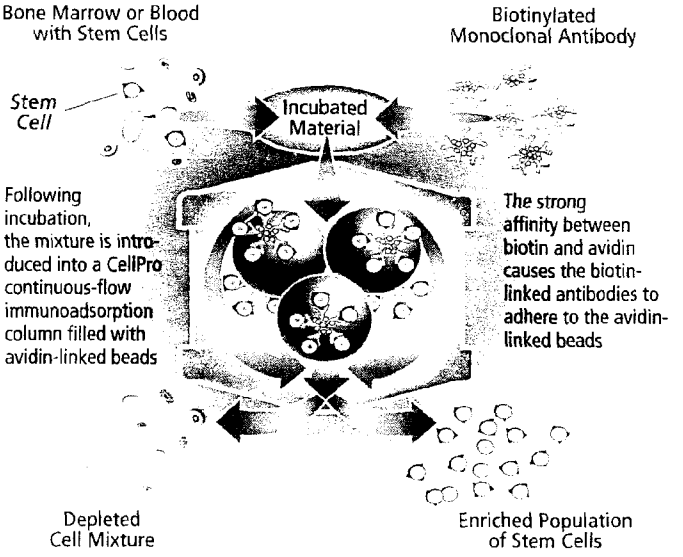
Stem cells are found in bone marrow and, to a lesser degree, in peripheral blood. These cells are unique in their ability to divide into additional stem cells, as well as into progenitors of all the cells of the body's blood and immune systems: red blood cells to carry oxygen to the body's tissues; platelets to promote blood clotting in wounds; and white blood cells to defend against invading pathogens and parasites. Transplanted stem cells can permanently repopulate bone marrow damaged by chemotherapy, radiation or disease.

CellPro's technology selects cell types using appropriate monoclonal antibodies directed against specific antigens on the surfaces of cells. Stem cells are selected using an antibody specific for an antigen (CD34) found on the surface of stem cells and early progenitor cells (collectively referred to as stem cells). The antibody singles out stem cells for later separation. Other antibodies are selective for antigens located on all T (thymus-influenced) lymphocytes (CD2), or on specific subsets of T lymphocytes, such as CD4 on helper T lymphocytes (HTLs), or CD8 on cytotoxic (killer) T lymphocytes (CTLs). HTLs help CTLs to mature and B lymphocytes to make antibodies to fight pathogens in the bloodstream and other bodily fluids. CTLs detect and destroy pathogens hiding inside cells by destroying the invaded cells. Another type of white blood cell, called a macrophage, is the body's sanitary engineer, engulfing anything foreign to the body as well as dead and dying cells. Other kinds of cells, including tumor cells, can also be separated with antibodies selective for antigens unique to those cells. CellPro's technology purifies cells by using the appropriate monoclonal antibody combined with its proprietary, continuous flow, immunoadsorption technique.

Biotin-Avidin Affinity is Fundamental.

The basis of CellPro's technology is the high natural attraction between biotin, a B-vitamin component, and avidin, a protein plentiful in egg white. Both substances are readily available and inexpensive. To select targeted cells, bone marrow, or blood, is first incubated with biotinylated antibody, which attaches to antigens on the surface of the target cells. The incubated cell mixture is then processed through a column containing avidin-coated plastic beads. As the cell mixture flows through the column, the biotin molecule adheres to the avidin on the beads; capturing the cells previously linked through the biotin-antibody-antigen connection. Unwanted cells pass through the column to be discarded, leaving the target cells attached to the beads in the column. The target cells are then collected from the column following gentle agitation of the beads. This leaves behind the monoclonal antibodies attached to the beads due to the strong biotin-avidin connection. The resulting cell product is greatly reduced in volume and highly purified for the targeted cells. CellPro has developed CEPRATE® systems for enriching stem cells and T-lymphocyte subsets.

Alternatively, if one wishes to eliminate certain cells, negative selection may be used. In the case of tumor cell depletion, a

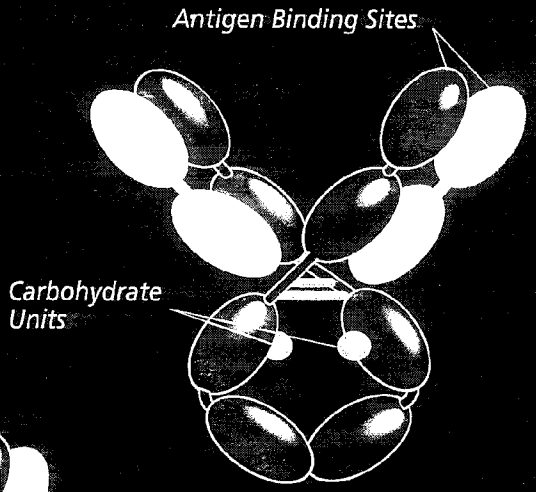


After unwanted cells are washed away, the captured stem cells are removed by gentle agitation and are ready for use.

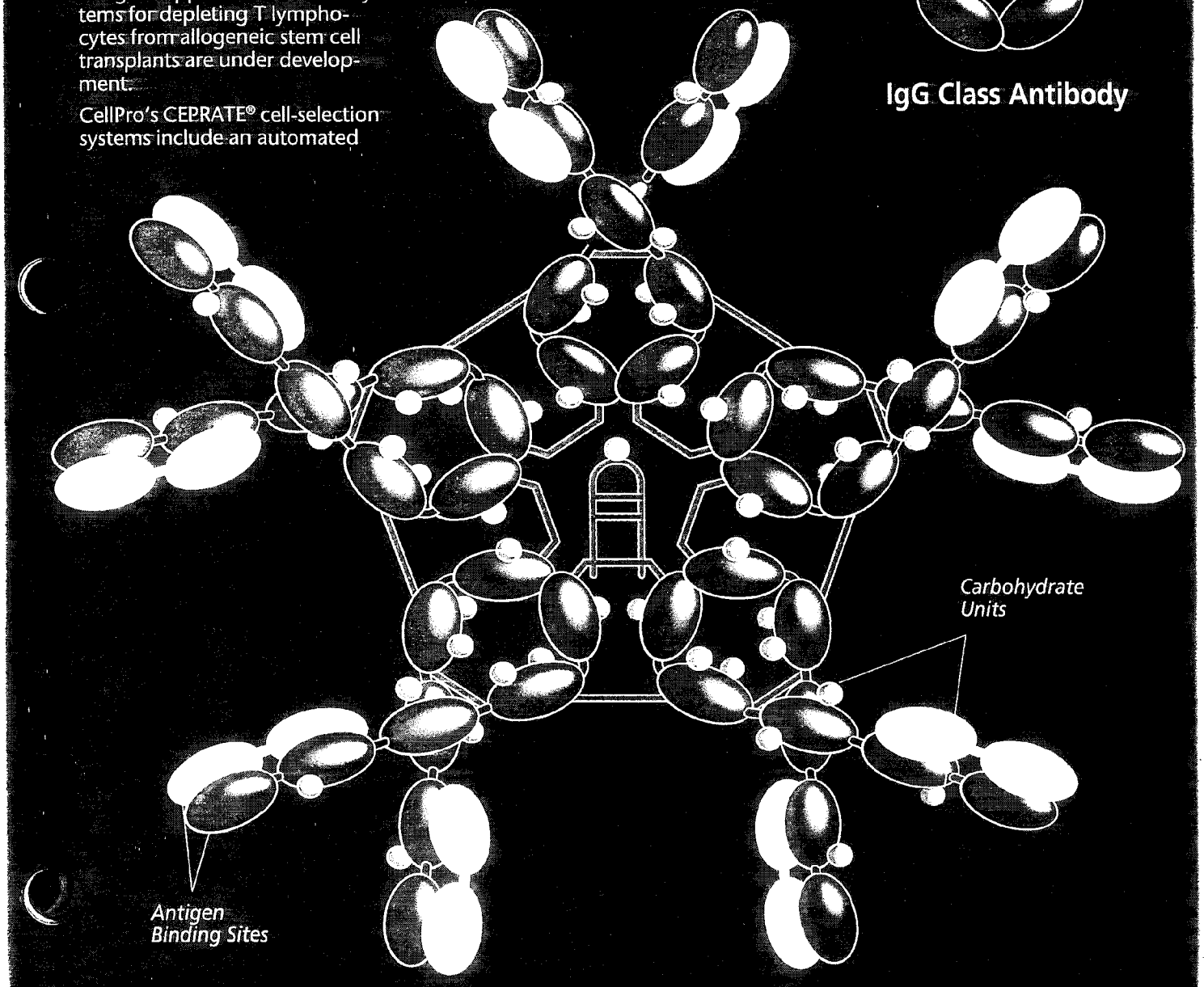
CellPro technology has many existing and potential uses.

smaller CEPRATE® system column is used to remove residual tumor cells following a positive selection for stem cells. In this procedure, the biotin-antibody-linked tumor cells remain attached to the avidin-coated beads and the unattached stem cell population is available for therapeutic use. CellPro has developed next generation CEPRATE® systems capable of depleting breast cancer cells and lymphoma cells for autologous applications. Similar systems for depleting T lymphocytes from allogeneic stem cell transplants are under development.

CellPro's CEPRATE® cell-selection systems include an automated instrument and sterile, pre-packaged, consumable sets. Each set contains the components necessary to process one collection of cells. These single-use sets contain a vial of biotinylated monoclonal antibody, avidin columns and other components, such as integrated tubing sets, collection and processing bags and solutions. The entire column-processing procedure is automated and easy to use.



IgG Class Antibody



IgM Class Antibody

Stem Cell Transplantation:

The Basis for Cell Therapy.

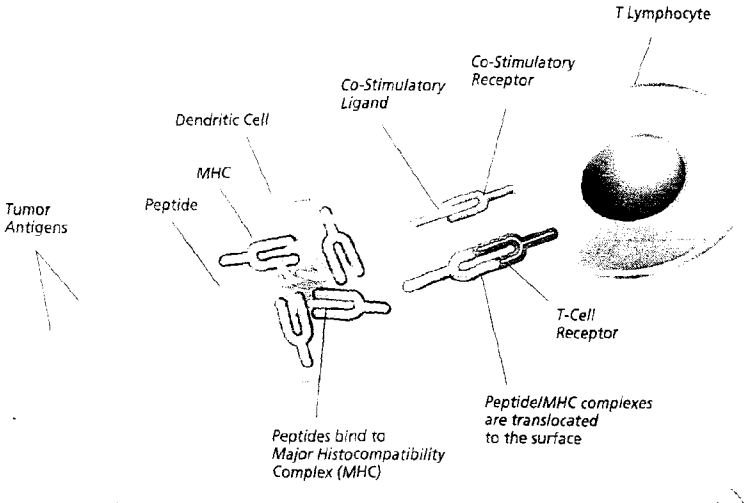
Bone Marrow Stem Cell Therapy for Cancer

CellPro's initial approach to cell therapy for cancer has been through bone marrow transplantation (BMT). BMT replaces sensitive stem cells in patients whose marrow has been damaged, or destroyed, by treatment, or disease. BMTs are also increasingly being considered for treating patients with immune-system deficiencies, autoimmune diseases and genetic disorders.

In autologous BMTs, the patient's marrow is harvested before treatment to kill the cancer begins. Following therapy, the marrow and stem cells are reinfused into the patient. For leukemias, where the marrow itself is cancerous, an allogeneic transplant of marrow from a phenotypically matched donor usually is used. In both types of transplantation, the harvested marrow consists of a mixture of very rare stem cells, blood cells in various stages of maturity and debris from the marrow. Autologous transplants may also contain tumor cells from the patient that may cause, or contribute to, relapse.

Autologous marrow is frozen while the patient receives therapy. Toxic cryoprotective agents are necessary for the protection of cell membranes during freezing. Standard BMT commonly causes complications due to the volume of unnecessary and undesirable cells, cell debris and cryogenic agents that are infused.

Adoptive Immunotherapy: The Future of Cell Therapy



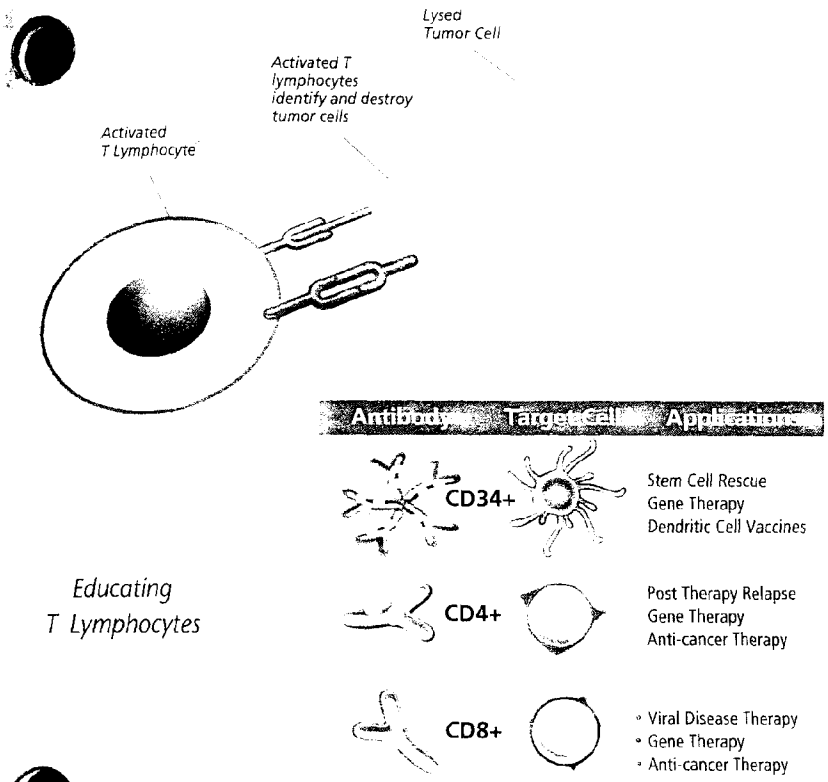
CellPro technology selects from the bone marrow harvest the rare stem cells necessary for engraftment. This greatly reduces the volume of reinfused material, as well as the volume of required cryoprotective agent. Patients receiving purified stem cells are infused with just 4.5 milliliters of cells and less than 0.5 milliliters of cryoprotectant.

CellPro completed its first Phase III trial for autologous BMT in the treatment of metastatic breast cancer in 1993. The two primary goals of this trial were to demonstrate that processed stem cells were safe to use and reduced the cardiovascular toxicities associated with infusion of whole marrow. Both primary goals were successfully demonstrated within the limits of the trial. A number of secondary benefits were also noted. The trial results were submitted to the FDA in December 1993, in support of the Company's first pre-market approval application to sell the CEPRATE® SC System in the US.

The CEPRATE® SC System is being used in additional autologous BMT trials in the United States and Europe to treat various cancers, primarily metastatic breast cancer, lymphoma and multiple myeloma.

Autologous Peripheral-Blood Stem Cell (PBSC) Therapy for Cancer.

In the autologous setting, stem cells circulating in the peripheral blood, rather than those from bone marrow, may be used for transplantation. While BMTs are



effective in treating cancer, they add surgical risk to the risk of infections and other complications associated with chemotherapy. Stem cells are much rarer in peripheral blood, but priming the patient with cytokines and/or chemotherapy can cause the marrow to release enough stem cells into the bloodstream for a transplant. The CEPRATE® SC System is widely used to purify stem cells from peripheral blood for various clinical applications.

Stem cells are selected from peripheral blood through a noninvasive apheresis process. This eliminates the risks associated with bone marrow harvest. Numerous trials have indicated that PBSCs engraft equally well and significantly faster than stem cells from marrow. Faster engraftment means reduced risk of infection and shorter hospital stays.

CellPro is participating in numerous clinical trials around the world using selected PBSCs for various applications. The objective of these trials is to demonstrate the effectiveness and feasibility of using PBSCs for hematological support in treating cancer and for demonstrating the CEPRATE® SC System's ability to purge tumor cells.

CellPro's second Phase III trial seeks to demonstrate that positive selection for stem cells from peripheral blood with the CEPRATE® SC System also significantly depletes tumor cells from the resulting transplant. This purging trial, involving multiple myeloma patients at 15 major cancer treatment centers in the US and Canada, will provide valuable information on whether tumor cells are primed into peripheral blood along with stem cells, as well as the extent of tumor cell depletion provided by the CEPRATE® SC System. Patient enrollment is expected to be completed in mid-1996. Assuming the trial successfully meets its end points, and following a six-month patient observation period, CellPro will file a new PMA for tumor depletion indications.

Stem cell separation from peripheral blood eliminates the cost and risk of surgical procedures and provides PBSCs that engraft faster and present a reduced risk of relapse due to tumor cells in the graft.

Treating Hematological Malignancies with Allogeneic Transplantation.

Allogeneic BMTs to treat blood and lymph cancers have been limited by graft-versus-host disease (GVHD). GVHD is an immune reaction caused by incompatibility between the donor's cells and the host. In GVHD, T lymphocytes from donated marrow recognize their new host as foreign and attack vital tissues and organs. Historically, more than half of all patients undergoing allogeneic transplants contract this often-fatal condition.

Several studies in both bone marrow and peripheral blood are under way in the US and Europe. These are designed to demonstrate the ability of the CEPRATE® SC System to select stem cells, while concurrently reducing the number of T lymphocytes in the graft. Some trials use donors that are matched phenotypically and some use unmatched donors. The trials using matched donors investigate whether positively selected CD34+ stem cells can achieve engraftment, with

Products for Emerging Therapies

concomitant depletion of T lymphocytes to reduce, or even eliminate, acute GVHD. If demonstrated, this capability could lead to significant improvements in the treatment of leukemias and lymphomas, while reducing treatment cost.

The greater the difference between the immune systems of the patient and donor, the more likely it is that the patient will develop GVHD and the more serious the degree of GVHD developed is likely to be. Trials using mismatched donors are investigating whether positive selection of stem cells for engraftment, accompanied by the depletion of T lymphocytes, reduces the incidence and severity of GVHD caused by differences in phenotypes. Only about 30 percent of the patients that need an allogeneic BMT can find a matched donor. If successful, these trials may lead to significant advances in allogeneic transplantation and greatly expand the pool of donors. Since any member of a patient's immediate family would be a potential donor, suitable donors could be found for many more leukemia patients. The added ease and reduced risk to donors may also widen the unrelated donor pool for allogeneic transplants.

New Stem Cell Transplantation Applications

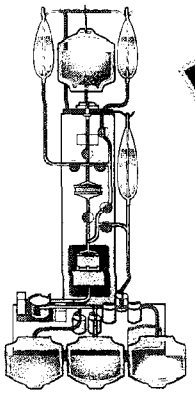
CellPro and researchers at Northwestern University Medical School recently initiated the nation's first clinical trial using stem cell enriched, T-lymphocyte-depleted, autologous BMT to treat malignant multiple sclerosis (MS), a progressive disease causing deteriorating neurological function. Patients with this form of MS have a life expectancy of five years from diagnosis. MS is caused by an immunological attack on the myelin sheath that covers the nerve fibers in the central nervous system. This attack is thought to be caused by T lymphocyte-mediated immune destruction of the myelin. The Northwestern protocol will use chemotherapy and radiation to destroy the patients' faulty immune systems. This will be followed by blood and immune system rescue through a BMT using stem cells selected with a CEPRATE® SC System. Positive selection of stem cells will correspondingly deplete the transplant product of T lymphocytes. Researchers expect the naive stem cells will not produce the clone of T lymphocytes originally responsible for attacking the myelin, thus effecting a remission of the disease. Similar trials to treat lupus and rheumatoid

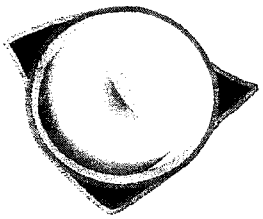
CellPro's cell-separation technology positions it to become a leader in developing cell therapies

Graft Engineering

Stem Cell Selection

Selected stem cells are important for medical procedures like stem cell transplantation and gene therapy to treat cancers, autoimmune diseases and inherited disorders. It may also be possible to differentiate them into dendritic cells for use as anticancer vaccines.

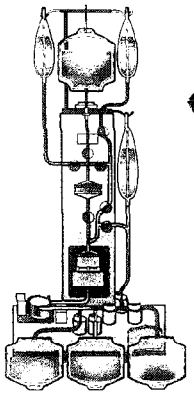


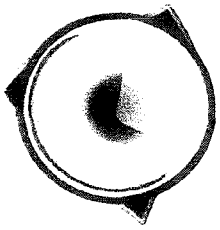


CD34+ cells bind to column for use

T-Lymphocyte Selection

Selecting specific subsets of immune-system cells may be a key to stimulating graft-versus-leukemia reactions, or to preventing viral infections. Expanding various subsets for possible activation, or antigen-specific targeting, to attack cancer cells may be feasible.

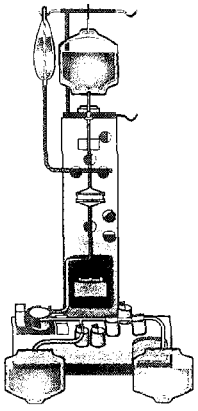


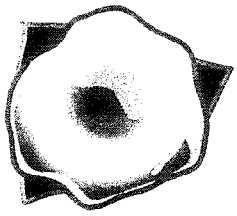


CD4+ or CD8+ cells bind to column for use

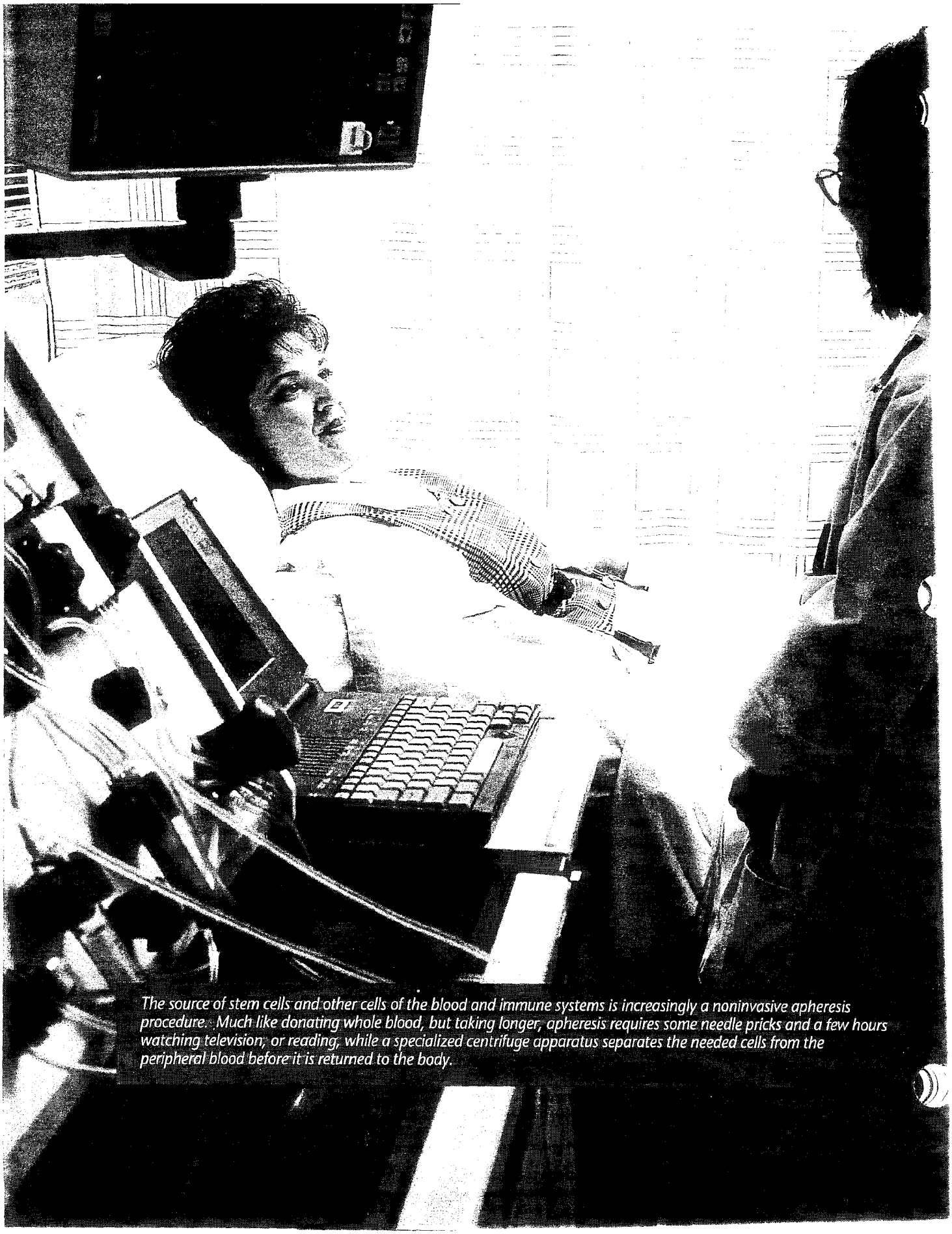
Cell Depletion

Depleting tumor cells could enhance survival potential for advanced cancer patients. Depletion of T lymphocytes may reduce GVHD and permit routine transplants from mismatched donors. This could increase the number of potential donors available to transplant patients.





