

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

QUARTER AND YEAR ENDED DECEMBER 31, 2010

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:

- our ability to raise sufficient capital to fund our operations, particularly our Benten BioServices' operations, under terms favorable to the Company or its shareholders;
- the marketing and sales of our products and services, including Benten BioServices' biologics testing and manufacturing services;
- the execution of Benten BioServices' business plans, including the ability to obtain and retain customers and service and manufacturing contracts;
- our ability to sustain licensing and other contract-based revenues;
- the value of, and expenses associated with, our intellectual property;
- the value of any future royalties and other contingent sources of revenue potentially due to the Company from its licensees;
- the benefits of knockout and transgenic mouse technologies and products to the biopharmaceutical industry;
- the increasing competition we face in the field of knockout and transgenic mice from both commercial and government organizations;
- our ability to successfully execute our business plans and to meet contractual obligations; 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 and, through its Bente BioServices subsidiary, regulatory-compliant biosafety testing and manufacturing services, to the biopharmaceutical industry and to the academic research community.

Deltagen has generated an inventory of “knockout mice” (“KO 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. 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.

Deltagen possesses KO mouse lines and phenotypic data associated with 750 different genes. 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 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 academic institutions under our DeltaOne program. 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. 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 associated with KO mice.

In December 2009, the Company acquired Bente BioServices, Inc. (“Bente”), an emerging Pennsylvania-based contract services organization dedicated to the provision of regulatory-compliant services to support the development and commercialization of biopharmaceutical products. Bente’s services are designed to address specific requirements for critical stages in product development, including biosafety testing, raw materials testing, assay and process validation services, cell banking and characterization services, and technology platform-specific R&D support and consulting services. Bente has leased a 35,000 square foot facility in Malvern, Pennsylvania and will operate as a wholly-owned subsidiary of Deltagen. Bente’s services will be offered worldwide to biopharmaceutical companies, emerging biotechs, government agencies and universities involved in the development of biologicals, recombinant proteins, monoclonal antibodies, cell therapeutics, vaccines and biological devices. Bente obtained a temporary certificate of occupation on February 7, 2011 and is expected to commence commercial operations in the second quarter of 2011.

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-month period and year ended December 30, 2010 are unaudited, but have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). 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 collectability 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 and year ended December 31, 2010 totaled \$0.343 million and \$1.987 million, respectively. The revenues in the fourth quarter and in 2010 were attributable primarily to license fees associated with the provision of knockout mice and related phenotypic data pursuant to orders placed by customers under the Company's DeltaOne™ program. Revenues for 2010 increased 46% over revenues for 2009 (\$1.357 million). The Company's consolidated revenues for the three months and year ended December 31, 2010 included \$0.021 million and \$0.084 million, respectively, in revenues of Xenopharm, Inc. ("Xenopharm"), a wholly-owned subsidiary of the Company.

The Company had interest income of \$0.002 million and \$0.010 million for the three months and year ended December 31, 2010, respectively.

Total consolidated expenses for the three months and year ended December 31, 2010 were \$0.614 million and \$2.681 million, respectively. The expenses in the fourth quarter (and full-year 2010) were attributable primarily to labor costs and other general and administrative expenses, including \$0.087 million (\$0.640 million) in royalty and commission expenses, expenses of \$0.253 million (\$0.785 million) relating to the operation of its wholly-owned subsidiary, Benten BioServices, Inc. ("Benten Expenses"), and non-recurring expenses of \$0.044 million (\$0.187 million) associated with the prosecution and issuance of patents licensed exclusively to Xenopharm. As of December 31, 2010, the Company had paid to Lexicon Pharmaceuticals, Inc. ("Lexicon") an aggregate total of \$5.237 million in royalty payments pursuant to a March 2005 settlement agreement between Lexicon and the Company. Under the settlement, the maximum, aggregate amount of royalty payments due to Lexicon is \$6 million. Accordingly, up to \$0.763 million in contingent royalty payments remained owed to Lexicon as of December 31, 2010.

Consolidated net losses before provision for income taxes for the three months and year ended December 31, 2010 were \$0.269 million and \$0.685, respectively. Excluding Benten Expenses, net losses before provision for income taxes for the three months ended December 31, 2010 were \$0.018 million. Excluding Benten Expenses, net income before provision for income taxes for the year ended December 31, 2010 was \$0.100 million.

As of December 31, 2010, the Company had \$3.530 million in consolidated cash and cash equivalents (compared to \$5.704 million as of December 31, 2009) and \$0.288 million in accounts receivable (compared to \$0.131 million in December 31, 2009). The change in cash and cash equivalents during 2010 was due primarily to investments in the Company's Malvern, Pennsylvania facility for a security deposit and expenditures for capital equipment.

