INOVIO BIOMEDICAL CORP
Form 10-Q
August 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended June 30, 2008

OR

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

For the transition period from to

Commission File No. 001-14888

INOVIO BIOMEDICAL CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**33-0969592**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11494 SORRENTO VALLEY ROAD

SAN DIEGO, CALIFORNIA 92121-1318

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)(ZIP CODE)

(858) 597-6006

(COMPANY S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

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

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

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

The number of shares outstanding of the registrant s Common Stock, par value $0.001 per share, was 43,885,989 as of August 1, 2008.

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INOVIO BIOMEDICAL CORPORATION

FORM 10-Q

For the Quarterly Period Ended June 30, 2008

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Part I. Financial Information

Item 1. Financial Statements

INOVIO BIOMEDICAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,106,802	$ 10,250,929
Short-term investments		16,999,600
Accounts receivable	560,796	1,139,966
Prepaid expenses and other current assets	561,042	613,656
Total current assets	9,228,640	29,004,151
Investments	12,487,900	
Fixed assets, net	403,108	401,727
Intangible assets, net	5,962,380	6,186,430
Goodwill	3,900,713	3,900,713
Other assets	282,000	282,000
Total assets	$ 32,264,741	$ 39,775,021
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,881,287	$ 1,807,305
Accrued clinical trial expenses	594,483	573,767
Common stock warrants	453,196	367,071
Deferred revenue	546,610	544,410
Deferred rent	71,094	61,946
Total current liabilities	3,546,670	3,354,499
Deferred revenue, net of current portion	4,172,811	4,335,806
Deferred rent, net of current portion	59,591	99,712
Deferred tax liabilities	918,750	950,250
Total liabilities	8,697,822	8,740,267
Commitments and contingencies		

Stockholders equity:				
Preferred stock		113		113
Common stock		43,886		43,815
Additional paid-in capital		171,330,708		170,730,621
Receivables from stockholders		(50,000)		(50,000)
Accumulated deficit		(146,892,807)		(139,847,326)
Accumulated other comprehensive (loss) income		(864,981)		157,531
Total stockholders equity		23,566,919		31,034,754
Total liabilities and stockholders equity	$	32,264,741	$	39,775,021

See accompanying notes.

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INOVIO BIOMEDICAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenue:				
License fee and milestone payments	$ 203,924	$ 209,265	$ 396,753	$ 443,754
Revenue under collaborative research and development arrangements	459,110	286,312	919,295	534,302
Grant and miscellaneous revenue				21,423
Total revenue	663,034	495,577	1,316,048	999,479
Operating expenses:				
Research and development	1,679,264	2,907,836	3,276,652	5,424,247
General and administrative	3,086,180	2,344,551	5,487,685	4,635,712
Total operating expenses	4,765,444	5,252,387	8,764,337	10,059,959
Loss from operations	(4,102,410)	(4,756,810)	(7,448,289)	(9,060,480)
Interest income	191,371	286,792	490,120	509,860
Other income (expense)	(112,733)	727,305	(87,312)	1,066,610
Net loss	(4,023,772)	(3,742,713)	(7,045,481)	(7,484,010)
Imputed and declared dividends on preferred stock		(8,244)		(23,335)
Net loss attributable to common stockholders	$ (4,023,772)	$ (3,750,957)	$ (7,045,481)	$ (7,507,345)
Amounts per common share basic and diluted:				
Net loss per share attributable to common stockholders	$ (0.09)	$ (0.09)	$ (0.16)	$ (0.19)
Weighted average number of common shares outstanding basic and diluted	43,874,739	40,674,947	43,856,341	39,193,023

See accompanying notes.

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INOVIO BIOMEDICAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash flows from operating activities:		
Net loss from continuing operations	$ (7,045,481)	$ (7,484,010)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	94,573	81,259
Amortization of intangible assets	414,796	415,003
Change in value of common stock warrants	86,125	(1,056,354)
Stock-based compensation	566,408	1,068,102
Compensation for services to be paid in common stock	33,750	71,438
Amortization of deferred tax liabilities	(31,500)	(31,500)
Deferred rent	(30,973)	(15,858)
Loss on disposal of fixed assets	5,473	
Accretion of discount on available-for-sale securities	(60,345)	(12,150)
Changes in operating assets and liabilities:		
Accounts receivable	597,088	(39,024)
Prepaid expenses and other current assets	38,608	120,984
Accounts payable and accrued expenses	85,017	(263,098)
Deferred revenue	(160,795)	(264,739)
Net cash used in operating activities	(5,407,256)	(7,409,947)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(4,500,000)	(16,602,985)
Proceeds from sales of available-for-sale securities	8,000,000	7,500,000
Purchases of capital assets	(66,216)	(76,386)
Capitalization of patents and other assets	(190,746)	(309,832)
Net cash provided by (used in) investing activities	3,243,038	(9,489,203)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs		16,284,197
Repayment of stockholder note receivable		36,030
Payment of preferred stock cash dividend		(23,335)
Net cash provided by financing activities		16,296,892
Effect of exchange rate changes on cash	20,091	66,441
Decrease in cash and cash equivalents	(2,144,127)	(535,817)
Cash and cash equivalents, beginning of period	10,250,929	8,321,606
Cash and cash equivalents, end of period	$ 8,106,802	$ 7,785,789

See accompanying notes.

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INOVIO BIOMEDICAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Inovio Biomedical Corporation (the Company) have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The condensed consolidated balance sheet as of June 30, 2008, condensed consolidated statements of operations for the three and six months ended June 30, 2008 and 2007, and the condensed consolidated statements of cash flows for the six months ended June 30, 2008 and 2007, are unaudited, but include all adjustments (consisting of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The results of operations for the three and six months ended June 30, 2008, shown herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2008, or for any other period. These unaudited condensed consolidated financial statements, and notes thereto, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007, included in the Company s Form 10-K filed with the U.S. Securities and Exchange Commission (SEC) on March 17, 2008.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company incurred a net loss attributable to common stockholders of $4.0 million and $7.0 million for the three and six months ended June 30, 2008, respectively. The Company had working capital of $5.7 million, in addition to $12.5 million of long-term investments, and an accumulated deficit of $146.9 million as of June 30, 2008. The Company s ability to continue as a going concern is dependent upon its ability to achieve profitable operations and to obtain additional capital. The Company will continue to rely on outside sources of financing to meet its capital needs. The outcome of these matters cannot be predicted at this time. Further, there can be no assurance, assuming the Company successfully raises additional funds, that the Company will achieve positive cash flow. If the Company is not able to secure additional funding, the Company will be required to scale back its research and development programs, preclinical studies and clinical trials, and general and administrative activities and may not be able to continue in business. These unaudited condensed consolidated financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities, which might be necessary should the Company be unable to continue in business. The Company s unaudited condensed consolidated financial statements as of and for the period ended June 30, 2008 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business for the foreseeable future.

2. Principles of Consolidation

These unaudited condensed consolidated financial statements include the accounts of Inovio Biomedical Corporation, incorporated in the state of Delaware, and its wholly-owned subsidiaries, Genetronics, Inc., a company incorporated in the state of California; Inovio AS and Inovio Tec

AS, companies incorporated in Norway; and Inovio Asia Pte. Ltd. (IAPL), a company incorporated in the Republic of Singapore. All intercompany accounts and transactions have been eliminated upon consolidation.

3. Investment Securities and Fair Value Measurements

All of the Company s investment securities are classified as available-for-sale and are reported on the condensed consolidated balance sheet at estimated fair value. Unrealized gains and losses associated with these investments are reported in stockholders equity in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities.*

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As of June 30, 2008, the Company s investments included $12.5 million of high-grade (AAA rated) auction rate securities (ARS) issued primarily by municipalities. The Company s ARS are debt instruments with a long-term maturity and with an interest rate that is reset in short intervals through auctions. The recent conditions in the global credit markets have prevented some investors from liquidating their holdings of ARS because the amount of securities submitted for sale has exceeded the amount of purchase orders for such securities. The Company has been informed that there is insufficient demand at auction for all of its high-grade ARS. As a result, these affected securities are currently not liquid and the interest rates have been reset to the predetermined higher rates. When auctions for these securities fail, the investments may not be readily convertible to cash until a future auction of these investments is successful or they are redeemed or mature. If the credit ratings of the security issuers deteriorate and any decline in market value is determined to be other-than-temporary, the Company would be required to adjust the carrying value of the investment through a permanent impairment charge.

During the three and six months ended June 30, 2008 the Company has recorded an unrealized loss of $233,000 and $1.1 million, respectively, on its ARS holdings. The unrealized loss reduced the estimated fair value of ARS holdings as of June 30, 2008 to $12.5 million. The Company has determined this reduction in fair value to be temporary. All of the $12.5 million of ARS are classified within non-current assets in the unaudited condensed consolidated balance sheet as of June 30, 2008.

On January 1, 2008 the Company adopted the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS 157), for its financial assets and liabilities. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Inputs - Quoted prices for identical instruments in active markets. The Company has determined that its investments in money market funds meet the criteria for definition within the level 1 hierarchy.

Level 2 Inputs- Quoted prices for similar instruments in active markets; and quoted prices for identical or similar instruments in markets that are not active. The Company has determined that no items meet the criteria for definition within the level 2 hierarchy.

Level 3 Inputs- Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Company has determined that its investments in ARS meet the criteria for definition within the level 3 hierarchy. The Company has used a discounted cash flow model to determine the estimated fair value of its investment in ARS as of June 30, 2008. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, timing and amount of cash flows and expected holding period of the ARS. Based on this assessment of fair value, the Company recorded an unrealized loss of approximately $1.1 million related to its ARS as of June 30, 2008. Management believes this unrealized loss is primarily attributable to the limited liquidity of these investments and has no reason to believe that any of the underlying issuers are presently at risk of credit default.

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The Company endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table sets forth the Company s financial assets that were accounted for at fair value on a recurring basis as of June 30, 2008:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents(1)	$ 6,747,612	$ 6,747,612	$
Available-for-sale investments, long-term (2)	12,487,900		12,487,900
Total	$ 19,235,512	$ 6,747,612	$ 12,487,900

(1) Cash and cash equivalents consist primarily of money market funds with original maturity dates of three months or less.

(2) Available-for-sale investments consist of ARS issued primarily by municipalities. Unrealized gains or losses on available-for-sale securities are recorded in accumulated other comprehensive loss at each measurement date.

The following table presents a summary of changes in fair value of the Company s assets measured on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS 157 for the six months ended June 30, 2008:

	Auction Rate Securities
Balance at January 1, 2008	$
Transfers in to Level 3	14,050,000
Total unrealized losses included in other comprehensive loss	(1,062,100)
Purchases and settlements (net)	(500,000)
Balance at June 30, 2008	$ 12,487,900
Total change in unrealized losses included in other comprehensive loss	$ (1,062,100)

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4. Goodwill and Intangible Assets

	Useful Life Years	Cost	Accumulated amortization	Net book value
As of June 30, 2008				
Non-amortizing:				
Goodwill(a)		$ 3,900,713	$	$ 3,900,713
Amortizing:				
Patents	8-17	$ 5,414,855	$ (3,012,638)	$ 2,402,217
Licenses	8-17	1,198,781	(919,868)	278,913
Other(b)	18	4,050,000	(768,750)	3,281,250
Total Intangible Assets		10,663,636	(4,701,256)	5,962,380
		$ 14,564,349	$ (4,701,256)	$ 9,863,093
As of December 31, 2007				
Non-amortizing:				
Goodwill(a)		$ 3,900,713	$	$ 3,900,713
Amortizing:				
Patents	8-17	$ 5,224,109	$ (2,775,713)	$ 2,448,396
Licenses	8-17	1,198,781	(854,497)	344,284
Other(b)	18	4,050,000	(656,250)	3,393,750
Total Intangible Assets		10,472,890	(4,286,460)	6,186,430
		$ 14,373,603	$ (4,286,460)	$ 10,087,143

(a) Goodwill was recorded from the Inovio AS acquisition in January 2005.

(b) Other intangible assets represent the fair value of acquired contracts and intellectual property from the Inovio AS acquisition.

Aggregate amortization expense on intangible assets for the three and six months ended June 30, 2008 was $207,000 and $415,000, respectively, and for the three and six months ended June 30, 2007 was $208,000 and $415,000, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years is $372,000 for the remainder of fiscal year 2008, $670,000 for 2009, $619,000 for 2010, $569,000 for 2011, and $521,000 for 2012.

5. Stockholders Equity

The following is a summary of the Company s authorized and issued common and preferred stock as of June 30, 2008 and December 31, 2007:

			Outstanding as of	
	Authorized	Issued	June 30, 2008	December 31, 2007

Common Stock, par $0.001	300,000,000	43,979,739	43,885,989	43,814,739
Series A Preferred Stock, par $0.001	1,000	817		
Series B Preferred Stock, par $0.001	1,000	750		
Series C Preferred Stock, par $0.001	1,091	1,091	71	71
Series D Preferred Stock, par $0.001	1,966,292	1,966,292	113,311	113,311

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Preferred Stock

The following is a summary of changes in the number of outstanding shares of the Company s preferred stock for the three months ended June 30, 2008 and 2007:

	Series C	Series D
Shares Outstanding as of April 1, 2008	71	113,311
Shares Outstanding as of June 30, 2008	71	113,311
Shares Outstanding as of April 1, 2007	102	113,311
Preferred Shares converted	(16)	
Shares Outstanding as of June 30, 2007	86	113,311

The following is a summary of changes in the number of outstanding shares of the Company s preferred stock for the six months ended June 30, 2008 and 2007:

	Series C	Series D
Shares Outstanding as of January 1, 2008	71	113,311
Shares Outstanding as of June 30, 2008	71	113,311
Shares Outstanding as of January 1, 2007	102	1,027,967
Preferred Shares converted	(16)	(914,656)
Shares Outstanding as of June 30, 2007	86	113,311

The shares of the Company s outstanding Series C and Series D Preferred Stock have the following pertinent rights and privileges, as set forth in the Company s Amended and Restated Certificate of Incorporation and its Certificates of Designations, Rights and Preferences related to the various series of preferred stock.

Dividend Preferences

The holders of all series of the Company s preferred stock are entitled to receive dividends on a pari passu basis with the holders of common stock, when, if and as declared by the Company s Board of Directors.

In addition, the holders of the Series C Preferred Stock received a mandatory dividend rate of 6% per annum per outstanding share of Series C Preferred Stock, payable quarterly, based on the $10,000 Liquidation Preference of such share through the period ending on May 20, 2007. These dividends were paid in cash or common stock equal to the equivalent cash amount divided by the 20 day preceding average closing price. The Company could only elect to pay the dividends in shares of common stock if the average closing price of the shares of common stock for the 20 days immediately preceding the dividend payment date was equal to or greater than the conversion price of either of the relevant series of

Preferred Stock. All dividends were paid to outstanding Series C Preferred Stockholders on each quarter-end payment date. As part of this dividend, the Company paid cash of $8,000 and $23,000 during three and six months ended June 30, 2007, respectively, to holders of Series C Preferred Stock. No dividends were paid during the three and six months ended June 30, 2008.