Tumor cells or CD2+ cells bind to column to be discarded

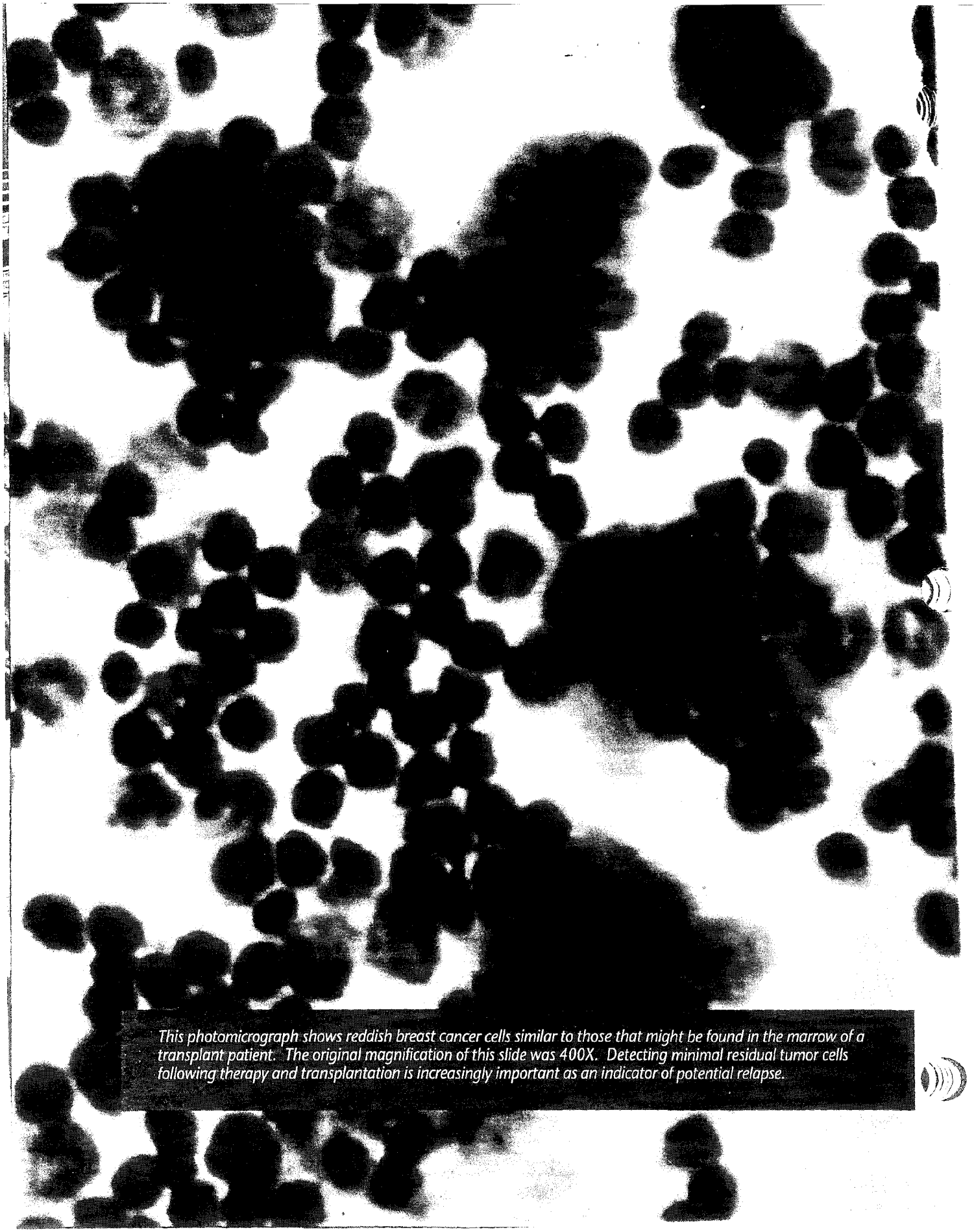


The source of stem cells and other cells of the blood and immune systems is increasingly a noninvasive apheresis procedure. Much like donating whole blood, but taking longer, apheresis requires some needle pricks and a few hours watching television, or reading, while a specialized centrifuge apparatus separates the needed cells from the peripheral blood before it is returned to the body.

arthritis are planned.

CellPro also is planning trials designed to demonstrate that simultaneously transplanting donor stem cells and organs can reduce the incidence of organ rejection. Preclinical studies in animals show that host immune systems that incorporate donor stem cells accept donated organs with little, or no, rejection. If clinical feasibility is demonstrated, this phenomenon could greatly reduce the use of immunosuppressant drugs and contribute to significant advances in organ transplantation.

Process	Application	Development Stage
Stem Cell Selection	Autologous BMT, stem cell therapy for cancer treatment	PMA approval projected FY1997
Stem Cell Selection	Autologous peripheral blood stem cell therapy and tumor cell purging for cancer treatment	Phase III in multiple myeloma - PMA filing expected FY1998
Stem Cell Selection	Autologous peripheral blood stem cell therapy for cancer	Phase I/II - several ongoing, additional starting FY1997
Stem Cell Selection	Dose-intensified, multicycle, multidrug stem cell therapy, with MDR-1 gene therapy for high-risk breast cancer	Pilot study - start FY1997
Stem Cell Selection	*Ex vivo* stem cell gene therapy for inherited disorders	Phase I/II - several ongoing
Stem Cell Selection	*Ex vivo* stem cell gene therapy for cancer treatment	Phase I/II - several ongoing
Stem Cell Selection	Autologous stem cell therapy for autoimmune diseases	Phase I/II - several ongoing, additional starting FY1997
Stem Cell Selection	*In utero* allogeneic stem cell therapy to treat inherited disorders	Pilot studies - several ongoing, additional starting FY1997
Stem Cell Selection	*Ex vivo* generation of autologous dendritic cells for immunization against cancer	Pilot studies - start FY 1997
Stem Cell Selection and T-Lymphocyte Depletion	Allogeneic stem cell therapy and T-lymphocyte depletion to reduce solid organ rejection following transplantation	Phase I/II - start FY1997
Stem Cell Selection and T-Lymphocyte Depletion	Allogeneic stem cell therapy and T-lymphocyte depletion to reduce graft-versus-host disease in hematological malignancies	Phase I/II - start in FY1997
Tumor Cell Depletion	Tumor-specific cell depletion from peripheral blood stem cell transplants to treat various cancers	Pilot studies - start FY1997
T-Lymphocyte Selection	T-lymphocyte subset selection to treat infectious diseases and cancer	Phase II in AIDS - ongoing, Phase I/II in CML and multiple myeloma - start FY1997
Dendritic Cell Selection	Autologous dendritic-cell selection from peripheral blood for immunization against cancer	Preclinical
Cancer Cell Selection	Cancer-specific cell selection for early diagnosis, or relapse monitoring	Preclinical



This photomicrograph shows reddish breast cancer cells similar to those that might be found in the marrow of a transplant patient. The original magnification of this slide was 400X. Detecting minimal residual tumor cells following therapy and transplantation is increasingly important as an indicator of potential relapse.

Gene Therapy: Today's Dream, Tomorrow's Reality.

The insertion of genes into stem cells for treating and possibly curing diseases and genetic disorders is becoming reality. Several protocols demonstrating the ability of inserted genes to facilitate cancer treatment, or to replace faulty genes, have moved into the clinic. Faulty genes cause many fatal, or debilitating, genetic disorders. In these protocols, a CEPRATE® SC System provides concentrated stem cells as targets for gene insertion by viral vectors.

Researchers at The University of Texas MD Anderson Cancer Research Center and the National Institutes of Health are inserting therapeutic, multidrug resistance genes into human stem cells following selection with a CEPRATE® SC System. This gene may allow patients with resistant or later-stage cancers to receive higher doses of chemotherapy with less damage to their bone marrow.

In May 1993, researchers at Childrens Hospital Los Angeles succeeded in inserting the gene for the production of adenosine deaminase (ADA) into stem cells of three new-born children with severe combined immuno-deficiency (SCID). About 40% of SCID cases are caused by lack of the ADA enzyme necessary for the synthesis of DNA by white blood cells. This disables the immune system's ability to fight infection. Without a BMT from a matched donor, very expensive ADA replacement therapy or successful gene therapy, this congenital immune disorder leads to early death.

The children are now outwardly normal three-year olds, and their marrows contain some stable stem cells producing lymphocytes expressing the ADA gene. Not enough ADA-expressing lymphocytes are being produced to constitute a normal immune system, but sufficient quantities are being produced to allow the childrens' ADA replacement therapy to be reduced by 50%.

These new therapies hold the promise of curing hematopoeitic congenital disorders, for which there are now few remedies, as well as treating cancer. CellPro is participating in numerous important gene insertion trials, including those designed to correct Gaucher's disease and to treat advanced ovarian and breast cancer.

Diagnostic Applications.

CellPro is also working on better methods for identifying tumor cells that may be circulating in the bloodstream, or lying dormant in the bone marrow. It may be feasible to determine the presence of micrometastatic tumors before they present clinically, or to detect and purge tumor cells from transplant products.

In fiscal 1996, the Company established MRDx Diagnostics to explore these and other diagnostic applications. In recent years, compelling gene-marking studies have indicated that residual tumor cells that may be present in transplantation products following surgery, chemotherapy or radiation can contribute to cancer relapse. As a consequence, the stem cell transplant community is highly interested in identifying the presence of these rare tumor cells. MRDx Diagnostics provides ultra-sensitive tumor detection through cell-specific monoclonal antibodies and polymerase chain reaction (PCR) techniques. These techniques enable MRDx Diagnostics to detect one tumor cell in one million peripheral blood or bone marrow cells. MRDx Diagnostics currently offers its services worldwide to detect tumor cells in patients being treated for lymphomas, or breast, prostate or lung cancer.

Turning Success in the Clinic into Success in the Marketplace

Marketing Programs Accelerating

During fiscal 1996, the CEPRATE® SC System became one of the first US biotechnology products to complete all requirements and be granted use of the CE marking designating full marketing approval throughout the EEA. The CE marking allows the CEPRATE® SC System to be marketed in all EEA countries without undergoing individual country regulatory approval procedures and is a symbol of acceptance recognized in many other areas of the world. The 18-nation EEA represents a market of 376 million people. CellPro's manufacturing quality systems were also awarded the ISO 9002 Production Quality Assurance certification during the year. These awards recognizing CellPro's commitment to quality contributed to product sales growth of 61% in fiscal 1996. Increased sales were also a result of the deployment of additional marketing and direct-sales people leading to the inclusion of the CEPRATE® SC System in many new treatment protocols and to the successful penetration of markets in new countries.

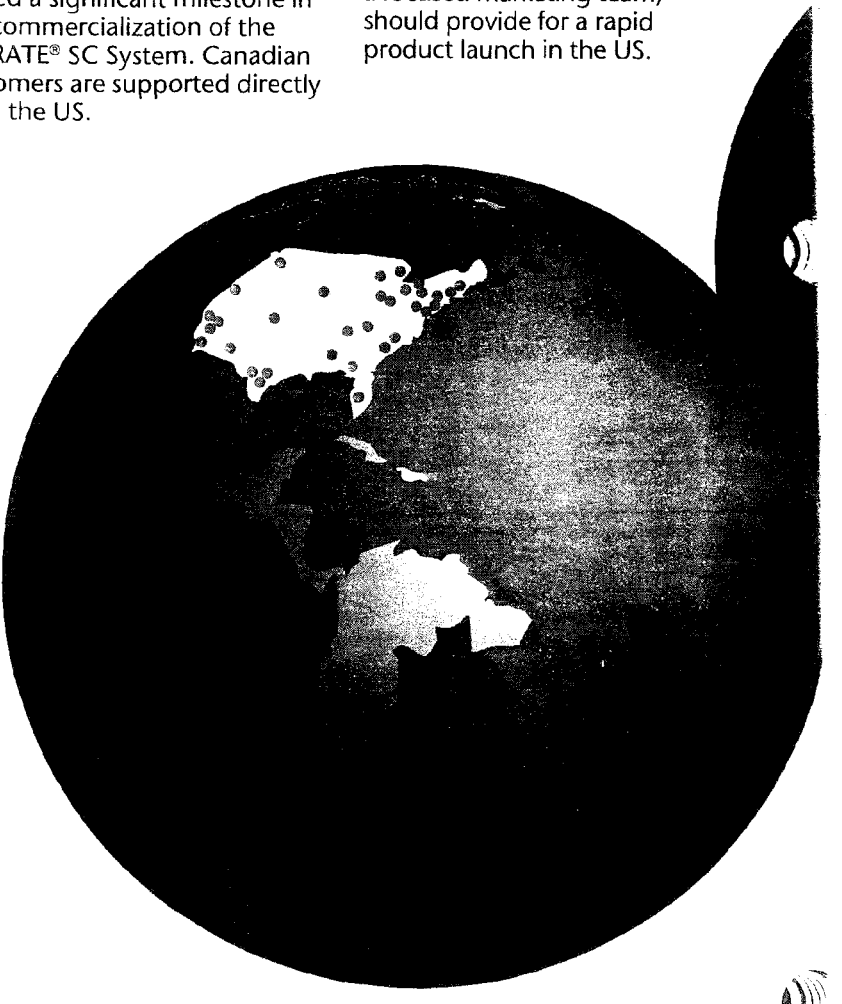
CellPro Europe is currently servicing approximately 170 transplant teams in 17 European countries and Israel. Headquarters for European operations are strategically located in Brussels, Belgium. Regional offices are located near Bordeaux, France; Munich, Germany; Milan, Italy and Madrid, Spain, with an additional sales office in Vienna, Austria.

During fiscal 1996, distribution networks were established in Asia/Pacific and Latin America. Though still modest, CellPro now has a presence in South Korea, Taiwan, Singapore, Hong Kong, Australia and New Zealand. Distributorships have also been established in Argentina and Brazil. In addition, corporate marketing support has been initiated in Asia/Pacific with the appointment of an area manager based in Australia. Latin American support is provided from the US.

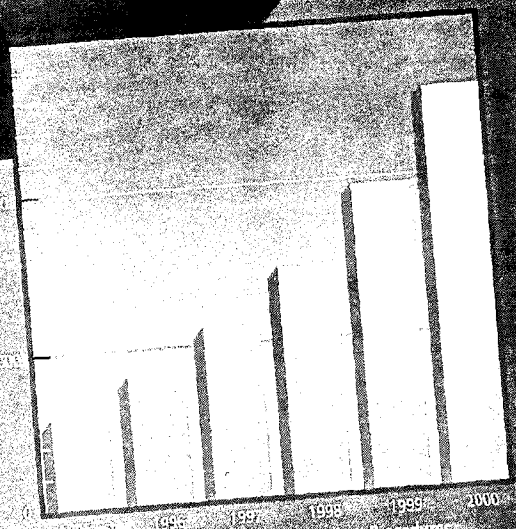
The CEPRATE® SC System was approved in Canada in 1994 and exports to that country were initiated in early 1995. This represented a significant milestone in the commercialization of the CEPRATE® SC System. Canadian customers are supported directly from the US.

US Launch Imminent

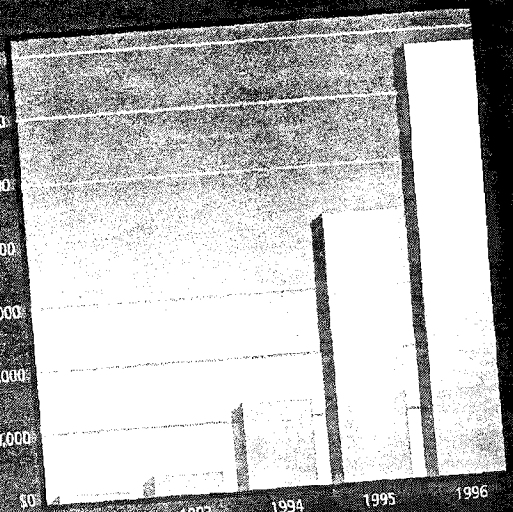
With FDA designation of the CEPRATE® SC System PMA as approvable, preparations for marketing in the US have accelerated. Current plans are for a product launch during this fiscal year subject to final FDA approval. The US transplant market resembles that of Europe without the complication of national borders. Each market contains 250 to 300 stem cell transplant clinics. This enables focused marketing groups to be effective. There are already dozens of CEPRATE® SC Systems installed for investigational use in the leading US transplant centers. This represents a potential installed customer base that, coupled with a focused marketing team, should provide for a rapid product launch in the US.



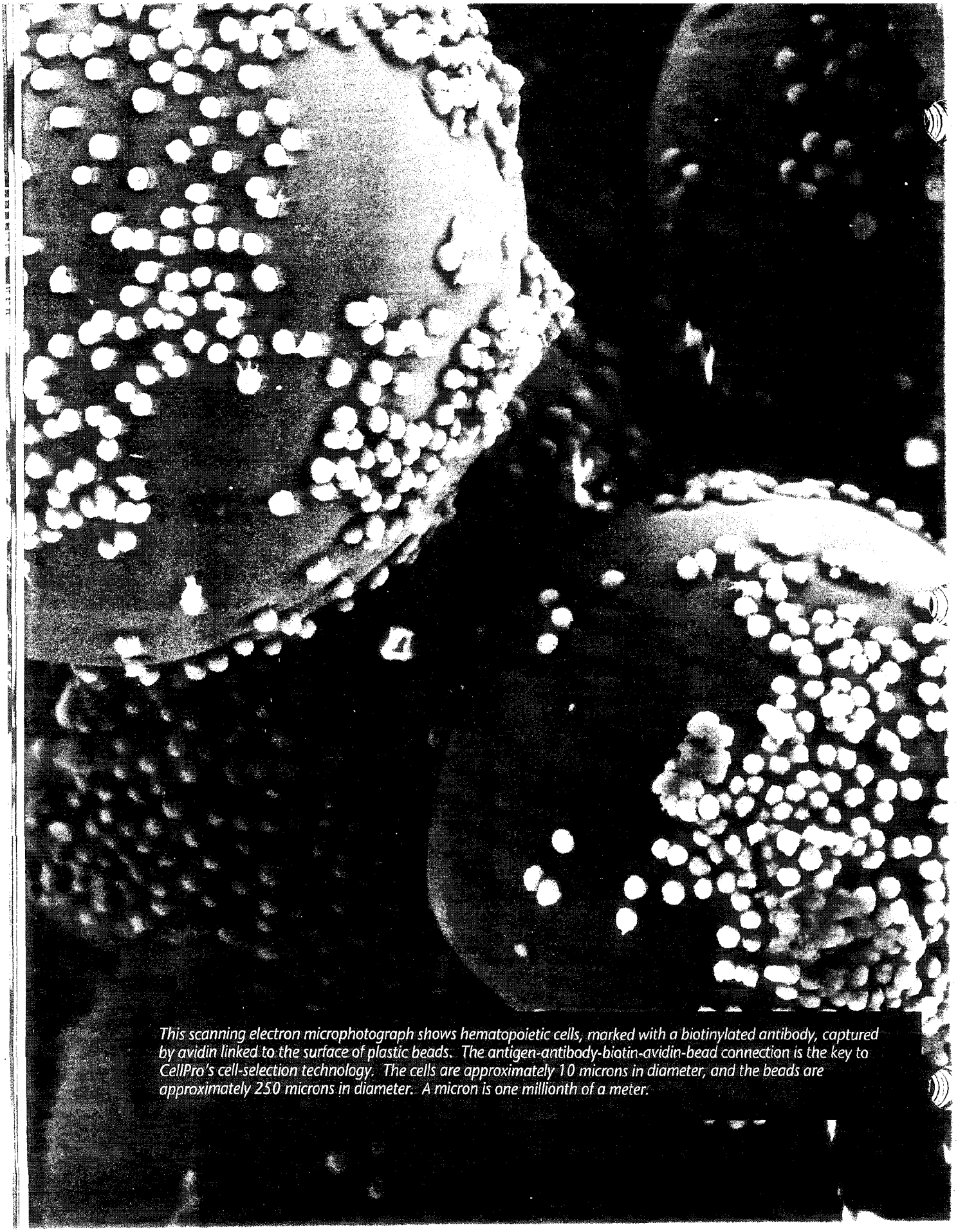
Growing product sales mean CellPro is fulfilling its mission to make cell therapy a reality.



Worldwide Stem Cell Transplant Procedures
(Projected at Current Growth Rates)



Total Product Sales
(From Inception)



This scanning electron microphotograph shows hematopoietic cells, marked with a biotinylated antibody, captured by avidin linked to the surface of plastic beads. The antigen-antibody-biotin-avidin-bead connection is the key to CellPro's cell-selection technology. The cells are approximately 10 microns in diameter, and the beads are approximately 250 microns in diameter. A micron is one millionth of a meter.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Except for disclosures that report the Company's historical results, the statements set forth in this section are forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in the Company's Annual Report on Form 10K and in the Company's other filings with the Securities and Exchange Commission. In particular, readers should review the section entitled "investment considerations" in the Company's annual report on Form 10K for the fiscal year ended March 31, 1996, as filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Since the commencement of operations in 1989, the Company has been a development stage company, primarily engaged in developing, manufacturing and marketing proprietary continuous-flow, cell-selection systems. These systems may be used for a variety of therapeutic, diagnostic and research applications. The Company has completed a Phase III clinical trial of its technology for concentration of stem cells utilized in autologous bone marrow transplantation for the treatment of cancer and filed a premarketing approval application (PMA) based on this trial. In April 1996, the Company was notified by the US Food and Drug Administration (FDA) that its PMA was approvable subject to submission of limited additional data, final approval of product labeling, and completion of GMP certification of its manufacturing facilities. The Company intends to move rapidly to complete the remaining requirements for commercialization in the United States. The CEPRATE® SC System already has marketing approval throughout the 18-nation European Economic Area and Canada.

The Company's activities have been funded primarily by raising approximately $153 million through the sale of Common Stock, including two public offerings and two private offerings to Corange International Limited ("Corange"), and $9.7 million through private sales of Preferred Stock prior to the Company's initial public offering. The Company has been unprofitable since inception and expects to incur additional operating losses for at least the next few years. For the period from inception to March 31, 1996, the Company incurred a cumulative net loss of approximately $75.6 million.

The Company's first commercial product, the CEPRATE® LC Laboratory Cell Separation System (the "CEPRATE® LC System"), was introduced in October 1991 and is being sold on a world-wide basis for various research applications. Additionally, the Company commenced sales of its CEPRATE® SC System for certain therapeutic purposes in August 1993 and is currently selling the system in various European, Middle Eastern and Asian countries and in Canada. Also, the CEPRATE® SC System is being sold, on a limited basis, for investigational use in the United States under the FDA's cost recovery program. The Company expects to continue to incur substantial expenses to support its operations, including the costs of preclinical and clinical studies, manufacturing scale-up costs and the expansion of its sales and marketing organization. The Company's results of operations may vary significantly from quarter to quarter during this period of development and the Company expects to continue to incur net operating losses during this period.

Results of Operations

Years Ended March 31, 1996, 1995, and 1994

Product sales increased to $6.8 million in the fiscal year ended March 31, 1996 ("fiscal 1996"), from $4.2 million in the fiscal year ended March 31, 1995 ("fiscal 1995") and $1.4 million in the fiscal year ended March 31, 1994 ("fiscal 1994"). Sales of the CEPRATE® SC System accounted for the increase. In July 1995, the CEPRATE® SC System was approved for commercial sale in the European Economic Area. This opened up several new markets for the Company's products and allowed the Company greater access to markets it already served in Europe. The Company also introduced the CEPRATE® SC System for sale in key Latin American and Asia Pacific countries during this fiscal year. The majority of the Company's sales have been in Europe. These sales are denominated in various European currencies. As a result, product sales have been and will continue to be affected by changing currency exchange rates.

Related party revenue for the current year consisted of $6 million for prior research and development services received from Corange as part of the termination of business arrangements between CellPro and Corange previously established in December 1993. Under the terms of this settlement, Corange agreed to return all product rights previously subject to these agreements. Contract revenue of $2.9 million, recorded in fiscal 1994, was earned as a result of initiating the Corange collaboration. These revenue sources are non-recurring.

The Company generated $4.3 million, $4.0 million and $2.1 million of interest income during fiscal 1996, 1995 and 1994 respectively. The higher amounts in 1996 and 1995 were due to larger average cash balances available for investment and higher interest rates received on such cash balances. Average cash reserves were higher in 1996 due to the July 31, 1995 termination of the Corange collaboration, which included $30 million in cash received from the sale of Common Stock and revenue for past research and development. Average cash reserves were augmented in 1995 with the $60 million in proceeds from the Company's sale of Common Stock to Corange and a commitment payment received from them late in fiscal 1994.

Cost of product sales was $3.7 million, $2.4 million, and $1.3 million for fiscal 1996, 1995, and 1994, respectively. These increases are related to higher sales volumes. Also, the gross margin percentage has improved due to the favorable CEPRATE® SC System product sales mix.

Research and development expenses totaled $16.5 million in fiscal 1996, increasing from $15.4 million in fiscal 1995 and $9.9 million in fiscal 1994. The increase from 1995 to 1996 resulted from the commencement of the Company's second Phase III clinical trial, which began in 1995, and from a newly created collaboration with Corixa Corporation to develop T-lymphocyte therapies to treat cancer. The increase from 1994 to 1995 resulted from expanded staffing and facilities costs to support continuing investment in research and development and the continued expansion of clinical trial programs.

Selling, general and administrative expenses totaled $12.5 million, $9.2 million and $6.2 million in fiscal 1996, 1995 and 1994, respectively. The increase from 1995 to 1996 resulted from higher legal fees and increased sales and marketing expenses. Higher legal fees were incurred to defend the Company in patent litigation asserted by Baxter Healthcare Corporation, Becton Dickinson & Co. and Johns Hopkins University against the Company. On August 4, 1995, a jury verdict was reached in favor of CellPro in the patent litigation case. This case is currently in the post-trial motion phase. Increased sales and marketing expenses resulted from expanded commercialization activities for the CEPRATE® SC System in Europe, the Middle East, Canada, Asia Pacific and Latin America. The increase from fiscal 1994 to 1995 was primarily the result of continuing expansion of sales and marketing activities in support of commercialization of the CEPRATE® SC System. Additionally, the general and administrative functions continued to increase in support of the growth and increased diversity of the Company's operations. The Company expects these expenses to continue to increase as the Company's activities continue to expand with the anticipated product launch in the United States and increased efforts in other key international markets.

Interest expense has declined over the last three fiscal years at $87,000, $157,000, and $206,000 for fiscal 1996, 1995, and 1994, respectively. The decline is a result of lower average debt balances for equipment financing.

The above factors resulted in net operating losses of $15.7 million, $19.0 million and $15.1 million in fiscal 1996, 1995 and 1994, respectively.

Litigation Provision:

On August 4, 1995, a jury found in favor of CellPro regarding a three year-old patent dispute between CellPro and Baxter, B-D and Hopkins. The verdict stated that the patents in question were not infringed by CellPro's manufacture, use and sale of the CEPRATE® SC System or the CEPRATE® LC System. Additionally, the jury found that the claims of the patents asserted against CellPro were invalid and unenforceable. Post-trial motions have been filed by both parties and are currently under review. The Company has no knowledge as to whether Baxter, B-D and Hopkins will appeal the verdict.

Based on current advice of counsel, CellPro plans to vigorously pursue its antitrust and unfair competition claims against Baxter, B-D and Hopkins, pending the rulings on the post-trial motions.

As this litigation progresses, the Company will continue to incur substantial expenses. Further, although the Company does not believe that the outcome of this litigation will have a material impact on the Company's financial condition, the expenses incurred in conducting such litigation could have a material adverse effect on quarterly, or annual operating results for future periods in which they occur.

Liquidity and Capital Resources

The Company has financed its operations since inception primarily through the sale of Common Stock and Preferred Stock, generation of interest income and arrangements for equipment financing. Through March 31, 1996, the Company has raised $73.3 million through two public offerings and $79.7 million through two private offerings of Common Stock, and $9.7 million from the sale of Preferred Stock. It has generated $13.4 million in interest income, $12.7 million in product sales and $9.0 million in contract and related party revenues.

Since inception, the Company has used $66.9 million of cash in operating activities and has invested $26.9 million in equipment and leasehold improvements. The Company has financed $3.6 million of these investments with secured lending arrangements.

The Company expects to incur substantial expenses in support of additional research and development activities, including the costs of preclinical and clinical studies, expansion of manufacturing activities and new product development and possible acquisition of new technologies. Selling, general and administrative expenses will also increase as the Company builds its sales and marketing organization and expands administrative activities in support of the Company's anticipated expansion of commercial sales.