4. Major Events During 2010 and Subsequent Events

Benten BioServices: On May 14, 2010, Benten entered into a lease for a facility in Malvern, Pennsylvania covering approximately 35,000 square feet. Base rent will be \$75,000 per month for the first year, increasing upward annually by two percent (2%). Payments of base rent under the lease will commence seven months following Benten's taking possession of the facility. In addition to the base rent, Benten will pay its pro-rata share (34%) of the building operating expenses (estimated to initially be \$13,000 per month). The lease runs

until June 2021. The landlord is providing to Benten tenant improvements of \$2,117,000. Benten, at its option, may increase the amount of tenant improvements provided by the landlord (up to a total of \$3,800,000 of tenant improvements), in which event Benten will pay additional rent to the landlord to amortize such additional costs. Deltagen entered into a lease guaranty in favor of the landlord to guarantee payments under the lease during the first four years rent is payable. This liability of Deltagen under the guaranty is capped at \$3,800,000. On February 7, 2010, a temporary certificate of occupancy was obtained for the facility. Benten is expected to take possession of the facility in March 2011 and commence commercial operations in the second quarter of 2011.

Board of Directors: On May 6, 2010, Mr. Martin Herson resigned from the Company's board of directors due to other commitments relating to his firm, Boston Millennia Partners. On July 22, 2010, David J. McLachlan joined the Company's board of directors. Mr. McLachlan is Chairman of the Board of Skyworks Solutions, Inc., a manufacturer of analog, mixed signal and digital semiconductors for mobile communications. He also serves on the Boards of Directors of Dyax Corporation, a biotechnology company, as Chair of the Audit Committee and HearUSA, Ltd., a hearing care services company, as Lead Independent Director. He was the Executive Vice President and Chief Financial Officer of Genzyme Corporation from 1989 to 1999, and a senior adviser to Genzyme's Chairman and Chief Executive Officer until 2004. Prior to joining Genzyme, he served as Vice President and Chief Financial Officer of Adams-Russell Company, an electronic component supplier and cable television franchise owner. Mr. McLachlan is a graduate of Harvard Business School and Harvard College.

Bio-Life-Tech 2010 Conference Presentation: On December 8, 2010, the Company presented an overview of Deltagen's business, including its planned Benten Bioservices operations, at the Bio-Life-Tech 2010 conference in Baltimore, Maryland. A slide deck summarizing the presentation has been posted on the Company's website at <http://www.deltagen.com/pressreleases/20101208bio-life-tech-presentation.pdf>. Deltagen's cash is expected to be sufficient to support the purchase of initial capital equipment and the build-out of Benten's Malvern, Pennsylvania facility. Deltagen is seeking funds to support its Benten operations through profitability and to position the Company for future growth. There can be no assurance that Deltagen will be successful in raising these funds or that Benten will reach profitability. These statements do not constitute an offer to sell, nor a solicitation of an offer to buy, securities.

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.

Risks Relating to Deltagen Generally

We will likely require substantial amounts of capital to fund our business and, if we do not have sufficient capital, we will not be able to sustain our operations.

Our cash requirements depend on numerous factors, including:

- the timing of capital requirements to develop and operate our Benten BioServices business (especially the new Benten facility) and the timing of such requirements;
- our ability to attract and retain customers for our knockout and transgenic mouse products and Benten's testing and manufacturing services; and
- expenditures in connection with license agreements and acquisitions of and investments in complementary technologies and businesses.

We will likely require substantial amounts of capital to fund our business operations. The rate at which our capital is utilized is affected by the operational and developmental costs incurred and the extent to which our products and services generate revenue. If we do not have sufficient capital, we will not be able to sustain our operations.

We will likely require additional capital to support future business growth, and this capital might not be available.

We may continue to make investments to support our business growth and this would likely require additional funds to respond to business challenges or opportunities, including the need to develop new products or services or enhance our existing products and services, enhance our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our existing capital stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited. If adequate funds are not available, we may have to curtail operations significantly or liquidate.

Our future success depends on our ability to offer services by developing Benten's facility.

Our future success depends on our ability to complete and begin to utilize our new Benten facility for commercial operations. Our ability to construct, equip, certify, and staff a regulatory-compliant facility is subject to significant risk and uncertainty. The build-out of any scientific facilities will be subject to the risks inherent in the development and construction of new facilities, including risks of delays and cost overruns as a result of a number of factors, many of which may be out of our control, such as delays in government approvals, burdensome permit conditions and delays in the delivery of equipment and subsystems that we obtain from suppliers. We may also experience difficulty in identifying, attracting and hiring qualified individuals for our Benten operations.

If we are unable to successfully develop, construct and operate this facility, we may be unable to scale our business to the extent necessary to improve our results of operations and achieve profitability. Moreover, even if we are successful in completing the facility as planned, we may not be able to generate customer demand for our services and may not be able to generate sufficient revenue to achieve or maintain profitability.

The value of our stock may be adversely affected by the lack of liquidity in the market for our stock or if we decide to stop disclosure with respect to our results of operations or other matters.