Rights on Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company (a liquidation event), before any distribution of assets of the Company shall be made to or set apart for the holders of common stock, the holders of Series C Preferred Stock, pari passu, are entitled to receive payment of such assets of the Company in an amount equal to $10,000 per share of such series of preferred stock, plus any accumulated and unpaid dividends thereon (whether or not earned or declared). In the event of any liquidation event, the holders of the Series D Preferred Stock are entitled to be paid out of the assets of the Company available for distribution to its stockholders (i) before any distribution of assets of the Company shall be made to or set apart for the holders of common stock or any class or series of stock ranking on liquidation junior to the Series D Preferred Stock, (ii) ratably with any class or series of stock ranking on liquidation on a parity with the Series D Preferred Stock, and (iii) after and subject to the payment in full of all amounts required to be distributed to the holders of the Company s Series C Preferred Stock and any other class or series of stock of the Company ranking on liquidation prior and in preference to the Series D Preferred Stock, an amount equal to $3.204 per share of Series D Preferred Stock.

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If the assets of the Company available for distribution to stockholders exceed the aggregate amount of the liquidation preferences payable with respect to all shares of each series of preferred stock then outstanding, then, after the payment of such preferences is made or irrevocably set aside, the holders of the Company s common stock are entitled to receive a pro rata portion of such assets based on the aggregate number of shares of common stock held by each such holder. The holders of the Company s outstanding preferred stock shall participate in such a distribution on a pro-rata basis, computed based on the number of shares of common stock which would be held by such preferred holders if immediately prior to the liquidation event all of the outstanding shares of the preferred stock had been converted into shares of common stock at the then current conversion value applicable to each series.

A Change of Control of the Company (as defined in the Certificates of Designations, Rights and Preferences) is not a liquidation event triggering the preferences described above, and is instead addressed by separate terms in the Series C and Series D Certificates of Designations, Rights, and Preferences. In addition to the default adjustment of conversion and other rights of the Series C and Series D Preferred Stock upon a Change of Control of the Company, holders of Series C Preferred Stock are entitled to notice of a proposed Change of Control transaction prior to its consummation and have the ability to elect redemption of the holder s Series C Preferred Stock at a premium to the liquidation preference applicable to such shares.

Although the liquidation preferences are in excess of the par value of $0.001 per share of the Company s preferred stock, these preferences are equal to or less than the stated value of such shares based on their original purchase price.

Voting Rights

The holders of all series of the Company s preferred stock outstanding have full voting rights and powers equal to the voting rights and powers of holders of the Company s common stock and are entitled to notice of any stockholders meeting in accordance with the Company s Bylaws. Holders of the Company s preferred stock are entitled to vote on any matter upon which holders of the Company s common stock have the right to vote, including, without limitation, the right to vote for the election of directors together with the holders of common stock as one class.

Actions Requiring the Consent of Holders of Convertible Preferred Stock

As long as a certain number of shares of each series of the Company s preferred stock issued on the respective Date of Original Issue for such series are outstanding, the consent of at least a majority of the shares of that series of preferred stock outstanding are necessary to approve:

(a) Any amendment, alteration or repeal of (i) any of the provisions of the relevant series Certificate of Designation, including any increase in the number of authorized shares of such series or (ii) the Company s Certificate of Incorporation or Bylaws in a manner that would adversely affect the rights of the holders of the relevant series of preferred stock;

(b) the authorization, creation, offer, sale or increase in authorized shares by the Company of any stock of any class, or any security convertible into stock of any class, or the authorization or creation of any new series of preferred stock ranking in terms of liquidation preference, redemption rights or dividend rights, pari passu with or senior to, the relevant series of preferred stock in any manner;

(c) the declaration or payment of any dividend or other distribution (whether in cash, stock or other property) with respect to the Company s capital stock or that of any subsidiary, other than a dividend or other distribution pursuant to the terms of the relevant series of preferred stock or other series of preferred stock noted in the relevant Certificate of Designation; and

(d) except for the holders of the Series D Preferred Stock, the redemption, purchase or other acquisition, directly or indirectly, of any shares of the Company s capital stock or any of its subsidiaries or any option, warrant or other right to purchase or acquire any such shares, or any other security, other than certain accepted redemptions of preferred stock, certain outstanding warrants, the repurchase of shares at cost from employees of the Company upon termination of employment in accordance with written agreements pursuant to which the shares were issued, or other specified repurchase or redemption rights pursuant to written agreements outstanding at the time of original issuance of the preferred stock in question.

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These specific voting rights are applicable for the Series C Preferred Stock as long as at least 35% of the number of shares of Series C Preferred Stock issued on the Date of Original Issue remain outstanding, and the same threshold applies to the Series D Preferred Stock. As of June 30, 2008, no Preferred Stock holders had such series voting rights remaining.

Participation Rights

Holders of the Series C Preferred Stock have the right to participate with respect to the Company s issuance of any equity or equity-linked securities or debt convertible into equity or in which there is an equity component (Additional Securities) on the same terms and conditions as offered by the Company to the other purchasers of such Additional Securities. However securities issued or issuable upon any of the following are not deemed Additional Securities : (A) the conversion of outstanding preferred stock or exercise of related warrants, or the issuance of shares of common stock as payment of dividends to holders of preferred stock, (B) the exercise of any warrants or options outstanding prior to the authorization or issuance of the series of preferred stock in question (C) the issuance (at issuance or exercise prices at or above fair market value) of common stock, stock awards or options under, or the exercise of any options granted pursuant to, any Board-approved employee stock option or similar plan for the issuance of options or capital stock of the Company, (D) the issuance of shares of common stock pursuant to a stock split, combination or subdivision of the outstanding shares of common stock, and (E) for evaluation of the rights of the Series C Preferred Stock only, in connection with a bona fide joint venture or development agreement or strategic partnership, the primary purpose of which is not to raise equity capital.

Each time the Company proposes to offer any Additional Securities, it is obligated to provide each holder of shares of the Series C Preferred Stock notice of such intention including the terms of such intended offering (including size and pricing) and the anticipated closing date of the sale. These preferred stockholders then have a specified period in which to respond to the Company to elect to purchase or obtain, at the price and on the terms specified in the Company s notice, up to that number of such Additional Securities which equals such holder s Pro Rata Amount. The Pro Rata Amount for any given holder of shares of the Series C Preferred Stock equals that portion of the Additional Securities offered by the Company which equals the proportion that the number of shares of common stock that such preferred stockholder owns or has the right to acquire to the total number of shares of common stock then outstanding (assuming in each case the full conversion and exercise of all convertible and exercisable securities then outstanding).

The holders of the Series C Preferred Stock have the right to pay the consideration for the Additional Securities purchasable upon such participation with shares of such series of Preferred Stock, which will be valued for such purpose at the applicable series Liquidation Preference plus any accrued and unpaid dividends for such purpose. However, when shares of such preferred stock are used as participation consideration, then such holder s Pro Rata Amount is increased (but not decreased) to the extent necessary to equal that number of Additional Securities as are convertible into or exchangeable for such number of shares of Common Stock as is obtained by dividing (a) the Liquidation Preference attributable to such holder s shares of the applicable series of Preferred Stock plus any accrued and unpaid dividends on such Preferred Stock by (b) the Conversion Value then in effect for such shares, and in such event the Company shall be obligated to sell such number of Additional Securities to each such holder, even if the aggregate Pro Rata Amount for all such holders exceeds the aggregate amount of Additional Securities that the Company had initially proposed to offer. To the extent that not all holders of a particular series of preferred stock elect to participate up to their full Pro Rata Amounts, the participating holders of that series of preferred stock have the right to increase their participation accordingly.

The participation rights of the holders of the Series C Preferred Stock may not be assigned or transferred, other than assignment to any wholly-owned subsidiary or parent of, or to any corporation or entity that is, within the meaning of the Securities Act, controlling, controlled by or under common control with, any such holder. As a result of transfers, the holders of the Series C Preferred Stock outstanding as of June 30, 2008 no longer had such participation rights.

The Series D Preferred Stock has no participation rights.

During the Company s October 2006, December 2005 and January 2005 common stock offerings, the Company informed holders of its outstanding Series A, B, and C Cumulative Convertible Preferred Stock with participation rights, of their ability to participate in the respective offering based upon the pricing of the transaction

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and the applicable liquidation preference for the series of preferred share participating. These participating stockholders obtained incremental shares of common stock as a result of exercising their participation rights, thereby converting their outstanding shares of Cumulative Convertible Preferred Stock at a lower offering price compared to their current conversion price. The right to participate was available only for a limited period time in relation to the specific transaction and the exercise of the existing participation right did not reflect or create a lasting change in the holders conversion privileges. Some of the participating stockholders had previously converted a portion of their shares of the Company s preferred stock pursuant to their optional conversion rights, and most of the participating stockholders wholly converted their remaining shares of the Company s preferred stock through exercise of their participation rights in the noted offerings.

Conversion Rights

The Series C Preferred Stock each provide the holder of such shares an optional conversion right and provide a mandatory conversion upon certain triggering events.

Right to Convert

The holder of any share or shares of Series C Preferred Stock has the right at any time, at such holder s option, to convert all or any lesser portion of such holder s shares of the Preferred Stock into such number of fully paid and non-assessable shares of Common Stock as is determined by dividing (i) the aggregate Liquidation Preference applicable to the particular series of preferred shares, plus accrued and unpaid dividends thereon by (ii) the applicable Conversion Value (as defined in the relevant series Certificate of Designations, Rights and Preferences) then in effect for such series of preferred shares. The Company is not obligated to issue any fractional shares or scrip representing fractional shares upon such conversion and instead shall pay the holder an amount in cash equal to such fraction multiplied by the current market price per share of the Company s common stock.

Mandatory Conversion

The Company has the option upon thirty (30) days prior written notice, to convert all of the outstanding shares of the Series C Preferred Stock into such number of fully paid and non-assessable shares of common stock as is determined by dividing (i) the aggregate Liquidation Preference of the shares of the relevant series of preferred stock to be converted plus accrued and unpaid dividends thereon by (ii) the applicable Conversion Value (as defined in the relevant series Certificate of Designations, Rights and Preferences) then in effect, if at any time after twelve months following the Original Issue Date of each such series of preferred stock all of the following triggering events occur:

(i) The registration statement covering all of the shares of common stock into which the particular series of preferred stock is convertible is effective (or all of the shares of common stock into which the preferred stock is convertible may be sold without restriction pursuant to Rule 144 under the Securities Act of 1933, as amended);

(ii) the Daily Market Price (as defined in the applicable Certificates of Designations, Rights and Preferences) of the common stock crosses a specified pricing threshold for twenty of the thirty consecutive trading days prior to the date the Company provides notice of conversion to the

holders; and

(iii) the average daily trading volume (subject to adjustment for stock dividends, subdivisions and combinations) of the common stock for at least twenty of the thirty consecutive trading days prior to the date the Company provides notice of conversion to the holders exceeds 25,000 shares.

As of June 30, 2008, the Company s outstanding shares of the Series C Preferred Stock were convertible into 104,410 shares of common stock at a conversion price of $6.80 per share, and the applicable Daily Market Price of the common stock for triggering mandatory conversion equaled $18.00 per share.

The Series D Preferred Stock only provides the holder of such shares an optional conversion right. As of June 30, 2008, 113,311 shares of the Series D Preferred Stock were convertible into common stock on a one-for-one basis.

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Imputed and Declared Dividends on Preferred Stock

The holders of the Company s Series C Preferred Stock were entitled to receive an annual dividend at the rate of 6%, payable quarterly, through May 20, 2007. These dividends were payable in cash unless the closing price of the Company s common shares for the 20 trading days immediately preceding the dividend payment date was equal to or greater than the conversion price of such shares, in which event the Company may have elected to pay the dividends to the holders in common stock. As part of this dividend, the Company paid cash of $8,000 and $23,000 during three and six months ended June 30, 2007, respectively, to holders of Series C Preferred Stock. No dividends were paid during the three and six months ended June 30, 2008.

Common Stock

In August 2007, the Company entered into an agreement with an outside consulting advisor pursuant to which the Company issued 230,000 registered shares of common stock and registered warrants to purchase 150,000 shares of common stock, as payment of a non-refundable retainer in connection with the engagement of its services.

In May 2007, the Company completed a registered equity financing, whereby it sold 4,595,094 shares of common stock resulting in gross aggregate cash proceeds of $16.2 million.

In March 2007, the Company entered into an agreement in which it agreed to issue a total of 90,000 restricted shares of the Company s common stock in equal quarterly installments in exchange for consulting services. As of June 30, 2008, the Company had issued 67,500 restricted common shares. During the remaining term of the agreement, the Company will continue to issue 11,250 restricted shares of common stock at each quarter-end in exchange for the consulting services the Company will receive each quarter.

In January 2007, the Company exchanged for 2,201,644 restricted shares of common stock and warrants to purchase up to 770,573 restricted shares of common stock for 2,201,644 ordinary shares of the Company s Singapore subsidiary Inovio Asia Pte. Ltd. (IAPL), pursuant to the terms of the Securities Purchase and Exchange Agreement under which the ordinary shares were originally issued by IAPL in October 2006 for $5.3 million.

In March 2007, the Company terminated its exclusive royalty-free license to IAPL allowing its subsidiary to use certain of the Company s intellectual property, which had been issued in October 2006 prior to the ordinary share financing described above, in exchange for 6,584,365 ordinary shares of IAPL. Upon termination the Company retained the IAPL ordinary shares received in the license transaction.

In October 2006, the Company completed a registered offering with foreign investors, whereby the Company sold 4,074,067 shares of common stock and issued warrants to purchase 1,425,919 shares of common stock which resulted in gross aggregate cash proceeds of $9.9 million. As part of this offering, the Company informed holders of the then outstanding Series C Preferred Stock who held participation rights, of their ability to participate in the respective offering based upon the pricing of the transaction and the applicable liquidation preference for their series of preferred shares with such rights. Some of these participating stockholders had previously converted a portion of their shares of preferred stock pursuant to their optional conversion rights, and most of these participating stockholders wholly converted their remaining shares of the Company s preferred stock through exercise of their participation rights in this offering.By electing to participate in this offering, these participating preferred stockholders converted 115.12 shares of previously issued Series C Preferred Stock and $15,000 of accrued dividends into 479,722 restricted shares of common stock and warrants to purchase 167,902 restricted shares of common stock. These participating stockholders received 304,450 additional restricted shares of common stock as compared to the number of shares of common stock into which their existing Series C Preferred Stock could have been converted under the original terms of the Series C Preferred Stock. As a result, the Company recorded an imputed dividend charge of $1.9 million related to the participating stockholders who converted $1.2 million of their previous Series C Preferred Stock investment. The Company calculated this imputed dividend charge pursuant to the guidance contained in Emerging Issues Task Force (EITF) Issue No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*, where the incremental number of shares of common stock which was received by participating Series C Preferred Stockholders was multiplied by the price of the Company s common stock on the commitment date of the original Series C Preferred Stock issuance, or $6.08 per share, to calculate the imputed dividend charge associated with this beneficial conversion.

Warrants

All warrants issued as partial consideration for the previously mentioned August 2007 consulting advisor agreement are exercisable at an exercise price of $3.00 per share through August 2012. As of June 30, 2008 no warrants issued in connection with the consulting agreement had been exercised and all were outstanding.

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All warrants issued in the October 2006 registered offering are exercisable at an exercise price of $2.87 per share through October 2011. As of June 30, 2008, no warrants issued in connection with the Company s registered offering and preferred stock conversion had been exercised and all were outstanding.