At March 31, 1996, the Company had $74.1 million in cash and marketable securities available to meet its future working capital needs. The Company anticipates that its capital resources should be sufficient to fund its cash requirements through approximately the fiscal year ending March 31, 1999. The preceding forward-looking statement is subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The amount and timing of net expenditures of capital resources will depend on the Company's ability to increase product sales, the timing and extent of sales and marketing expenditures, including those incurred in support of product launches, the progress of ongoing research and development, the results of preclinical testing and clinical trials, the rate at which operating losses are incurred, the execution of any collaborative research

and development agreements, product marketing or licensing agreements, or other corporate partner arrangements, the FDA regulatory process and other factors, many of which are beyond the Company's control.

New Pronouncements

In March 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No 121 which establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used, and for long-lived assets and certain identifiable intangibles to be disposed of. SFAS 121 requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company adopted SFAS 121 as of April 1996. Management believes adoption of SFAS 121 will not significantly impact the Company's financial position or results of operations.

In October 1995, the FASB issued SFAS 123 which addresses the accounting for stock-based compensation arrangements. SFAS 123 permits a company to choose either a new fair value-based metnod or the current Accounting Principles Board ("APB") Opinion 25 intrinsic value-based method of accounting for stock-based compensation arrangements. The statement requires pro forma disclosures of net income and earnings per share computed as if the fair value-based method had been applied in financial statements of companies that continue to follow current practice in accounting for such arrangements under APB Opinion 25. The Company must adopt SFAS 123 for the fiscal year ending March 31, 1997. The Company will continue to record stock-based compensation using the current APB Opinion 25 intrinsic value-based method and therefore believes adoption of SFAS 123 will not impact the Company's financial position or results of operations.

Report of Independent Accountants

Board of Directors and Stockholders
CellPro, Incorporated

We have audited the accompanying consolidated balance sheets of CellPro, Incorporated (a Company in the development stage) as of March 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended March 31, 1996, 1995 and 1994 and for the period from inception to March 31, 1996. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CellPro, Incorporated (a Company in the development stage) as of March 31, 1996 and 1995 and the consolidated results of its operations and its cash flows for the years ended March 31, 1996, 1995 and 1994 and for the period from inception to March 31, 1996 in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Seattle, Washington
May 6, 1996

Consolidated Balance Sheets

March 31, 1996 and 1995

ASSETS	1996	1995
Current assets:		
Cash and cash equivalents	$ 17,076,098	$ 17,184,026
Securities available for sale	57,067,753	47,465,604
Trade receivables	2,283,624	1,134,173
Inventories	4,384,452	3,187,936
Other current assets	555,904	555,308
Total current assets	81,367,831	69,527,047
Property and equipment, net	16,504,305	19,659,225
Other assets	69,213	326,663
Total assets	$ 97,941,349	$ 89,512,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 269,275	$ 340,315
Accounts payable	1,104,467	2,750,881
Accrued liabilities	4,146,373	3,299,309
Reserve for litigation costs	•	1,875,322
Total current liabilities	5,520,115	8,265,827
Long-term debt, net of current portion	208,001	486,428
Commitments and contingencies (Notes 8, 10 and 12)		
Stockholders' equity:		
Common stock, $0.001 par value; 25,000,000 shares authorized; 14,348,933 shares issued and outstanding at March 31, 1996; and 13,084,652 shares at March 31, 1995	14,349	13,085
Additional paid-in capital	167,971,991	140,990,564
Foreign currency translation	(50,014)	8,760
Net unrealized loss on securities available for sale	(102,127)	(283,423)
Deficit accumulated during the development stage	(75,620,966)	(59,968,306)
Total stockholders' equity	92,213,233	80,760,680
Total liabilities and stockholders' equity	$ 97,941,349	$ 89,512,935

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

Consolidated Statements of Operations

for the years ended March 31, 1996, 1995 and 1994 and the period from inception to March 31, 1996

	1996	1995	1994	For the period from inception to March 31, 1996
Product sales	$ 6,801,985	$ 4,215,910	$ 1,365,374	$ 12,736,819
Related party revenue	6,000,000	•	•	6,000,000
Contract revenue	41,600	•	2,933,000	2,974,600
Interest income	4,303,897	3,979,652	2,148,765	13,387,210
	17,147,482	8,195,562	6,447,139	35,098,629
Costs and expenses:				
Cost of product sales	3,723,421	2,429,573	1,266,840	7,755,706
Research and development	16,474,133	15,417,405	9,944,617	60,092,503
Selling, general and administrative	12,515,870	9,177,505	6,224,706	35,030,485
Interest	86,718	157,034	205,838	914,371
Litigation provision	•	•	3,926,530	6,926,530
Total costs and expenses	32,800,142	27,181,517	21,568,531	110,719,595
Net loss	$ (15,652,660)	$ (18,985,955)	$ (15,121,392)	$ (75,620,966)
Net loss per share	$ (1.13)	$ (1.45)	$ (1.27)	$ (8.00)
Weighted average number of shares outstanding during the period	13,847,929	13,059,985	11,936,094	9,452,903

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

	Common Stock		Preferred Stoc	
	Shares	Par Value	Shares	Par
Issuance of common stock for cash and notes receivable	655,000	$ 655	•	$
Issuance of Series A Preferred Stock for cash	•	•	2,175,000	
Net loss from inception to March 31, 1990	•	•	•	
Balance at March 31, 1990	655,000	655	2,175,000	
Issuance of Series B Preferred Stock for cash	•	•	2,503,332	
Net loss	•	•	•	
Balance at March 31, 1991	655,000	655	4,678,332	
Initial public sale of common stock for cash, net	3,450,000	3,450	•	
Exercise of warrant	7,273	7	•	
Exercise of stock options	37,234	38	•	
Conversion of preferred stock to common	4,678,332	4,678	(4,678,332)	(4,
Shares retired	(28,125)	(28)	•	
Amortization of stock option expense	•	•	•	
Net loss	•	•	•	
Balance at March 31, 1992	8,799,714	8,800	•	
Public sale of common stock for cash, net	2,500,000	2,500	•	
Exercise of stock options	282,126	282	•	
Employee stock purchase plan	3,687	4	•	
Amortization of stock option expense	•	•	•	
Foreign currency translation	•	•	•	
Net loss	•	•	•	
Balance at March 31, 1993	11,585,527	11,586	•	
Sale of common stock for cash, net	1,160,362	1,160	•	
Exercise of stock options	267,089	267	•	
Employee stock purchase plan	10,868	11	•	
Amortization of stock option expense	•	•	•	
Foreign currency translation	•	•	•	
Net loss	•	•	•	
Balance at March 31, 1994	13,023,846	13,024	•	
Exercise of stock options	48,368	48	•	
Employee stock purchase plan	12,438	13	•	
Amortization of stock option expense	•	•	•	
Foreign currency translation	•	•	•	
Net unrealized loss on securities available for sale	•	•	•	
Net loss	•	•	•	
Balance at March 31, 1995	13,084,652	13,085	•	
Sale of common stock for cash, net	1,000,000	1,000	•	
Amortization of stock option expense	•	•	•	
Exercise of stock options	243,185	243	•	
Foreign currency translation	•	•	•	
Employee stock purchase plan	21,096	21	•	
Net unrealized gain on securities available for sale	•	•	•	
Net loss	•	•	•	
Balance at March 31, 1996	14,348,933	$ 14,349	•	$

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

itional Paid-In Capital	Foreign Currency Translation	Net Unrealized Loss on Securities Available for Sale	Deficit Accumulated During the Development Stage	Total
$ 18,995	$ •	$ •	$ •	$19,650
2,162,325	•	•	•	2,164,500
•	•	•	(1,727,596)	(1,727,596)
2,181,320	•	•	(1,727,596)	456,554
7,482,704	•	•	•	7,485,207
•	•	•	(3,660,622)	(3,660,622)
9,664,024	•	•	(5,388,218)	4,281,139
34,725,220	•	•	•	34,728,670
(7)	•	•	•	•
4,996	•	•	•	5,034
•	•	•	•	•
(816)	•	•	•	(844)
52,500	•	•	•	52,500
•	•	•	(9,053,591)	(9,053,591)
44,445,917	•	•	(14,441,809)	30,012,908
38,607,192	•	•	•	38,609,692
47,369	•	•	•	47,651
27,427	•	•	•	27,431
90,000	•	•	•	90,000
•	(968)	•	•	(968)
•	•	•	(11,419,150)	(11,419,150)
83,217,905	(968)	•	(25,860,959)	57,367,564
55,171,234	•	•	•	55,172,394
1,743,057	•	•	•	1,743,324
127,036	•	•	•	127,047
90,000	•	•	•	90,000
•	(2,730)	•	•	(2,730)
•	•	•	(15,121,392)	(15,121,392)
140,349,232	(3,698)	•	(40,982,351)	99,376,207
346,720	•	•	•	346,768
204,612	•	•	•	204,625
90,000	•	•	•	90,000
•	12,458	•	•	12,458
•	•	(283,423)	•	(283,423)
•	•	•	(18,985,955)	(18,985,955)
140,990,564	8,760	(283,423)	(59,968,306)	80,760,680
24,551,861	•	•	•	24,552,861
37,500	•	•	•	37,500
2,201,590	•	•	•	2,201,833
•	(58,774)	•	•	(58,774)
190,476	•	•	•	190,497
•		181,296	•	181,296
•	•	•	(15,652,660)	(15,652,660)
$ 167,971,991	$ (50,014)	$ (102,127)	$ (75,620,966)	$ 92,213,233

Consolidated Statements of Cash Flows

for the years ended March 31, 1996, 1995 and 1994 and the period from inception to March 31, 1996

	1996	1995	1994	For the period from inception to March 31,1996
Net loss	$(15,652,660)	$(18,985,955)	$(15,121,392)	$(75,620,966)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	3,897,400	3,078,323	1,644,920	10,361,291
Amortization of stock option expense	37,500	90,000	90,000	360,000
Changes in:				
Inventories	(1,196,516)	(1,583,149)	(1,369,499)	(4,384,452)
Trade receivables	(1,149,451)	(476,879)	(575,710)	(2,283,624)
Other current assets	(596)	74,813	(23,401)	(555,904)
Accounts payable	(1,646,414)	(508,036)	2,691,742	1,104,467
Accrued liabilities	847,064	1,965,425	606,158	4,146,373
Reserve for litigation costs	(1,875,322)	(3,124,678)	3,197,739	•
Net cash used in operating activities	(16,738,995)	(19,470,136)	(8,859,443)	(66,872,815)
Investing activities:				
Purchase of property and equipment	(742,480)	(11,107,900)	(8,558,485)	(26,865,596)
Change in securities available for sale, net	•	•	(30,177,805)	(55,583,061)
Proceeds from sales and maturities of securities available for sale	39,954,694	46,307,740	•	86,262,434
Purchase of securities available for sale	(49,375,547)	(38,473,706)	•	(87,849,253)
Issuance of note receivable	•	•	•	(97,500)
Payment of note receivable	•	•	•	97,500
Change in other assets	257,450	262,778	35,306	(69,213)
Net cash used in investing activities	(9,905,883)	(3,011,088)	(38,700,984)	(84,104,689)
Financing activities:				
Proceeds from long-term debt	69,700	102,300	824,000	3,568,600
Principal payments on long-term debt	(419,167)	(922,870)	(875,377)	(3,091,324)
Net proceeds from issuance of common stock	26,886,417	563,851	57,040,035	157,908,019
Payment of subscription notes receivable	•	•	•	18,600
Net proceeds from issuance of preferred stock	•	•	•	9,649,707
Net cash provided by (used in) financing activities	26,536,950	(256,719)	56,988,658	168,053,602
Net increase (decrease) in cash and cash equivalents	(107,928)	(22,737,943)	9,428,231	17,076,098
Cash and cash equivalents:				
Beginning of period	17,184,026	39,921,969	30,493,738	•
End of period	$ 17,076,098	$ 17,184,026	$ 39,921,969	$ 17,076,098

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

Notes to Consolidated Financial Statements

1. Formation and Business of the Company:

CellPro, Incorporated and Subsidiaries (the "Company" or "CellPro"), whose operations began in April 1989, is a biotechnology company, specializing in developing, manufacturing, and marketing proprietary continuous-flow, cell-selection systems for use in a variety of therapeutic, diagnostic, and research applications. The Company has formed several European subsidiaries to coordinate European marketing and clinical trials. The Company's principal product, the CEPRATE® SC Stem Cell Concentration System, is approved for use in Canada and has been granted use of the CE (Communauté Européenne) marking, designating full marketing approval throughout the 18-nation European Economic Area. In addition, the Company has received a letter from the United States Food and Drug Administration (FDA), in which the FDA stated that the Company's premarketing approval application for the CEPRATE® SC System is "approvable" subject to limited additional data, approval of product labeling, and inspection of the Company's manufacturing facilities and processes.

2. Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation. Foreign subsidiaries are consolidated on a one-month delay.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

Cash equivalents represent highly liquid short-term investments. The Company considers all short-term investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are recorded at market value. The Company maintains a portion of its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Securities Available for Sale

The Company's investment securities are classified as available for sale and carried at fair value. Unrealized gains and losses are excluded from the statement of operations and reported as a separate component of stockholders' equity. Gross realized gains and losses on the sales of investment securities are determined on the specific identification method and are included in interest income. The Company's policy limits the amount of credit exposure to any one issuer.

Inventories

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the assets (three to five years). Leasehold improvements are amortized on a straight-line basis over the remaining term of the related lease (two to ten years). Expenditures for maintenance and repairs are charged to expense as incurred.

Foreign Currency Translation

Revenues, costs and expenses of the Company's international operations denominated in foreign currencies are translated to U.S. dollars at average rates of exchange prevailing during the year. Assets and liabilities are translated at the exchange rate on the balance sheet date. Translation adjustments resulting from this process are accumulated and reported in stockholders' equity.

Stock Options and Purchase Plans

The Company's stock option and purchase plans are accounted for under Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" (Note 9).

Statement of Financial Accounting Standards No. 123 (SFAS 123), which addresses stock-based compensation, must be adopted for the fiscal year ending March 31, 1997. The Company will continue to apply the provisions of APB 25 for calculating the value of stock-based compensation, as permitted by SFAS 123. Adoption of SFAS 123 will result in additional disclosure.

Research and Development Expenditures

Research and development expenditures are charged to operations as incurred.

Earnings Per Share

In accordance with the applicable rules of the Securities and Exchange Commission, earnings per share for the years ended March 31, 1996, 1995 and 1994 and for the period from inception through March 31, 1996 are based upon the weighted average number of shares of Common Stock outstanding after giving effect to the conversion of all outstanding shares of Preferred Stock into shares of Common Stock. In addition, for periods prior to the Company's initial public offering, common share equivalents for all stock options granted by the Company during the 12 months preceding the Company's initial public offering determined by the treasury stock method, have been included in the calculation of weighted average number of common shares outstanding as if they were outstanding for all

periods prior to the Company's initial public offering. Except for the foregoing, common stock equivalents have not been included because the effect would be anti-dilutive.

Reclassifications

Certain reclassifications have been made to prior years' financial statements to conform to the 1996 presentation.

3. Securities Available for Sale:

The following table summarizes the Company's securities available for sale at March 31:

1996	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 26,878,988	$ 85,954	$ 69,531	$ 26,862,566
Corporate debt securities	30,188,765	26,151	144,701	30,307,314
Total	$ 57,067,753	$ 112,105	$ 214,232	$ 57,169,880

1995	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 18,930,504	$ 97,666	$ 203,533	$ 19,036,371
Corporate debt securities	28,535,100	36,514	214,070	28,712,656
Total	$ 47,465,604	$ 134,180	$ 417,603	$ 47,749,027

Amortized cost and market value of debt securities at March 31, 1996, by contractual maturity, are shown below:

Contractual Maturity	Market Value	Amortized Cost
Due within 1 year	$ 24,941,998	$ 24,885,975
Due after 1 year but within 5 years	$ 32,125,755	$ 32,283,905

Gross realized losses totaled $26,000 for the year ended March 31, 1996 and $29,000 for the year ended March 31, 1995. Gross realized gains totaled $43,000 for the year ended March 31, 1996.

4. Inventories:

At March 31, inventories consisted of the following:

	1996	1995
Raw Materials	$ 1,241,599	$ 655,675
Work-in-process	1,407,472	547,429
Finished goods	1,735,381	1,984,832
	$ 4,384,452	$ 3,187,936

5. Property and Equipment:

At March 31, property and equipment consisted of the following:

	1996	1995
Laboratory and manufacturing equipment	$ 2,983,370	$ 3,100,918
Computers	1,236,172	1,183,105
Office equipment	1,189,479	1,125,750
Furniture	1,552,584	1,610,519
Leasehold improvements	18,102,166	17,723,838
	25,063,771	24,744,130
Less accumulated depreciation	(8,559,466)	(5,084,905)
	$ 16,504,305	$ 19,659,225

6. Accrued Liabilities:

At March 31, accrued liabilities consisted of the following:

	1996	1995
Deferred sales tax	$ 1,190,000	$ 1,174,000
Accrued clinical trials costs	987,000	427,000
Accrued employee compensation and benefits	583,000	458,000
Other	1,386,373	1,240,309
	$ 4,146,373	$ 3,299,309

7. Long-Term Debt

At March 31, Long-term debt consisted of the following:

	1996	1995
Notes payable, collateralized by furniture and equipment with an original cost of approximately $422,000, payable in monthly installments totaling $11,745, including interest; final payment due January 1997, interest at 9.47%	$ 112,507	$396,285
Capital lease obligations, payable in monthly installments totaling approximately $19,500, imputed interest at 9% to 18%	364,769	430,458
Total	477,276	826,743
Less current portion	(269,275)	(340,315)
Net	$ 208,001	$ 486,428

At March 31, 1996, aggregate required principal payments for all long-term debt, including capital lease obligations, for the fiscal years ending March 31 are as follows:

1997	$ 269,275
1998	136,614
1999	71,387
	$ 477,276

Property and equipment includes $446,000 and $689,000, at March 31, 1996 and 1995, respectively, of equipment held under capital leases.

Cash paid for interest for the years ended March 31, 1996, 1995, and 1994 was $86,718, $157,034 and $205,838, respectively. Cash paid for interest was $914,371 for the period from inception to March 31,1996.

Notes to Consolidated Financial Statements (continued)

8. Commitments and Contingencies:

Leases

The Company leases one office and one manufacturing facility under noncancelable leases which expire in October 1997. The Company also leases a research and office facility under a 120-month noncancelable lease which expires August 2003. The lease for one facility provides for a rent increase in 1997 based upon changes in the Consumer Price Index.

Under the terms of the leases, the Company is responsible for its share of taxes, insurance and common area charges. The leases provide the Company with options to renew with lease payments escalating based on changes in the Consumer Price Index.

Total rental expense was approximately $1,530,000, $1,400,000 and $856,000 for the years ended March 31, 1996, 1995 and 1994, respectively, and $5,072,000 for the period from inception through March 31, 1996, net of sublease income of $303,000 both for the year ended March 31, 1996 and the period from inception through March 31, 1996.

Future minimum payments on operating leases, net of sublease payments, are summarized as follows:

Years Ending March 31,	
1997	$ 954,000
1998	806,000
1999	603,000
2000	518,000
2001	518,000
Thereafter	1,380,000
	$4,779,000

Litigation

On August 4, 1995, a jury reached a verdict regarding a three year-old patent dispute between CellPro and Baxter International, Inc., Baxter Healthcare Corporation (collectively "Baxter"), Becton Dickinson and Company ("B-D") and Johns Hopkins University ("Hopkins"). The jury found in favor of CellPro. The verdict stated that the patents in question were not infringed by CellPro's manufacture, use and sale of the CEPRATE® SC System or the CEPRATE® LC System. Additionally, the jury found that the claims of the patents asserted against CellPro were invalid. Post-trial motions have been filed by both parties and are currently under review. The Company has no knowledge as to whether Baxter, B-D and Hopkins will appeal the verdict.

Based on current advice of counsel, CellPro plans to vigorously pursue its antitrust and unfair competition claims against Baxter, B-D and Hopkins, pending the ruling on the post-trial motions.

As these matters progress, expenses will continue to be incurred. Further, although the Company does not believe that the outcome of this litigation will have a material adverse impact on the Company's financial condition, the expenses incurred in conducting such litigation could have a material adverse effect on quarterly, or annual operating results for future periods in which they occur.

9. Capital Stock:

Stock Option Plan

In 1989, the Company adopted a stock option plan (the "Option Plan") administered by a Plan Administrator designated by the Board of Directors. A total of 2,655,000 shares are available for issuance under the Plan. An additional 500,000 shares have been approved by the Board of Directors for use in the Plan, subject to stockholder approval. As of March 31, 1996, options to purchase up to 1,574,000 shares of Common Stock were outstanding under the Option Plan to certain key employees, non-employee directors, and consultants at exercise prices ranging from $0.10 to $33.00 per share. Options issued under the Option Plan are designated as either incentive stock options ("ISO's") or nonqualified options. ISO's must be granted to employees at minimum exercise prices equal to the fair market value of common shares at the date of grant. Nonqualified options must be granted at minimum exercise prices at least equal to 50% of fair market value of common shares at the date of grant. During the years ended March 31, 1996, 1995 and 1994, options for 243,029, 48,368 and 267,089 shares were exercised at prices ranging from $0.10 to $13.50 per share, $0.10 to $21.25 per share and $0.10 to $15.75 per share, respectively.

The Company records for financial statement reporting purposes only, compensation expense equal to the difference between the grant price and deemed fair market value of the Common Stock underlying certain options granted. Such compensation is amortized to expense over the vesting period of the related options. A cumulative total of $360,000 has been recorded as expense through March 31, 1996.

Options for a total of 736,000 shares are vested as of March 31, 1996.

Stock Purchase Plan

The Company established a stock purchase plan (the "Purchase Plan") under which employees other than officers may purchase shares of the Company's Common Stock. The purchase price per share is 85% of the lower of the market value per share of Common Stock determined as of the beginning or end of the six-month purchase period specified in the Purchase Plan. The initial purchase period began April 16, 1992. Through April 15, 1996, the end of the eighth purchase period, a total of 55,216 shares

have been acquired by employees through the Purchase Plan. On July 28, 1995, the Company's shareholders approved the increase of shares reserved for issuance under the Purchase Plan from 50,000 to 150,000.

Preferred Stock

The Company has 1,000,000 shares of authorized preferred stock. None of the preferred stock has been issued. As discussed below, 200,000 shares are reserved for use in the Company's shareholder rights plan.

Shareholder Rights Plan

In April 1995, the Board of Directors adopted a shareholder rights plan pursuant to which holders of Common Stock outstanding on May 8, 1995 have been granted one Preferred Share Purchase Right (a "Right") on each outstanding share of Common Stock. Each Right entities the registered holder to purchase one one-hundredth of a share of a new series of Junior Participating Preferred Stock (200,000 shares authorized) at an exercise price of $70.00, subject to certain adjustments, upon the occurrence of certain events. The Rights will be exercisable only if a person, or group, acquires 15%, or more, of the Common Stock, or announces a tender offer for the Company, the consummation of which would result in ownership by a person, or group, of 15%, or more, of the Company's Common Stock. The Rights may be redeemed, at a redemption price of one cent per right, by the Board of Directors of the Company at any time within ten days after a person, or group, has acquired beneficial ownership of 15%, or more, of the Company's Common Stock. The Rights will expire on May 7, 2005.

If, after the rights become exercisable, the Company is acquired in a merger, or other such transaction, or sells 50%, or more, of its assets or earnings power, each right will entitle its holder to purchase the acquiring company's common shares having a value of twice the Right's exercise price. In addition, if a person, or group, acquires 15%, or more, of the Company's outstanding Common Stock, each Right will entitle its holder (other then the acquirer) to purchase a number of the Company's common shares having a value of twice the Right's exercise price.

10. Collaboration Agreements:

Corixa

On December 22, 1995, the Company signed a technology-based, multi-year research collaboration and licensing agreement with Corixa Corporation, a Seattle-based biotechnology company. The research collaboration calls for CellPro to provide funding for a new research program to identify and optimize methods and conditions for the growth of, and activation, or stimulation of tumor-antigen-specific lymphocytes (white blood cells) and other antigen-presenting cells outside of the body for use in treating cancer.

Under the agreement, CellPro receives exclusive world wide rights to all *ex vivo* therapy applications arising from Corixa's technology within the field of oncology. CellPro will be responsible for the clinical development and commercial introduction of any products resulting from this agreement. Subject to certain conditions, CellPro will provide Corixa with annual research funding and will make additional milestone and royalty payments based on the successful development and commercialization of these products. The amount of research funding will be negotiated annually, subject to certain minimums.

Corange

On July 31, 1995, CellPro and its former corporate partner, Corange, reached a definitive agreement to conclude their collaboration entered into during December 1993. Under the new agreement, Corange paid CellPro $24 million in exchange for one million newly issued shares of CellPro Common Stock and $6 million for prior research and development services. In addition, CellPro agreed to supply Corange, on a non-exclusive basis, with cell separation systems for use in the field of gene medicine. All rights to CellPro's technology previously licensed to Corange have been returned to CellPro, the agreements have been terminated, and the two companies have exchanged releases in settlement of all claims relating to the 1993 agreements.

11. Federal Income Taxes:

At March 31, 1996, the Company had accumulated net operating loss carryforwards of approximately $76.9 million which expire through 2011. The Company also has cumulative research and development tax credit carryforwards of approximately $3.0 million which expire through 2011. Differences between the tax bases of assets and liabilities and their financial statement amounts are reflected as deferred income taxes based on enacted tax rates. The principal differences in bases result from differing depreciation methods and the changes in various accrued liabilities. The accumulated net operating loss and research and development credit carryforwards and the differences between tax and financial reporting bases result in deferred income tax assets of approximately $31.5 million which have been reduced by a valuation allowance of an equal amount.

The Company's ability to use its net operating losses to offset future income is subject to restrictions enacted in the United States Internal Revenue Code of 1986 as amended (the "Code"). These restrictions could limit the Company's future use of its net operating losses if certain stock ownership changes described in the Code occur.

12. Technology Agreements:

The Company has entered into several licensing agreements granting it rights to utilize core technology for cell separation and certain antibodies. These agreements require payments of up-front fees upon execution and royalty payments in varying amounts for sales of licensed products for periods of up to 17 years. Payments relating to technology agreements are expensed as incurred.

13. Employee Retirement Plan:

The Company sponsors an Employee Retirement Plan in accordance with Section 401(k) of the Internal Revenue Code. Under this Plan, at the discretion of the Board of Directors, the Company may match a portion of the employees' contributions. No Company contributions have been made to the Plan as of March 31, 1996.

