
DELTAGEN, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

DELTAGEN, INC.
DECEMBER 31, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of
Deltagen, Inc.:

We have audited the accompanying consolidated balance sheet of Deltagen, Inc. (a Delaware Corporation) and its subsidiaries as of December 31, 2006 and the related consolidated statements of income and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 8 to the consolidated financial statements, in fiscal year 2006, Deltagen, Inc. and its subsidiaries changed their method of accounting for stock-based compensation in accordance with guidance provided in the Statement of Financial Standards No. 123(R), "Share-Based Payment."

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Deltagen, Inc. and its subsidiaries as of December 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Patel & Associates
Oakland, California
March 23, 2007

DELTAGEN, INC.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006

	<u>(Dollars in Thousands)</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,135
Accounts receivable, net	1,660
Prepays, deposits and tax assets	<u>790</u>
Total current assets	8,585
Property and equipment - net (Note 3)	82
Non-Current portion of deferred tax assets (Note 5)	<u>1,000</u>
Total assets	\$ <u><u>9,667</u></u>
LIABILITIES AND SHAREHOLDER'S EQUITY	
Current liabilities:	
Accounts payable	\$ 508
Accrued expenses	<u>332</u>
Total liabilities	<u>840</u>
Shareholder's equity	
Common stock, \$.001 par value; 80,000,000 shares authorized; 39,223,407 shares issued and outstanding	39
Treasury stock	(867)
Additional paid-in-capital	209,504
Additional paid-in-capital - Stock based compensation	21,794
Retained earnings	(221,938)
Other comprehensive income - Foreign currency translation adjustment	<u>295</u>
Total shareholder's equity	<u>8,827</u>
Total liabilities and shareholder's equity	\$ <u><u>9,667</u></u>

The accompanying notes are an integral part of these financial statements

DELTAGEN, INC.
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

		(Dollars in Thousands)
	\$	
Revenue		9,780
Operating cost		<u>5,825</u>
Income from operations		<u>3,955</u>
Other income/(expense):		
Interest income		<u>255</u>
Total other income		<u>255</u>
Income before provision for income taxes		4,210
Provision for income taxes		
Current income tax expense		95
Deferred income tax expense		(12,665)
Adjustment for valuation allowance		<u>12,412</u>
Total income tax expense / (income) (Note 5)		<u>(158)</u>
Net income		4,368
Retained earnings, beginning of year		<u>(226,306)</u>
Retained earnings, end of year	\$	<u><u>(221,938)</u></u>

The accompanying notes are an integral part of these financial statements

DELTAGEN, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>(Dollars in Thousands)</u>
Cash flows from operating activities:	
Net income	\$ 4,368
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	47
Loss on disposal of fixed assets	80
Stock based compensation	369
(Increase)/Decrease in operating assets	
Accounts receivable	827
Prepays, deposits and tax assets	713
Increase/(Decrease) in operating liabilities	
Accounts payable	(3,788)
Accrued expenses	<u>(544)</u>
Net cash provided by operating activities	<u>2,072</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(70)</u>
Cash flows from financing activities:	
Common stock dividends paid	<u>(7,719)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>295</u>
Net decrease in cash and cash equivalents	(5,717)
Cash and cash equivalents, beginning of year	<u>11,557</u>
Cash and cash equivalents, end of year	\$ <u><u>6,135</u></u>
Supplemental cash flow data:	
Cash paid during the year for:	
Income taxes	\$ <u><u>95</u></u>

The accompanying notes are an integral part of these financial statements

DELTAGEN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1: NATURE OF BUSINESS

Deltagen, Inc. ("Deltagen" or the "Company") was founded in 1997 in San Carlos, California. Deltagen is a leading provider of drug discovery tools to the biopharmaceutical industry. Deltagen offers a suite of programs designed to enhance the efficiency of drug discovery, including access to biological models and small-molecule drug targets.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company maintains its records and prepares its financial statements on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis of Consolidation

The consolidated financial statements include the accounts of Deltagen and its wholly-owned subsidiaries. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Inter-company balances and transactions have been eliminated.

Foreign Currency Translation

The Company uses the U.S. dollar as the functional currency for all of its foreign subsidiaries. Accordingly, gains and losses from the translation of foreign currency amounts reflected on the financial statements into U.S. dollars are included in the results of operations. The effect of foreign currency exchange rate fluctuations was not material for the year presented.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and money market mutual funds with a maturity of three months or less when purchased.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful life of assets ranging from three to seven years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expenses as incurred.