All warrants issued in the October 2006 participating preferred stock conversion and the January 2007 IAPL ordinary share exchange are exercisable at an exercise price of $2.87 per share through October 2011. As of June 30, 2008, no warrants issued in connection with the IAPL private placement had been exercised and all were outstanding.

In the December 2005 private placement to accredited investors, the Company issued warrants to purchase an aggregate of 3,462,451 shares of common stock at an exercise price of approximately $2.93 per share, which are exercisable through December 2010. As of June 30, 2008, no warrants issued in connection with this private placement had been exercised, and all were outstanding.

In the January 2005 private placement to accredited investors, the Company issued warrants to purchase 508,240 shares of common stock at an exercise price of $5.50 per share, which are exercisable through January 2010. As of June 30, 2008, no warrants issued as part of this private placement had been exercised and all were outstanding.

In connection with the leasing of the new corporate headquarters, the Company issued a warrant to purchase 50,000 shares of common stock at $5.00 per share to the landlord of the leased facility in December 2004, which is exercisable through December 2009. This warrant was valued on the date of issuance using the Black-Scholes pricing model. The fair value of this warrant, $121,000, is being recognized ratably over the five-year term of the lease as rent expense. As of June 30, 2008, this warrant remains unexercised and outstanding.

In the May 2004 offering of Series C Preferred Stock, the Company issued warrants to the investors to purchase 561,084 shares of common stock at an exercise price of $8.80 per share and warrants to the placement agents to purchase 152,519 shares of common stock at an exercise price of $6.80 per share, in each case exercisable through May 10, 2009. As of June 30, 2008, none of these warrants had been exercised and all were outstanding.

At the closing of the July 2003 sale of previously issued and subsequently converted Series A and Series B Preferred Stock, the Company issued warrants to the investors to purchase 2,433,073 shares of common stock at an exercise price of $3.00 per share and warrants to the placement agents to purchase 447,060 shares of common stock at an exercise price of between $2.40 and $2.80 per share, both of which expired on July 13, 2008. Of these July 2003 warrants, warrants to purchase 878,582 shares had been exercised as of June 30, 2008, resulting in gross cash proceeds of $2.0 million.

On September 15, 2000, the Company entered into an exclusive license agreement with the University of South Florida Research Foundation, Inc. (USF), whereby USF granted us an exclusive, worldwide license to USF s rights in patents and patent applications generally related to needle electrodes (the License Agreement). Pursuant to the License Agreement, the Company granted USF and its designees a warrant to acquire 150,000 common shares for $9.00 per share. This warrant expires on September 14, 2010. At the date of grant, 75,000 shares underlying the warrant vested, and the remaining shares will vest upon the achievement of certain milestones. The 75,000 non-forfeitable vested shares underlying the warrant were valued at $554,000 using the Black-Scholes pricing model and were recorded as capitalized license fees. The remaining 75,000 shares underlying the non-vested warrant are forfeitable and will be valued at the fair value on the date of vesting using the

Black-Scholes pricing model. As of June 30, 2008, none of these warrants had been exercised and all were outstanding.

Stock Options

The Company has one active stock and cash-based incentive plan, the 2007 Omnibus Incentive Plan (the Incentive Plan), pursuant to which the Company has granted stock options and restricted stock awards to executive officers, directors and employees. The plan was adopted on March 31, 2007, approved by the stockholders on May 4, 2007, and approved by the stockholders as amended on May 2, 2008. The Incentive Plan reserves 1,750,000 shares of common stock for issuance as or upon exercise of incentive awards granted and to be granted at future dates. At June 30, 2008, the Company had 944,000 shares of common stock available for future grant and had outstanding 138,750 shares of unvested restricted common stock, 101,250 shares of vested restricted stock, and options to purchase 566,000 shares of common stock. The awards granted and available for future grant under the Incentive Plan generally have a term of ten years and generally vest over a period of three years. The Incentive Plan terminates by its terms on March 31, 2017.

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The Incentive Plan supersedes all of the Company s previous stock option plans, which include the 1997 Stock Option Plan, under which the Company had options to purchase 28,998 shares of common stock outstanding and the Amended 2000 Stock Option Plan, under which the Company had options to purchase 3,208,527 shares of common stock outstanding at June 30, 2008. The terms and conditions of the options outstanding under these plans remain unchanged.

6. Net Loss Per Share

Net loss per share is calculated in accordance with SFAS No. 128, *Earnings Per Share*. Basic loss per share is computed by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated in accordance with the treasury stock method and reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted to common stock. Since the effect of the assumed exercise of common stock options and other convertible securities was anti-dilutive for all periods presented, there is no difference between basic and diluted loss per share.

7. Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), *Share-Based Payment.* The Company estimates the fair value of stock options granted using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility and expected option life. The Company amortizes the fair value of the awards on a straight-line basis. All options grants are amortized over the requisite service period of the awards. Expected volatility is based on historical volatility. The expected life of options granted is based on historical expected life. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant. The forfeiture rate is based on historical data and the Company records stock-based compensation expense only for those awards that are expected to vest. The dividend yield is based on the fact that no dividends have been paid historically and none are currently expected to be paid.

The assumptions used to estimate the fair value of stock options granted in the six month period ended June 30, 2008 and 2007 are presented below:

	Six Months Ended June 30,	
	2008	**2007**
Risk-free interest rate	2.65%-3.18%	4.46%-4.67%
Expected volatility	69%	96%-98%
Expected life in years	4	6
Dividend yield		

Total compensation cost under SFAS No. 123(R) for the Company s stock plans that has been recognized in the condensed consolidated statement of operations for the three and six months ended June 30, 2008 was $201,000 and $528,000, respectively, of which $56,000 and $147,000 was included in research and development expenses and $145,000 and $381,000 was included in general and administrative expenses, respectively.

Total compensation cost under SFAS No. 123(R) for the Company s stock plans that has been recognized in the condensed consolidated statement of operations for the three and six months ended June 30, 2007 was $430,000 and $976,000, respectively, of which $100,000 and $205,000 was included in research and development expenses and $330,000 and $771,000 was included in general and administrative expenses, respectively.

As of June 30, 2008, there was $970,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements, which is expected to be recognized over a weighted-average period of one year. As of June 30, 2007, there was $2.0 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements, which was expected to be recognized over a weighted-average period of 1.2 years.

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The weighted average grant date fair value per share was $0.89 for employee stock options granted during the three and six months ended June 30, 2008, and $1.57 and $2.17 for employee stock options granted during the three and six months ended June 30, 2007, respectively.

The weighted average grant date fair value per share was $0.87 for non-vested restricted stock granted during the six months ended June 30, 2008. There was no restricted stock granted during the three months ended June 30, 2008. The weighted average grant date fair value per share was $3.69 for non-vested restricted stock granted during the three and six months ended June 30, 2007.

At June 30, 2008, there was $251,000 of total unrecognized compensation cost related to non-vested restricted stock, which is expected to be recognized over a weighted-average period of 1.5 years. At June 30, 2007, there was $349,000 of total unrecognized compensation cost related to non-vested restricted stock, which was expected to be recognized over a weighted-average period of 2.1 years.

The Company accounts for options granted to non-employees in accordance with EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, and SFAS No. 123(R). The fair value of these options at the measurement dates was estimated using the Black-Scholes pricing model. Total stock-based compensation for options granted to non-employees for the three and six months ended June 30, 2008 was $19,000 and $39,000, respectively. Total stock-based compensation for options granted to non-employees for the three and six months ended June 30, 2007 was $30,000 and $93,000, respectively.

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8. Comprehensive Loss

Comprehensive loss for the three and six months ended June 30, 2008 and June 30, 2007 includes net loss, foreign currency translation gains and unrealized losses on investments. A summary of the Company s comprehensive loss is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Comprehensive loss:				
Net loss	$ (4,023,772)	$ (3,742,713)	$ (7,045,481)	$ (7,484,010)
Unrealized losses on available-for-sale securities	(247,610)	(3,975)	(1,072,045)	(3,975)
Foreign currency translation adjustments	6,729	14,653	49,533	83,520
Comprehensive loss	$ (4,264,653)	$ (3,732,035)	$ (8,067,993)	$ (7,404,465)

9. Supplemental Disclosures of Cash Flow Information

	Six Months Ended June 30,	
	2008	2007
Supplemental schedule of financing activities:		
Conversion of minority interest into common stock	$	$ 5,349,995
Leasehold improvements financed by landlord	$ 35,211	$
Conversions of preferred stock to common stock	$	$ 939
Non-cash warrant exercise for common stock	$	$ 38

10. Subsequent Events

On July 7, 2008, the Company and VGX Pharmaceuticals, Inc., a privately-held Delaware corporation (VGX) executed a definitive merger agreement (the Merger Agreement), which provides for the issuance of the Company s securities in exchange for all of the outstanding securities of VGX and the merger of an acquisition subsidiary of the Company with and into VGX (the Merger). The Company s and VGX s boards of directors have both approved the Merger Agreement, however the Merger is subject to completion of the registration of the Company s securities to be issued with the SEC, receipt of approval from both companies stockholders of the transaction, listing approval from the American Stock Exchange (AMEX), and other customary closing conditions. Upon closing of the Merger, the Company anticipates changing its name to VGX Pharmaceuticals, Inc.

The Merger Agreement anticipates that at the time of closing of the merger, a wholly-owned acquisition subsidiary of the Company will merge into VGX, with VGX surviving as a wholly-owned subsidiary of the Company. Concurrently, the Company will issue shares of the Company s common stock in exchange for all of the outstanding shares of VGX common stock based on an exchange ratio derived from the comparative fully diluted share capitalization of the companies, excluding the shares of VGX common stock underlying $5.5 million of VGX convertible debt (the Excluded Debt). The Company will also assume all outstanding VGX options and warrants and all VGX convertible debt in excess of

the Excluded Debt, which will be adjusted based on the exchange ratio and become exercisable or convertible, as applicable, for the Company s common stock. The Excluded Debt will also be assumed at closing, but unlike the VGX convertible debt discussed above, the principal outstanding under the Excluded Debt at closing will be immediately converted into shares of the Company s common stock at $1.05 per share.

The closing of the Merger as contemplated by the Merger Agreement should have no impact on the Company s outstanding securities, other than (i) dilution caused by the securities to be issued upon consummation of the Merger, (ii) triggering accelerated vesting rights for the Company s outstanding options to purchase common stock, and (iii) triggering certain cash redemption rights for the holders of the Company s Series C Preferred Stock; however, the Company must submit information about the proposed transaction to the AMEX for review and determination of whether the transaction qualifies as a reverse merger under Company Guide Section 341, which if applicable could require the Company to re-qualify for initial listing of its securities on the AMEX. The parties do not believe that the transaction is a reverse merger as defined by the AMEX and believes that additional listing criteria should apply, however the Company has not yet completed its submission of materials and the determination process.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and Notes thereto appearing elsewhere in this report, and the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K.

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements with regards to our revenue, spending, cash flow, products, actions, plans, strategies and objectives. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or simply state future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, intend, plan, project, will be, will continue, will result, could, might, or any variations of such words with similar meanings. Any such statements are subject to risks and uncertainties that could cause our actual results to differ materially from those which are management s current expectations or forecasts. Such information is subject to the risk that such expectations or forecasts, or the assumptions underlying such expectations or forecasts, become inaccurate.

Such risks and uncertainties are disclosed from time to time in our reports filed with the SEC, including our reports on Forms 8-K, 10-Q, and 10-K and such risks and uncertainties are discussed in this Report under the headings Certain Factors That Could Affect Our Future Results later in this Management s Discussion and Analysis of Financial Condition and Results of Operations and in Risk Factors located in Part II, Item 1A. The risks included in this Report are not exhaustive. Other sections of this Report may include additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and we cannot predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also be aware that while we do, from time to time, communicate with securities analysts, we do not disclose any material non-public information or other confidential commercial information to them. Accordingly, individuals should not assume that we agree with any statement or report issued by any analyst, regardless of the content of the analyst s report. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

General

Inovio Biomedical Corporation, a Delaware corporation, organized in 2001, is a San Diego-based biomedical company focused on the development of next-generation vaccines to prevent or treat cancers and chronic infectious diseases.

Such vaccines, which could potentially protect millions of people from debilitation or death from diseases without adequate treatments, may represent multi-billion dollar market opportunities. Historically successful development of this new generation of vaccines - DNA vaccines - has been hindered by the lack of safe, efficient and cost effective DNA delivery methods capable of enabling their potency. However, our electroporation-based DNA delivery technology has shown potential in pre-clinical and clinical studies to play a pivotal role in facilitating delivery and enhancing the potency of preventive and therapeutic vaccines.

We are a leader in developing DNA delivery solutions based on electroporation, which uses brief, controlled electrical pulses to create temporary pores in cell membranes and enable increased cellular uptake of a useful biopharmaceutical. Once the DNA vaccine enters a cell, it can then express the proteins it was encoded to produce. These proteins, or antigens, are designed to be uniquely associated with a targeted cancer or infectious disease, and may then stimulate a more powerful immune response if the immune system encounters the targeted disease at a subsequent time.

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Inovio s business strategy to realize value for the Company and its stockholders is as follows:

First, we have leveraged our patented technologies through licensing and collaborations, such as our licensing arrangements with Merck & Co., Inc., or Merck, Wyeth Pharmaceuticals, or Wyeth and Vical Inc., or Vical, among other research-driven biopharmaceutical companies as well as government and non-government agencies. We are licensing the use of our electroporation-based DNA delivery systems for partners to use in conjunction with their proprietary DNA vaccines or DNA-based immunotherapies. These arrangements provide us with some combination of upfront payments, development fees, milestone payments, royalties and a supply agreement. These partners are pursuing development of proprietary agents or conducting research using our technology. However, there is no assurance that these licensing partners will continue these electroporation-based activities. Currently, Merck has completed electroporation-based treatments in their initial Phase I cancer trial. Merck licensed from Inovio a second target in December of 2007 for which it has filed an IND. There is no assurance that Merck will continue to develop either program into a Phase II study. In addition, Wyeth continues to evaluate internal strategic options prior to initiating further development of electroporation-based infectious disease programs.

Second, we are pursuing proprietary vaccine development or co-development, resulting in whole or partial ownership in promising vaccines to prevent or treat cancers and chronic infectious diseases. We currently have a collaborative commercialization agreement with Tripep AB, or Tripep, to co-develop a novel DNA hepatitis C therapeutic vaccine (HCV), for which they received approvals from the Swedish Medical Products Agency (MPA) and local ethics committees to initiate a Phase I/II clinical trial, which has commenced enrollment. We also have two undisclosed programs underway in pre-clinical studies to generate a protective immune response with electroporation mediated delivery of an antigen in relevant animal models.

Inovio s technology is protected by an extensive patent portfolio covering in vivo electroporation. Our patent portfolio encompasses a range of apparatuses, methodologies, conditions, and applications including oncology, gene delivery, vascular, transdermal as well as ex vivo electroporation.

Critical Accounting Policies

The SEC defines critical accounting policies as those that are, in management s view, important to the portrayal of our financial condition and results of operations and require management s judgment. Our discussion and analysis of our financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. We base our estimates on experience and on various assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. Our critical accounting policies include:

Revenue Recognition. Revenue is recognized in accordance with SAB No. 104, *Revenue Recognition in Financial Statements* and EITF Issue 00-21, *Revenue Arrangements with Multiple Deliverables*.