14. Geographic Segment Information:

The Company markets its products internationally through wholly-owned subsidiaries located in Europe and through independent distributors in other export markets. U.S. revenues in the following table include U.S. export sales to customers in foreign countries of $422,000 in 1996. A summary of the Company's operations by geographic area follows:

	Years Ended March 31,			For the period from inception to March 31, 1996
	1996	1995	1994	
Revenues:				
Product sales revenue:				
U.S.	$ 1,457,534	$ 560,025	$ 514,717	$ 2,885,826
Transfers between geographic areas	4,284,645	4,179,705	1,925,007	10,389,357
Contract revenue	41,600	•	2,933,000	2,974,600
Related party revenue	6,000,000	•	•	6,000,000
Total U.S.	11,783,779	4,739,730	5,372,724	22,249,783
Europe	5,344,451	3,655,885	850,657	9,850,993
Eliminations	(4,284,645)	(4,179,705)	(1,925,007)	(10,389,357)
Consolidated revenues	$ 12,843,585	$ 4,215,910	$ 4,298,374	$ 21,711,419
Geographic Assets:				
U.S.	$ 20,188,482	$ 22,102,915	$ 13,464,297	
Europe	3,620,535	3,230,607	1,436,507	
Eliminations	(11,518)	98,958	105,284	
	23,797,499	25,432,480	15,006,088	
General corporate assets (principally cash and investments)	74,143,850	64,080,455	95,610,233	
Consolidated assets	$ 97,941,349	$ 89,512,935	$ 110,616,321	

Corporate Information

Officers

Richard D. Murdock
President and Chief Executive Officer

Larry G. Culver
Executive Vice President, Chief Operating Officer, Chief Financial Officer and Assistant Secretary

S. Joseph Tarnowski, Ph.D.
Vice President of Research and Development

Billy W. Minshall
Vice President of Operations and Engineering

Thomas M. Keenan
Vice President of Sales and Marketing

Cindy A. Jacobs, M.D., Ph.D.
Vice President of Clinical Research

Directors

Joseph S. Lacob[1]
Chairman of the Board and Co-Founder, Partner, Kleiner Perkins Caufield & Byers

Richard D. Murdock
President and Chief Executive Officer, CellPro, Incorporated

Larry G. Culver
Executive Vice President, Chief Operating Officer, Chief Financial Officer and Assistant Secretary, CellPro, Incorporated

Joshua L. Green[2]
Partner, Venture Law Group

Charles P. Waite, Jr.[1,2]
General Partner, Olympic Venture Partners II

Kenneth W. Anstey
President and Chief Executive Officer, Biofield Corporation

1 Member of the Compensation Committee

2 Member of the Audit Committee

Independent Accountants

Coopers & Lybrand L.L.P.
1800 First Interstate Center
Seattle, Washington 98104

General Counsel

Venture Law Group
2800 Sand Hill Road
Menlo Park, California 94025

Transfer Agent and Registrar

American Stock Transfer & Trust Co.
40 Wall Street, 46th Floor
New York, New York 10005

SEC Form 10-K

A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K is available without charge from the Director of Investor Relations.

Stockholder Inquiries

Communications regarding stock transfer requirements, lost certificates and changes of address should be directed to the Transfer Agent. General information regarding the Company may be obtained from the Director of Investor Relations.

Annual Meeting

CellPro, Incorporated will hold its annual meeting of stockholders at 9:30 a.m. on August 1, 1996, at the Corporate Headquarters located at 22215 26th Avenue S.E., Bothell, Washington.

CellPro, Incorporated
22215 26th Avenue, S.E.
Bothell, Washington 98021
Tel: 206 485 7644
Fax: 206 485 4787
http://www.cellpro.com

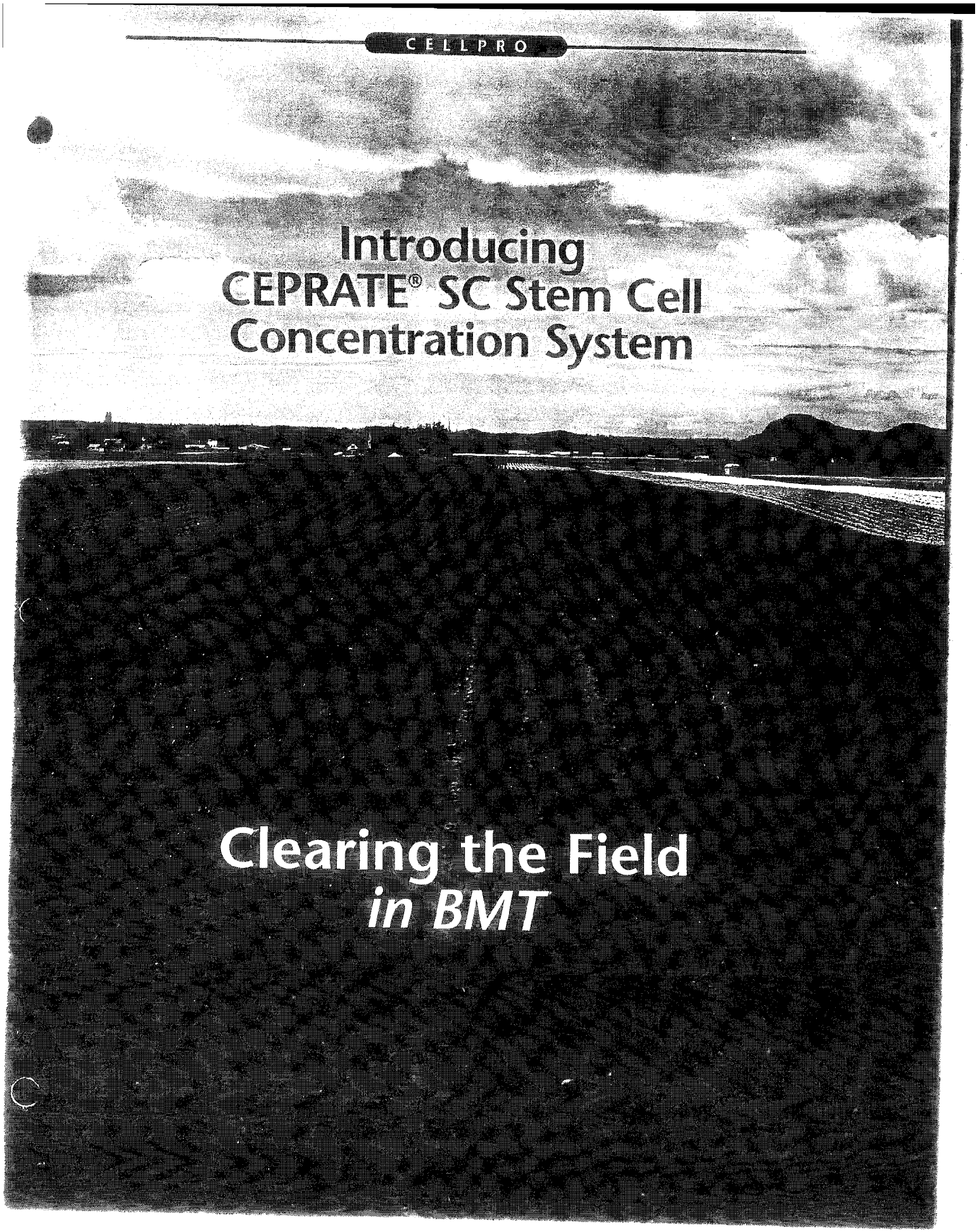
CellPro Europe N.V./S.A.
St.-Pietersplein 11/12 Parvis St.-Pierre
B-1970 Wezembeek-Oppem
Belgium
Tel: 32/2 731 83 53
Fax: 32/2 731 79 40

CellPro France S.A.R.L.
Le Lafayette
85, Avenue J. F. Kennedy
F-33700 Mérignac
France
Tel: 33/56 55 28 28
Fax: 33/56 34 17 63

CellPro Deutschland GmbH
Leopoldstrasse 28a/II
D-80802 Munich
Germany
Tel: 49/89 39 37 35
Fax: 49/89 33 57 31

CellPro Italia s.r.l.
Corso Monforte 45
I-20122 Milan
Italy
Tel: 39/2 76 00 97 41
Fax: 39/2 78 15 68

CellPro Biotech Ibérica S.L.
The Office Holding
Avenida del Doctor, Arce 14
E-28002 Madrid
Spain
Tel: 34/1 411 01 62
Fax: 34/1 561 29 87

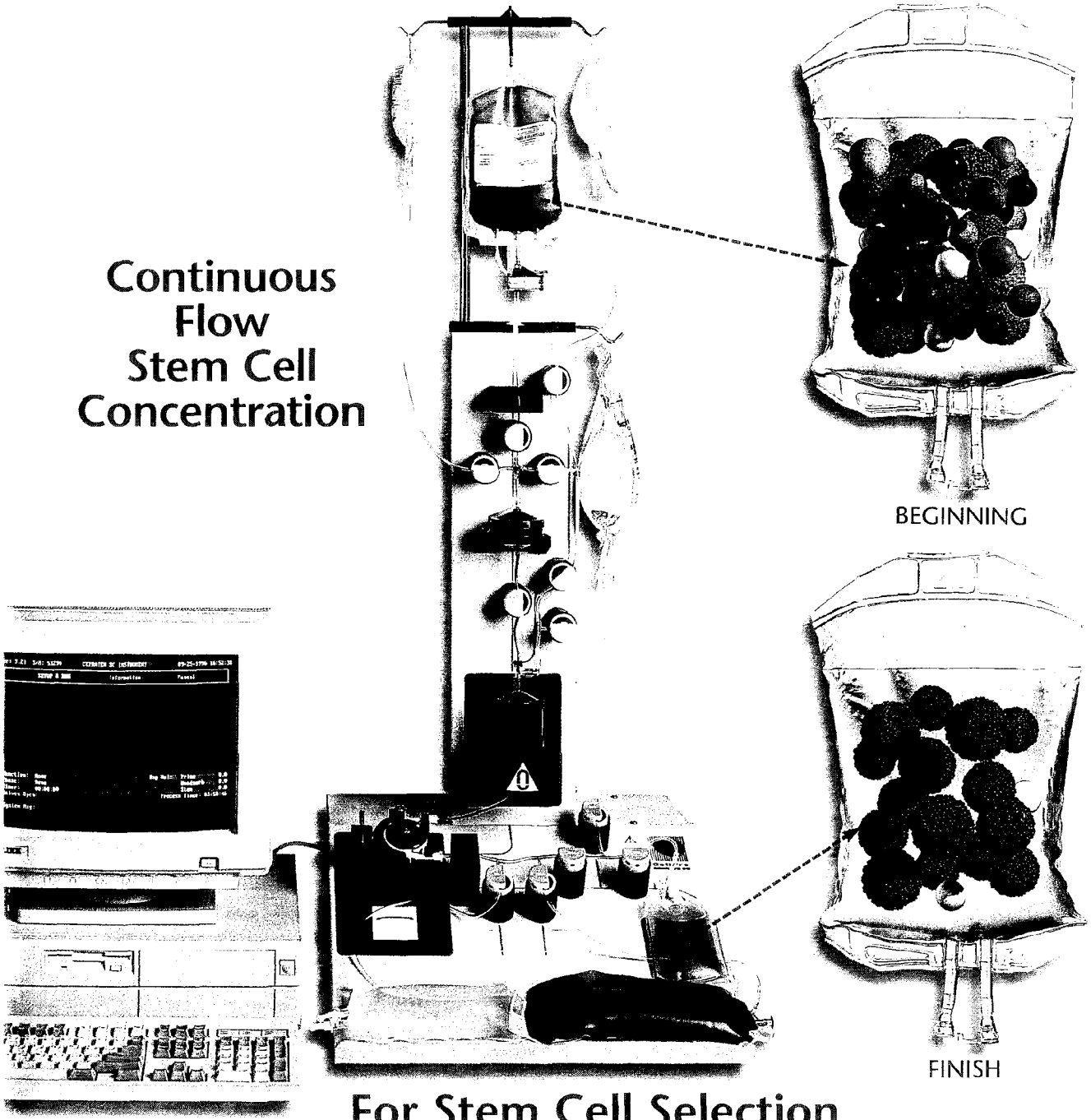

CELLPRO
Introducing
CEPRATE® SC Stem Cell
Concentration System
Clearing the Field
in BMT

CELLPRO

CEPRATE® SC System

The First Stem Cell Concentration System for BMT

Continuous Flow Stem Cell Concentration



BEGINNING

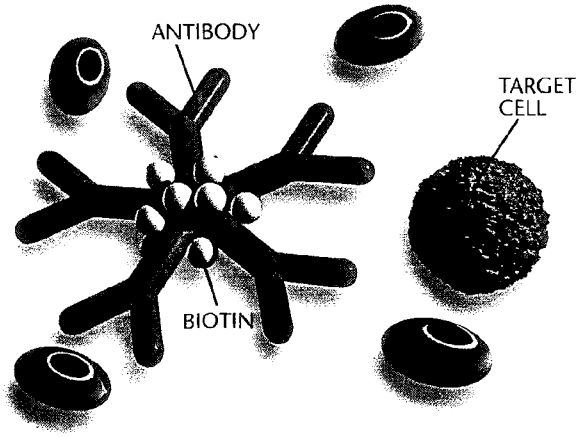
FINISH

For Stem Cell Selection, Volume & Toxicity Reduction

CEPRATE® SC System

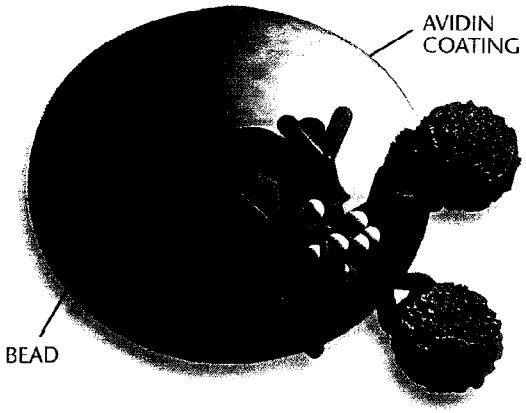
Technology for Today & Tomorrow

1. INCUBATION



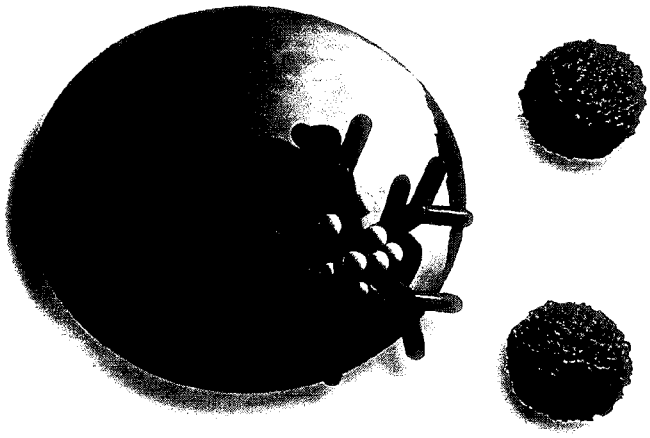
A biotinylated monoclonal antibody directed against a target cell antigen is incubated with a cell mixture.

2. SELECTION



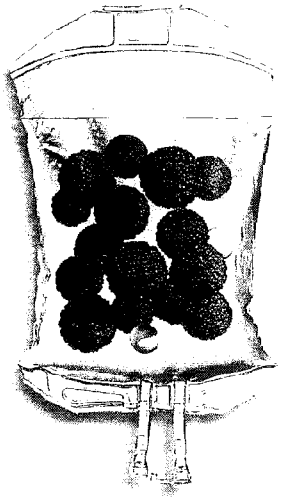
After washing, the mixture flows through an immunoadsorption column filled with avidin beads. The high affinity between biotin and avidin causes the antibody-cell complex to adhere to the beads.

3. ELUTION



After unlabeled cells are washed away, the selected target cells are removed by gentle agitation.

4. COLLECTION



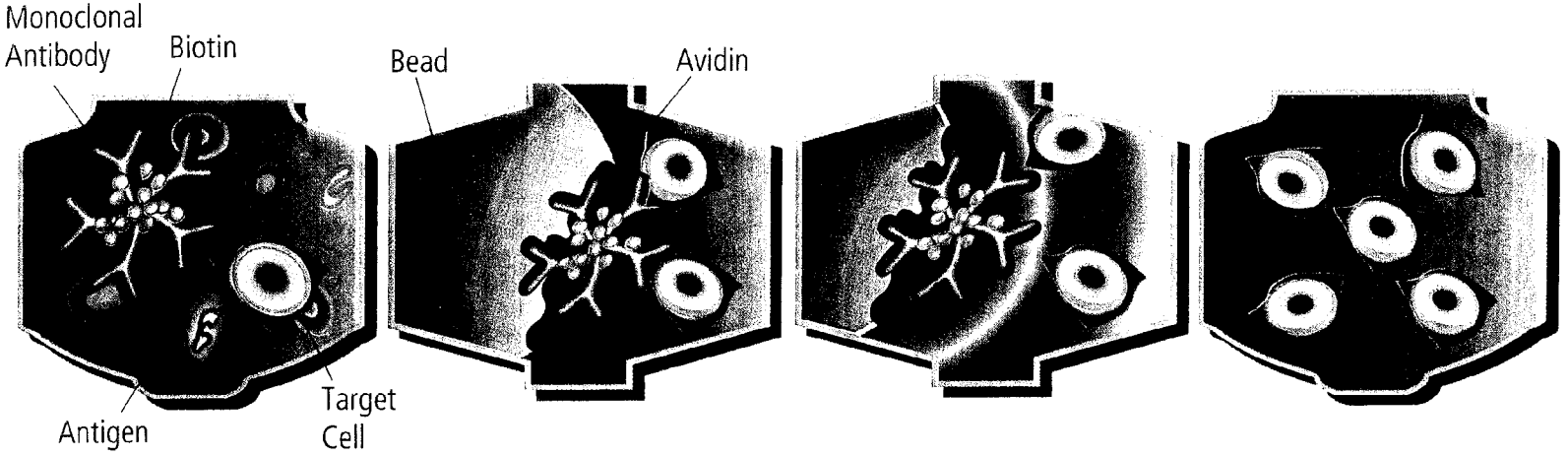
Selected cells are collected, concentrated and ready for use.

Versatile & Selective Immunoadsorption System

CEPRATE® SC

Stem Cell Concentration System

Continuous Flow Technology



Incubation

A biotinylated monoclonal antibody directed against a target cell antigen is incubated with a cell mixture.

Selection

After washing to remove unbound antibody, the incubated mixture is passed through a continuous flow immunoadsorption column filled with avidin-coated beads. The high-affinity interaction between biotin and avidin causes the biotinylated antibody-cell complex to adhere to the avidin-coated beads.

Elution

After unlabeled cells are washed away, the selected target cells are removed by gentle agitation.

Collection

Selected cells are collected and ready for use.

CellPro, Incorporated
2215 26th Avenue SE, Bothell, Washington 98021
Telephone: (206) 485-7644

Customer Service:
Telephone: 1-800-221-2778 • Fax: (206) 489-8750

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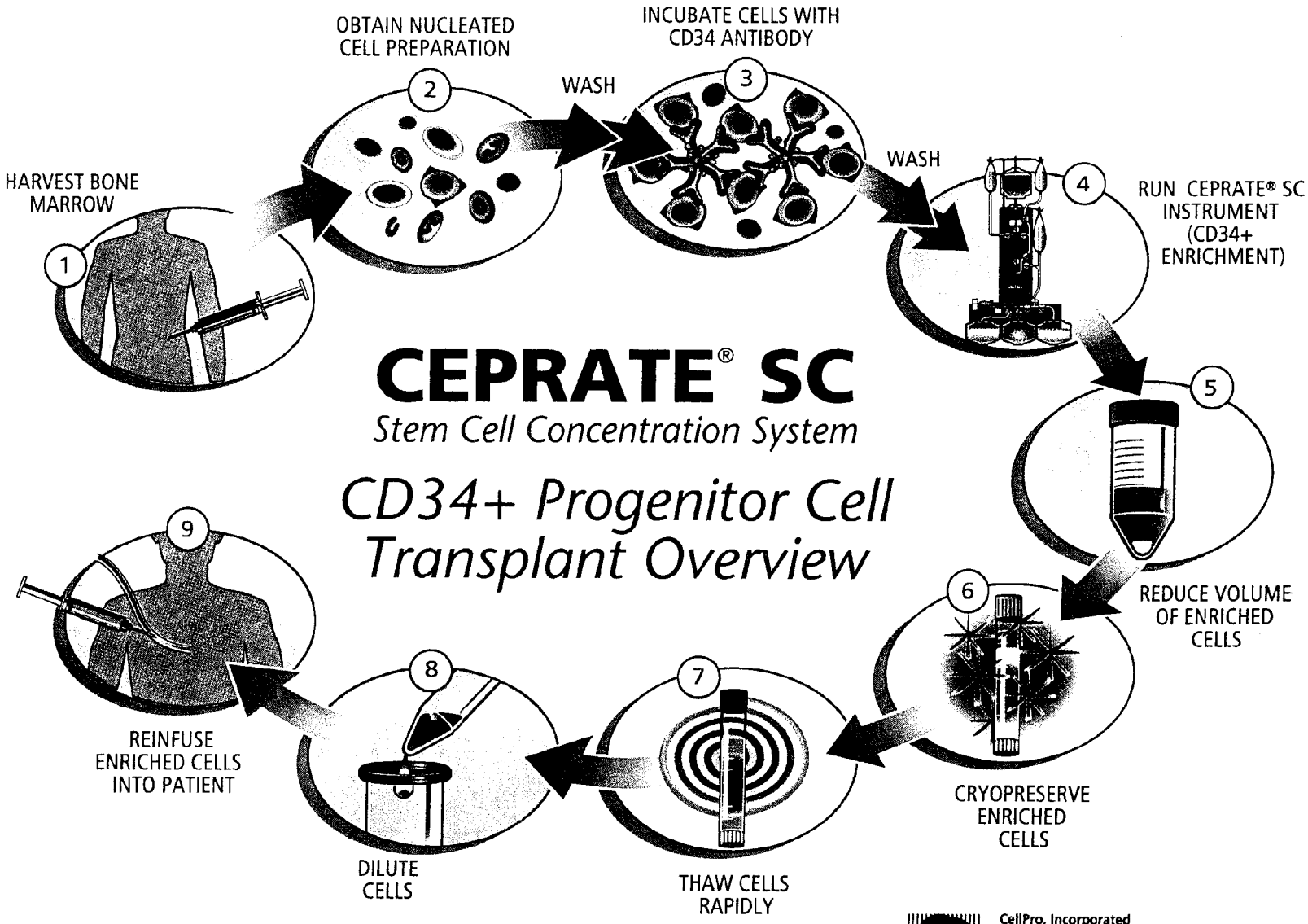

CEPRATE® SC

Stem Cell Concentration System

CD34+ Progenitor Cell Transplant Overview

CellPro, Incorporated
2215 26th Avenue SE, Bothell, Washington 98021
Telephone: (206) 485-7644

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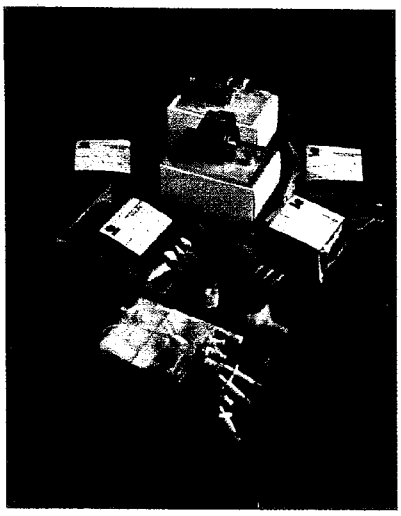
CEPRATE® SC

Stem Cell Concentration System



CEPRATE® SC Disposable Kit

Components:

The CEPRATE® SC Disposable Kit consists of prepackaged, single-use, sterile components.
(1) Avidin Column
(1) Precolumn
(1) Tubing Set
(3) Sterile, Non-pyrogenic Phosphate Buffered Saline (PBS), 1,000 mL
(1) Sterile, Non-pyrogenic RPMI 1640, 1000 mL
(1) 40 µm Pall SQ40S Blood Filter
(1) Anti-Human CD34 Biotinylated Monoclonal Antibody (murine), 3.0 mL vial

Box Dimensions:

Components*	L	W	D
Disposable Kit	21.0	12.0	9.0 in.
Antibody	9.5	7.25	12.0 in.

**The disposable kit will be shipped in two boxes.*

Catalog Number:

SC34-KT1

Pricing:

$4325.00 each
Minimum order quantity of two.
Shipping/handling charges not included

Storage Requirements:

The antibody component is shipped on dry ice and must be stored at -70°C. The disposable kit is shipped at ambient temperature and contains two boxes that require two different storage conditions. The columns and RPMI solution require storage under refrigeration (2° - 8°C). Do not freeze. The other components are shipped in a package which is stored at room temperature (15° - 30°C).

CEPRATE® SC Instrument System

Components:

- Instrument
- Computer
- CEPRATE® SC Automation Software

Box Dimensions:

Components*	L	W	D
Instrument	23.0	23.0	36.0 in.
Computer/monitor	24.0	24.0	36.0 in.

**The instrument system will be shipped in two boxes.*

Catalog Number:

I0001

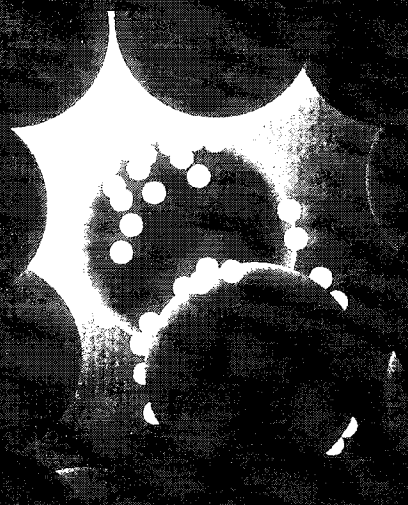
Pricing:

$24,985.00 each
Leasing options available

CellPro, Incorporated
22215 26th Avenue SE,
Bothell, Washington 98021
Telephone: (206) 485-7644

Customer Service:
Call: 1-800-221-2778
Monday - Friday
7:00 a.m. - 5:00 p.m. PST
Fax: (206) 489-8750

CellPro®



CellPro, Incorporated

Annual Report

1996

Making Cell Therapy a Reality

Our Mission:

Nickie Kendricks

CellPro's corporate mission is to make cell therapy a reality. Reality is 11-year old Nickie Kendricks of Carrollton, Georgia. Her mother says Nickie is thrilled to have completed her first uninterrupted school year since being diagnosed with acute lymphocytic leukemia (ALL) at age six. Following years of chemotherapy, tests and many hospital visits, two years ago Nickie and her family finally faced the prospect of a bone marrow transplant for her relapsed ALL. Unable to find a tissue-type-matched donor for the transplant, the Kendricks turned to a pioneering transplantation procedure at Emory University and Egleston Children's Hospital in Atlanta. This procedure permits parents, whose blood cells partially match those of their children, to be transplant donors. Emory's physicians, directed by Andrew M. Yeager, MD, used CellPro's CEPRATE® SC Stem Cell Concentration System to select and purify stem cells from Nickie's father for transplantation, reducing the potential for severe graft-versus-host disease that is a major risk with mismatched transplantation.

