MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

FIRST QUARTER 2007

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- the marketing and sales of our products and services;
- the declaration and distribution of any future dividends;
- our ability to sustain licensing and other contract-based revenues;
- the impact of our contracts with the NIH and The Wellcome Trust on future business;
- the value of, and expenses associated with, our intellectual property;
- the requirements of pharmaceutical and biotechnology companies;
- the benefits of knockout mice programs and, in particular, our technologies and products, to the pharmaceutical industry;
- the increasing competition we face in the field of knockout mice from both commercial and government organizations;
- failures in the drug discovery, development and approval processes by our partners and collaborators;
- our ability to successfully execute our business plan and to meet contractual obligations, in view of the Company's limited staff; and
- liquidity and capital resources.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements represent our estimates and assumptions only as of the date of this report.

You should read this report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS AND THE NOTES ACCOMPANYING THE FINANCIAL STATEMENTS.

1. Overview

Deltagen (or the "Company" or "We") is a provider of research tools to the biopharmaceutical industry and to the academic research community. Deltagen has generated an inventory of "knockout mice" in which a single gene has been deleted ("knocked out"). The knockout mice have been analyzed to determine the phenotypic changes associated with that gene deletion. This phenotypic data has been organized in an integrated database known as DeltaBase. DeltaBase contains phenotypic data on 750 different knockout mouse lines. In addition to those 750 knockout mouse lines, Deltagen has approximately 150 additional knockout mouse lines that have not been characterized phenotypically. Deltagen also has approximately 450 knockout lines at the embryonic stem (ES) cell stage.

Our customers and partners/collaborators have included some of the world's largest pharmaceutical companies, including GlaxoSmithKline plc, Merck & Co., Inc., Pfizer Inc., Eli Lilly and Company and Schering-Plough Research Institute.

We have historically generated revenue from our DeltaBase and DeltaOne products and programs.

DeltaBase is our proprietary database that provides information, based on knockout mouse studies, on gene function and validated gene targets for drug discovery. Each knockout mouse underwent a standardized, detailed and extensive analysis in order to determine the function and role that a particular gene plays in the mouse and that gene's suitability as a drug target.

DeltaOne offers access to our portfolio of knockout mice and/or accompanying phenotypic data, as well as any corresponding intellectual property, on a gene-by-gene basis.

The Company has a three-year contract, expiring September 30, 2008, with the United States Government through the National Institutes of Health ("NIH"). Under this contract, potentially worth up to about $25 million, the NIH and The Wellcome Trust are eligible to order any of the approximately 750 knockout mouse lines (and related phenotypic data) that populate DeltaBase. The NIH is permitted to publish the phenotypic data and make the knockout mouse materials available for licensing to academic institutions. In September 2005, the NIH placed an initial delivery order for 129 knockout lines ($5.16 million). A delivery order for four knockout mouse lines ($0.160 million) was placed by the NIH in the third quarter of 2006. However, there are no assurances that the NIH will place any additional delivery orders during the three-year term of the NIH contract.

We derive substantially all of our revenues from a narrow and limited range of sources. Substantially all of our revenues are currently derived from the licensing of knockout mouse lines and related phenotypic data to the biopharmaceutical industry and pursuant to government contracts under our DeltaOne program. Because of continuing consolidation in the biopharmaceutical industry and the finite number of knockout lines in the Company's inventory, significant uncertainty exists with respect to the Company's future revenues.

Our operating results have fluctuated in the past and are likely to do so in the future, and we do not believe that period-to-period comparisons of our operating results are a good indication of our future performance.

2. Critical Accounting Policies and Estimates

The consolidated financial statements of Deltagen for the three months ended March 31, 2007 are unaudited and unreviewed, but have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for annual financial information. These consolidated financial statements have been prepared so that they present fairly, in the opinion of management, the Company's financial position and its results of operations and its cash flows for the period presented.

Under our revenue recognition policy, revenues are recognized when a definitive agreement with a determinable price exists, product delivery and/or invoicing (in each case where there is reasonable assurance of meeting customer-specified criteria) have occurred, and collectibility is reasonably assured. A change in our revenue recognition policy or changes in the terms of contracts under which we recognize revenues could have an impact on the amount and timing of our recognition of revenues.

The preparation of consolidated financial statements in conformity with GAAP requires the Company 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 the Company's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ materially from the estimates.

3. Results of Operations

The Company's consolidated revenues for the three months ended March 31, 2007 totaled $0.358 million. The revenues were attributable primarily to license fees associated with the provision of knockout mice and related phenotypic data under the Company's DeltaOne™ program.

The Company had interest income of $0.057 million for the three months ended March 31, 2007.

Total consolidated expenses for the three months ended March 31, 2007 were $1.325 million. The operating expenses were attributable primarily to labor costs and other general and administrative expenses, including expenses relating to bonuses paid in the first quarter of 2007 to the Company's directors ($0.330 million) and executive officers ($0.291 million), as well as third-party royalty and commission expenses ($0.137 million). The directors' bonuses were one-time bonuses paid in exchange for the termination of all stock options that had been awarded to the directors in March 2006. The executive officers' bonuses were similarly paid in connection with the termination of all stock options that had been awarded to the officers in March 2006. The expenses associated with the officers' bonuses consist primarily of the first of three installment payments relating to the Company's December 28, 2006 dividend that are to be made under the Company's Management Retention and Incentive Bonus Plan. The bonuses awarded to the directors and executive officers are discussed in greater detail in the "Subsequent Events" section of Management's Discussion and Analysis of Financial Conditions and Results of Operations for the year ended December 31, 2006, which is posted on Deltagen's website (www.deltagen.com). The total expenses amount also reflects a credit of $0.024 million attributable to non-cash, stock-based compensation expenses relating to the stock options granted by the Company in March 2006, in accordance with Statement of Financial Standards (SFAS 123R). Because these stock options were terminated in March 2007, no further expenses under SFAS 123R will be required following the first quarter of 2007.

Net loss before provision for income taxes for the three months ended March 31, 2007 was $0.910 million. Net loss after provision for income taxes for the three months ended March 31, 2007 was $0.547 million, due to a current income tax benefit of $0.362 million.

As of March 31, 2007, the Company had $5.073 million in consolidated cash and cash equivalents and $1.392 million in accounts receivable. This accounts receivable amount includes approximately $1.1 million relating to tax credits expected to be received from the French government by the Company's wholly-owned subsidiary, Deltagen Europe, S.A.

4. Subsequent Events

a. Dividend Declaration

The Company announced on May 10, 2007 that it will distribute on or about May 31, 2007 a dividend of $0.05 per share to the Company's shareholders of record as of the close of business on May 21, 2007. This dividend will reduce cash holdings of the Company by approximately $1.94 million.

RISK FACTORS AFFECTING FUTURE OPERATING RESULTS

There are numerous risks and uncertainties related to both our business and our industry that could cause actual results or events to differ materially from those indicated by forward-looking statements.

For a list of additional risk factors that may affect our future operating results, refer to the "Risk Factors" section of "Management's Discussion and Analysis of Financial Conditions and Results of Operations" for the year ended December 31, 2005, as posted on the Company's website (www.deltagen.com). The risk factors listed there are not the only ones we face and additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair or otherwise affect our business operations.