We have adopted a strategy of co-developing or licensing our gene delivery technology for specific genes or specific medical indications. Accordingly, we have entered into collaborative research and development agreements and have received funding for pre-clinical research and clinical trials. Payments under these agreements, which are non-refundable, are recorded as revenue as the related research expenditures are incurred pursuant to the terms of the agreements and provided collectibility is reasonably assured.

License fees are comprised of initial fees and milestone payments derived from collaborative licensing arrangements. We continue to recognize non-refundable milestone payments upon the achievement of specified milestones upon which we have earned the milestone payment, provided the milestone payment is substantive in nature and the achievement of the milestone was not reasonably assured at the inception of the agreement. We defer payments for milestone events which are reasonably assured and recognize them ratably over the minimum remaining period of our performance obligations. Payments for milestones which are not reasonably assured are treated as the culmination of a separate earnings process and are recognized as revenue when the milestones are achieved.

We receive non-refundable grants under available government programs. Government grants towards current expenditures are recorded as revenue when there is reasonable assurance that we have complied with all conditions necessary to receive the grants, collectibility is reasonably assured, and as the expenditures are incurred.

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Research and development expenses. Since our inception, virtually all of our activities have consisted of research and development efforts related to developing our electroporation technologies. We expense all such expenditures in the period incurred. Our expenses related to clinical trials are based on services received and efforts expended pursuant to contracts with multiple research institutions and clinical research organizations that conduct and manage clinical trials on our behalf. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Generally, these agreements set forth the scope of work to be performed at a fixed fee or unit price. Payments under the contracts depend on factors such as the successful enrollment of patients or the completion of clinical trial milestones. Expenses related to clinical trials generally are accrued based on contracted amounts applied to the level of patient enrollment and activity according to the protocol. If timelines or contracts are modified based upon changes in the clinical trial protocol or scope of work to be performed, we modify our estimates accordingly on a prospective basis.

Valuation of Goodwill and Intangible Assets. Our business acquisitions typically result in goodwill and other intangible assets, and the recorded values of those assets may become impaired in the future. Acquired intangible assets are still being developed for the future economic viability contemplated at the time of acquisition. We are concurrently conducting Phase I and pre-clinical trials using the acquired intangibles, and we have entered into certain significant licensing agreements for use of these acquired intangibles.

We record patents at cost and amortize these costs using the straight-line method over the expected useful lives of the patents or 17 years, whichever is less. Patent cost consists of the consideration paid for patents and related legal costs. License costs are recorded based on the fair value of consideration paid and amortized using the straight-line method over the shorter of the expected useful life of the underlying patents or the term of the related license agreement. As of June 30, 2008, our goodwill and intangible assets resulting from acquisition costs of Inovio AS, and additional intangibles including patents and license costs, net of accumulated amortization, totaled $9.9 million.

The determination of the value of such intangible assets requires management to make estimates and assumptions that affect our consolidated financial statements. We assess potential impairments to intangible assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Our judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of our acquired businesses, market conditions and other factors. If impairment is indicated, we reduce the carrying value of the intangible asset to fair value. We have not recognized any impairment losses through June 30, 2008.

Although there are inherent uncertainties in this assessment process, the estimates and assumptions we use are consistent with our internal planning. If these estimates or their related assumptions change in the future, we may be required to record an impairment charge on all or a portion of our goodwill and intangible assets. Furthermore, we cannot predict the occurrence of future impairment-triggering events nor the impact such events might have on our reported asset values. Future events could cause us to conclude that impairment indicators exist and that goodwill or other intangible assets associated with our acquired businesses are impaired. Any resulting impairment loss could have an adverse impact on our consolidated results of operations.

Stock-Based Compensation. Stock-based compensation cost is estimated at the grant date based on the fair-value of the award and is recognized as an expense ratably over the requisite service period of the award. Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life and forfeiture rates. We develop our estimates based on historical data. If factors change and we employ different assumptions in future periods, the compensation expense that we record may differ significantly from what we have recorded in the current period. A small change in the estimates

used may have a relatively large change in the estimated valuation. We use the Black-Scholes pricing model to value stock option awards. We recognize compensation expense using the straight-line amortization method.

Registered Common Stock Warrants. We account for registered common stock warrants in accordance with EITF Issue 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock,* on the understanding that in compliance with applicable securities laws, the registered warrants require the issuance of registered securities upon exercise and do not sufficiently preclude an implied right to net cash settlement. We classify registered warrants on the consolidated balance sheet as a current liability which is revalued at each balance sheet date subsequent to the initial issuance in October 2006 and August 2007.

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Determining the appropriate fair-value model and calculating the fair value of registered warrants requires considerable judgment, including estimating stock price volatility and expected warrant life. We develop our estimates based on historical data. A small change in the estimates used may have a relatively large change in the estimated valuation. We use the Black-Scholes pricing model to value the registered warrants. Changes in the fair market value of the warrants are reflected in the consolidated statement of operations as Other income and expense.

Recent Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with U.S. GAAP. We are currently evaluating the impact that SFAS No. 162 will have on our condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of SFAS No. 161 is not expected to have a material impact on our condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements (an amendment of Accounting Research Bulletin No. 51)* (SFAS No. 160). SFAS No. 160 requires that non-controlling (minority) interests be reported as a component of equity, that net income attributable to the parent and to the non-controlling interest be separately identified in the income statement, that changes in a parent s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and that any retained non-controlling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value. This statement is effective for fiscal years beginning after December 31, 2008, and shall be applied prospectively. However, the presentation and disclosure requirements of SFAS No. 160 are required to be applied retrospectively for all periods presented. The retrospective presentation and disclosure requirements of this statement will be applied to any prior periods presented in financial statements for the fiscal year ending December 31, 2009, and later periods during which the Company had a consolidated subsidiary with a non-controlling interest. As of June 30, 2008, we do not have any consolidated subsidiaries in which there is a non-controlling interest.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) changes the requirements for an acquirer s recognition and measurement of the assets acquired and liabilities assumed in a business combination, including the treatment of contingent consideration, pre-acquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. This statement will be effective for us with respect to business combination transactions for which the acquisition date is after December 31, 2008. We are currently evaluating the impact that SFAS No. 141(R) will have on our condensed consolidated financial statements.

In November 2007, the FASB ratified EITF Issue No. 07-1, *Accounting for Collaborative Agreements Related to the Development and Commercialization of Intellectual Property*. EITF Issue No. 07-1 defines collaborative agreements as a contractual arrangement in which the

parties are active participants to the arrangement and are exposed to the significant risks and rewards that are dependent on the ultimate commercial success of the endeavor. Additionally, it requires that revenue generated and costs incurred on sales to third parties as it relates to a collaborative agreement be recognized as gross or net based on EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. It also requires payments between participants to be accounted for in accordance with already existing generally accepted accounting principles, unless none exist, in which case a reasonable, rational, consistent method should be used. EITF Issue No. 07-1 is effective for fiscal years beginning after December 15, 2008 for all collaborative arrangements existing as of that date, with retrospective application to all periods. Management is currently evaluating the impact of this standard and does not anticipate the adoption of EITF Issue No. 07-1 to have a material impact on our condensed consolidated financial statements.

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to U.S. GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for financial assets and financial liabilities for fiscal years beginning after November 15, 2007. Issued in February 2008, FSP 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, removed leasing transactions accounted for under Statement 13 and related guidance from the scope of SFAS No. 157. FSP 157-2 *Partial Deferral of the Effective Date of Statement 157* (FSP 157-2), deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The partial implementation of SFAS No. 157 for financial assets and financial liabilities, effective January 1, 2008, did not have a material impact on our condensed consolidated financial statements. The Company is currently assessing the impact of SFAS No. 157 for non-financial assets and nonfinancial liabilities on its condensed consolidated financial statements. See Note 3, Investment Securities and Fair Value Measurements.

Results of Operations

Revenue. We had total revenue of $663,000 and $1.3 million for the three and six months ended June 30, 2008, compared to $496,000 and $999,000 for the three and six months ended June 30, 2007, respectively. Revenue primarily consists of license fees, milestone payments and amounts received from collaborative research and development agreements and grants.

Revenue from license fees and milestone payments was $204,000 and $397,000 for the three and six months ended June 30, 2008, respectively, as compared to $209,000 and $444,000 for the three and six months ended June 30, 2007, respectively. The slight decrease in revenue under license fees and milestone payments for the three and six month periods ended June 30, 2008, as compared to the comparable periods in 2007, was mainly due to less revenue recognized from the Merck licensing agreement as this agreement was fully amortized during 2007, offset by revenue recognized from various license agreements.

During the three and six months ended June 30, 2008, we recorded revenue under collaborative research and development arrangements of $459,000 and $919,000, respectively, as compared to $286,000 and $534,000 for the three and six months ended June 30, 2007, respectively. This increase in revenue was primarily due to an increase in Wyeth billings based on our collaborative agreement, offset by slightly lower Merck collaborative research billings. Billings from research and development work performed pursuant to the Wyeth and Merck agreements are recorded as revenue as the related research expenditures are incurred.

There was no grant and miscellaneous revenue for the three and six months ended June 30, 2008, as compared to $0 and $21,000 for the three and six months ended June 30, 2007. The decrease in grant and miscellaneous revenue for the six months ended June 30, 2008, as compared to the comparable period in 2007, was due to no revenue recognized from the U.S. Army Grant due to the finalization of work performed.

Research and Development Expenses. Research and development expenses, which include clinical trial costs, for the three and six months ended June 30, 2008, were $1.7 million and $3.3 million, respectively, compared to $2.9 million and $5.4 million for the three and six months ended June 30, 2007, respectively. The decrease in research and development expenses for the three and six months ended June 30, 2008, as compared to the comparable periods in 2007, was primarily due to a decrease in clinical trial expenses associated with patient enrollment, clinical site costs,

data collection and monitoring costs, and decreased costs related to the use of outside Clinical Research Organizations (CRO s) and Clinical Research Associates (CRA s). These decreases were offset by higher costs associated with the expansion of our in-house engineering and research expertise.

General and Administrative Expenses. General and administrative expenses, which include business development expenses and the amortization of intangible assets, for the three and six months ended June 30, 2008, were $3.1 million and $5.5 million, respectively, as compared to $2.3 million and $4.6 million for the three and six months ended June 30, 2007, respectively. The increase in general and administrative expenses for the three and six months ended June 30, 2008, as compared to the comparable periods in 2007, was mainly due to an increase in outside consulting services and legal fees related to the execution of the definitive merger agreement with VGX, offset by lower employee stock-based compensation expense.

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Stock-Based Compensation. Stock-based compensation cost is measured at the grant date, based on the fair value of the award reduced by estimated forfeitures, and is recognized as expense over the employee s requisite service period. Total compensation cost under SFAS No. 123(R) for our stock plans for the three and six months ended June 30, 2008 was $201,000 and $528,000, respectively. From these amounts, $56,000 and $147,000 was included in research and development expenses and $145,000 and $381,000 was included in general and administrative expenses, respectively. Total compensation cost under SFAS No. 123(R) for our stock plans for the three and six months ended June 30, 2007 was $430,000 and $976,000, respectively. From these amounts, $100,000 and $205,000 was included in research and development expenses and $330,000 and $771,000 was included in general and administrative expenses, respectively.

Interest Income. Interest income for the three and six months ended June 30, 2008, was $191,000 and $490,000, respectively, as compared to $287,000 and $510,000 for the three and six months ended June 30, 2007, respectively. The decrease in interest income for the three and six months ended June 30, 2008, as compared to the comparable periods in 2007, was primarily due to lower cash and investment balances and a lower average interest rate.

Other Income/(Expense). We recorded other expense for the three and six months ended June 30, 2008 of $113,000 and $87,000, respectively, as compared to other income of $727,000 and $1.1 million for the three and six months ended June 30, 2007, respectively. The decrease in other income (expense) is primarily due to the revaluation of registered common stock warrants issued by us in October 2006 and August 2007. We are required to revalue the warrants at each balance sheet date to fair value. If unexercised, the warrants will expire in October 2011 and August 2012, respectively.

Imputed and Declared Dividends on Preferred Stock. The holders of our Series C Preferred Stock were entitled to receive an annual dividend at the rate of 6%, payable quarterly, through May 20, 2007. These dividends were payable in cash unless the closing price of our common shares for the 20 trading days immediately preceding the dividend payment date was equal to or greater than the conversion price of such shares, in which event we may have elected to pay the dividends to the holders in common stock. During the three and six months ended June 30, 2007, we paid dividends to the holders of our Series C Preferred Stock in cash of $8,000 and $23,000, respectively. No dividends were paid during the three and six months ended June 30, 2008.

Liquidity and Capital Resources

Historically, our primary uses of cash have been to finance research and development activities including clinical trial activities in the oncology, DNA vaccines and other immunotherapy areas of our business. Since inception, we have satisfied our cash requirements principally from proceeds from the sale of equity securities.

Working Capital and Liquidity

As of June 30, 2008, we had working capital of $5.7 million, as compared to $25.6 million as of December 31, 2007. The decrease in working capital during the six months ended June 30, 2008 was primarily due to the reclassification of $12.5 million of auction rate security (ARS) investments from short-term to non-current assets as we believe liquidity of these investments is not required for operational purposes for the next twelve months and the underlying term until recovery in value is anticipated beyond the next twelve months. In early March 2008, we were informed that there was insufficient demand at auction for all six of our high-grade ARS. As a result, these affected securities are currently not liquid and we could be required to hold them until they are redeemed by the issuer or to maturity. At June 30, 2008, we have recorded an unrealized loss of $1.1 million on these investments, resulting in the $12.5 million carrying value. Because we believe that the current decline in fair value is temporary and based only on liquidity issues in the credit markets, any difference between its estimate and an estimate that would be arrived at by another party would have no impact on our consolidated results of operations, since such difference would also be recorded to accumulated other comprehensive income. We will re-evaluate each of these factors as market conditions change in subsequent periods. The Company anticipates receiving approval of and executing a $5.0 million line of credit from its investment advisor, secured by the ARS, in the third quarter, to provide additional working capital.

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The remaining decrease in working capital was primarily due to expenditures related to our research and development and clinical trial activities, as well as various general and administrative expenses related to consultants, legal, accounting and audit, corporate development, and investor relations activities.

As of June 30, 2008, we had an accumulated deficit of $146.9 million. We have operated at a loss since 1994, and we expect this to continue for some time. The amount of the accumulated deficit will continue to increase, as it will be expensive to continue clinical, research and development efforts. If these activities are successful and if we receive approval from the FDA to market equipment, then even more funding will be required to market and sell the equipment. The outcome of the above matters cannot be predicted at this time. We are evaluating potential partnerships as an additional way to fund operations. We will continue to rely on outside sources of financing to meet our capital needs beyond next year.

Our long-term capital requirements will depend on numerous factors including:

- The progress and magnitude of the research and development programs, including preclinical and clinical trials;
- The time involved in obtaining regulatory approvals;
- The cost involved in filing and maintaining patent claims;
- Competitor and market conditions;
- The ability to establish and maintain collaborative arrangements;
- The ability to obtain grants to finance research and development projects; and
- The cost of manufacturing scale-up and the cost of commercialization activities and arrangements.

