

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

SECOND 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, the NIH and The Wellcome Trust (the “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. In May 2007, the Trust placed an initial order for 17 knockout mouse lines, worth \$0.850 million. The Trust order is described in greater detail in the “Major Events” section below. The Company’s revised expectations with respect to future delivery orders from the NIH are discussed in the “Major Events” section below.

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, as well as budget constraints at the NIH, 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 June 30, 2007 are unaudited, but have been reviewed by the Company’s tax returns preparer, a certified public accountant, in the ordinary course of the Company’s tax returns preparation and 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 June 30, 2007 totaled \$0.617 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 and with the provision of phenotypic data to The Wellcome Trust in June 2007 pursuant to an order placed by the Trust on May 29, 2007 for seventeen of the Company's knockout mouse lines and related phenotypic data. Approximately \$0.213 million of the Company's second quarter revenues related to the Trust order. Other than the Trust order, the Company entered into three contracts with new customers, worth approximately \$0.080 million in the aggregate, during the second quarter of 2007. The revenues from these new contracts are expected to be recognized during the third quarter of 2007.

The Company had interest income of \$0.046 million for the three months ended June 30, 2007.

Total consolidated expenses for the three months ended June 30, 2007 were \$0.849 million. The operating expenses were attributable primarily to labor costs and other general and administrative expenses.

Net loss before provision for income taxes for the three months ended June 30, 2007 was \$0.184 million. Net loss after provision for income taxes for the three months ended June 30, 2007 was \$0.168 million.

As of June 30, 2007, the Company had \$2.674 million in consolidated cash and cash equivalents and \$1.713 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. Major Events

a. Dividend Declaration: The Company distributed on 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 reduced cash holdings of the Company by approximately \$1.94 million.

b. The Wellcome Trust: The Company received on May 29, 2007 an order from The Wellcome Trust, a United Kingdom-based, independent charitable organization that funds research to improve human and animal health, for seventeen of the Company's knockout mouse lines and related phenotypic data. This order was the first to be received by the Company from the Trust and is worth \$0.850 million. The Company expects to receive the license fees associated with this first order in installment payments between the third quarter of 2007 and the second quarter of 2008 contingent upon satisfactory completion of specified delivery and acceptance milestones. The knockout mouse lines obtained by the Trust will be archived at and distributed by the European Mutant Mouse Archive (EMMA). The knockout mouse lines will be made available through EMMA to the academic research community. The Company will retain

exclusive rights to make these ordered knockout lines available to commercial organizations. This first order is the result of an initial call for research proposals issued by the Trust in December 2006. Funding decisions for the proposals received from the initial call were made in February 2007. On April 30, 2007, the Trust issued a second call for proposals. The deadline for submission of this second round of proposals was June 4, 2007. The Trust expects to make the funding decisions for the second round of proposals in August or September of this year. The Company may receive a second order for knockout mouse lines following such funding decisions, but the Trust has no obligations to place any such second round orders and the Company has no assurances that the Trust will make any future orders for additional knockout mouse lines. Depending on the number of proposals received and approved in the second round, the Trust may issue a third call for proposals.

c. NIH Contract: Recent discussions with the NIH suggest that the Company is unlikely to receive significant future orders (if any) from the NIH prior to expiration of the Company's NIH contract on September 30, 2008. This change is attributable to budget constraints at the NIH, including the decentralization of funding pools and changes to the distribution of funding that have been implemented at the NIH during the NIH's current fiscal year.

d. Board of Directors: Two of the Company's directors, Lawrence Hill and Philippe O. Chambon, resigned from the Company's Board of Directors effective June 30, 2007. Mr. Hill had served as CEO of the Company during its bankruptcy proceedings and stayed on as a director for an interim period to provide continuity after the Company's reorganization. Dr. Chambon, who was a director prior to the Company's bankruptcy, re-joined the Board after the Company's reorganization to help guide the Company in its post-bankruptcy efforts.

e. Company Restructuring: In response to reduced revenues and non-Trust licensing activity in the first and second quarters of 2007 and lowered expectations for future revenues due to, among other things, changes in the likelihood of receiving future NIH delivery orders, the Company has implemented certain restructuring changes to reduce the fixed operating expenses of the Company. The Company terminated the employment of Dr. Shera Kash, the Company's Vice President of Operations, effective June 30, 2007. In accordance with Dr. Kash's employment agreement, Dr. Kash received payments in June 2007 for all accrued vacation time and earned bonuses, totaling \$0.090 million, and is eligible to receive up to six months of severance payments. The Company implemented effective July 1, 2007 changes to the coverages under the Company's insurance policies, reduction of certain marketing and travel expenses, suspension of review and audit activities by the Company's auditors and termination of most of the Company's offsite storage contracts. In addition, the Company implemented a new management and director compensation plan (the "Comp Plan") for the twelve-month period from July 1, 2007 through June 30, 2008 (the "Period"). Under the Comp Plan, the base salaries of the Company's officers were reduced by 50%. The officers would be eligible to receive bonuses in the event that the Company realizes a profit during the Period. In the aggregate, the Company's officers are eligible to share 32% of the Company's first \$0.969 million in profits, 20% of the next \$0.980 million in profits and 10% of any profits in excess of the foregoing amounts. Portions of these bonuses may be paid to the officers in interim payments during the Period. The Comp Plan does not affect the amounts of any severance-related payments due under the officers' employment agreements. The Board also may adjust the Comp Plan in the event that there are unanticipated events that materially impact the forecasted expenses of the Company. The Comp Plan also reduces annual director's fees from \$40,000 each to a base director fee of \$15,000 each. The directors are eligible to each receive 0.5% of the Company's profits (if any), up to a maximum bonus of \$10,000 each. As a result of the restructuring, the fixed annual operating expenses of the Company, excluding bonuses, Dr. Kash's severance payments and variable expenses such as third-party royalty and commission payments, has been reduced to approximately \$0.965 million. Operating expenses for the first six months of 2007 and for the full year 2006, excluding bonuses and third-party royalty and commission payments, were approximately \$1.219 million and \$3.433 million, respectively.

f. Financials Audits and Reviews: As part of its efforts to reduce operating expenses, the Company has suspended all audit and review activities by the Company's auditors. The financials will continue to be periodically reviewed in the ordinary course of the Company's business by the certified public accountant that prepares and files the Company's tax returns.

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.