This recent photograph of Nickie speaks for itself. She now requires no medication, has normal blood cell counts and—best of all—has no signs of leukemia. Today's cell-therapy reality for the Kendricks family is a healthy Nickie. The employees of CellPro are pleased to have contributed to this happy ending.

FY 1996 Highlights:

FDA Approval Back on Track

The US Food and Drug Administration (FDA) approval process for the CEPRATE® SC Concentration System made significant progress. Processing of this file had experienced a lengthy delay while CellPro collected and analyzed long-term follow-up data requested by the FDA. In February 1996, the FDA's Biological Response Modifiers Advisory Committee voted unanimously to recommend that the Company's pre-market approval (PMA) application be approved. The committee's recommendation was followed in April 1996, by an "approvable" letter from the FDA stating the product was approvable for marketing in the US subject to certain conditions.

Jury Unanimous for CellPro

In August 1995, a unanimous Delaware jury found in CellPro's favor in the Company's long-standing litigation with Baxter Healthcare Corporation (Baxter), Becton Dickinson and Company (BD) and The Johns Hopkins University (Hopkins). Filed in March 1994, the suit against CellPro claimed infringement of a patent held by the plaintiffs asserted to cover an antibody used for identifying and selecting stem cells for transplantation. CellPro had counterclaimed that three other patents relating to the use of certain monoclonal antibodies in selecting stem cells and transplanting them were also invalid and not infringed by CellPro. The jury found by unanimous vote that all the claims of these four patents were either invalid or not infringed by CellPro's use or sale of its CEPRATE® SC Stem Cell Concentration System and its CEPRATE® LC Laboratory Cell Separation System.

CEPRATE® SC System Wins CE Marking and ISO 9002

CellPro announced in May 1996, that its product sales for the fiscal year ended March 31, 1996, had increased 61% over those of the previous year, reaching $6.8 million. Product sales in the fourth quarter reached $2.3 million, a gain of 66% over the same quarter of the previous fiscal year. Product sales were primarily derived from sales of the CEPRATE® SC System in Europe.

Product sales growth was stimulated by certification of the CEPRATE® SC System for both CE marking in the European Economic Area (EEA) and the worldwide ISO 9002 Product Quality Assurance standard. The Communauté Européene (CE) marking is awarded for the 18-nation EEA representing a market of 376 million people. Receipt of the CE marking removes the necessity of seeking marketing approval from the individual nations of the EEA. To achieve the ISO 9002 certification, CellPro's quality systems were audited according to the strict guidelines established by the International Organization for Standardization (ISO), an organization of over 100 countries.

Clinical Trial Program Continues

CellPro's clinical trial program continued its strong forward momentum through participation in numerous trials in leading hospitals and clinics around the world. Most of these trials are sponsored by investigators and their institutions. This enables CellPro to participate in clinical research with some of the world's outstanding researchers. New trials include a multidrug resistance gene therapy trial to treat advanced ovarian cancer and a trial to demonstrate tumor cell purging from peripheral blood transplants in treating small cell lung cancer. A gene therapy trial for the treatment of Gaucher's disease and a pilot study in purging chronic lymphocytic leukemia tumor cells from peripheral blood transplants were also started during the year.

Key clinical research from some of the world's leading researchers was presented at CellPro's fourth annual educational symposium held in conjunction with the yearly meeting of the American Society of Hematology. During the meetings, CellPro researchers shared in a coveted Merit Award for their research into dendritic cell precursors.

CellPro's own clinical trials continued to make excellent progress. The Company's second Phase III trial is expected to complete patient enrollment at mid-year. The objective of this 15-site trial is to demonstrate the CEPRATE® SC System's ability to deplete tumor cells from peripheral blood stem cell harvests in treating multiple myeloma patients. Preliminary trials evaluating the CEPRATE® SC System in matched related and mismatched related donor transplants were successfully concluded.

R&D Intensifies Focus on Lymphocytes

CellPro has established a new long-term research collaboration with Corixa Corporation, a Seattle-based biotechnology company focusing on the discovery and development of new vaccines for use in oncology and infectious diseases. The new research program will identify and optimize methods and conditions for the *ex vivo* growth and stimulation of tumor-antigen-specific lymphocytes and antigen-presenting cells to treat cancer. The objective of the program is to develop commercial products that combine CellPro's *ex vivo* cell-separation and cell-culture technology with Corixa's knowledge and access to proprietary tumor antigens, antigen delivery systems and adjuvants.

Summary Financial Information

Statement of Operations Data

Years ended March 31,

	1996	1995	1994	1993	1992
Product sales	$ 6,801,985	$ 4,215,910	$ 1,365,374	$ 301,173	$ 52,377
Related party revenue	6,000,000	•	•	•	•
Contract revenue	41,600	•	2,933,000	•	•
Interest income	4,303,897	3,979,652	2,148,765	1,431,929	974,344
	17,147,482	8,195,562	6,447,139	1,733,102	1,026,721
Costs and expenses:					
Cost of product sales	3,723,421	2,429,573	1,266,840	286,114	49,758
Research and development	16,474,133	15,417,405	9,944,617	9,215,430	4,955,178
Selling, general and administrative	12,515,870	9,177,505	6,224,706	3,439,921	1,914,546
Interest	86,718	157,034	205,838	210,787	160,830
Litigation provision	•	•	3,926,530	•	3,000,000
Total costs and expenses	32,800,142	27,181,517	21,568,531	13,152,252	10,080,312
Net loss	$ (15,652,660)	$ (18,985,955)	$ (15,121,392)	$ (11,419,150)	$ (9,053,591)
Net loss per share	$ (1.13)	$ (1.45)	$ (1.27)	$ (1.23)	$ (1.25)
Weighted average number of shares outstanding during the period	13,847,929	13,059,985	11,936,094	9,252,139	7,256,429

Balance Sheet Data

As of March 31,

	1996	1995	1994	1993	1992
Cash, cash equivalents and marketable securities	$ 74,143,851	$ 64,649,630	$ 95,505,030	$ 55,898,994	$ 30,339,552
Total assets	97,941,349	89,512,935	110,616,321	62,163,416	35,073,425
Long-term debt, net of current portion	208,001	486,428	754,719	870,957	469,160
Total stockholders' equity	92,213,233	80,760,680	99,376,207	57,367,564	30,008,708

Market Price of Common Stock

The Company's common stock trades on the Nasdaq Stock Market under the symbol "CPRO." Prior to the Company's initial public offering in September 1991, no public market existed for the common stock. No cash dividends have been paid to date by CellPro on its common stock. The Company does not anticipate the payment of dividends in the foreseeable future. The high and low sale prices for the common stock as reported by Nasdaq for the quarters since 1992 are summarized as follows:

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year 1992	High	•	15.500	19.500	17.250
	Low	•	12.500	9.750	10.750
	Last	•	14.250	15.500	10.750
Fiscal Year 1993	High	12.000	18.250	25.500	25.250
	Low	7.250	9.500	15.000	13.750
	Last	10.250	15.375	21.000	15.750
Fiscal Year 1994	High	21.500	23.750	36.500	36.250
	Low	11.250	17.250	23.250	23.250
	Last	21.250	23.750	34.750	23.500
Fiscal Year 1995	High	27.250	28.000	20.500	13.000
	Low	17.250	19.000	9.625	8.125
	Last	19.250	20.000	9.875	11.250
Fiscal Year 1996	High	13.750	16.750	16.750	20.375
	Low	8.625	11.500	10.000	13.000
	Last	13.375	13.500	16.000	15.750

To Our Stockholders:

In last year's report, we discussed the numerous challenges facing CellPro at the end of fiscal 1995. In this report, we are pleased to be able to report on how the Company met, and continues to meet, those challenges.

CEPRATE® SC System "Approvable."

First, we have made significant progress toward commercializing our lead product, the CEPRATE® SC Stem Cell Concentration System, in the United States—a considerable turnaround from this time last year! In February 1996, an advisory panel to the FDA unanimously agreed that the CEPRATE® SC System was both safe and efficacious, and recommended that our PMA be approved. That critical decision was followed by a letter from the FDA in April stating that the device was approvable subject to certain conditions. Primary among these was an inspection of our manufacturing facility to assure that it met with device Good Manufacturing Practice Regulations. Assuming our manufacturing facility passes inspection, and all other conditions have been fulfilled to the FDA's satisfaction, we believe our PMA will be approved on a timely basis, and the CEPRATE® SC System will be available for commercial sale in the US during the second half of fiscal 1997.

Corange Collaboration Yields $90 Million.

Another major achievement was the resolution of a dispute concerning our collaboration with Corange International Ltd. During the year, the parties mutually agreed to a settlement of the dispute under which Corange paid CellPro $30 million in exchange for one million CellPro common shares (in addition to the 1.2 million initially purchased) and nonexclusive rights to purchase CEPRATE® Systems for Corange gene therapy applications. All diagnostic and other therapeutic rights to CellPro products were returned to CellPro, and all previous agreements were terminated. In summary, Corange holds a 15% interest in CellPro and the nonexclusive purchase rights referred to previously. In return, CellPro received a total of $90 million (less expenses) over the course of about 18 months.

CellPro Victorious in Court.

A third major accomplishment was a total victory in the patent litigation trial with Baxter Healthcare Corporation, Becton Dickinson and Company and The Johns Hopkins University. In August, a Delaware jury unanimously found in CellPro's favor on all counts of a patent dispute involving the use of a monoclonal antibody employed in the CEPRATE® SC System. The jury determined that the disputed patents were either invalid or not infringed by CellPro. This litigation is now in the post-trial motion stage.

This litigation originally was initiated by CellPro in April 1992, asking that several patents relating to a monoclonal antibody be declared invalid and not infringed and seeking redress from Baxter and BD for alleged violations of federal antitrust laws and certain state laws prohibiting unfair competition. Hopkins, the original holder of the patents, later joined Baxter and BD in suing CellPro in Delaware for patent infringement. All claims in the various actions were later transferred to Delaware and the patent question separated for trial from the antitrust, unfair competition and other claims. The Company expects to vigorously pursue these remaining claims once the post-trial motions are decided upon by the court.

CE Marking Won.

Also noteworthy was CellPro's completion of all requirements leading to the granting of our use of the CE marking for the CEPRATE® SC System. The CE marking designates full marketing approval throughout the 18-nation EEA. CellPro was one of the first US biotechnology companies to demonstrate the necessary commitment to quality management and product safety required to exhibit the CE marking on any of its products.

Clinical Use Continues to Grow.

Partially as a result of the CE marking, clinical use of the CEPRATE® SC System continued to expand rapidly. We have installed instruments in more than 250 clinics in 28 countries. Over 3,500 patients have thus far been treated in an increasing variety of procedures and a growing number of diseases and genetic disorders. This is more than double the number treated at this time a year ago. Clinical trials continued in over 60 leading cancer research and gene therapy clinics in the US.

New Applications

An exciting new application of the CEPRATE® SC System was announced in May 1996, with the commencement of a clinical trial at Northwestern University to treat malignant multiple sclerosis with autologous bone marrow transplantation. Malignant multiple sclerosis is a devastating and fatal autoimmune disease, for which there is no known cure. Everyone associated with this new approach to treating this disease is hopeful of a positive outcome. This trial is the first of a series of trials at Northwestern, the Medical College of Wisconsin and UCLA to use myeloablative chemotherapy and radiation accompanied by stem cell rescue to treat autoimmune diseases such as multiple sclerosis, rheumatoid arthritis and lupus.

Looking to New Frontiers

In December, we announced a major new application of our cell-selection technology involving the enrichment of dendritic cells from bone marrow. This was followed in January by the announcement that we had signed a technology-based, multi-year research collaboration and licensing agreement with Corixa Corp. This agreement involves a new research program aimed at identifying and optimizing methods and conditions for the growth, and stimulation of tumor-antigen-specific lymphocytes and antigen-presenting cells outside the body for use in treating cancer. We are making rapid progress in preclinical research in this area and are optimistic that this collaboration and CellPro's own research will lead to the discovery of new and exciting adoptive immunotherapies for oncology.

Well Done!

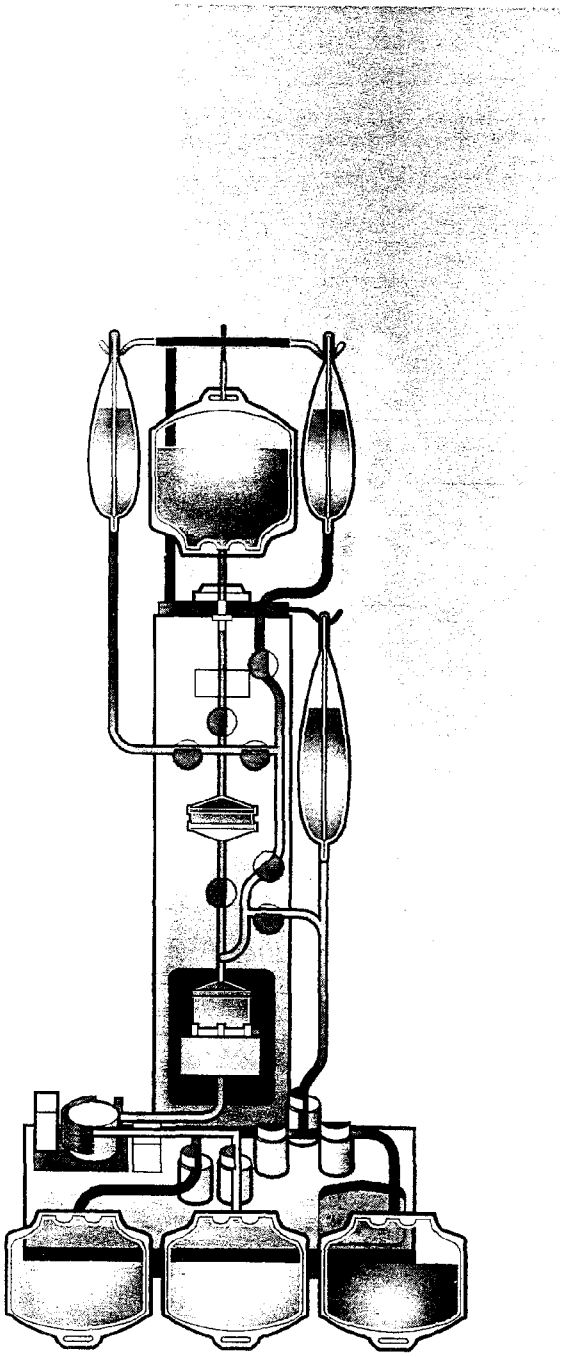
This discussion has touched just the high points of a momentous year for CellPro; a year we hope is the precursor of many more to come. In the US Navy, a "well done" is the highest accolade. To all of our employees, collaborators, vendors and the many others that contributed to the successes of the year, well done and thank you.

Richard D. Murdock

President and Chief Executive Officer

Larry G. Culver

Executive Vice President, Chief Operating Officer and Chief Financial Officer



CellPro Technology:

Tapping the Power of the Cell.

The miracles of modern medical science are increasingly based on understanding how human cells communicate with each other and relate to the outside world. CellPro's proprietary cell-separation technology provides a platform enabling ideas for new cell therapies to find expression in the clinic and laboratory. Purified human cell populations are a basic requirement for many of these studies. The Company's focus has been on obtaining purified hematopoietic stem cells. CellPro is also focusing research and collaborative resources on selecting cells of the immune system.

CellPro Cell-Selection Technology

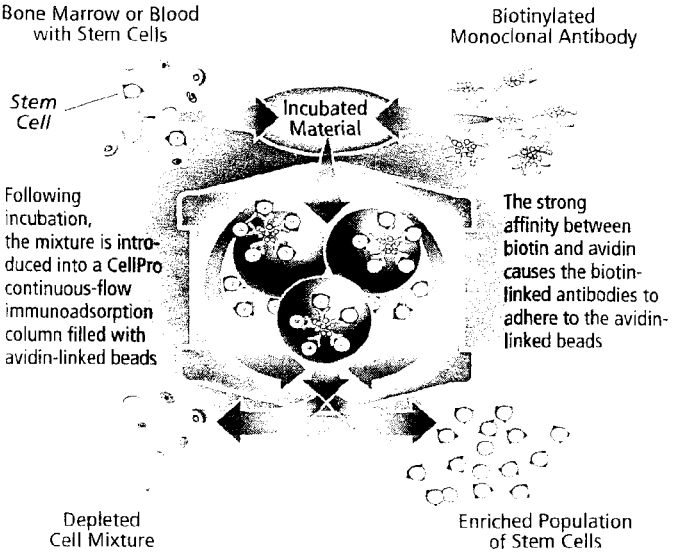
Stem cells are found in bone marrow and, to a lesser degree, in peripheral blood. These cells are unique in their ability to divide into additional stem cells, as well as into progenitors of all the cells of the body's blood and immune systems: red blood cells to carry oxygen to the body's tissues; platelets to promote blood clotting in wounds; and white blood cells to defend against invading pathogens and parasites. Transplanted stem cells can permanently repopulate bone marrow damaged by chemotherapy, radiation or disease.

CellPro's technology selects cell types using appropriate monoclonal antibodies directed against specific antigens on the surfaces of cells. Stem cells are selected using an antibody specific for an antigen (CD34) found on the surface of stem cells and early progenitor cells (collectively referred to as stem cells). The antibody singles out stem cells for later separation. Other antibodies are selective for antigens located on all T (thymus-influenced) lymphocytes (CD2), or on specific subsets of T lymphocytes, such as CD4 on helper T lymphocytes (HTLs), or CD8 on cytotoxic (killer) T lymphocytes (CTLs). HTLs help CTLs to mature and B lymphocytes to make antibodies to fight pathogens in the bloodstream and other bodily fluids. CTLs detect and destroy pathogens hiding inside cells by destroying the invaded cells. Another type of white blood cell, called a macrophage, is the body's sanitary engineer, engulfing anything foreign to the body as well as dead and dying cells. Other kinds of cells, including tumor cells, can also be separated with antibodies selective for antigens unique to those cells. CellPro's technology purifies cells by using the appropriate monoclonal antibody combined with its proprietary, continuous flow, immunoadsorption technique.

Biotin-Avidin Affinity is Fundamental.

The basis of CellPro's technology is the high natural attraction between biotin, a B-vitamin component, and avidin, a protein plentiful in egg white. Both substances are readily available and inexpensive. To select targeted cells, bone marrow, or blood, is first incubated with biotinylated antibody, which attaches to antigens on the surface of the target cells. The incubated cell mixture is then processed through a column containing avidin-coated plastic beads. As the cell mixture flows through the column, the biotin molecule adheres to the avidin on the beads; capturing the cells previously linked through the biotin-antibody-antigen connection. Unwanted cells pass through the column to be discarded, leaving the target cells attached to the beads in the column. The target cells are then collected from the column following gentle agitation of the beads. This leaves behind the monoclonal antibodies attached to the beads due to the strong biotin-avidin connection. The resulting cell product is greatly reduced in volume and highly purified for the targeted cells. CellPro has developed CEPRATE® systems for enriching stem cells and T-lymphocyte subsets.

Alternatively, if one wishes to eliminate certain cells, negative selection may be used. In the case of tumor cell depletion, a

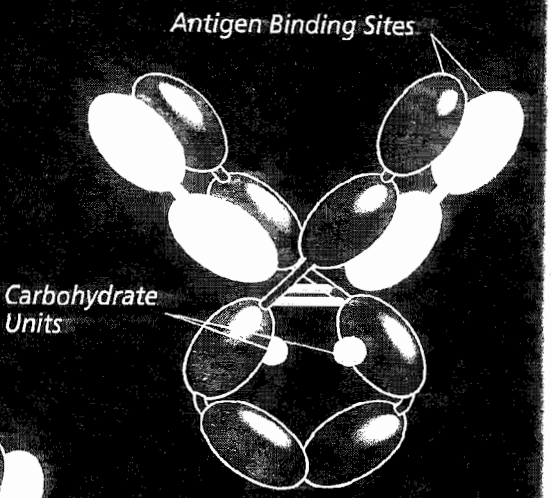


After unwanted cells are washed away, the captured stem cells are removed by gentle agitation and are ready for use.

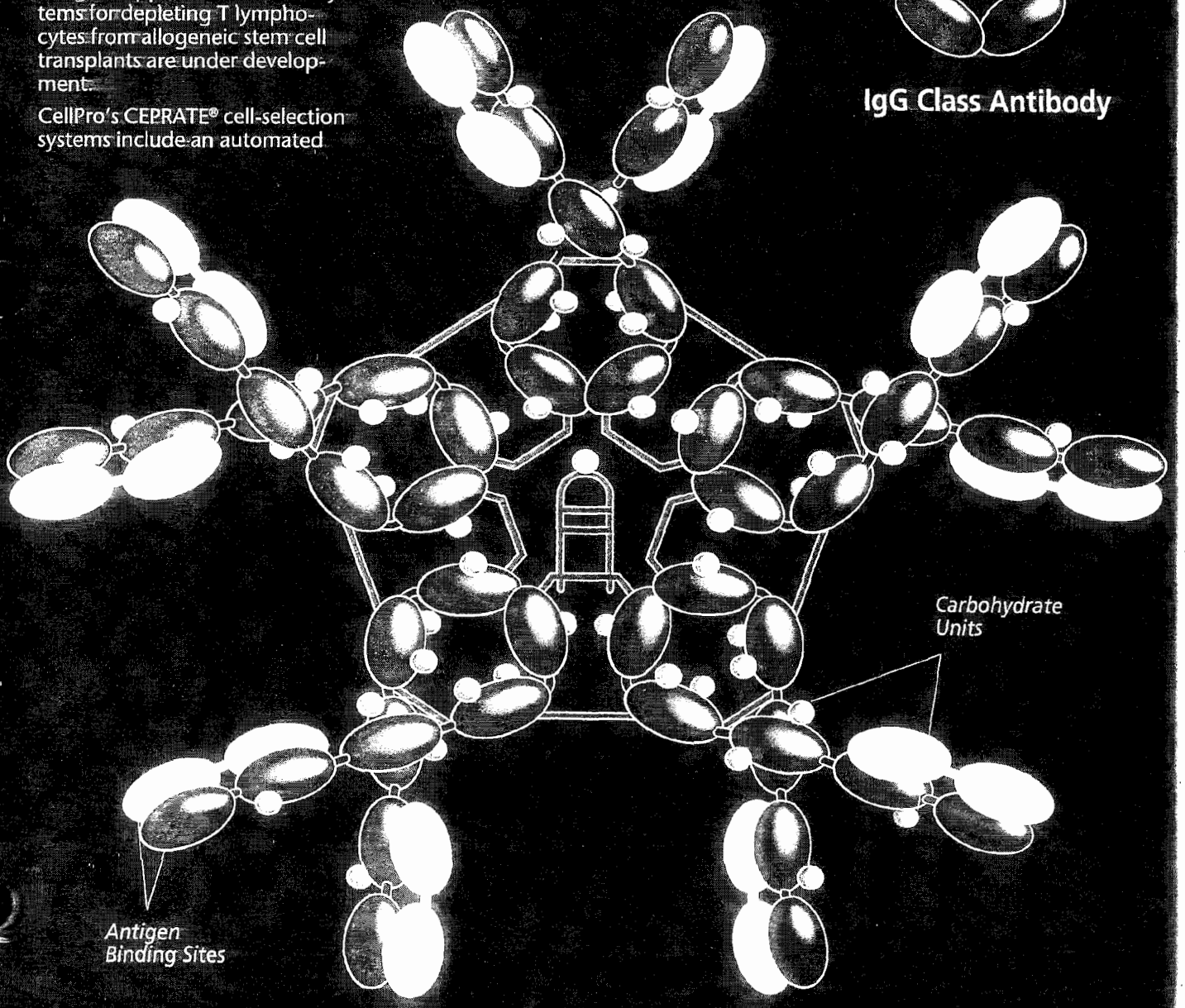
CellPro technology has many existing and potential uses.

smaller CEPRATE® system column is used to remove residual tumor cells following a positive selection for stem cells. In this procedure, the biotin-antibody-linked tumor cells remain attached to the avidin-coated beads and the unattached stem cell population is available for therapeutic use. CellPro has developed next generation CEPRATE® systems capable of depleting breast cancer cells and lymphoma cells for autologous applications. Similar systems for depleting T lymphocytes from allogeneic stem cell transplants are under development.

CellPro's CEPRATE® cell-selection systems include an automated instrument and sterile, pre-packaged, consumable sets. Each set contains the components necessary to process one collection of cells. These single-use sets contain a vial of biotinylated monoclonal antibody, avidin columns and other components, such as integrated tubing sets, collection and processing bags and solutions. The entire column-processing procedure is automated and easy to use.



IgG Class Antibody



IgM Class Antibody

Stem Cell Transplantation:

The Basis for Cell Therapy.

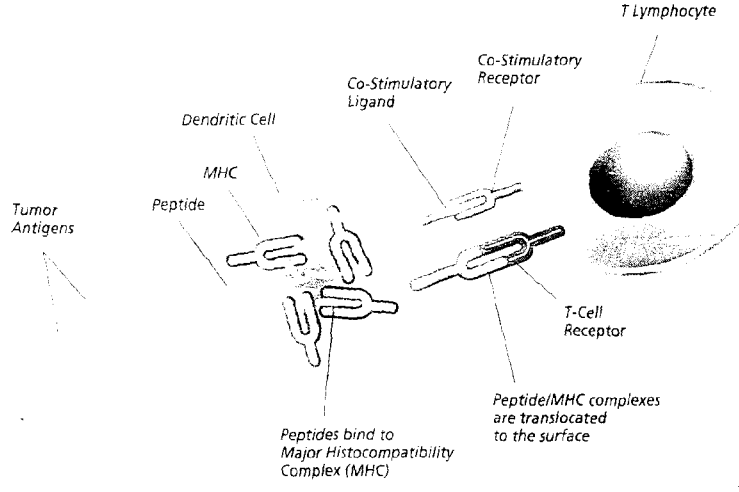
Bone Marrow Stem Cell Therapy for Cancer

CellPro's initial approach to cell therapy for cancer has been through bone marrow transplantation (BMT). BMT replaces sensitive stem cells in patients whose marrow has been damaged, or destroyed, by treatment, or disease. BMTs are also increasingly being considered for treating patients with immune-system deficiencies, autoimmune diseases and genetic disorders.