The ability to generate substantial funding to continue research and development activities, preclinical and clinical studies and clinical trials and manufacturing, scale-up, and selling, general, and administrative activities is subject to a number of risks and uncertainties and will depend on

numerous factors including:

- The ability to raise funds in the future through public or private financings, collaborative arrangements, grant awards or from other sources;

- Our potential to obtain equity investments, collaborative arrangements, license agreements or development or other funding programs in exchange for manufacturing, marketing, distribution or other rights to products developed by us; and

- The ability to maintain existing collaborative arrangements.

We cannot guarantee that additional funding will be available when needed or on favorable terms. If it is not, we will be required to scale back our research and development programs, preclinical studies and clinical trials, and selling, general, and administrative activities, or otherwise reduce or cease operations and our business and financial results and condition would be materially adversely affected.

Certain Factors That Could Affect Our Future Results

All of the information in this Quarterly Report on Form 10-Q, including the factors listed below and the factors listed under Part II, Item 1A. should be carefully considered and evaluated. These factors are not the only concerns or uncertainties facing us. Additional matters not now known to us or that we may currently deem immaterial could also impair our ability to conduct business in the future.

If any of the circumstances among the following or others factors actually occur, our ability to commercialize our technology, and the therapies we believe are derivable therefrom, could be compromised and the trading price of our common stock could decline.

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If We Do Not Have Enough Capital To Fund Operations, Then We Will Have To Cut Costs. If we are unable to raise additional funds under terms acceptable to us and in the interests of our stockholders, then we will have to take measures to cut costs, which may include:

- Delaying, scaling back or discontinuing one or more of our gene delivery programs or other aspects of operations, including laying off personnel or stopping or delaying planned preclinical research and the initiation or continuation of clinical trials;

- The sale or license some of our technologies that we would not otherwise sell or license if we were in a stronger financial position;

- The sale or license some of our technologies under terms that are less favorable than they otherwise might have been if we were in a stronger financial position; and

- Potentially merging with another company or positioning ourselves to be acquired by another company.

If it became necessary to take one or more of the above-listed actions, then our perceived valuation may be lower, which could impact the market price for our common stock. Further, the effects on our operations, financial performance and stock price may be significant if we do not or cannot take one or more of the above-listed actions in a timely manner if and when needed.

Our Dependence Upon Non-Marketed Products, Our Lack Of Experience In Manufacturing And Marketing Human-Use Products, And Our Continuing Deficit May Result In Even Further Fluctuations In Our Trading Volume And Share Price. Even if we were to achieve successful clinical results in our programs, successful approval, marketing, and sales of our human-use equipment are also critical to the financial future of our company. Our human-use products are not yet approved for sale in the United States and other jurisdictions and we may never obtain these approvals regardless of whether we achieve successful clinical trial results utilizing such human-use products. Even if we do obtain approvals to sell our human-use products in the United States, these sales may not be as large or as timely as we expect. These uncertainties may further cause our operating results to fluctuate dramatically in the next several years.

If We Are Unable To Develop Commercially Successful Products In Various Markets for Multiple Indications, Our Business Will Be Harmed And We May Be Forced To Curtail Or Cease Operations. We cannot assure you that we will successfully develop any products, or if we do, that they will be commercially successful. If we fail to develop or successfully commercialize any products, we may be forced to refocus, curtail or cease operations. Our ability to achieve and sustain operating

profitability depends on our ability, directly or with strategic partners, to successfully commercialize our therapy in Europe, Asia and in the US. This will depend in large part on our ability to commence, execute and complete clinical programs and obtain regulatory approvals for our therapy. Clinical trials are still necessary before we can seek regulatory approval to sell our products. We cannot assure you that we will receive approval for our therapy in the United States or in other countries or, if approved, that we or a partner will achieve a significant level of sales. If we fail to partner or commercialize our products, we may be forced to curtail or cease operations.

We are also in the pre-clinical stages of research and development with other new product candidates using our electroporation technology. These new indications and product candidates will require significant costs to advance through the development stages. Even if such product candidates are advanced through clinical trials, the results of such trials may not gain FDA approval. Even if approved, our products may not be commercially successful.

Pre-Clinical Research And Clinical Trials Of Human-Use Equipment Are Unpredictable, And If We Experience Unsuccessful Trial Results, Our Business Will Suffer. Before any of our human-use equipment can be sold, the FDA or applicable foreign regulatory authorities must determine that the equipment meets specified criteria for use in the indications for which approval is requested, including obtaining appropriate regulatory approvals. Satisfaction of regulatory requirements typically takes many years, and involves compliance with requirements covering research and development, testing, manufacturing, quality control, labeling and promotion of drugs for human use. To obtain regulatory approvals, we must, among other requirements, complete pre-clinical research and clinical trials demonstrating that our product candidates are safe and effective for a particular cancer type or other disease. Regulatory approval of a new treatment is never guaranteed. The FDA will make this determination based on the results from our pre-clinical testing and clinical trials and has substantial discretion in the approval process. Despite the time and experience exerted, failure can occur at any stage, and we could encounter problems causing us to abandon pre-clinical research and clinical trial activities.

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In addition, any of our clinical trials for treatment using our therapy may be delayed or halted at any time for various other reasons, including:

- The electroporation-mediated delivery of DNA vaccines or related agents may be found to be ineffective or be considered to cause harmful side effects, including death;

- Our clinical trials may take longer than anticipated for any of a number of reasons, including a scarcity of subjects that meet the physiological or pathological criteria for entry into the study and a scarcity of subjects that are willing to participate through the end of the trial, or follow-up visits;

- The reported clinical data may change over time as a result of the continuing evaluation of patients or the current assembly and review of existing clinical and pre-clinical information;

- Data from various sites participating in the clinical trials may be incomplete or unreliable, which could result in the need to repeat the trial or abandon the project; and

- Pre-clinical and clinical data can be interpreted in many different ways, and the FDA and other regulatory authorities may interpret our data differently than we do, which could halt or delay our clinical trials or prevent regulatory approval.

If any of the above events arise during our pre-clinical research, clinical trials or data review, we would expect this to have a serious negative impact on our company. Any termination of ongoing enrollment or other delay or change in the conduct of our clinical trials may not always be understood or accepted by the capital markets and announcements of such scientific results and related actions may adversely affect the market price of our common stock.

Any delays or difficulties we have encountered or will encounter in our pre-clinical research and clinical trials, may delay or preclude regulatory approval. Our product development costs will increase if we experience delays in testing or regulatory approvals or if we need to perform more extensive or larger clinical trials than planned. Any such events could also delay or preclude the commercialization of our therapy or any other product candidates.

Clinical trials are unpredictable, especially human-use trials. Results achieved in early stage clinical trials may not be repeated in later stage trials, or in trials with more patients. When early positive results were not repeated in later stage trials, pharmaceutical and biotechnology companies have suffered significant setbacks. Not only are commercialization timelines pushed back, but some companies, particularly smaller biotechnology companies with limited cash reserves, have discontinued business after releasing news of unsuccessful clinical trial results. We cannot be certain the results we observed in our pre-clinical testing will be confirmed in clinical trials or the results of any of our clinical trials

will support FDA approval. If we experience unexpected, inconsistent or disappointing results in connection with a clinical or pre-clinical trial our business will suffer.

A delay in our pre-clinical research or our clinical trials, for whatever reason, will probably require us to spend additional funds to keep our product(s) moving through the regulatory process. If we do not have or cannot raise additional funds, then the testing of our human-use products could be discontinued. In the event our pre-clinical research or our clinical trials are not successful, we will have to determine whether to continue to fund our programs to address the deficiencies, or whether to abandon our clinical development programs for our products in tested indications. Loss of our human-use product line would be a significant setback for our company.

Because there are so many variables inherent in pre-clinical research or clinical trials, we cannot predict whether any of our future regulatory applications to conduct clinical trials will be approved by the FDA or other regulatory authorities, whether our clinical trials will commence or proceed as planned, and whether the trials will ultimately be deemed to be successful. To date, our experience has been that submission and approval of clinical protocols has taken longer than desired or expected.

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Our Business Is Highly Dependent On Receiving Approvals From Various Regulatory Authorities And Will Be Dramatically Affected If Approval To Manufacture And Sell Our Human-Use Equipment Is Not Granted Or Is Not Granted In A Timely Manner. The production and marketing of our human-use equipment and our ongoing research, development, pre-clinical testing, and clinical trial activities are subject to extensive regulation. Numerous governmental agencies in the U.S. and internationally, including the FDA, must review our applications and decide whether to grant regulatory approval. All of our human-use equipment must go through an approval process, in some instances for each indication for which we want to label it for use (such as use for transfer of a certain gene to a certain tissue). These regulatory processes are extensive and involve substantial costs and time.

We have limited experience in, and limited resources available, for such regulatory activities. Failure to comply with applicable regulations can, among other things, result in non-approval, suspensions of regulatory approvals, fines, product seizures and recalls, operating restrictions, injunctions and criminal prosecution.

Any of the following events can occur and, if any did occur, any one could have a material adverse effect on our business, financial conditions and results of operations:

- As mentioned earlier, clinical trials may not yield sufficiently conclusive results for regulatory agencies to approve the use of our products;

- There can be delays, sometimes long, in obtaining approval for our human-use devices, and indeed, we have experienced such delays in obtaining FDA approval of our clinical protocols;

- The rules and regulations governing human-use equipment such as ours can change during the review process, which can result in the need to spend time and money for further testing or review;

- If approval for commercialization is granted, it is possible the authorized use will be more limited than we believe is necessary for commercial success, or that approval may be conditioned on completion of further clinical trials or other activities; and

- Once granted, approval can be withdrawn, or limited, if previously unknown problems arise with our human-use product or data arising from its use.

We Cannot Predict The Safety Profile Of The Use Of Our Electroporation System When Used In Combination With Other Therapies. Our current clinical trials involve the use of our electroporation system in combination with certain DNA vaccines. While the data we have evaluated to date suggest the use of electroporation does not alone have significant adverse effects nor increase the adverse effects of other therapies, we cannot predict if this outcome will continue to be true or whether possible adverse side effects directly attributable to the vaccines provided by our partners and collaborators will compromise the safety profile of our electroporation-based DNA delivery system when used in certain combination therapies. In some instances, clinical results may not clearly indicate whether possible adverse effects are related to our technology versus other study related factors.

We Could Be Substantially Damaged If Physicians And Hospitals Performing Our Clinical Trials Do Not Adhere To Protocols Defined In Clinical Trial Agreements. We work and have worked with a number of hospitals to perform clinical trials, primarily in the field of oncology. We depend on these hospitals to recruit patients for our trials, to perform the trials according to our protocols, and to report the results in a thorough, accurate and consistent manner. Although we have agreements with these hospitals which govern what each party is to do with respect to each protocol, patient safety, and avoidance of conflict of interest, there are risks that the terms of the contracts will not be followed, such as the following:

Possible Deviations from Protocol. The hospitals or the physicians working at the hospitals may not perform the trials correctly. Deviations from our protocol may make the clinical data not useful and the trial could become essentially worthless.

Potential for Conflict of Interest. Physicians working on protocols may have an improper economic interest in our company, or other conflict of interest. When a physician has a personal stake in the success of the trial, such as when a physician owns stock, or rights to purchase stock of the trial sponsor, it can create suspicion that the trial results were improperly influenced by the physician s interest in economic gain. Not only can this put the clinical trial results at risk, but it can also cause serious damage to a company s reputation.

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Patient Safety and Consent Issues. Physicians and hospitals may fail to secure formal written consent as instructed or report adverse effects that arise during the trial in the proper manner, which could put patients at unnecessary risk. Physicians and hospital staff may fail to observe proper safety measures such as the mishandling of used medical needles, which may result in the transmission of infectious and deadly diseases, such as HIV. This increases our liability, affects the data, and can damage our reputation.

If any of these events were to occur, then it could have a material adverse effect on our ability to receive regulatory authorization to sell our human-use equipment, and on our reputation. Negative events that arise in the performance of clinical trials sponsored by biotechnology companies of our size and with limited cash reserves have resulted in companies going out of business. While these risks are always present, to date, our contracted physicians and clinics have been successful in collecting significant data regarding the clinical protocols under which they have operated, and we are unaware of any conflicts of interest or improprieties regarding our protocols.

Even If Our Products Are Approved By Regulatory Authorities, If We Fail To Comply With On-Going Regulatory Requirements, Or If We Experience Unanticipated Problems With Our Products, These Products Could Be Subject To Restrictions Or Withdrawal From The Market. Any product for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data and promotional activities for such product, will be subject to continual review and periodic inspections by the FDA and other regulatory bodies. Even if regulatory approval of a product is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or to certain requirements resulting in costly post-marketing testing and surveillance to monitor the safety or efficacy of the product. Later discovery of previously unknown problems with our products, including unanticipated adverse events of unanticipated severity or frequency regarding manufacturer or manufacturing processes or failing to comply with regulatory requirements, may result in restrictions on such products or manufacturing processes, withdrawal of the products from the market, voluntary or mandatory recall, fines, suspension of regulatory approvals, product seizures or detention, injunctions or the imposition of civil or criminal penalties.

Failure To Comply With Foreign Regulatory Requirements Governing Human Clinical Trials And Marketing Approval For Our Human-Use Equipment Could Prevent Us From Selling Our Products In Foreign Markets, Which May Adversely Affect Our Operating Results And Financial Conditions. For marketing our MedPulser® Electroporation System outside the United States, the requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country and may require additional testing. The time required to obtain approvals outside the United States may differ from that required to obtain FDA approval. We may not obtain foreign regulatory approval on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other countries or by the FDA. Failure to comply with these regulatory requirements or to obtain required approvals could impair our ability to develop these markets and could have a material adverse affect on our results of operations and financial condition.

Our Ability To Achieve Significant Revenues From Sales Or Leases Of Human-Use Products Will Depend On Establishing Effective Sales, Marketing And Distribution Capabilities Or Relationships And We Currently Lack Substantial Experience In These Areas. To market our products, we will need to develop sales, marketing and distribution capabilities. In order to develop or otherwise obtain these capabilities, we may have to enter into marketing, distribution or other similar arrangements with third

parties in order to sell, market and distribute our products successfully. To the extent that we enter into any such arrangements with third parties, our product revenue is likely to be lower than if we marketed and sold our products directly, and our revenues will depend upon the efforts of these third parties.

We have limited experience in sales, marketing and distribution of clinical and human-use products and we currently have no sales, marketing or distribution capability. If we decide to market and sell our human-use products directly, we must develop a marketing and sales capability. This would involve substantial costs, training and time. We may be unable to develop sufficient sales, marketing and distribution capabilities to commercialize our products successfully. Regardless of whether we elect to use third parties or seek to develop our own marketing capability, we may not be able to successfully commercialize any product.

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We Rely On Collaborative And Licensing Relationships To Fund A Portion Of Our Research And Development Expenses. If We Are Unable To Maintain Or Expand Existing Relationships, Or Initiate New Relationships, We Will Have To Defer Or Curtail Research And Development Activities In One Or More Areas. Our partners and collaborators fund a portion of our research and development expenses and assist us in the research and development of our human-use equipment. These collaborations and partnerships help pay the salaries and other overhead expenses related to research. In the past, we have encountered operational difficulties after the termination of an agreement by a former partner. Because this partnership was terminated, we did not receive significant milestone payments which we had expected and were forced to delay some clinical trials as well as some product development. Although we believe our relationships with our partners and collaborators are stable and good, we cannot assure you that we will not experience such operational difficulties or termination of such relationships without anticipated payment again in the future.