DELTAGEN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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When an asset is sold or retired, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss on disposition is recognized in the current year.

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Revenue Recognition

Revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered and met all customer-specified criteria, the price is fixed and determinable and collectibility is reasonably assured.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment is summarized by major classification as follows:

	<u>(Dollars in Thousands)</u>
Computers	\$ 1,370
Other furniture and equipment	<u>169</u>
	1,539
Less: Accumulated depreciation	<u>(1,457)</u>
Net	\$ <u>82</u>

DELTAGEN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4: CONCENTRATION OF CREDIT RISK

The Company and its subsidiaries maintain cash balances in banks, which are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of December 31, 2006, the Company's uninsured cash balance totaled \$5,519,000 and subsidiaries' uninsured cash balances totaled \$290,000.

NOTE 5: INCOME TAX

The provision for income tax is as follows:

	(Dollars in Thousands)
Current:	
Federal	\$ 93
State	2
Deferred:	
Federal	(5,064)
State	(7,601)
Total	\$ (12,570)

The components of the net deferred tax assets as of December 31, 2006 are as follows:

	(Dollars in Thousands)
Deferred tax assets:	
Net operating loss carry forward	\$ 67,785
Unamortized research and experiment expenses carry forward	3,327
Research credit and general business credit carry forward	13,912
Stock-based compensation	158
Total deferred tax assets	85,182
Valuation allowance	83,478
Total	1,704
Less: Current portion of deferred tax assets	704
Non-current portion of deferred tax assets	\$ 1,000

DELTAGEN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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In its calculation of the deferred tax assets, the Company established a 98% valuation allowance due to uncertainties relating to future income and the realization of such deferred tax assets. Management currently intends to evaluate and adjust on an ongoing basis, based on expected income, the recoverability of the deferred tax assets and the level of the valuation allowance.

As of December 31, 2006, the Company had federal and California net operating loss carryforwards of approximately \$167,613,000 and \$122,131,000, respectively, available to reduce future federal and California taxable income, respectively. These federal and California loss carryforwards begin to expire in 2013 and 2008, respectively, if not utilized. The extent to which these loss carryforwards can be used to offset future taxable income may be limited under Section 382 of the Internal Revenue Code and applicable state law.

As of December 31, 2006, the Company had California tax credit carryforwards of approximately \$7,308,000 and federal tax credit carryforwards of approximately \$6,603,667. The federal tax credit carryforwards begin to expire in 2018, if not utilized. The California tax credit carryforwards begin to expire in 2008, if not utilized. The extent to which these tax credit carryforwards can be used to offset future taxes may be limited under Section 383 of the Internal Revenue Code and applicable state law.

NOTE 6: PATENT - RELATED EXPENSES

The Company has incurred expenditures relating to the pursuit of patent rights covering certain of its products and technologies. These expenditures have not been capitalized because, as per management, the probability of future benefits from such patent rights cannot at present be reasonably assessed and/or the useful life of such assets cannot be reasonably estimated.

NOTE 7: CONTINGENCIES

There is a possibility that any patents issued to Deltagen could be challenged, invalidated or circumvented in the future. Also, litigation may be necessary to enforce any patents issued to Deltagen, to protect trade secrets or know-how owned by Deltagen or to determine the enforceability, scope and validity of the proprietary rights of others.

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NOTE 8: STOCK-BASED COMPENSATION

The Company's stock awards are governed by its 2000 Stock Incentive Plan (a qualified stock option plan under Internal Revenue Code), as amended (the "Plan"). The exercise price of stock options under the Plan is determined by the Compensation Committee of the Board of Directors of the Company (the "Committee"). No incentive stock option is exercisable after 10 years from the date of grant.

Prior to January 1, 2006, the Company accounted for the Plan under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations, as permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation, which did not require that compensation cost be recognized for the Company's stock options provided the option exercise price was established at the common stock fair market value on the date of grant.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), by which the compensation cost for all stock-based payments granted subsequent to January 1, 2006 are based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). The Company adopted this statement using the modified prospective transition method, which applies to the compensation expenses recognition provision to new awards and to any awards modified, repurchased or cancelled after the January 1, 2006 adoption date. Additionally, for any unvested awards outstanding at the option date, the company will recognize the compensation expenses over the remaining vesting period. Stock-based compensation is recognized on the straight-line basis.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's net income for the year ended December 31, 2006 is approximately \$369,000 lower than it would have been had the Company continued to account for stock-based compensation under APB Opinion No. 25. The total stock-based compensation cost relating to Statement 123(R) for the year ended December 31, 2006 has been included in the consolidated statement of operations under Operating Cost (\$5,825,000) in accordance with Staff Accounting Bulletin ("SAB") No. 107.