In autologous BMTs, the patient's marrow is harvested before treatment to kill the cancer begins. Following therapy, the marrow and stem cells are reinfused into the patient. For leukemias, where the marrow itself is cancerous, an allogeneic transplant of marrow from a phenotypically matched donor usually is used. In both types of transplantation, the harvested marrow consists of a mixture of very rare stem cells, blood cells in various stages of maturity and debris from the marrow. Autologous transplants may also contain tumor cells from the patient that may cause, or contribute to, relapse.

Autologous marrow is frozen while the patient receives therapy. Toxic cryoprotective agents are necessary for the protection of cell membranes during freezing. Standard BMT commonly causes complications due to the volume of unnecessary and undesirable cells, cell debris and cryogenic agents that are infused.

Adoptive Immunotherapy: The Future of Cell Therapy



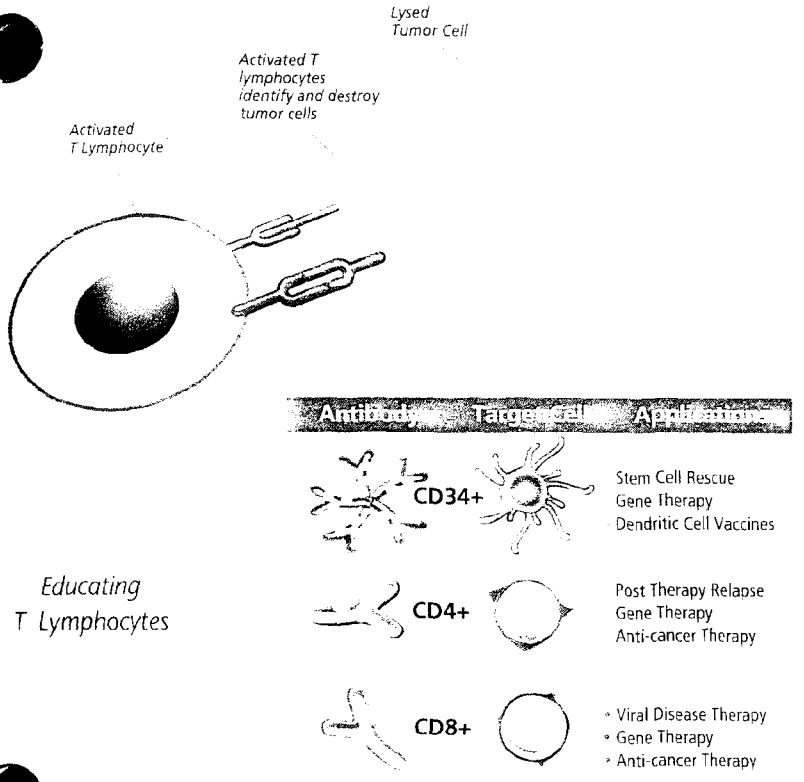
CellPro technology selects from the bone marrow harvest the rare stem cells necessary for engraftment. This greatly reduces the volume of reinfused material, as well as the volume of required cryoprotective agent. Patients receiving purified stem cells are infused with just 4.5 milliliters of cells and less than 0.5 milliliters of cryoprotectant.

CellPro completed its first Phase III trial for autologous BMT in the treatment of metastatic breast cancer in 1993. The two primary goals of this trial were to demonstrate that processed stem cells were safe to use and reduced the cardiovascular toxicities associated with infusion of whole marrow. Both primary goals were successfully demonstrated within the limits of the trial. A number of secondary benefits were also noted. The trial results were submitted to the FDA in December 1993, in support of the Company's first pre-market approval application to sell the CEPRATE® SC System in the US.

The CEPRATE® SC System is being used in additional autologous BMT trials in the United States and Europe to treat various cancers, primarily metastatic breast cancer, lymphoma and multiple myeloma.

Autologous Peripheral-Blood Stem Cell (PBSC) Therapy for Cancer.

In the autologous setting, stem cells circulating in the peripheral blood, rather than those from bone marrow, may be used for transplantation. While BMTs are



effective in treating cancer, they add surgical risk to the risk of infections and other complications associated with chemotherapy. Stem cells are much rarer in peripheral blood, but priming the patient with cytokines and/or chemotherapy can cause the marrow to release enough stem cells into the bloodstream for a transplant. The CEPRATE® SC System is widely used to purify stem cells from peripheral blood for various clinical applications.

Stem cells are selected from peripheral blood through a noninvasive apheresis process. This eliminates the risks associated with bone marrow harvest. Numerous trials have indicated that PBSCs engraft equally well and significantly faster than stem cells from marrow. Faster engraftment means reduced risk of infection and shorter hospital stays.

CellPro is participating in numerous clinical trials around the world using selected PBSCs for various applications. The objective of these trials is to demonstrate the effectiveness and feasibility of using PBSCs for hematological support in treating cancer and for demonstrating the CEPRATE® SC System's ability to purge tumor cells.

CellPro's second Phase III trial seeks to demonstrate that positive selection for stem cells from peripheral blood with the CEPRATE® SC System also significantly depletes tumor cells from the resulting transplant. This purging trial, involving multiple myeloma patients at 15 major cancer treatment centers in the US and Canada, will provide valuable information on whether tumor cells are primed into peripheral blood along with stem cells, as well as the extent of tumor cell depletion provided by the CEPRATE® SC System. Patient enrollment is expected to be completed in mid-1996. Assuming the trial successfully meets its end points, and following a six-month patient observation period, CellPro will file a new PMA for tumor depletion indications.

Stem cell separation from peripheral blood eliminates the cost and risk of surgical procedures and provides PBSCs that engraft faster and present a reduced risk of relapse due to tumor cells in the graft.

Treating Hematological Malignancies with Allogeneic Transplantation.

Allogeneic BMTs to treat blood and lymph cancers have been limited by graft-versus-host disease (GVHD). GVHD is an immune reaction caused by incompatibility between the donor's cells and the host. In GVHD, T lymphocytes from donated marrow recognize their new host as foreign and attack vital tissues and organs. Historically, more than half of all patients undergoing allogeneic transplants contract this often-fatal condition.

Several studies in both bone marrow and peripheral blood are under way in the US and Europe. These are designed to demonstrate the ability of the CEPRATE® SC System to select stem cells, while concurrently reducing the number of T lymphocytes in the graft. Some trials use donors that are matched phenotypically and some use unmatched donors. The trials using matched donors investigate whether positively selected CD34+ stem cells can achieve engraftment, with

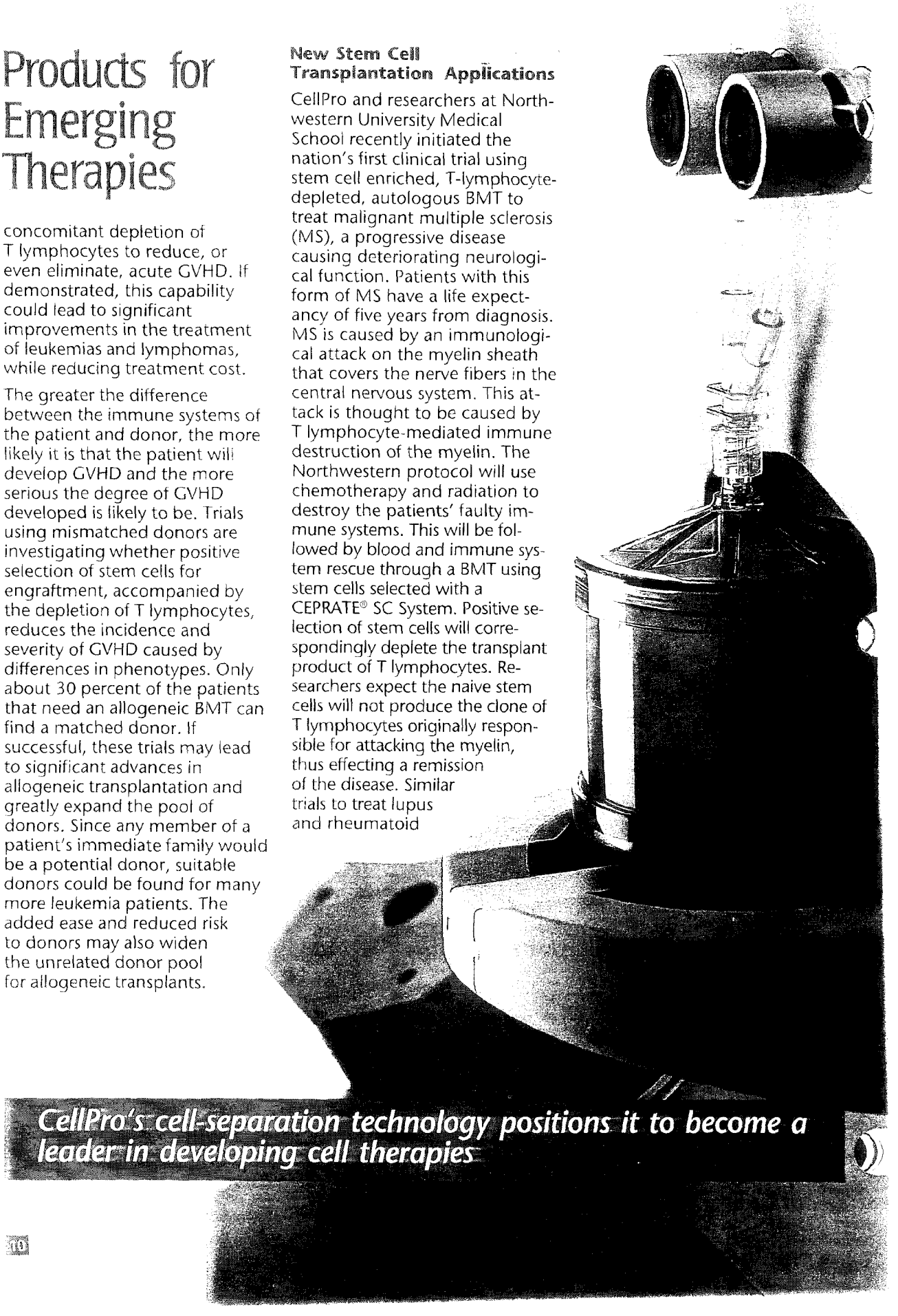
Products for Emerging Therapies

concomitant depletion of T lymphocytes to reduce, or even eliminate, acute GVHD. If demonstrated, this capability could lead to significant improvements in the treatment of leukemias and lymphomas, while reducing treatment cost.

The greater the difference between the immune systems of the patient and donor, the more likely it is that the patient will develop GVHD and the more serious the degree of GVHD developed is likely to be. Trials using mismatched donors are investigating whether positive selection of stem cells for engraftment, accompanied by the depletion of T lymphocytes, reduces the incidence and severity of GVHD caused by differences in phenotypes. Only about 30 percent of the patients that need an allogeneic BMT can find a matched donor. If successful, these trials may lead to significant advances in allogeneic transplantation and greatly expand the pool of donors. Since any member of a patient's immediate family would be a potential donor, suitable donors could be found for many more leukemia patients. The added ease and reduced risk to donors may also widen the unrelated donor pool for allogeneic transplants.

New Stem Cell Transplantation Applications

CellPro and researchers at Northwestern University Medical School recently initiated the nation's first clinical trial using stem cell enriched, T-lymphocyte-depleted, autologous BMT to treat malignant multiple sclerosis (MS), a progressive disease causing deteriorating neurological function. Patients with this form of MS have a life expectancy of five years from diagnosis. MS is caused by an immunological attack on the myelin sheath that covers the nerve fibers in the central nervous system. This attack is thought to be caused by T lymphocyte-mediated immune destruction of the myelin. The Northwestern protocol will use chemotherapy and radiation to destroy the patients' faulty immune systems. This will be followed by blood and immune system rescue through a BMT using stem cells selected with a CEPRATE® SC System. Positive selection of stem cells will correspondingly deplete the transplant product of T lymphocytes. Researchers expect the naive stem cells will not produce the clone of T lymphocytes originally responsible for attacking the myelin, thus effecting a remission of the disease. Similar trials to treat lupus and rheumatoid

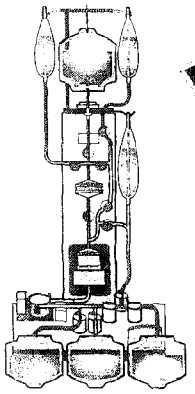


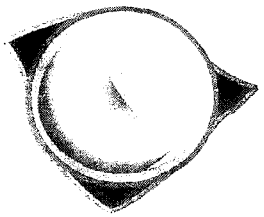
CellPro's cell-separation technology positions it to become a leader in developing cell therapies

Graft Engineering

Stem Cell Selection

Selected stem cells are important for medical procedures like stem cell transplantation and gene therapy to treat cancers, autoimmune diseases and inherited disorders. It may also be possible to differentiate them into dendritic cells for use as anticancer vaccines.

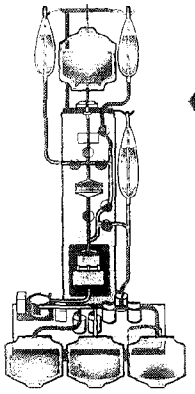


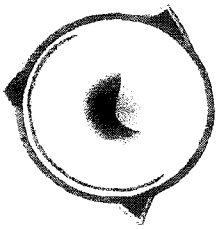


CD34+ cells bind to column for use

T-Lymphocyte Selection

Selecting specific subsets of immune-system cells may be a key to stimulating graft-versus-leukemia reactions, or to preventing viral infections. Expanding various subsets for possible activation, or antigen-specific targeting, to attack cancer cells may be feasible.

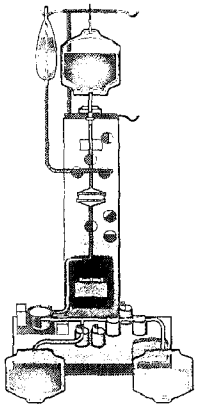


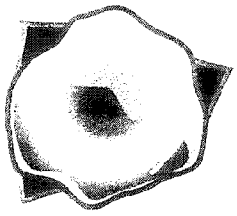


CD4+ or CD8+ cells bind to column for use

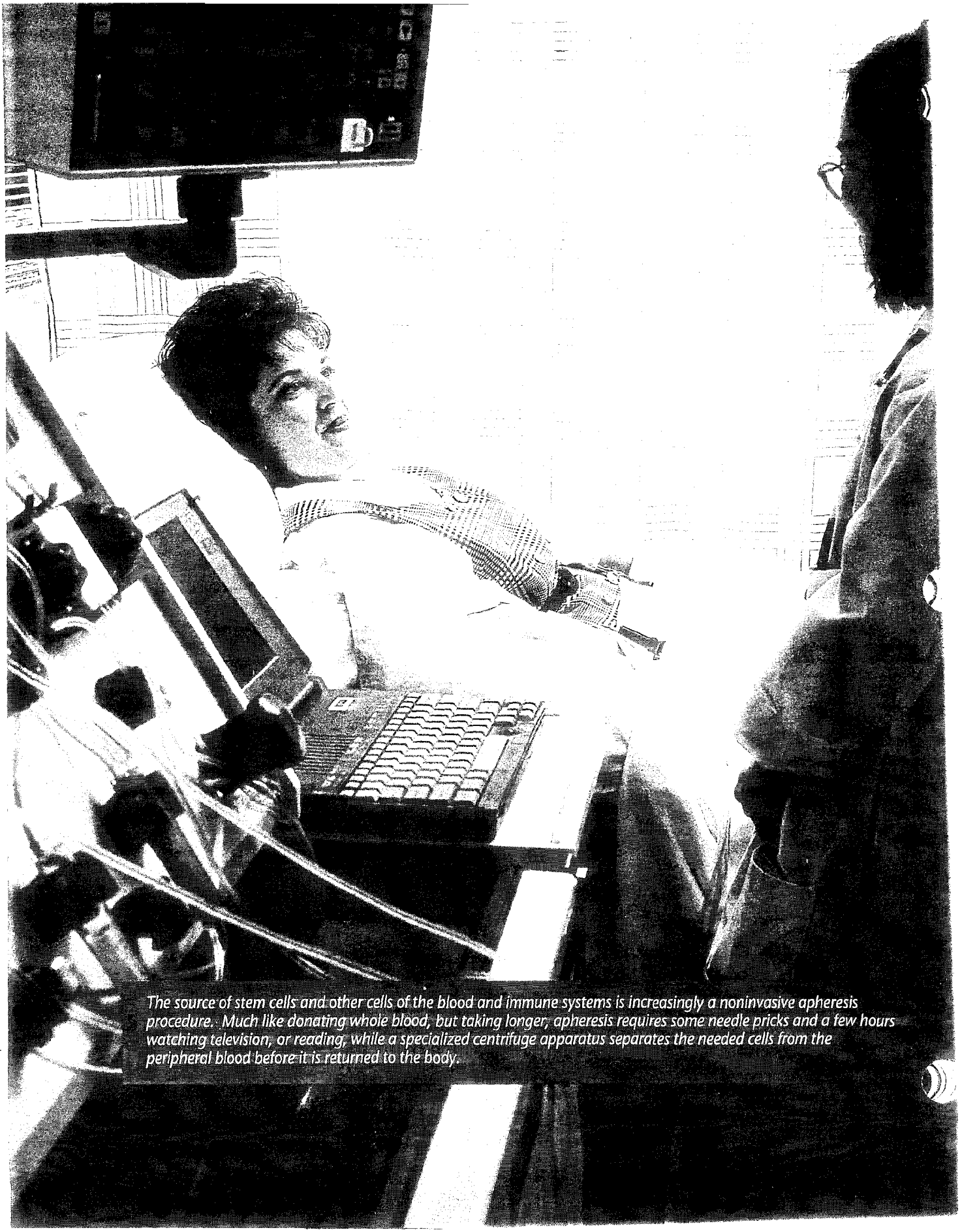
Cell Depletion

Depleting tumor cells could enhance survival potential for advanced cancer patients. Depletion of T lymphocytes may reduce GVHD and permit routine transplants from mismatched donors. This could increase the number of potential donors available to transplant patients.





Tumor cells or CD2+ cells bind to column to be discarded



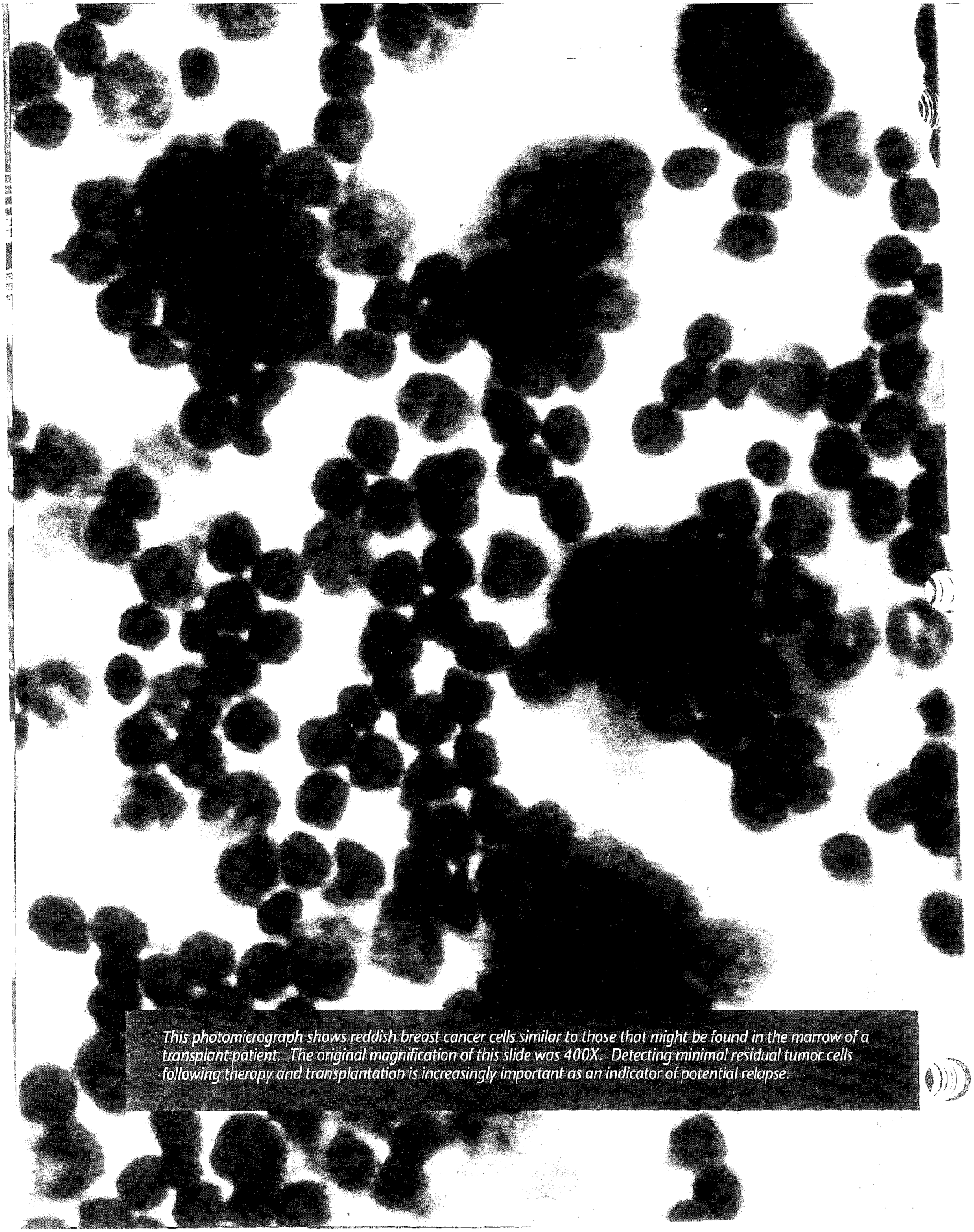
The source of stem cells and other cells of the blood and immune systems is increasingly a noninvasive apheresis procedure. Much like donating whole blood, but taking longer, apheresis requires some needle pricks and a few hours watching television, or reading, while a specialized centrifuge apparatus separates the needed cells from the peripherol blood before it is returned to the body.

arthritis are planned.

CellPro also is planning trials designed to demonstrate that simultaneously transplanting donor stem cells and organs can reduce the incidence of organ rejection. Preclinical studies in animals show that host immune systems that incorporate donor stem cells accept donated organs with little, or no, rejection. If clinical feasibility is demonstrated, this phenomenon could greatly reduce the use of immunosuppressant drugs and contribute to significant advances in organ transplantation.

Process	Application	Development Stage
Stem Cell Selection	Autologous BMT, stem cell therapy for cancer treatment	PMA approval projected FY1997
Stem Cell Selection	Autologous peripheral blood stem cell therapy and tumor cell purging for cancer treatment	Phase III in multiple myeloma - PMA filing expected FY1998
Stem Cell Selection	Autologous peripheral blood stem cell therapy for cancer	Phase I/II - several ongoing, additional starting FY1997
Stem Cell Selection	Dose-intensified, multicycle, multidrug stem cell therapy, with MDR-1 gene therapy for high-risk breast cancer	Pilot study - start FY1997
Stem Cell Selection	*Ex vivo* stem cell gene therapy for inherited disorders	Phase I/II - several ongoing
Stem Cell Selection	*Ex vivo* stem cell gene therapy for cancer treatment	Phase I/II - several ongoing
Stem Cell Selection	Autologous stem cell therapy for autoimmune diseases	Phase I/II - several ongoing, additional starting FY1997
Stem Cell Selection	*In utero* allogeneic stem cell therapy to treat inherited disorders	Pilot studies - several ongoing, additional starting FY1997
Stem Cell Selection	*Ex vivo* generation of autologous dendritic cells for immunization against cancer	Pilot studies - start FY 1997
Stem Cell Selection and T-Lymphocyte Depletion	Allogeneic stem cell therapy and T-lymphocyte depletion to reduce solid organ rejection following transplantation	Phase I/II - start FY1997
Stem Cell Selection and T-Lymphocyte Depletion	Allogeneic stem cell therapy and T-lymphocyte depletion to reduce graft-versus-host disease in hematological malignancies	Phase I/II - start in FY1997
Tumor Cell Depletion	Tumor-specific cell depletion from peripheral blood stem cell transplants to treat various cancers	Pilot studies - start FY1997
T-Lymphocyte Selection	T-lymphocyte subset selection to treat infectious diseases and cancer	Phase II in AIDS - ongoing, Phase I/II in CML and multiple myeloma - start FY1997
Dendritic Cell Selection	Autologous dendritic-cell selection from peripheral blood for immunization against cancer	Preclinical
Cancer Cell Selection	Cancer-specific cell selection for early diagnosis, or relapse monitoring	Preclinical

Progress in the Clinic



This photomicrograph shows reddish breast cancer cells similar to those that might be found in the marrow of a transplant patient. The original magnification of this slide was 400X. Detecting minimal residual tumor cells following therapy and transplantation is increasingly important as an indicator of potential relapse.

Gene Therapy: Today's Dream, Tomorrow's Reality.

The insertion of genes into stem cells for treating and possibly curing diseases and genetic disorders is becoming reality. Several protocols demonstrating the ability of inserted genes to facilitate cancer treatment, or to replace faulty genes, have moved into the clinic. Faulty genes cause many fatal, or debilitating, genetic disorders. In these protocols, a CEPRATE® SC System provides concentrated stem cells as targets for gene insertion by viral vectors.

Researchers at The University of Texas MD Anderson Cancer Research Center and the National Institutes of Health are inserting therapeutic, multidrug resistance genes into human stem cells following selection with a CEPRATE® SC System. This gene may allow patients with resistant or later-stage cancers to receive higher doses of chemotherapy with less damage to their bone marrow.

In May 1993, researchers at Childrens Hospital Los Angeles succeeded in inserting the gene for the production of adenosine deaminase (ADA) into stem cells of three new-born children with severe combined immuno-deficiency (SCID). About 40% of SCID cases are caused by lack of the ADA enzyme necessary for the synthesis of DNA by white blood cells. This disables the immune system's ability to fight infection. Without a BMT from a matched donor, very expensive ADA replacement therapy or successful gene therapy, this congenital immune disorder leads to early death.

The children are now outwardly normal three-year olds, and their marrows contain some stable stem cells producing lymphocytes expressing the ADA gene. Not enough ADA-expressing lymphocytes are being produced to constitute a normal immune system, but sufficient quantities are being produced to allow the childrens' ADA replacement therapy to be reduced by 50%.

These new therapies hold the promise of curing hematopoeitic congenital disorders, for which there are now few remedies, as well as treating cancer. CellPro is participating in numerous important gene insertion trials, including those designed to correct Gaucher's disease and to treat advanced ovarian and breast cancer.

Diagnostic Applications.

CellPro is also working on better methods for identifying tumor cells that may be circulating in the bloodstream, or lying dormant in the bone marrow. It may be feasible to determine the presence of micrometastatic tumors before they present clinically, or to detect and purge tumor cells from transplant products.