We also rely on scientific collaborators at companies and universities to further expand our research and to test our equipment. In most cases, we lend our equipment to a collaborator, teach him or her how to use it, and together design experiments to test the equipment in one of the collaborator s fields of expertise. We aim to secure agreements that restrict collaborators rights to use the equipment outside of the agreed upon research, and outline the rights each of us will have in any results or inventions arising from the work.

Nevertheless, there is always potential that:

- Our equipment will be used in ways we did not authorize, which can lead to liability and unwanted competition;

- We may determine that technology has been improperly assigned to us or a collaborator may claim rights to certain of our technology, which may require us to pay license fees or milestone payments and, if commercial sales of the underlying product are achieved, royalties;

- We may lose rights to inventions made by our collaborators in the field of our business, which can lead to expensive litigation and unwanted competition;

- Our collaborators may not keep our confidential information to themselves, which can lead to loss of our right to seek patent protection and loss of trade secrets, and expensive litigation; and

- Collaborative associations can damage a company s reputation if they fail and thus, by association or otherwise, the scientific or medical community may develop a negative view of us.

We cannot guarantee that any of the results from these collaborations will be successful. We also cannot be sure that we will be able to continue to collaborate with individuals and institutions that will further develop our products, or that we will be able to do so under terms that are not overly restrictive. If we are not able to maintain or develop new collaborative relationships, it is likely that our research pace will slow down and that it will take longer to identify and commercialize new products, or new indications for our existing products.

We Rely Heavily On Our Patents And Proprietary Rights To Attract Partnerships And Maintain Market Position. The strength of our patent portfolio is an important factor that will influence our success. Patents give the patent holder the right to prevent others from using its patented technology. If someone infringes upon the patented material of a patent holder, the patent holder has the right to initiate legal proceedings against that person to protect its patented material. These proceedings, however, can be lengthy and costly. We perform an ongoing review of our patent portfolio to confirm that our key technologies are adequately protected. If we determine that any of our patents require either additional disclosures or revisions to existing information, we may ask that such patents be reexamined or reissued, as applicable, by the United States Patent and Trademark Office.

The patenting process, enforcement of issued patents, and defense against claims of infringement are inherently risky. Because we rely heavily on patent protection, we face the following significant risks:

Possibility of Inadequate Patent Protection for Product. The United States Patent and Trademark Office or foreign patent offices may not grant patents of meaningful scope based on the applications we have already filed and those we intend to file. If we do not have patents that adequately protect our human-use equipment and indications for its use, then we will not be competitive.

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Potential That Important Patents Will Be Judged Invalid. Some of the issued patents we now own or license may be determined to be invalid. If we have to defend the validity of any of our patents, the costs of such defense could be substantial, and there is no guarantee of a successful outcome. In the event an important patent related to our drug delivery technology is found to be invalid, we may lose competitive position and may not be able to receive royalties for products covered in part or whole by that patent under license agreements.

Danger of Being Charged With Infringement. Although we are not currently aware of any parties intending to pursue infringement claims against us, there is the possibility that we may use a patented technology owned by another person and/or be charged with infringement. Defending or indemnifying a third party against a charge of infringement can involve lengthy and costly legal actions, and there can be no guarantee of a successful outcome. Biotechnology companies comparable to us in size and financial position have discontinued business after losing infringement battles. If we or our partners were prevented from using or selling our human-use equipment, then our business would be materially adversely affected.

Freedom to Operate Issues. We are aware that patents related to electrically-assisted drug delivery have been granted to, and patent applications have been filed by our potential competitors. We or our partners have received licenses from some of these patents, and will consider receiving additional licenses in the future. Nevertheless, the competitive nature of our field of business and the fact that others have sought patent protection for technologies similar to ours make these potential issues significant.

In addition to patents, we also rely on trade secrets and proprietary know-how. We try to protect this information with appropriate confidentiality and inventions agreements with our employees, scientific advisors, consultants, and collaborators. We cannot be sure that these agreements will not be breached, that we will be able to protect ourselves if they are breached, or that our trade secrets will not otherwise become known or be independently discovered by competitors. If any of these events occur, then we face the potential of losing control over valuable company information, which could negatively affect our competitive position.

If We Are Not Successful In Developing Our Current Products, Our Business Model May Change As Our Priorities And Opportunities Change And Our Business May Never Develop To Be Profitable Or Sustainable. There are many products and programs that seem promising to us which we could pursue. However, with limited resources, we may decide to change priorities and shift programs away from those that we have been pursuing for the purpose of exploiting our core technology of electroporation. The choices we make will be dependent upon numerous contemporaneous factors, some of which we cannot predict. We cannot be sure that our business model, as it currently exists or as it may evolve, will enable us to become profitable or to sustain operations.

Serious And Unexpected Side Effects Attributable To Gene Therapy May Result In Governmental Authorities Imposing Additional Regulatory Requirements Or In A Negative Public Perception Of Our Products. The gene therapy or DNA vaccine product candidates under development could be broadly described as gene therapies. A number of clinical trials are being conducted by other pharmaceutical companies involving gene therapy, including compounds similar to, or competitive

with, our product candidates. The announcement of adverse results from these clinical trials, such as serious unwanted and unexpected side effects attributable to treatment, or any response by the FDA to such clinical trials, may impede the progress of our clinical trials, delay or prevent us from obtaining regulatory approval, or negatively influence public perception of our product candidates, which could harm our business and results of operations and reduce the value of our stock.

The U.S. Senate has held hearings concerning the adequacy of regulatory oversight of gene therapy clinical trials, as well as the adequacy of research subject education and protection in clinical research in general, and to determine whether additional legislation is required to protect volunteers and patients who participate in such clinical trials. The Recombinant DNA Advisory Committee, or RAC, which acts as an advisory body to the National Institutes of Health, has expanded its public role in evaluating important public and ethical issues in gene therapy clinical trials. Implementation of any additional review and reporting procedures or other additional regulatory measures could increase the costs of or prolong our product development efforts or clinical trials.

As of June 30, 2008, to our knowledge, there have not been any serious adverse events in any gene therapy clinical trials in which our technology was used. In the future, if one or a series of serious adverse events were to occur during a gene therapy clinical trial in which our technology was used, we would report all such events to the FDA and other regulatory agencies as required by law. Such serious adverse events, whether treatment-related or not, could result in negative public perception of our treatments and require additional regulatory review or other measures, which could increase the cost of or prolong our gene therapy clinical trials or require us to halt our clinical trials altogether.

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The commercial success of our products will depend in part on public acceptance of the use of gene therapy products or gene-induced products, which are a new type of disease treatment for the prevention or treatment of human diseases. Public attitudes may be influenced by claims that gene therapy products or gene-induced products are unsafe, and these treatment methodologies may not gain the acceptance of the public or the medical community. Negative public reaction to gene therapy products or gene-induced products could also result in greater government regulation and stricter clinical trial oversight.

We Have The Potential for Product Liability Issues With Human-Use Equipment. The testing, marketing and sale of human-use products expose us to significant and unpredictable risks of equipment product liability claims. These claims may arise from patients, clinical trial volunteers, consumers, physicians, hospitals, companies, institutions, researchers or others using, selling, or buying our equipment. Product liability risks are inherent in our business and will exist even after the products are approved for sale. If and when our human-use equipment is commercialized, we run the risk that use (or misuse) of the equipment will result in personal injury. The chance of such an occurrence will increase after a product type is on the market.

We have obtained liability insurance in connection with our ongoing business and products, and we may purchase additional policies if such policies are determined by management to be necessary. However, our existing insurance and the insurance we purchase may not provide adequate coverage in the event a claim is made and we may be required to pay claims directly. If we did have to make payment against a claim, it would impact our financial ability to perform the research, development, and sales activities that we have planned.

If and when our human-use equipment is commercialized, there is always the risk of product defects. Product defects can lead to loss of future sales, decrease in market acceptance, damage to our brand or reputation, product returns and warranty costs, and even product withdrawal from the market. These events can occur whether the defect resides in a component we purchased from a third party or whether it was due to our design and/or manufacturer. We expect that our sales agreements will contain provisions designed to limit our exposure to product liability claims. However, we do not know whether these limitations will be enforceable in the countries in which the sale is made. Any product liability or other claim brought against us, if successful and of sufficient magnitude, could negatively impact our financial performance.

There Is A Possibility That Our Technology Will Become Obsolete Or Lose Its Competitive Advantage. The vaccine development and delivery business is very competitive, fast moving and intense, and expected to be increasingly so in the future. Other companies and research institutions are developing drug delivery systems that, if not similar in type to our systems, are designed to address the same patient or subject population. Therefore, we cannot promise that our products will be the best, the safest, the first to market, or the most economical to manufacture and use. If competitors products are better than ours, for whatever reason, then we could become less profitable from product sales and our products could become obsolete.

There are many reasons why a competitor might be more successful than us, including:

Financial Resources. Some competitors have greater financial resources and can afford more technical and developmental setbacks than we can.

Greater Experience. Some competitors have been in the biomedical business longer than we have. They have greater experience than us in critical areas like clinical testing, obtaining regulatory approval and sales and marketing. This experience or their name recognition may give them a competitive advantage over us.

Superior Patent Position. Some competitors may have better patent protection over their technology than we have or will have in order to protect our technology. If we cannot use our patents to prevent others from copying our technology or developing similar technology, or if we cannot obtain a critical license to another s patent that we need to manufacture and use our equipment, then we would expect our competitive position to weaken.

Faster to Market. Some companies with competitive technologies may move through stages of development, approval, and marketing faster than us. If a competitor receives FDA approval before us, then it will be authorized to sell its products before we can sell ours. Because the first company to market often has a significant advantage over others, a second place position could result in less than anticipated sales.

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Reimbursement Allowed. In the U.S., third party payers, such as Medicare, may reimburse physicians and hospitals for competitors products but not for our own human-use products. This would significantly affect our ability to sell our human-use products in the U.S. and would have a negative impact on revenue and our business as a whole. Outside of the U.S., reimbursement and funding policies vary widely.

If We Lose Key Personnel Or Are Unable To Attract And Retain Additional, Highly Skilled Personnel Required To Develop Our Products Or Obtain New Collaborations, Our Business May Suffer. We depend, to a significant extent, on the efforts of our key employees, including senior management and senior scientific, clinical, regulatory and other personnel. The development of new therapeutic products requires expertise from a number of different disciplines, some of which is not widely available. We depend upon our scientific staff to discover new product candidates and to develop and conduct pre-clinical studies of those new potential products. Our clinical and regulatory staff is responsible for the design and execution of clinical trials in accordance with FDA requirements and for the advancement of our product candidates toward FDA approval. Our manufacturing staff is responsible for designing and conducting our manufacturing processes in accordance with the FDA s Quality System Regulations. The quality and reputation of our scientific, clinical, regulatory and manufacturing staff, especially the senior staff, and their success in performing their responsibilities, are significant factors in attracting potential funding sources and collaborators. In addition, our Chief Executive Officer and Chief Financial Officer and other executive officers are involved in a broad range of critical activities, including providing strategic and operational guidance. The loss of these individuals, or our inability to retain or recruit other key management and scientific, clinical, regulatory, manufacturing and other personnel, may delay or prevent us from achieving our business objectives. We face intense competition for personnel from other companies, universities, public and private research institutions, government entities and other organizations.

We May Not Meet Environmental Guidelines And As A Result Could Be Subject To Civil And Criminal Penalties. Like all companies in our industry, we are subject to a variety of governmental regulations relating to the use, storage, discharge and disposal of hazardous substances. Our safety procedures for handling, storage and disposal of such materials are designed to comply with applicable laws and regulations. While we believe we are currently in compliance with all material applicable environmental regulations, if we are found to not comply with environmental regulations, or if we are involved with contamination or injury from these materials, then we may be subject to civil and criminal penalties. This would have a negative impact on our reputation and finances, and could result in a slowdown or even complete cessation of our business.

Our Restructuring Of Our Norwegian Subsidiary, Inovio AS, May Not Realize The Efficiencies Anticipated And Could Result In Additional, Unanticipated Liabilities, Which Would Have A Negative Effect On Our Financial Condition. On December 31, 2007, our wholly-owned Norwegian subsidiary Inovio AS transferred certain patent and other intellectual property rights (IPR) to our wholly owned U.S. subsidiary Genetronics, Inc. The value assigned to these rights was $1.9 million, which was determined by a valuation specialist in Norway. All Norwegian tax gains associated with this transfer of the patents and IPR was offset by prior year tax loss carry forwards. Subsequent to year-end, Inovio changed the name of Inovio AS to Inovio Tec AS. Simultaneously, we incorporated a new Norwegian wholly-owned subsidiary under the name Inovio AS, for the purpose of organizing a research effort directed towards the development of specific cancer vaccine candidates. In January 2008, all employees, employee agreements, lease agreements and fixed assets were transferred from Inovio Tec AS to Inovio AS, and the parties

intend to enter into a licensing agreement governing use of future IPR shortly. Further, although we and our board of directors retain ultimate control over and responsibility for Inovio AS, Inovio AS now has a distinct board of directors, consisting of two members of our board of directors and two Norwegian personnel, intended to allow more efficient balancing of U.S. legal and regulatory concerns with Norwegian legal and regulatory concerns in the course of decision-making.

This restructuring of our Norwegian operations is intended to better focus the research and development efforts conducted in Norway on our strategic programs and easing access to previously developed IPR for Inovio and its other subsidiaries. We expect funding for this program to be about $5.0 million over the next several years. Although designed to be tax-neutral to the parties, we cannot assure you that the tax authorities in Norway or the U.S. will agree with the valuation of the transferred assets or the procedures through which the transfers were made. If such disagreements were to arise, we may face unanticipated tax liabilities in Norway or the U.S. arising from the asset transfer. Further, as there will be an ongoing licensing relationship between the parties post-transfer, it is possible that such arrangements will receive heightened scrutiny for potential transfer pricing issues, which could result in additional liability to us. We believe that the new Inovio AS is now appropriately organized and staffed, and has the necessary resources and commitments for future resources to conduct its research and development efforts in support of our business strategy. However, we cannot assure readers that Inovio AS will not require further staff or financing beyond these initial commitments, or that we will be able to provide such resources if and when

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requested. To the extent Inovio AS or we face additional tax or transfer pricing issues, our operating results and overall financial condition may be adversely affected. In particular, if we are unable to provide additional support for Inovio AS when requested, Inovio AS may not be able to reach previously specified targets and milestones in a timely manner, undermining its financial stability and the commercial potential for its prostate cancer vaccine program.

We Cannot Be Certain That We Will Be Able To Manufacture Our Human-Use Equipment In Sufficient Volumes At Commercially Reasonable Costs. Our manufacturing facilities for human-use products will be subject to quality systems regulations, international quality standards and other regulatory requirements, including pre-approval inspection for our human-use equipment and periodic post-approval inspections for all human-use products. While we have undergone and passed a quality systems audit from an international body, we have never undergone a quality systems inspection by the FDA. We may not be able to pass an FDA inspection when and if it occurs. If our facilities are found not to be compliant with FDA standards in sufficient time, prior to a launch of our product in the United States, then it will result in a delay or termination of our ability to produce our human-use equipment in our facility. Any delay in production will have a negative effect on our business. While there are no target dates set forth for launch of our products in the United States, we plan on launching each product once we successfully perform a Phase III clinical study involving a particular use of our technology, obtain the requisite regulatory approval, and engage a partner who has the financial resources and marketing capacity to bring our products to market.