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The following summarizes all stock option transactions for the Company under the Plan for the year from January 1, 2006 through December 31, 2006.

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Aggregate Intrinsic Value Aggregate</u>
<u>As of January 1, 2006</u>					
Outstanding	675,712	\$		\$	\$
Vested	671,507				
Unvested	4,205				
 <u>Period activity</u>					
Issued	5,430,000	0.47		0.32	
Exercised					
Forfeited					
Expired					
 <u>As of December 31, 2006</u>					
Outstanding	6,105,712	1.01	8.76	0.88	10,800
Vested	1,731,712	2.38	7.52	2.28	10,800
Unvested	4,374,000	0.47	9.25	0.32	0

The following table summarizes the information about stock options outstanding at December 31, 2006:

<u>Range of Exercise Prices</u>	<u>Stock Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>
\$0.25 -\$4.00	5,750,855	\$ 0.49	9.53 years
\$4.01- \$8.00	99,285	5.80	4.62 years
\$8.01-\$13.31	<u>255,572</u>	<u>10.93</u>	<u>5.02 years</u>
	<u>6,105,712</u>	\$ <u>1.01</u>	<u>9.26 years</u>

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The following table summarizes the information about stock options Exercisable at December 31, 2006:

<u>Range of Exercise Prices</u>	<u>Stock Options Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$0.25 - \$4.00	1,374,980	\$ 0.55
\$4.01 - \$8.00	99,285	5.80
\$8.01 - \$13.31	<u>255,572</u>	<u>10.93</u>
	<u>1,729,837</u>	<u>\$ 2.38</u>

The fair value of each option grant is estimated using the Black-Scholes option pricing method. The fair value is then amortized on a straight-line basis over the requisite service years of the awards, which is generally the vesting period (in this case, 4 years). Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the historical price data and on peer group companies as provided by the Company's management. The average expected life was based on the contractual term of the option and expected employee exercise and post-vesting employment termination behavior. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

The weighted average assumptions used in the Black-Scholes option pricing model are as follows:

	<u>Grant 1</u>	<u>Grant 2</u>	<u>Grant 3</u>
Expected stock price volatility	71.84%	75.05%	75.05%
Risk-free interest rate	4.77%	4.77%	4.77%
Expected life of options (years)	5.75 years	6.00 years	6.00 years
Expected dividend yield	N.A.	N.A.	N.A.

As of December 31, 2006, no stocks options were exercised and the total fair value of stock awards vested was \$344,000.

As of December 31, 2006, the total unrecognized compensation cost related to non-vested stock options was approximately \$1,380,000. This cost is expected to be recognized over a weighted average period of 1.59 years

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NOTE 9: SUBSEQUENT EVENTS

In February 2007, the Board adopted a new retention and incentive bonus plan for members of management (the "Bonus") in exchange for termination of options granted in March 2006 to purchase an aggregate of 3,780,000 shares of the Company's common stock (the "Options"). Under this plan, the management team members were awarded bonuses of \$710,000 collectively in exchange for the termination of the Options. Payment of the Bonus is subject to various conditions. In addition, under this plan, each then-employed management team member shall receive an additional bonus tied to each future dividend on the common stock of the Company, which will be calculated based on a pre-set formula and which will also be subject to various conditions.

NOTE 10: STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(Dollars in Thousands)

	Common Stock		Additional Paid-in Capital	Additional Paid-in Capital Stock-Based Compensation	Retained Earnings	Common Stock in Treasury	Accumulated Other Comprehensive Income	Total
	Shares	Par Value						
Balance at beginning of year	39,223	\$ 39	\$ 238,648	\$	\$ (226,306)	\$ (867)	\$	\$ 11,514
Reclassification			(21,425)	21,425				
Foreign currency translation							295	295
Stock-based compensation				369				369
Net income					4,368			4,368
Dividends paid			(7,719)					(7,719)
Balance at end of year	39,223	\$ 39	\$ 209,504	\$ 21,794	\$ (221,938)	\$ (867)	\$ 295	\$ 8,827