In fiscal 1996, the Company established MRDx Diagnostics to explore these and other diagnostic applications. In recent years, compelling gene-marking studies have indicated that residual tumor cells that may be present in transplantation products following surgery, chemotherapy or radiation can contribute to cancer relapse. As a consequence, the stem cell transplant community is highly interested in identifying the presence of these rare tumor cells. MRDx Diagnostics provides ultra-sensitive tumor detection through cell-specific monoclonal antibodies and polymerase chain reaction (PCR) techniques. These techniques enable MRDx Diagnostics to detect one tumor cell in one million peripheral blood or bone marrow cells. MRDx Diagnostics currently offers its services worldwide to detect tumor cells in patients being treated for lymphomas, or breast, prostate or lung cancer.

Turning Success in the Clinic into Success in the Marketplace

Marketing Programs Accelerating

During fiscal 1996, the CEPRATE® SC System became one of the first US biotechnology products to complete all requirements and be granted use of the CE marking designating full marketing approval throughout the EEA. The CE marking allows the CEPRATE® SC System to be marketed in all EEA countries without undergoing individual country regulatory approval procedures and is a symbol of acceptance recognized in many other areas of the world. The 18-nation EEA represents a market of 376 million people. CellPro's manufacturing quality systems were also awarded the ISO 9002 Production Quality Assurance certification during the year. These awards recognizing CellPro's commitment to quality contributed to product sales growth of 61% in fiscal 1996. Increased sales were also a result of the deployment of additional marketing and direct-sales people leading to the inclusion of the CEPRATE® SC System in many new treatment protocols and to the successful penetration of markets in new countries.

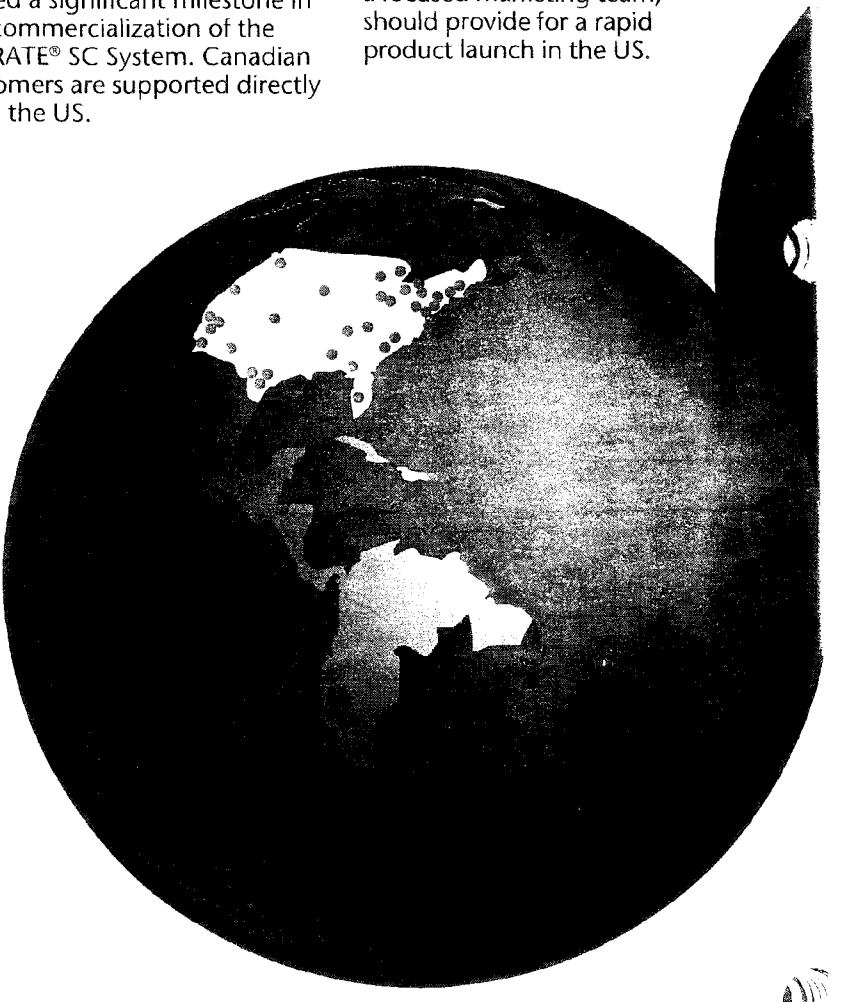
CellPro Europe is currently servicing approximately 170 transplant teams in 17 European countries and Israel. Headquarters for European operations are strategically located in Brussels, Belgium. Regional offices are located near Bordeaux, France; Munich, Germany; Milan, Italy and Madrid, Spain, with an additional sales office in Vienna, Austria.

During fiscal 1996, distribution networks were established in Asia/Pacific and Latin America. Though still modest, CellPro now has a presence in South Korea, Taiwan, Singapore, Hong Kong, Australia and New Zealand. Distributorships have also been established in Argentina and Brazil. In addition, corporate marketing support has been initiated in Asia/Pacific with the appointment of an area manager based in Australia. Latin American support is provided from the US.

The CEPRATE® SC System was approved in Canada in 1994 and exports to that country were initiated in early 1995. This represented a significant milestone in the commercialization of the CEPRATE® SC System. Canadian customers are supported directly from the US.

US Launch Imminent

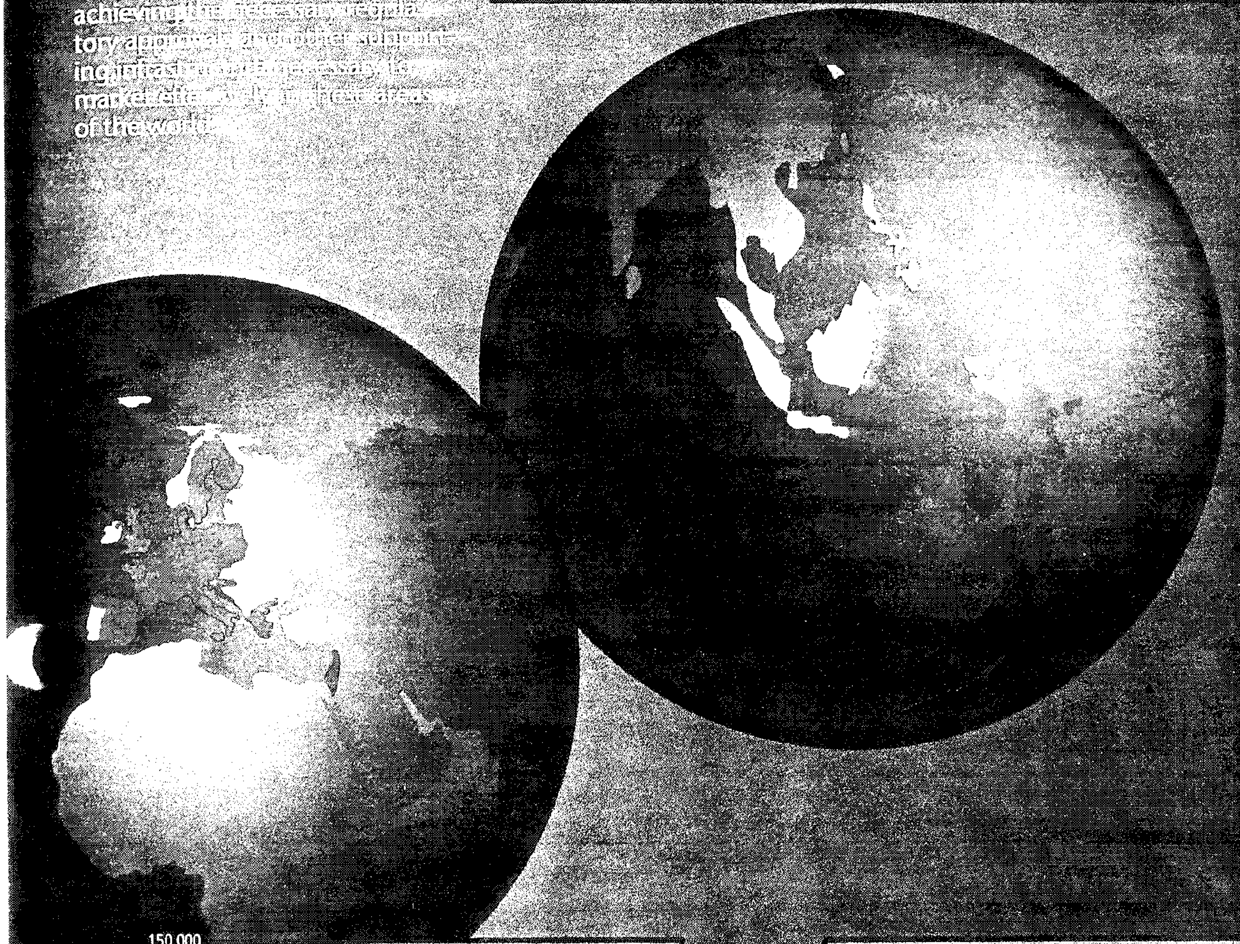
With FDA designation of the CEPRATE® SC System PMA as approvable, preparations for marketing in the US have accelerated. Current plans are for a product launch during this fiscal year subject to final FDA approval. The US transplant market resembles that of Europe without the complication of national borders. Each market contains 250 to 300 stem cell transplant clinics. This enables focused marketing groups to be effective. There are already dozens of CEPRATE® SC Systems installed for investigational use in the leading US transplant centers. This represents a potential installed customer base that, coupled with a focused marketing team, should provide for a rapid product launch in the US.

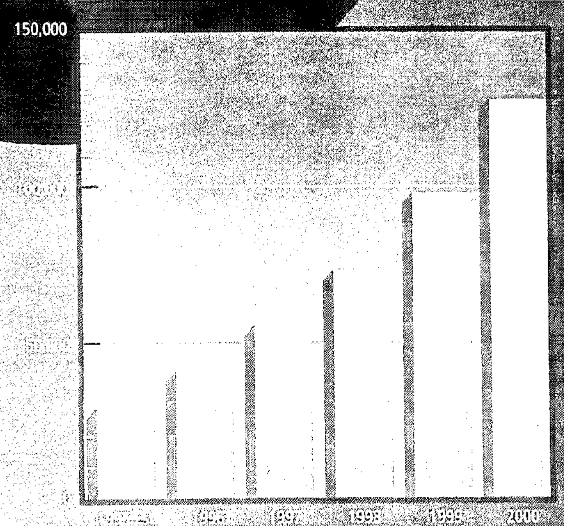


Global Positioning Underway

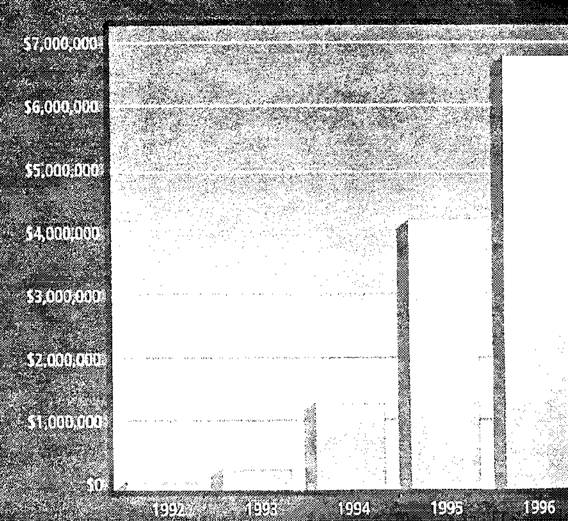
Demand exists for cell-separation products in the diverse markets of Asia/Pacific and Latin America. CellPro continues to work on achieving the necessary regulatory approvals and other supporting infrastructure necessary for market entry in these areas of the world.

Growing product sales mean CellPro is fulfilling its mission to make cell therapy a reality.

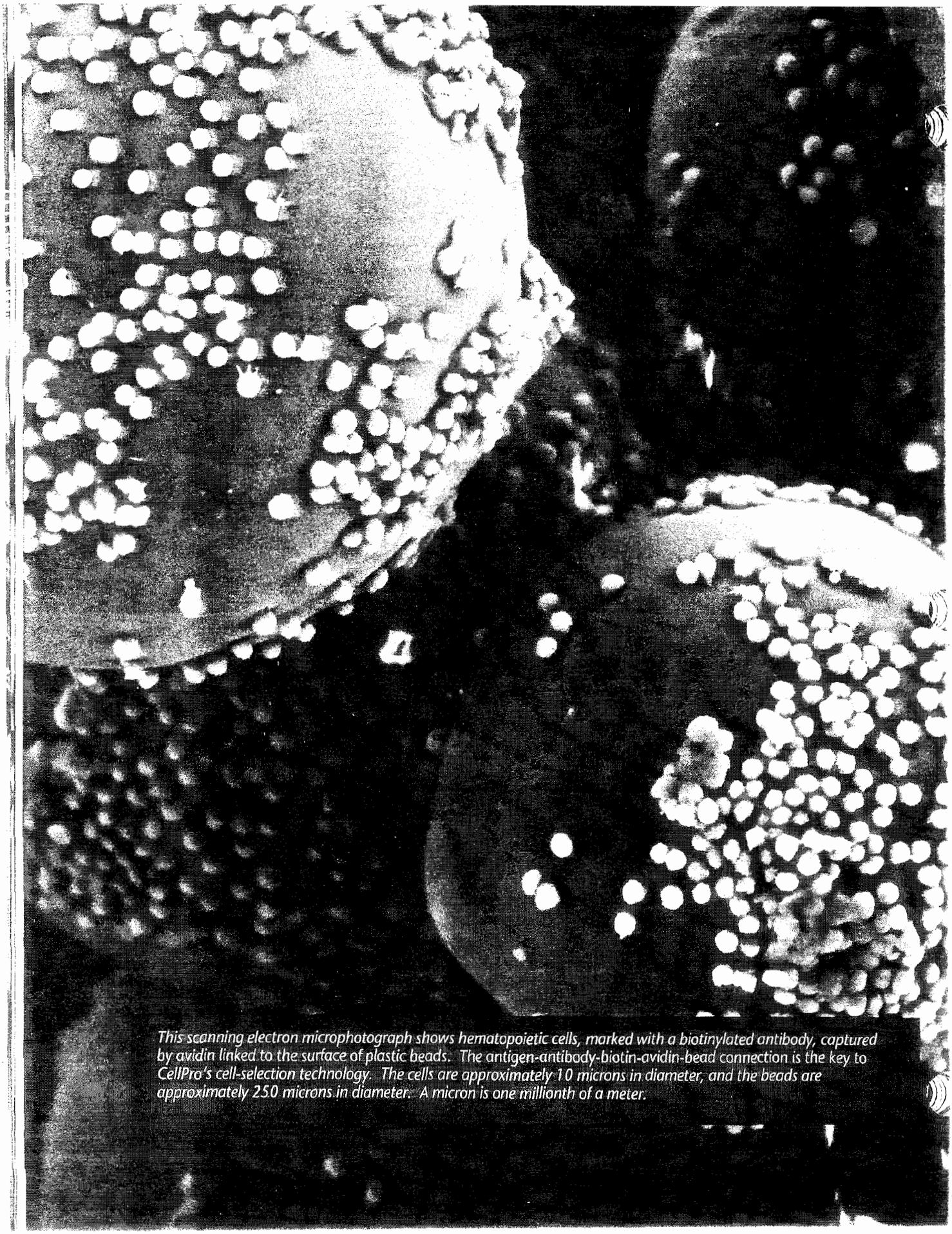




Worldwide Stem Cell Transplant Procedures
(Projected at Current Growth Rates)



Total Product Sales
(From Inception)



This scanning electron microphotograph shows hematopoietic cells, marked with a biotinylated antibody, captured by avidin linked to the surface of plastic beads. The antigen-antibody-biotin-avidin-bead connection is the key to CellPro's cell-selection technology. The cells are approximately 10 microns in diameter, and the beads are approximately 250 microns in diameter. A micron is one millionth of a meter.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Except for disclosures that report the Company's historical results, the statements set forth in this section are forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in the Company's Annual Report on Form 10K and in the Company's other filings with the Securities and Exchange Commission. In particular, readers should review the section entitled "investment considerations" in the Company's annual report on Form 10K for the fiscal year ended March 31, 1996, as filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Since the commencement of operations in 1989, the Company has been a development stage company, primarily engaged in developing, manufacturing and marketing proprietary continuous-flow, cell-selection systems. These systems may be used for a variety of therapeutic, diagnostic and research applications. The Company has completed a Phase III clinical trial of its technology for concentration of stem cells utilized in autologous bone marrow transplantation for the treatment of cancer and filed a premarketing approval application (PMA) based on this trial. In April 1996, the Company was notified by the US Food and Drug Administration (FDA) that its PMA was approvable subject to submission of limited additional data, final approval of product labeling, and completion of GMP certification of its manufacturing facilities. The Company intends to move rapidly to complete the remaining requirements for commercialization in the United States. The CEPRATE® SC System already has marketing approval throughout the 18-nation European Economic Area and Canada.

The Company's activities have been funded primarily by raising approximately $153 million through the sale of Common Stock, including two public offerings and two private offerings to Corange International Limited ("Corange"), and $9.7 million through private sales of Preferred Stock prior to the Company's initial public offering. The Company has been unprofitable since inception and expects to incur additional operating losses for at least the next few years. For the period from inception to March 31, 1996, the Company incurred a cumulative net loss of approximately $75.6 million.

The Company's first commercial product, the CEPRATE® LC Laboratory Cell Separation System (the "CEPRATE® LC System"), was introduced in October 1991 and is being sold on a world-wide basis for various research applications. Additionally, the Company commenced sales of its CEPRATE® SC System for certain therapeutic purposes in August 1993 and is currently selling the system in various European, Middle Eastern and Asian countries and in Canada. Also, the CEPRATE® SC System is being sold, on a limited basis, for investigational use in the United States under the FDA's cost recovery program. The Company expects to continue to incur substantial expenses to support its operations, including the costs of preclinical and clinical studies, manufacturing scale-up costs and the expansion of its sales and marketing organization. The Company's results of operations may vary significantly from quarter to quarter during this period of development and the Company expects to continue to incur net operating losses during this period.

Results of Operations

Years Ended March 31, 1996, 1995, and 1994

Product sales increased to $6.8 million in the fiscal year ended March 31, 1996 ("fiscal 1996"), from $4.2 million in the fiscal year ended March 31, 1995 ("fiscal 1995") and $1.4 million in the fiscal year ended March 31, 1994 ("fiscal 1994"). Sales of the CEPRATE® SC System accounted for the increase. In July 1995, the CEPRATE® SC System was approved for commercial sale in the European Economic Area. This opened up several new markets for the Company's products and allowed the Company greater access to markets it already served in Europe. The Company also introduced the CEPRATE® SC System for sale in key Latin American and Asia Pacific countries during this fiscal year. The majority of the Company's sales have been in Europe. These sales are denominated in various European currencies. As a result, product sales have been and will continue to be affected by changing currency exchange rates.

Related party revenue for the current year consisted of $6 million for prior research and development services received from Corange as part of the termination of business arrangements between CellPro and Corange previously established in December 1993. Under the terms of this settlement, Corange agreed to return all product rights previously subject to these agreements. Contract revenue of $2.9 million, recorded in fiscal 1994, was earned as a result of initiating the Corange collaboration. These revenue sources are non-recurring.

The Company generated $4.3 million, $4.0 million and $2.1 million of interest income during fiscal 1996, 1995 and 1994 respectively. The higher amounts in 1996 and 1995 were due to larger average cash balances available for investment and higher interest rates received on such cash balances. Average cash reserves were higher in 1996 due to the July 31, 1995 termination of the Corange collaboration, which included $30 million in cash received from the sale of Common Stock and revenue for past research and development. Average cash reserves were augmented in 1995 with the $60 million in proceeds from the Company's sale of Common Stock to Corange and a commitment payment received from them late in fiscal 1994.

Cost of product sales was $3.7 million, $2.4 million, and $1.3 million for fiscal 1996, 1995, and 1994, respectively. These increases are related to higher sales volumes. Also, the gross margin percentage has improved due to the favorable CEPRATE® SC System product sales mix.

Research and development expenses totaled $16.5 million in fiscal 1996, increasing from $15.4 million in fiscal 1995 and $9.9 million in fiscal 1994. The increase from 1995 to 1996 resulted from the commencement of the Company's second Phase III clinical trial, which began in 1995, and from a newly created collaboration with Corixa Corporation to develop T-lymphocyte therapies to treat cancer. The increase from 1994 to 1995 resulted from expanded staffing and facilities costs to support continuing investment in research and development and the continued expansion of clinical trial programs.

Selling, general and administrative expenses totaled $12.5 million, $9.2 million and $6.2 million in fiscal 1996, 1995 and 1994, respectively. The increase from 1995 to 1996 resulted from higher legal fees and increased sales and marketing expenses. Higher legal fees were incurred to defend the Company in patent litigation asserted by Baxter Healthcare Corporation, Becton Dickinson & Co. and Johns Hopkins University against the Company. On August 4, 1995, a jury verdict was reached in favor of CellPro in the patent litigation case. This case is currently in the post-trial motion phase. Increased sales and marketing expenses resulted from expanded commercialization activities for the CEPRATE® SC System in Europe, the Middle East, Canada, Asia Pacific and Latin America. The increase from fiscal 1994 to 1995 was primarily the result of continuing expansion of sales and marketing activities in support of commercialization of the CEPRATE® SC System. Additionally, the general and administrative functions continued to increase in support of the growth and increased diversity of the Company's operations. The Company expects these expenses to continue to increase as the Company's activities continue to expand with the anticipated product launch in the United States and increased efforts in other key international markets.

Interest expense has declined over the last three fiscal years at $87,000, $157,000, and $206,000 for fiscal 1996, 1995, and 1994, respectively. The decline is a result of lower average debt balances for equipment financing.

The above factors resulted in net operating losses of $15.7 million, $19.0 million and $15.1 million in fiscal 1996, 1995 and 1994, respectively.

Litigation Provision:

On August 4, 1995, a jury found in favor of CellPro regarding a three year-old patent dispute between CellPro and Baxter, B-D and Hopkins. The verdict stated that the patents in question were not infringed by CellPro's manufacture, use and sale of the CEPRATE® SC System or the CEPRATE® LC System. Additionally, the jury found that the claims of the patents asserted against CellPro were invalid and unenforceable. Post-trial motions have been filed by both parties and are currently under review. The Company has no knowledge as to whether Baxter, B-D and Hopkins will appeal the verdict.

Based on current advice of counsel, CellPro plans to vigorously pursue its antitrust and unfair competition claims against Baxter, B-D and Hopkins, pending the rulings on the post-trial motions.

As this litigation progresses, the Company will continue to incur substantial expenses. Further, although the Company does not believe that the outcome of this litigation will have a material impact on the Company's financial condition, the expenses incurred in conducting such litigation could have a material adverse effect on quarterly, or annual operating results for future periods in which they occur.

Liquidity and Capital Resources

The Company has financed its operations since inception primarily through the sale of Common Stock and Preferred Stock, generation of interest income and arrangements for equipment financing. Through March 31, 1996, the Company has raised $73.3 million through two public offerings and $79.7 million through two private offerings of Common Stock, and $9.7 million from the sale of Preferred Stock. It has generated $13.4 million in interest income, $12.7 million in product sales and $9.0 million in contract and related party revenues.

Since inception, the Company has used $66.9 million of cash in operating activities and has invested $26.9 million in equipment and leasehold improvements. The Company has financed $3.6 million of these investments with secured lending arrangements.

The Company expects to incur substantial expenses in support of additional research and development activities, including the costs of preclinical and clinical studies, expansion of manufacturing activities and new product development and possible acquisition of new technologies. Selling, general and administrative expenses will also increase as the Company builds its sales and marketing organization and expands administrative activities in support of the Company's anticipated expansion of commercial sales.

At March 31, 1996, the Company had $74.1 million in cash and marketable securities available to meet its future working capital needs. The Company anticipates that its capital resources should be sufficient to fund its cash requirements through approximately the fiscal year ending March 31, 1999. The preceding forward-looking statement is subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The amount and timing of net expenditures of capital resources will depend on the Company's ability to increase product sales, the timing and extent of sales and marketing expenditures, including those incurred in support of product launches, the progress of ongoing research and development, the results of preclinical testing and clinical trials, the rate at which operating losses are incurred, the execution of any collaborative research

and development agreements, product marketing or licensing agreements, or other corporate partner arrangements, the FDA regulatory process and other factors, many of which are beyond the Company's control.

New Pronouncements

In March 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No 121 which establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used, and for long-lived assets and certain identifiable intangibles to be disposed of. SFAS 121 requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company acopted SFAS 121 as of April 1996. Management believes adoption of SFAS 121 will not significantly impact the Company's financial position or results of operations.

In October 1995, the FASB issued SFAS 123 which addresses the accounting for stock-based compensation arrangements. SFAS 123 permits a company to choose either a new fair value-based method or the current Accounting Principles Board ("APB") Opinion 25 intrinsic value-based method of accounting for stock-based compensation arrangements. The statement requires pro forma disclosures of net income and earnings per share computed as if the fair value-based method had been applied in financial statements of companies that continue to follow current practice in accounting for such arrangements under APB Opinion 25. The Company must adopt SFAS 123 for the fiscal year ending March 31, 1997. The Company will continue to record stock-based compensation using the current APB Opinion 25 intrinsic value-based method and therefore believes adoption of SFAS 123 will not impact the Company's financial position or results of operations.