Our products must be manufactured in sufficient commercial quantities, in compliance with regulatory requirements, and at an acceptable cost to be attractive to purchasers. We rely on third parties to manufacture and assemble most aspects of our equipment, and thus cannot directly control the quality, timing or quantities of equipment manufactured or assembled at any given time.

Disruption of the manufacture of our products, for whatever reason, could delay or interrupt our ability to manufacture or deliver our products to customers on a timely basis. This would be expected to affect revenue and may affect our long-term reputation, as well. In the event we provide product of inferior quality, we run the risk of product liability claims and warranty obligations, which will negatively affect our financial performance.

Our Facilities Are Located Near Known Earthquake Fault and Wildfire Zones, And The Occurrence Of An Earthquake, Significant Wildfire, Or Other Catastrophic Disaster Could Cause Damage To Our Facilities And Equipment. Our facilities are located near known earthquake fault zones and areas prone to severe seasonal wildfires and are vulnerable to damage from earthquakes and wildfires. We are also vulnerable to damage from other types of disasters, including fire, floods, power loss, communications failures and similar events. If any disaster were to occur, our ability to operate our business at our facilities would be seriously impaired. In addition, the unique nature of our research activities could cause significant delays in our programs and make it difficult for us to recover from a disaster. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions. Accordingly, an earthquake, wildfire or other disaster could materially and adversely harm our ability to conduct business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Market risk represents the risk of loss that may impact our consolidated financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk primarily in the area of changes in United States interest rates and conditions in the credit markets. We do not have any material foreign currency or other derivative financial instruments. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to increase the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities.

Fair Value Measurements

All of our investment securities are classified as available-for-sale and therefore reported on the consolidated balance sheet at market value. Our investment securities consist of high-grade auction rate securities (ARS), corporate debt securities and government agency securities. As of June 30, 2008, our investments included $12.5 million of high-grade (AAA rated) ARS issued primarily by municipalities. Our ARS are debt instruments

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with a long-term maturity and with an interest rate that is reset in short intervals through auctions. The recent conditions in the global credit markets have prevented some investors from liquidating their holdings of auction rate securities because the amount of securities submitted for sale has exceeded the amount of purchase orders for such securities. In early March 2008, we were informed that there was insufficient demand at auctions for six of our high-grade auction rate securities, representing approximately $12.5 million. As a result, these affected securities are currently not liquid and the interest rates have been reset to the predetermined higher rates. When auctions for these securities fail, the investments may not be readily convertible to cash until a future auction of these investments is successful or they are redeemed or mature. If the credit ratings of the security issuers deteriorate and any decline in market value is determined to be other-than-temporary, we would be required to adjust the carrying value of the investment through a permanent impairment charge.

In the event we need to access the funds that are in an illiquid state, we will not be able to do so without the possible loss of principal, until a future auction for these investments is successful or they are redeemed by the issuer or they mature. At this time, management has not obtained sufficient evidence to conclude that these investments are permanently impaired or that they will not be settled in the short term, although the market for these investments is presently uncertain. If we are unable to sell these securities in the market or they are not redeemed, then we may be required to hold them to maturity. We will continue to monitor and evaluate these investments on an ongoing basis for permanent impairment.

We adopted the provisions of SFAS No. 157 effective January 1, 2008 and have determined that we utilize unobservable (Level 3) inputs in determining the fair value of our ARS investments held at June 30, 2008. The estimated fair value of all our ARS holdings at June 30, 2008 is $12.5 million, which reflects a $1.1 million adjustment to the principal value (cost) of $13.6 million as of June 30, 2008. All of the $12.5 million of ARS are classified within non current assets in the unaudited condensed consolidated balance sheet as of June 30, 2008.

We currently believe that the temporary decline in fair value is due entirely to liquidity issues in the market. All of our ARS have maintained their credit ratings of AAA, continue to pay interest obligations and the underlying assets for the majority of securities are almost entirely backed by the U.S. government or free from subprime lending issues currently being experienced in the financial markets. In addition, our holdings of ARS are not required for operational purposes in 2008, which we believe allows sufficient time for the securities to return to full value. We will re-evaluate each of these factors as market conditions change in subsequent periods.

Foreign Currency Risk

We have operated primarily in the United States and most transactions during the three and six months ended June 30, 2008, have been made in U.S. dollars. Accordingly, we have not had any material exposure to foreign currency rate fluctuations, nor do we have any foreign currency hedging instruments in place.

We have conducted clinical trials in Europe in conjunction with several Clinical Research Organizations (CRO s), where we have clinical sites being monitored by Clinical Research Associates (CRA s). While invoices relating to these clinical trials are generally denominated in U.S. dollars, our financial results could be affected by factors such as inflation in foreign currencies, in relation to the U.S. dollar, in markets where these vendors have assisted us in conducting these clinical trials.

Certain transactions related to our Company and our subsidiaries Inovio AS and Inovio Asia Pte. Ltd. (IAPL), are denominated primarily in foreign currencies, including Euros, British Pounds, Canadian Dollars, Norwegian Kroner, Swedish Krona, and Singapore Dollars. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets where Inovio conducts business.

We do not use derivative financial instruments for speculative purposes. We do not engage in exchange rate hedging or hold or issue foreign exchange contracts for trading purposes. Currently, we do not expect the impact of fluctuations in the relative fair value of other currencies to be material in 2008.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, as appropriate to allow timely decisions regarding required disclosure.

Based on an evaluation carried out as of the end of the period covered by this quarterly report, under the supervision and with the participation of our management, including our CEO and CFO, our CEO and CFO have concluded that, as of the end of such period, our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective as of June 30, 2008.

Changes in Internal Control Over Financial Reporting

An evaluation was also performed under the supervision and with the participation of our management, including our CEO and CFO, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a 15(f) and 15d 15(f) under the Securities Exchange Act of 1934) that occurred during the three and six months ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Pyrce v. Inovio Biomedical Corporation, Genetronics Biomedical Corporation, Genetronics, Inc., Inovio AS, DOES 1 to 50, Superior Court of California, County of San Diego, Case No. 37-2007-000758899-CU-BC-CTL (Hon. Ronald L. Styn). The plaintiff, a former consultant to Inovio AS, commenced this civil lawsuit against the Company and various subsidiaries in state court on September 28, 2007, seeking monetary damages based on alleged breach of contract claims. The Company disputes plaintiff s claims, believes they are without merit and intends to defend this matter

vigorously.

Item 1A. Risk Factors

You should carefully consider and evaluate all of the information in this quarterly report on Form 10-Q in combination with the more detailed description of our business in our annual report on Form 10-K for the year ended December 31, 2007, which we filed with the Securities and Exchange Commission on March 17, 2008, for a more complete understanding of the risks associated with an investment in our securities. There have been material changes in the Risk Factors as previously disclosed in our annual report on Form 10-K for the year ended December 31, 2007 and such changes are reflected immediately below. The following risk factors, as well those contained in our annual report on Form 10-K for the year ended December 31, 2007 and risk factors included elsewhere in this report, including in Part I, are not the only risks that could potentially face our company. Additional issues not now known to us or that we may currently deem immaterial may also impair our ability to commercialize our technology and the therapies we believe are derivable therefrom resulting in our business outlook being compromised and the trading price of our common stock declining.

NEGATIVE CONDITIONS IN THE GLOBAL CREDIT MARKETS MAY IMPAIR THE LIQUIDITY OF A PORTION OF OUR INVESTMENT PORTFOLIO.

Our investment securities consist of high-grade (AAA rated) auction rate securities (ARS) issued primarily by municipalities. As of June 30, 2008, the estimated fair value of our ARS investments is $12.5 million, which reflects a $1.1 million adjustment to the principal value (cost) of $13.6 million as of June 30, 2008. The recent negative conditions in the global credit markets have prevented some investors from liquidating their holdings, including their holdings of ARS. In early March 2008, we were informed that there was insufficient demand at auction for all six of our high-grade ARS. As a result, these affected securities are currently not liquid, and we could be required to hold them until they are redeemed by the issuer or to maturity. In the event we need to access the funds that are in an illiquid state, we will not be able to do so without a loss of principal, until a future auction on

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these investments is successful, the securities are redeemed by the issuer or they mature. At this time, management has not obtained sufficient evidence to conclude that these investments are permanently impaired or that they will not be settled in the short term, although the market for these investments is presently uncertain. If the credit ratings of the security issuers deteriorate and any decline in market value is determined to be other-than-temporary, we would be required to adjust the carrying value of the investment through a permanent impairment charge.

WE WILL HAVE A NEED FOR SIGNIFICANT FUNDS IN THE FUTURE AND THERE IS NO GUARANTEE THAT WE WILL BE ABLE TO OBTAIN THE FUNDS WE NEED.

Developing new medical devices and conducting clinical trials is expensive. Our product development efforts may not lead to commercial products, either because our product candidates fail to be found safe or effective in clinical trials or because we lack the necessary financial or other resources or relationships to pursue our programs through advance phases of clinical trials to commercialization. Our capital and future revenue may not be sufficient to support the expenses of our operations, the development of a commercial infrastructure and the conduct of our pre-clinical research and clinical trials, although based upon our current budgeting and cash flow models, we believe that we can support our operations during the next 12 months.

Our plans for conducting research, furthering development, continuing current and future pre-clinical and clinical trials and, eventually, marketing our human-use equipment will involve substantial costs. The extent of such costs will depend on many factors, including some of the following:

- The progress and breadth of pre-clinical testing and the size or complexity of our clinical trials and drug delivery programs, all of which directly influence cost;

- Higher than expected costs involved in complying with the regulatory process to get our human-use products approved, including the number, size, and timing of necessary clinical trials and costs associated with the current assembly and review of existing clinical and pre-clinical information;

- Higher than expected costs involved in patenting our technologies and defending them and pursuing our overall intellectual property strategy;

- Changes in our existing research and development relationships and our ability to efficiently negotiate and enter into new agreements;

- Changes in or terminations of our existing collaboration and licensing arrangements;

- Faster or slower than expected rate of progress and changes in the scope and the cost of our research and development and clinical trial activities;

- An increase or decrease in the amount and timing of milestone payments we receive from collaborators;

- Higher than expected costs of preparing an application for FDA approval of our product development programs;

- Higher than expected costs of developing the processes and systems to support FDA approval of our product development programs;

- An increase in our timetable and costs for the development of marketing operations and other activities related to the commercialization of our product development programs;

- Higher than expected costs to further develop and scale up our manufacturing capability of our human-use equipment; and

- Competition for our products and our ability, and that of our partners, to commercialize our products.

We plan to fund operations by several means. We will attempt to enter into contracts with partners that will fund either general operating expenses or specific programs or projects. Some funding also may be received through government grants. However, we may not be able to enter into any such contracts or may not receive such grants or, if we do, our partners and the grants may not provide enough funding to meet our needs.

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In the past, we have raised funds through the public and private sale of our stock, and we are likely to do this in the future. Sale of our stock to new investors results in dilution of the ownership interests of our existing stockholders. The greater the number of shares sold, the greater the dilution. A high degree of dilution can make it difficult for the price of our stock to increase, among other things. Dilution also weakens existing stockholders voting power.

We cannot assure you that we will be able to raise additional capital to fund operations, or that we will be able to raise additional capital under terms that are favorable to us. Further, on July 7, 2008, we announced the signing of a definitive merger agreement with VGX Pharmaceuticals, Inc., a privately-held corporation; we cannot assure you that the merger, if completed, will in any way negate or mitigate the need for future capital nor can we project how it may impact our ability to raise future funds.

ANY ACQUISITION WE MIGHT MAKE MAY BE COSTLY AND DIFFICULT TO INTEGRATE, MAY DIVERT MANAGEMENT RESOURCES OR DILUTE STOCKHOLDER VALUE.

We have considered and made strategic acquisitions in the past, including the acquisition of Inovio AS, and in the future, may acquire or invest in complementary companies, products or technologies. As part of our business strategy, we may acquire assets or businesses principally relating to or complementary to our current operations, and we have in the past evaluated and discussed such opportunities with interested parties. Any acquisitions we undertake will be accompanied by issues commonly encountered in business acquisitions, which could adversely affect us, including:

- Potential exposure to unknown liabilities of acquired companies;
- The difficulty and expense of assimilating the operations and personnel of acquired businesses;
- Diversion of management time and attention and other resources;
- Loss of key employees and customers as a result of changes in management;
- Incurrence of amortization expenses related to intangible assets or large impairment charges such as the charges in excess of $3.3 million we incurred in our 2005 results of operations related to the write-off of in-process research and development that we acquired in our acquisition of Inovio AS;
- Increased legal, accounting and other administrative costs associated with negotiation,

documentation and reporting any such acquisition; and

- Possible dilution to our stockholders.

In addition, geography and/or language barriers may make the integration of businesses more difficult. We may not be successful in overcoming these risks or any other problems encountered in connection with any of our acquisitions.

On July 7, 2008, we announced the signing of a definitive merger agreement with VGX Pharmaceuticals, Inc., a privately-held corporation. In addition to the general risks and uncertainties of any business combination noted above, some of the inherent uncertainties we currently face in the proposed merger include:

- The parties potential difficulties in quickly learning about and accurately evaluating each other s clinical trials and product development programs, including, but not limited to, the fact that pre-clinical and clinical results achieved by each party to date may not be indicative of results achievable in other trials or for other indications and that results from one study may not necessarily be reflected or supported by the results of other similar studies;

- The potential impact of the proposed merger on availability of ongoing or new funding to support continuing research and studies in an effort to prove safety and efficacy of electroporation technology as a delivery mechanism or develop viable DNA vaccines;

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- The availability or potential availability of alternative therapies or treatments for the conditions targeted by the parties or their collaborators, including alternatives that may be more efficacious or cost-effective than any therapy or treatment that the parties and their collaborators hope to develop;

- The impact of the proposed transaction, including the time commitment from the parties management, on the parties abilities to evaluate and potentially pursue other potential collaborative or acquisition opportunities;

- Issues involving patents and whether they or licenses to them will provide the parties with meaningful protection from others using the covered technologies, and whether the merger, if completed, will impact any such protections;

- Whether the parties proprietary rights are enforceable or defensible or infringe or allegedly infringe on rights of others or can withstand claims of invalidity and whether the combined company can finance or devote other significant resources that may be necessary to prosecute, protect or defend them;

- The level of corporate expenditures required to complete the merger process and, if completed, subsequently integrate the operations of the parties;

- Any assessments of the companies proposed combined technology by potential corporate or other partners or collaborators; and

- Evaluation of the transaction by the American Stock Exchange, which may impact the current and/or additional listing of the Company s securities.

We anticipate filing a registration statement/proxy statement on Form S-4 in relation to the proposed merger, in which we expect to discuss these risks and others inherent in the proposed transaction. We may not be successful in overcoming these risks or any other issues encountered in connection with the proposed merger, we cannot assure you that the merger will be consummated, and we cannot assure you that the results of the merger, if completed, will meet the expectations of the parties and their stockholders.

SALES OF SUBSTANTIAL AMOUNTS OF OUR SHARES, OR EVEN THE AVAILABILITY OF OUR SHARES FOR SALE, IN THE OPEN MARKET COULD CAUSE THE MARKET PRICE OF OUR SHARES TO DECLINE.

Under our registration statement that the SEC declared effective on May 25, 2006, we have registered an aggregate of $75.0 million of our equity securities that we may issue from time to time, in one or more offerings at prices and on terms that we will determine at the time of each offering. Under that registration statement, we have registered multiple kinds of our equity securities, including our common stock, preferred stock, warrants and a combination of these securities, or units. Through June 30, 2008, we have taken-down from our shelf registration statement, and issued and sold, an aggregate of 9,035,378 shares of our common stock valued at $26.9 million and warrants to purchase up to 1,575,919 shares of our common stock valued at $3.9 million and, if those warrants are fully exercised, we will have issued an additional 1,575,919 shares of our common stock under that shelf registration statement. In other words, the shares of common stock we have sold in offerings from our shelf registration statement as of the date of this report represent approximately 36% of the value of the aggregate equity securities from our shelf registration statement (41% if the warrants we have sold from our shelf registration statement are fully exercised). While that amount is only approximately 24% of our outstanding shares of common stock as of June 30, 2008, future issuances and sales of our common stock or securities exercisable for or convertible into our common stock pursuant to our existing shelf registration statement, if in substantial numbers, and even the availability for issuance of the securities registered under our shelf registration statement, could adversely affect the market price of our shares.

In addition to the shares and warrants we have issued from our shelf registration statement, during 2007 we also issued 2,201,644 shares of our common stock and warrants to purchase up to 938,475 shares of our common stock in other recent offerings, as well as other restricted shares pursuant to consulting arrangements and other registered securities pursuant to our stock incentive plan in 2007 and 2008. Further, effective February 15, 2008, the SEC revised Rule 144, which provides a safe harbor for the resale of restricted securities, shortening applicable holding

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periods and easing other restrictions and requirements for resales by our non-affiliates, thereby enabling an increased number of our outstanding restricted securities to be resold sooner in the public market. Further, if we complete our pending merger transaction, as announced July 7, 2008, we will issue a significant number of registered shares which will substantially dilute our current stockholders and which will be freely tradable for non-affiliates of the post-merger company.

Sales of substantial amounts of our stock at any one time or from time to time by the investors to whom we have issued them, or even the availability of these shares for sale, could cause the market price of our common stock to decline.

WE HAVE A HISTORY OF LOSSES, WE EXPECT TO CONTINUE TO INCUR LOSSES AND WE MAY NOT ACHIEVE OR MAINTAIN PROFITABILITY.

As of June 30, 2008, we had an accumulated deficit of $146.9 million. We have operated at a loss since 1994, and we expect this to continue for some time. The amount of the accumulated deficit will continue to increase, as it will be expensive to continue research, development and clinical efforts. If these activities are successful and if we receive approval from the FDA to market equipment, then even more funding will be required to market and sell the equipment. The outcome of these matters cannot be predicted at this time. We are evaluating additional potential partnerships and collaborative agreements as a way to further fund operations, but there is no assurance we will be able to secure partnerships or other arrangements that will provide the required funding, if at all. We will continue to rely on outside sources of financing to meet our capital needs beyond next year, however such funds may not always be readily available when needed or on terms favorable to us.

Further, there can be no assurance, assuming we successfully raise additional funds, that we will achieve positive cash flow. If we are not able to secure additional funding, we will be required to further scale back our research and development programs, preclinical studies and clinical trials, general, and administrative activities and may not be able to continue in business.

THE MARKET FOR OUR STOCK IS VOLATILE, WHICH COULD ADVERSELY AFFECT AN INVESTMENT IN OUR STOCK.

Our share price and trading volume are highly volatile. This is not unusual for biomedical companies of our size, age, and with a discrete market niche. It also is common for the trading volume and price of biotechnology stocks to be unrelated to a company s operations, i.e. to increase or decrease on positive or no news. Our stock has exhibited this type of behavior in the past, and will likely exhibit it in the future. The historically low trading volume of our stock, in relation to many other biomedical companies of our size, makes it more likely that a severe fluctuation in volume, either up or down, will affect the stock price.

Some factors that we would expect to depress the price of our stock include:

- Adverse clinical trial results;

- Adverse research and development results;

- Our inability to obtain additional capital;

- Announcement that the FDA denied our request to approve our human-use product for commercialization in the United States, or similar denial by other regulatory bodies which make independent decisions outside the United States;

- Announcement of legal actions brought by or filed against us for patent or other matters, especially if we receive negative rulings or outcomes in such actions;

- Announcement of an investigation of or an action against us by the SEC, American Stock Exchange, or other state or federal regulatory authorities related to corporate governance or securities issues, including any prolonged comment letter response process, especially if such circumstances result in negative outcomes such as a significant restatement of our prior financial results;

- Cancellation of corporate partnerships which include Merck, Wyeth as well as other material agreements;

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- Public concern as to the safety or efficacy of our human-use products including public perceptions regarding gene therapy in general;

- Potential negative market reaction to the terms or volume of any issuances of shares of our stock to new investors or service providers;

- Stockholders decisions, for whatever reasons, to sell large amounts of our stock;

- Declining working capital to fund operations, or other signs of apparent financial uncertainty;

- Significant advances made by competitors that adversely affect our potential market position; and

- The loss of key personnel and the inability to attract and retain additional highly-skilled personnel.

These factors, as well as the other factors described in this report, could significantly affect the price of our stock. In addition, we announced on July 7, 2008, a pending merger transaction; the uncertainties inherent in such transactions regarding timing, potential for success, impacts on operations and dilution to our current stockholders may further exacerbate fluctuations in our stock price. We believe that quarter-to-quarter or annual comparisons of our operating results are not a good indicator of our future performance. Nevertheless, these fluctuations may cause us to perform below the expectations of public market analysts and investors. If this happens, the price of our common shares would likely decline.

A SMALL NUMBER OF LICENSING PARTNERS ACCOUNT FOR A SUBSTANTIAL PORTION OF OUR REVENUE IN EACH PERIOD AND OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION COULD SUFFER IF WE LOSE THESE LICENSING PARTNERS OR FAIL TO ADD ADDITIONAL LICENSING PARTNERS IN THE FUTURE.

We derive a significant portion of our revenue from a limited number of licensing partners in each period. Accordingly, if we fail to sign additional future contracts with major licensing partners, if a licensing contract is delayed or deferred, or if an existing licensing contract expires or is cancelled and we fail to replace the contract with new business, our revenue could be adversely affected. Until commercialization of our Medpulser® Electroporation System, we expect that a limited number of licensing partners will continue to account for a substantial portion of our revenue in each quarter in the foreseeable future. During the three and six months ended June 30, 2008, one licensing partner, Merck, accounted for approximately 36% of our consolidated revenue. During the three and six months ended June 30, 2008, another licensing partner, Wyeth, accounted for 48% and 49% of our consolidated revenue, respectively. During the three and six months ended June 30, 2007, Merck accounted for 75% and 76% of our consolidated revenue, respectively, and Wyeth accounted for 15% of our consolidated revenue.

IF WE CANNOT MAINTAIN OUR EXISTING CORPORATE AND ACADEMIC ARRANGEMENTS AND ENTER INTO NEW ARRANGEMENTS, WE MAY BE UNABLE TO DEVELOP PRODUCTS EFFECTIVELY, OR AT ALL.

Our strategy for the research, development and commercialization of our product candidates may result in us entering into contractual arrangements with corporate collaborators, academic institutions and others. We have entered into sponsored research, license and/or collaborative arrangements with several entities, including Merck, Wyeth, Vical, Valentis, the U.S. Navy, Chiron and the University of South Florida, as well as numerous other institutions that conduct clinical trials work or perform pre-clinical research for us. Our success depends upon our collaborative partners performing their responsibilities under these arrangements and complying with the regulations and requirements governing clinical trials. We cannot control the amount and timing of resources our collaborative partners devote to our research and testing programs or product candidates, or their compliance with regulatory requirements which can vary because of factors unrelated to such programs or product candidates. These relationships may in some cases be terminated at the discretion of our collaborative partners with only limited notice to us.

Merck can terminate its May 2004 license and collaboration agreement with us at any time in its sole discretion, without cause, by giving ninety days advance notice to us. If this agreement is terminated by Merck at any time during the first two years of the collaboration term, then Merck shall continue, for a six-month period beginning on the date of such termination, to make payments previously approved by the project s joint collaboration committee in relation to scientists and outside contractors engaged by us in connection with the agreement. During the three

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and six months ended June 30, 2008, Merck accounted for approximately 36% of our consolidated revenue. During the three and six months ended June 30, 2007, Merck accounted for approximately 75% and 76%, respectively, of our consolidated revenue.

In addition, some of our sponsored research, license and/or collaborative arrangements contain Change of Control or other protective provisions that may be triggered by our pending merger with VGX Pharmaceuticals, announced July 7, 2008, if completed, which may enable pre-mature termination of such arrangements or otherwise may impact the status of such arrangements for the post-merger company. For example, our agreement with Wyeth requires we provide Wyeth with certain notifications of a pending qualifying transaction and enables Wyeth to terminate our arrangement if such notice and certain other written assurances regarding the priority and commitment to the arrangement are not timely provided to Wyeth by the Company and/or the other Change of Control transaction party prior to consummation of such transaction. Similarly, our arrangement with Merck requires certain notice of a Change of Control transaction and also enables termination under limited circumstances as a result. Other of our arrangements require that we seek and obtain prior written consent from the collaborative party ahead of the consummation of any Change of Control transaction. Although we intend to comply with applicable notice and other documentation requirements pursuant to such Change of Control provisions in these and other collaborative arrangements, we cannot assure you that, to the extent such rights exist, our partners will not seek to terminate or alter their arrangements with us in relation to the closing of the proposed merger transaction.

Whether or not we complete the proposed merger, we may not be able to maintain our existing arrangements, enter into new arrangements or negotiate current or new arrangements on acceptable terms, if at all. Some of our collaborative partners may also be researching competing technologies independently from us to treat the diseases targeted by our collaborative programs.

OUR ABILITY TO UTILIZE OUR NET OPERATING LOSSES AND CERTAIN OTHER TAX ATTRIBUTES MAY BE LIMITED.

As disclosed in our annual report on Form 10-K for the 2007 fiscal year, as of December 31, 2007 we have net operating losses (NOLs) of approximately $55.9 million for federal income tax purposes and approximately $50.8 million for state income tax purposes. We also had federal research tax credit carryforwards of approximately $714,000 as of December 31, 2007. Utilization of the NOLs and tax credit carryforwards may be subject to a substantial annual limitation under Section 382 of the Internal Revenue Code of 1986, and similar state provisions due to ownership change limitations that have occurred previously or that could occur in the future. These ownership changes may limit the amount of NOL and tax credit carryforwards and other deferred tax assets that can be utilized to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Section 382, results from transactions increasing ownership of certain stockholders or public groups in the stock of the corporation by more than 50 percentage points over a three-year period. An analysis was performed which indicated that multiple ownership changes have occurred in previous years which created annual limitations on the Company s ability to utilize NOL and tax credit carryovers. Such limitations will result in approximately $12.7 million of tax benefits related to NOL and tax credit carryforwards that will expire unused. In addition, we announced on July 7, 2008, a pending merger transaction which will further limit tax benefits related to NOL and tax credit carryforwards. Any limitation on our net operating loss carryforwards that could be used to offset post-ownership change in taxable income would adversely affect our liquidity and cash flow, if we become profitable.

CHANGES IN FOREIGN EXCHANGE RATES MAY AFFECT OUR FUTURE OPERATING RESULTS.

We did not recognize any revenue from Inovio AS during the three and six months ended June 30, 2008. During the three and six months ended June 30, 2007, Inovio AS contributed approximately $1,000 and $4,000, respectively, to our revenue, which amounted to 0.3% and 0.4%, respectively, of our total revenue. Inovio AS conducts its operations primarily in foreign currencies, including the Euro, Norwegian Kroner and Swedish Krona. In September 2006, we established Inovio Asia Pte. Ltd., a company incorporated in the Republic of Singapore, which conducts

its operations primarily in Singaporean dollars. Fluctuation in the values of these foreign currencies relative to the U.S. dollar will affect our financial results which are reported in U.S. dollars and will cause U.S. dollar translation of such currencies to vary from one period to another. We cannot predict the scope of any fluctuations in the values of these foreign currencies relative to the U.S. dollar nor the effect of exchange rate fluctuations upon our future operating results.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

Not applicable.

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Item 3. Default Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

On May 2, 2008, we held our annual meeting of stockholders. Of the 44,214,610 shares eligible to vote, 26,937,881 votes, or 61%, were returned, constituting a quorum. At the stockholders meeting, the following matters were submitted to stockholders for vote:

- Proposal No. 1 Election of Directors.

- Proposal No. 2 Ratification of the appointment of our independent registered public accounting firm.

- Proposal No. 3 To approve the amendment to the 2007 Omnibus Incentive Plan (the Plan), to increase the number of shares of common stock reserved under the Plan by 1,000,000 shares, thereby increasing the number of shares available for issuance under the Plan from 750,000 shares of common stock to 1,750,000 shares of common stock.

The results of the voting on these proposals are as follows:

1. Proposal No. 1 - Each of the individuals below were elected by the stockholders to serve until the next annual meeting of the stockholders or until their successors are duly elected or appointed, subject to earlier resignation or removal.

Director	Votes For	Votes Withheld(1)
Avtar Dhillon	19,758,201	7,179,680
James L. Heppell	19,761,077	7,176,804
Simon X. Benito	19,773,739	7,164,142
Tazdin Esmail	19,769,489	7,168,392
Robert W. Rieder	22,297,779	4,640,102
Riaz Bandali	19,767,839	7,170,042
Stephen Rietiker	26,773,664	164,217

Patrick Gan	26,767,464	170,417

(1) Includes broker non-votes.

2. Proposal No. 2 - The stockholders ratified the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008. The total number of votes cast for, against, and abstaining was 26,890,139, 0, and 47,742, respectively. There were no broker non-votes.

3. Proposal No. 3 The stockholders approved the amendment to the 2007 Omnibus Incentive Plan (the Plan) to increase the number of shares of common stock reserved under the Plan by 1,000,000 shares, thereby increasing the number of shares available for issuance under the Plan from 750,000 shares of common stock to 1,750,000 shares of common stock. The total number of votes cast for, against, and abstaining was 10,743,178, 7,337,400, and 0, respectively. The number of broker non-votes was 11,762,202, which abstain from voting. Broker non-votes count in determining if a quorum is present but do not count towards vote tabulation.

Item 5. Other Information

On July 7, 2008, the Company announced the execution of a definitive merger agreement with VGX Pharmaceuticals, Inc., a privately-held corporation. Further discussion of the proposed transaction may be found in the Company s Current Reports on Form 8-K filed with the SEC on July 8 and July 9, 2008.

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Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description of Document
31.1	Certification of Chief Executive Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

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INOVIO BIOMEDICAL CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Inovio Biomedical Corporation

Date: August 7, 2008	By:	/s/ Avtar Dhillon Avtar Dhillon Chief Executive Officer and Director
Date: August 7, 2008	By:	/s/ Peter Kies Peter Kies Chief Financial Officer