Report of Independent Accountants

Board of Directors and Stockholders
CellPro, Incorporated

We have audited the accompanying consolidated balance sheets of CellPro, Incorporated (a Company in the development stage) as of March 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended March 31, 1996, 1995 and 1994 and for the period from inception to March 31, 1996. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CellPro, Incorporated (a Company in the development stage) as of March 31, 1996 and 1995 and the consolidated results of its operations and its cash flows for the years ended March 31, 1996, 1995 and 1994 and for the period from inception to March 31, 1996 in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Seattle, Washington
May 6, 1996

Consolidated Balance Sheets

March 31, 1996 and 1995

ASSETS	1996	1995
Current assets:		
Cash and cash equivalents	$ 17,076,098	$ 17,184,026
Securities available for sale	57,067,753	47,465,604
Trade receivables	2,283,624	1,134,173
Inventories	4,384,452	3,187,936
Other current assets	555,904	555,308
Total current assets	81,367,831	69,527,047
Property and equipment, net	16,504,305	19,659,225
Other assets	69,213	326,663
Total assets	$ 97,941,349	$ 89,512,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 269,275	$ 340,315
Accounts payable	1,104,467	2,750,881
Accrued liabilities	4,146,373	3,299,309
Reserve for litigation costs	•	1,875,322
Total current liabilities	5,520,115	8,265,827
Long-term debt, net of current portion	208,001	486,428
Commitments and contingencies (Notes 8, 10 and 12)		
Stockholders' equity:		
Common stock, $0.001 par value; 25,000,000 shares authorized; 14,348,933 shares issued and outstanding at March 31, 1996; and 13,084,652 shares at March 31, 1995	14,349	13,085
Additional paid-in capital	167,971,991	140,990,564
Foreign currency translation	(50,014)	8,760
Net unrealized loss on securities available for sale	(102,127)	(283,423)
Deficit accumulated during the development stage	(75,620,966)	(59,968,306)
Total stockholders' equity	92,213,233	80,760,680
Total liabilities and stockholders' equity	$ 97,941,349	$ 89,512,935

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

Consolidated Statements of Operations

for the years ended March 31, 1996, 1995 and 1994 and the period from inception to March 31, 1996

	1996	1995	1994	For the period from inception to March 31, 1996
Product sales	$ 6,801,985	$ 4,215,910	$ 1,365,374	$ 12,736,819
Related party revenue	6,000,000	•	•	6,000,000
Contract revenue	41,600	•	2,933,000	2,974,600
Interest income	4,303,897	3,979,652	2,148,765	13,387,210
	17,147,482	8,195,562	6,447,139	35,098,629
Costs and expenses:				
Cost of product sales	3,723,421	2,429,573	1,266,840	7,755,706
Research and development	16,474,133	15,417,405	9,944,617	60,092,503
Selling, general and administrative	12,515,870	9,177,505	6,224,706	35,030,485
Interest	86,718	157,034	205,838	914,371
Litigation provision	•	•	3,926,530	6,926,530
Total costs and expenses	32,800,142	27,181,517	21,568,531	110,719,595
Net loss	$ (15,652,660)	$ (18,985,955)	$ (15,121,392)	$ (75,620,966)
Net loss per share	$ (1.13)	$ (1.45)	$ (1.27)	$ (8.00)
Weighted average number of shares outstanding during the period	13,847,929	13,059,985	11,936,094	9,452,903

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

	Common Stock		Preferred Stoc	
	Shares	Par Value	Shares	Par
Issuance of common stock for cash and notes receivable	655,000	$ 655	•	$
Issuance of Series A Preferred Stock for cash	•	•	2,175,000	
Net loss from inception to March 31, 1990	•	•	•	
Balance at March 31, 1990	655,000	655	2,175,000	
Issuance of Series B Preferred Stock for cash	•	•	2,503,332	
Net loss	•	•	•	
Balance at March 31, 1991	655,000	655	4,678,332	4
Initial public sale of common stock for cash, net	3,450,000	3,450	•	
Exercise of warrant	7,273	7	•	
Exercise of stock options	37,234	38	•	
Conversion of preferred stock to common	4,678,332	4,678	(4,678,332)	(4
Shares retired	(28,125)	(28)	•	
Amortization of stock option expense	•	•	•	
Net loss	•	•	•	
Balance at March 31, 1992	8,799,714	8,800	•	
Public sale of common stock for cash, net	2,500,000	2,500	•	
Exercise of stock options	282,126	282	•	
Employee stock purchase plan	3,687	4	•	
Amortization of stock option expense	•	•	•	
Foreign currency translation	•	•	•	
Net loss	•	•	•	
Balance at March 31, 1993	11,585,527	11,586	•	
Sale of common stock for cash, net	1,160,362	1,160	•	
Exercise of stock options	267,089	267	•	
Employee stock purchase plan	10,868	11	•	
Amortization of stock option expense	•	•	•	
Foreign currency translation	•	•	•	
Net loss	•	•	•	
Balance at March 31, 1994	13,023,846	13,024	•	•
Exercise of stock options	48,368	48	•	•
Employee stock purchase plan	12,438	13	•	•
Amortization of stock option expense	•	•	•	•
Foreign currency translation	•	•	•	•
Net unrealized loss on securities available for sale	•	•	•	•
Net loss	•	•	•	•
Balance at March 31, 1995	13,084,652	13,085	•	•
Sale of common stock for cash, net	1,000,000	1,000	•	•
Amortization of stock option expense	•	•	•	•
Exercise of stock options	243,185	243	•	•
Foreign currency translation	•	•	•	•
Employee stock purchase plan	21,096	21	•	•
Net unrealized gain on securities available for sale	•	•	•	•
Net loss	•	•	•	
Balance at March 31, 1996	14,348,933	$ 14,349	•	$

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

itional Paid-In Capital	Foreign Currency Translation	Net Unrealized Loss on Securities Available for Sale	Deficit Accumulated During the Development Stage	Total
$ 18,995	$ •	$ •	$ •	$19,650
2,162,325	•	•	•	2,164,500
•	•	•	(1,727,596)	(1,727,596)
2,181,320	•	•	(1,727,596)	456,554
7,482,704	•	•	•	7,485,207
•	•	•	(3,660,622)	(3,660,622)
9,664,024	•	•	(5,388,218)	4,281,139
34,725,220	•	•	•	34,728,670
(7)	•	•	•	•
4,996	•	•	•	5,034
•	•	•	•	•
(816)	•	•	•	(844)
52,500	•	•	•	52,500
•	•	•	(9,053,591)	(9,053,591)
44,445,917	•	•	(14,441,809)	30,012,908
38,607,192	•	•	•	38,609,692
47,369	•	•	•	47,651
27,427	•	•	•	27,431
90,000	•	•	•	90,000
•	(968)	•	•	(968)
•	•	•	(11,419,150)	(11,419,150)
83,217,905	(968)	•	(25,860,959)	57,367,564
55,171,234	•	•	•	55,172,394
1,743,057	•	•	•	1,743,324
127,036	•	•	•	127,047
90,000	•	•	•	90,000
•	(2,730)	•	•	(2,730)
•	•	•	(15,121,392)	(15,121,392)
140,349,232	(3,698)	•	(40,982,351)	99,376,207
346,720	•	•	•	346,768
204,612	•	•	•	204,625
90,000	•	•	•	90,000
•	12,458	•	•	12,458
•	•	(283,423)	•	(283,423)
•	•	•	(18,985,955)	(18,985,955)
140,990,564	8,760	(283,423)	(59,968,306)	80,760,680
24,551,861	•	•	•	24,552,861
37,500	•	•	•	37,500
2,201,590	•	•	•	2,201,833
•	(58,774)	•	•	(58,774)
190,476	•	•	•	190,497
•		181,296	•	181,296
•	•	•	(15,652,660)	(15,652,660)
$ 167,971,991	$ (50,014)	$ (102,127)	$ (75,620,966)	$ 92,213,233

Consolidated Statements of Cash Flows

for the years ended March 31, 1996, 1995 and 1994 and the period from inception to March 31, 1996

	1996	1995	1994	For the period from inception to March 31,1996
Net loss	$ (15,652,660)	$(18,985,955)	$(15,121,392)	$(75,620,966)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	3,897,400	3,078,323	1,644,920	10,361,291
Amortization of stock option expense	37,500	90,000	90,000	360,000
Changes in:				
Inventories	(1,196,516)	(1,583,149)	(1,369,499)	(4,384,452)
Trade receivables	(1,149,451)	(476,879)	(575,710)	(2,283,624)
Other current assets	(596)	74,813	(23,401)	(555,904)
Accounts payable	(1,646,414)	(508,036)	2,691,742	1,104,467
Accrued liabilities	847,064	1,965,425	606,158	4,146,373
Reserve for litigation costs	(1,875,322)	(3,124,678)	3,197,739	•
Net cash used in operating activities	(16,738,995)	(19,470,136)	(8,859,443)	(66,872,815)
Investing activities:				
Purchase of property and equipment	(742,480)	(11,107,900)	(8,558,485)	(26,865,596)
Change in securities available for sale, net	•	•	(30,177,805)	(55,583,061)
Proceeds from sales and maturities of securities available for sale	39,954,694	46,307,740	•	86,262,434
Purchase of securities available for sale	(49,375,547)	(38,473,706)	•	(87,849,253)
Issuance of note receivable	•	•	•	(97,500)
Payment of note receivable	•	•	•	97,500
Change in other assets	257,450	262,778	35,306	(69,213)
Net cash used in investing activities	(9,905,883)	(3,011,088)	(38,700,984)	(84,104,689)
Financing activities:				
Proceeds from long-term debt	69,700	102,300	824,000	3,568,600
Principal payments on long-term debt	(419,167)	(922,870)	(875,377)	(3,091,324)
Net proceeds from issuance of common stock	26,886,417	563,851	57,040,035	157,908,019
Payment of subscription notes receivable	•	•	•	18,600
Net proceeds from issuance of preferred stock	•	•	•	9,649,707
Net cash provided by (used in) financing activities	26,536,950	(256,719)	56,988,658	168,053,602
Net increase (decrease) in cash and cash equivalents	(107,928)	(22,737,943)	9,428,231	17,076,098
Cash and cash equivalents:				
Beginning of period	17,184,026	39,921,969	30,493,738	•
End of period	$ 17,076,098	$ 17,184,026	$ 39,921,969	$ 17,076,098

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

Notes to Consolidated Financial Statements

1. Formation and Business of the Company:

CellPro, Incorporated and Subsidiaries (the "Company" or "CellPro"), whose operations began in April 1989, is a biotechnology company, specializing in developing, manufacturing, and marketing proprietary continuous-flow, cell-selection systems for use in a variety of therapeutic, diagnostic, and research applications. The Company has formed several European subsidiaries to coordinate European marketing and clinical trials. The Company's principal product, the CEPRATE® SC Stem Cell Concentration System, is approved for use in Canada and has been granted use of the CE (Communauté Européenne) marking, designating full marketing approval throughout the 18-nation European Economic Area. In addition, the Company has received a letter from the United States Food and Drug Administration (FDA), in which the FDA stated that the Company's premarketing approval application for the CEPRATE® SC System is "approvable" subject to limited additional data, approval of product labeling, and inspection of the Company's manufacturing facilities and processes.

2. Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation. Foreign subsidiaries are consolidated on a one-month delay.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

Cash equivalents represent highly liquid short-term investments. The Company considers all short-term investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are recorded at market value. The Company maintains a portion of its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Securities Available for Sale

The Company's investment securities are classified as available for sale and carried at fair value. Unrealized gains and losses are excluded from the statement of operations and reported as a separate component of stockholders' equity. Gross realized gains and losses on the sales of investment securities are determined on the specific identification method and are included in interest income. The Company's policy limits the amount of credit exposure to any one issuer.

Inventories

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the assets (three to five years). Leasehold improvements are amortized on a straight-line basis over the remaining term of the related lease (two to ten years). Expenditures for maintenance and repairs are charged to expense as incurred.

Foreign Currency Translation

Revenues, costs and expenses of the Company's international operations denominated in foreign currencies are translated to U.S. dollars at average rates of exchange prevailing during the year. Assets and liabilities are translated at the exchange rate on the balance sheet date. Translation adjustments resulting from this process are accumulated and reported in stockholders' equity.

Stock Options and Purchase Plans

The Company's stock option and purchase plans are accounted for under Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" (Note 9).

Statement of Financial Accounting Standards No. 123 (SFAS 123), which addresses stock-based compensation, must be adopted for the fiscal year ending March 31, 1997. The Company will continue to apply the provisions of APB 25 for calculating the value of stock-based compensation, as permitted by SFAS 123. Adoption of SFAS 123 will result in additional disclosure.

Research and Development Expenditures

Research and development expenditures are charged to operations as incurred.

Earnings Per Share

In accordance with the applicable rules of the Securities and Exchange Commission, earnings per share for the years ended March 31, 1996, 1995 and 1994 and for the period from inception through March 31, 1996 are based upon the weighted average number of shares of Common Stock outstanding after giving effect to the conversion of all outstanding shares of Preferred Stock into shares of Common Stock. In addition, for periods prior to the Company's initial public offering, common share equivalents for all stock options granted by the Company during the 12 months preceding the Company's initial public offering determined by the treasury stock method, have been included in the calculation of weighted average number of common shares outstanding as if they were outstanding for all

periods prior to the Company's initial public offering. Except for the foregoing, common stock equivalents have not been included because the effect would be anti-dilutive.

Reclassifications

Certain reclassifications have been made to prior years' financial statements to conform to the 1996 presentation.

3. Securities Available for Sale:

The following table summarizes the Company's securities available for sale at March 31:

1996	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 26,878,988	$ 85,954	$ 69,531	$ 26,862,566
Corporate debt securities	30,188,765	26,151	144,701	30,307,314
Total	$ 57,067,753	$ 112,105	$ 214,232	$ 57,169,880

1995	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 18,930,504	$ 97,666	$ 203,533	$ 19,036,371
Corporate debt securities	28,535,100	36,514	214,070	28,712,656
Total	$ 47,465,604	$ 134,180	$ 417,603	$ 47,749,027

Amortized cost and market value of debt securities at March 31, 1996, by contractual maturity, are shown below:

Contractual Maturity	Market Value	Amortized Cost
Due within 1 year	$ 24,941,998	$ 24,885,975
Due after 1 year but within 5 years	$ 32,125,755	$ 32,283,905

Gross realized losses totaled $26,000 for the year ended March 31, 1996 and $29,000 for the year ended March 31, 1995. Gross realized gains totaled $43,000 for the year ended March 31, 1996.

4. Inventories:

At March 31, inventories consisted of the following:

	1996	1995
Raw Materials	$ 1,241,599	$ 655,675
Work-in-process	1,407,472	547,429
Finished goods	1,735,381	1,984,832
	$ 4,384,452	$ 3,187,936

5. Property and Equipment:

At March 31, property and equipment consisted of the following:

	1996	1995
Laboratory and manufacturing equipment	$ 2,983,370	$ 3,100,918
Computers	1,236,172	1,183,105
Office equipment	1,189,479	1,125,750
Furniture	1,552,584	1,610,519
Leasehold improvements	18,102,166	17,723,838
	25,063,771	24,744,130
Less accumulated depreciation	(8,559,466)	(5,084,905)
	$ 16,504,305	$ 19,659,225

6. Accrued Liabilities:

At March 31, accrued liabilities consisted of the following:

	1996	1995
Deferred sales tax	$ 1,190,000	$ 1,174,000
Accrued clinical trials costs	987,000	427,000
Accrued employee compensation and benefits	583,000	458,000
Other	1,386,373	1,240,309
	$ 4,146,373	$ 3,299,309

7. Long-Term Debt

At March 31, Long-term debt consisted of the following:

	1996	1995
Notes payable, collateralized by furniture and equipment with an original cost of approximately $422,000, payable in monthly installments totaling $11,745, including interest; final payment due January 1997, interest at 9.47%	$ 112,507	$396,285
Capital lease obligations, payable in monthly installments totaling approximately $19,500, imputed interest at 9% to 18%	364,769	430,458
Total	477,276	826,743
Less current portion	(269,275)	(340,315)
Net	$ 208,001	$ 486,428

At March 31, 1996, aggregate required principal payments for all long-term debt, including capital lease obligations, for the fiscal years ending March 31 are as follows:

1997	$ 269,275
1998	136,614
1999	71,387
	$ 477,276

Property and equipment includes $446,000 and $689,000, at March 31, 1996 and 1995, respectively, of equipment held under capital leases.

Cash paid for interest for the years ended March 31, 1996, 1995, and 1994 was $86,718, $157,034 and $205,838, respectively. Cash paid for interest was $914,371 for the period from inception to March 31,1996.

Notes to Consolidated Financial Statements (continued)

8. Commitments and Contingencies:

Leases

The Company leases one office and one manufacturing facility under noncancelable leases which expire in October 1997. The Company also leases a research and office facility under a 120-month noncancelable lease which expires August 2003. The lease for one facility provides for a rent increase in 1997 based upon changes in the Consumer Price Index.

Under the terms of the leases, the Company is responsible for its share of taxes, insurance and common area charges. The leases provide the Company with options to renew with lease payments escalating based on changes in the Consumer Price Index.

Total rental expense was approximately $1,530,000, $1,400,000 and $856,000 for the years ended March 31, 1996, 1995 and 1994, respectively, and $5,072,000 for the period from inception through March 31, 1996, net of sublease income of $303,000 both for the year ended March 31, 1996 and the period from inception through March 31, 1996.

Future minimum payments on operating leases, net of sublease payments, are summarized as follows:

Years Ending March 31,	
1997	$ 954,000
1998	806,000
1999	603,000
2000	518,000
2001	518,000
Thereafter	1,380,000
	$ 4,779,000

Litigation

On August 4, 1995, a jury reached a verdict regarding a three year-old patent dispute between CellPro and Baxter International, Inc., Baxter Healthcare Corporation (collectively "Baxter"), Becton Dickinson and Company ("B-D") and Johns Hopkins University ("Hopkins"). The jury found in favor of CellPro. The verdict stated that the patents in question were not infringed by CellPro's manufacture, use and sale of the CEPRATE® SC System or the CEPRATE® LC System. Additionally, the jury found that the claims of the patents asserted against CellPro were invalid. Post-trial motions have been filed by both parties and are currently under review. The Company has no knowledge as to whether Baxter, B-D and Hopkins will appeal the verdict.

Based on current advice of counsel, CellPro plans to vigorously pursue its antitrust and unfair competition claims against Baxter, B-D and Hopkins, pending the ruling on the post-trial motions.

As these matters progress, expenses will continue to be incurred. Further, although the Company does not believe that the outcome of this litigation will have a material adverse impact on the Company's financial condition, the expenses incurred in conducting such litigation could have a material adverse effect on quarterly, or annual operating results for future periods in which they occur.

9. Capital Stock:

Stock Option Plan

In 1989, the Company adopted a stock option plan (the "Option Plan") administered by a Plan Administrator designated by the Board of Directors. A total of 2,655,000 shares are available for issuance under the Plan. An additional 500,000 shares have been approved by the Board of Directors for use in the Plan, subject to stockholder approval. As of March 31, 1996, options to purchase up to 1,574,000 shares of Common Stock were outstanding under the Option Plan to certain key employees, non-employee directors, and consultants at exercise prices ranging from $0.10 to $33.00 per share. Options issued under the Option Plan are designated as either incentive stock options ("ISO's") or nonqualified options. ISO's must be granted to employees at minimum exercise prices equal to the fair market value of common shares at the date of grant. Nonqualified options must be granted at minimum exercise prices at least equal to 50% of fair market value of common shares at the date of grant. During the years ended March 31, 1996, 1995 and 1994, options for 243,029, 48,368 and 267,089 shares were exercised at prices ranging from $0.10 to $13.50 per share, $0.10 to $21.25 per share and $0.10 to $15.75 per share, respectively.

The Company records for financial statement reporting purposes only, compensation expense equal to the difference between the grant price and deemed fair market value of the Common Stock underlying certain options granted. Such compensation is amortized to expense over the vesting period of the related options. A cumulative total of $360,000 has been recorded as expense through March 31, 1996.

Options for a total of 736,000 shares are vested as of March 31, 1996.

Stock Purchase Plan

The Company established a stock purchase plan (the "Purchase Plan") under which employees other than officers may purchase shares of the Company's Common Stock. The purchase price per share is 85% of the lower of the market value per share of Common Stock determined as of the beginning or end of the six-month purchase period specified in the Purchase Plan. The initial purchase period began April 16, 1992. Through April 15, 1996, the end of the eighth purchase period, a total of 55,216 shares

have been acquired by employees through the Purchase Plan. On July 28, 1995, the Company's shareholders approved the increase of shares reserved for issuance under the Purchase Plan from 50,000 to 150,000.

Preferred Stock

The Company has 1,000,000 shares of authorized preferred stock. None of the preferred stock has been issued. As discussed below, 200,000 shares are reserved for use in the Company's shareholder rights plan.

Shareholder Rights Plan

In April 1995, the Board of Directors adopted a shareholder rights plan pursuant to which holders of Common Stock outstanding on May 8, 1995 have been granted one Preferred Share Purchase Right (a "Right") on each outstanding share of Common Stock. Each Right entitles the registered holder to purchase one one-hundredth of a share of a new series of Junior Participating Preferred Stock (200,000 shares authorized) at an exercise price of $70.00, subject to certain adjustments, upon the occurrence of certain events. The Rights will be exercisable only if a person, or group, acquires 15%, or more, of the Common Stock, or announces a tender offer for the Company, the consummation of which would result in ownership by a person, or group, of 15%, or more, of the Company's Common Stock. The Rights may be redeemed, at a redemption price of one cent per right, by the Board of Directors of the Company at any time within ten days after a person, or group, has acquired beneficial ownership of 15%, or more, of the Company's Common Stock. The Rights will expire on May 7, 2005.

If, after the rights become exercisable, the Company is acquired in a merger, or other such transaction, or sells 50%, or more, of its assets or earnings power, each right will entitle its holder to purchase the acquiring company's common shares having a value of twice the Right's exercise price. In addition, if a person, or group, acquires 15%, or more, of the Company's outstanding Common Stock, each Right will entitle its holder (other then the acquirer) to purchase a number of the Company's common shares having a value of twice the Right's exercise price.

10. Collaboration Agreements:

Corixa

On December 22, 1995, the Company signed a technology-based, multi-year research collaboration and licensing agreement with Corixa Corporation, a Seattle-based biotechnology company. The research collaboration calls for CellPro to provide funding for a new research program to identify and optimize methods and conditions for the growth of, and activation, or stimulation of tumor-antigen-specific lymphocytes (white blood cells) and other antigen-presenting cells outside of the body for use in treating cancer.

Under the agreement, CellPro receives exclusive world wide rights to all *ex vivo* therapy applications arising from Corixa's technology within the field of oncology. CellPro will be responsible for the clinical development and commercial introduction of any products resulting from this agreement. Subject to certain conditions, CellPro will provide Corixa with annual research funding and will make additional milestone and royalty payments based on the successful development and commercialization of these products. The amount of research funding will be negotiated annually, subject to certain minimums.

Corange

On July 31, 1995, CellPro and its former corporate partner, Corange, reached a definitive agreement to conclude their collaboration entered into during December 1993. Under the new agreement, Corange paid CellPro $24 million in exchange for one million newly issued shares of CellPro Common Stock and $6 million for prior research and development services. In addition, CellPro agreed to supply Corange, on a non-exclusive basis, with cell separation systems for use in the field of gene medicine. All rights to CellPro's technology previously licensed to Corange have been returned to CellPro, the agreements have been terminated, and the two companies have exchanged releases in settlement of all claims relating to the 1993 agreements.

11. Federal Income Taxes:

At March 31, 1996, the Company had accumulated net operating loss carryforwards of approximately $76.9 million which expire through 2011. The Company also has cumulative research and development tax credit carryforwards of approximately $3.0 million which expire through 2011. Differences between the tax bases of assets and liabilities and their financial statement amounts are reflected as deferred income taxes based on enacted tax rates. The principal differences in bases result from differing depreciation methods and the changes in various accrued liabilities. The accumulated net operating loss and research and development credit carryforwards and the differences between tax and financial reporting bases result in deferred income tax assets of approximately $31.5 million which have been reduced by a valuation allowance of an equal amount.

The Company's ability to use its net operating losses to offset future income is subject to restrictions enacted in the United States Internal Revenue Code of 1986 as amended (the "Code"). These restrictions could limit the Company's future use of its net operating losses if certain stock ownership changes described in the Code occur.

12. Technology Agreements:

The Company has entered into several licensing agreements granting it rights to utilize core technology for cell separation and certain antibodies. These agreements require payments of up-front fees upon execution and royalty payments in varying amounts for sales of licensed products for periods of up to 17 years. Payments relating to technology agreements are expensed as incurred.

13. Employee Retirement Plan:

The Company sponsors an Employee Retirement Plan in accordance with Section 401(k) of the Internal Revenue Code. Under this Plan, at the discretion of the Board of Directors, the Company may match a portion of the employees' contributions. No Company contributions have been made to the Plan as of March 31, 1996.

14. Geographic Segment Information:

The Company markets its products internationally through wholly-owned subsidiaries located in Europe and through independent distributors in other export markets. U.S. revenues in the following table include U.S. export sales to customers in foreign countries of $422,000 in 1996. A summary of the Company's operations by geographic area follows:

	Years Ended March 31,			For the period from inception to March 31, 1996
	1996	1995	1994	
Revenues:				
Product sales revenue:				
U.S.	$ 1,457,534	$ 560,025	$ 514,717	$ 2,885,826
Transfers between geographic areas	4,284,645	4,179,705	1,925,007	10,389,357
Contract revenue	41,600	•	2,933,000	2,974,600
Related party revenue	6,000,000	•	•	6,000,000
Total U.S.	11,783,779	4,739,730	5,372,724	22,249,783
Europe	5,344,451	3,655,885	850,657	9,850,993
Eliminations	(4,284,645)	(4,179,705)	(1,925,007)	(10,389,357)
Consolidated revenues	$ 12,843,585	$ 4,215,910	$ 4,298,374	$ 21,711,419
Geographic Assets:				
U.S.	$ 20,188,482	$ 22,102,915	$ 13,464,297	
Europe	3,620,535	3,230,607	1,436,507	
Eliminations	(11,518)	98,958	105,284	
	23,797,499	25,432,480	15,006,088	
General corporate assets (principally cash and investments)	74,143,850	64,080,455	95,610,233	
Consolidated assets	$ 97,941,349	$ 89,512,935	$ 110,616,321	

Corporate Information

Officers

Richard D. Murdock
President and Chief Executive Officer

Larry G. Culver
Executive Vice President, Chief Operating Officer, Chief Financial Officer and Assistant Secretary

S. Joseph Tarnowski, Ph.D.
Vice President of Research and Development

Billy W. Minshall
Vice President of Operations and Engineering

Thomas M. Keenan
Vice President of Sales and Marketing

Cindy A. Jacobs, M.D., Ph.D.
Vice President of Clinical Research

Directors

Joseph S. Lacob[1]
Chairman of the Board and Co-Founder, Partner, Kleiner Perkins Caufield & Byers

Richard D. Murdock
President and Chief Executive Officer, CellPro, Incorporated

Larry G. Culver
Executive Vice President, Chief Operating Officer, Chief Financial Officer and Assistant Secretary, CellPro, Incorporated

Joshua L. Green[2]
Partner, Venture Law Group

Charles P. Waite, Jr.[1,2]
General Partner, Olympic Venture Partners II

Kenneth W. Anstey
President and Chief Executive Officer, Biofield Corporation

1 Member of the Compensation Committee

2 Member of the Audit Committee

Independent Accountants

Coopers & Lybrand L.L.P.
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General Counsel

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Transfer Agent and Registrar

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SEC Form 10-K

A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K is available without charge from the Director of Investor Relations.

Stockholder Inquiries

Communications regarding stock transfer requirements, lost certificates and changes of address should be directed to the Transfer Agent. General information regarding the Company may be obtained from the Director of Investor Relations.

Annual Meeting

CellPro, Incorporated will hold its annual meeting of stockholders at 9:30 a.m. on August 1, 1996, at the Corporate Headquarters located at 22215 26th Avenue S.E., Bothell, Washington.

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