Following our bankruptcy filing, we were delisted from Nasdaq. The limited liquidity available in the “Pink Sheets” market may adversely affect the value of our stock. Also following our bankruptcy filing, we were deregistered under the Securities Exchange Act of 1934. As a result, Deltagen has no legal obligation to resume making periodic filings with the Securities and Exchange Commission or otherwise provide public disclosure with respect to its results of operations or other matters. Although Deltagen has voluntarily provided public announcements of its annual and quarterly financial results since early 2006, it may change this practice at any time and stop further disclosure with respect to its results of operations or other matters. If we decide to stop such disclosure, the value of our stock may be adversely affected.

We may fail to meet market expectations, which could cause our stock price to decline.

The following are among the factors that could cause our operating results to vary significantly from market expectations:

- changes in the demand for and pricing of our products and services, including our new Benten services;
- the nature, pricing and timing of other products and services provided by us or our competitors;
- changes in the research and development budgets of our customers;
- acquisition, licensing and other costs related to our operations;
- the timing of milestone, licensing and other payments under the terms of our customer agreements and agreements pursuant to which others license technology to us;
- our capital needs and availability of additional capital;
- expenses related to, and the results of, patent filings and other proceedings relating to intellectual property rights, including litigation and similar expenses; and
- our unpredictable revenue sources as described below.

Our revenues are and will be unpredictable and this may harm our financial condition.

The amount and timing of revenues that we may have from our business will be unpredictable because:

- the timing of our DeltaOne and other agreements are determined largely by our customers;
- our Benten business is in initial stages and we have not yet entered into any agreements with customers;
- the Benten business will not generate revenues until the build-out and approval of its facility are complete and the build-out and approval processes may experience unexpected or serious delays;
- the services offered by Benten might not be accepted or adopted by the target market; and

- we may not receive any significant milestone or royalty payments under licenses and other arrangements for a substantial period of time, if ever.

As a result, our results may be below market expectations. If this happens, the price of our common stock may decline.

We depend on key employees, and without the services of our key employees, we may not achieve profitability or remain viable.

The company currently has only four full-time employees. The loss of any of their services could seriously harm our business.

Our future success also will depend in part on the continued service of our Directors and key consultants. We may be unable to retain these individuals and other personnel necessary for our business.

The future sale of common stock could negatively affect our stock price.

We had approximately 52 million shares of common stock outstanding as of December 31, 2010. If our common stockholders sell substantial amounts of common stock in the public market, or the market perceives that such sales may occur, the market price of our common stock could fall.

We may engage in future acquisitions or licenses, which could adversely affect your investment in us as we may never realize any benefits from such acquisitions or licenses, which also could be expensive and time consuming.

We may acquire and license additional products and programs, if we determine that these products or programs complement or augment our existing technology platforms. We currently have no firm commitments or agreements with respect to any material acquisitions. If we do undertake any transactions of this sort, the process of integrating an acquired business, technology, service or product may result in operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for ongoing development of our business. Moreover, we may never realize the anticipated benefits of any acquisition or license. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities and amortization expenses related to goodwill and other intangible assets, which could adversely affect our results of operations and financial condition.

We may be subject to litigation and infringement claims that may harm our business or reputation, be costly and divert management's attention.

The technology we use in our business may subject us to claims that we infringe on the patents or other proprietary rights of third parties. The risk of this occurring will tend to increase as the genomics and biotechnology industries expand, more patents are issued and other companies attempt to discover gene function using knockout mice and engage in other genomics-related businesses. Furthermore, many of our competitors and other companies performing research on genes have already applied for patents covering some of the genes used in the generation of our knockout and transgenic mice.

We may be involved in future lawsuits alleging patent infringement or other intellectual property rights violations. In addition, litigation may be necessary to:

- assert claims of infringement;
- enforce our proprietary rights or patents, if any;
- protect our trade secrets or know-how; and
- determine the enforceability, scope and validity of the proprietary rights of others.

We may be unsuccessful in defending or pursuing these lawsuits. Regardless of the outcome, litigation can be very costly, can divert management's efforts and could materially affect our business, operating results, financial condition and cash flows. An adverse determination may subject us to significant liabilities or restrict or prohibit us from selling our products or services.

Our rights to the use of technologies licensed to us by third parties are not within our control, and without these technologies, our products and programs may not be successful and our business prospects could be harmed.

We rely, in part, on licenses to use certain technologies that are material to our business. We do not own the patents that underlie these licenses. Our rights to use these technologies and employ the inventions claimed in the licensed patents are subject to our licensors abiding by the terms of those licenses and not terminating them. In many cases, we do not control the prosecution or filing of the patents to which we hold licenses. Some of the licenses under which we have rights provide us with exclusive rights in specified fields, but we cannot assure you that the scope of our rights under these and other licenses will not be subject to dispute by our licensors or third parties.

Our incorporation documents and Delaware law may inhibit a takeover that stockholders consider favorable and could also limit the market price of your stock.

Our restated certificate of incorporation and bylaws contain provisions that could delay or prevent a change in control of the Company. Some of these provisions:

- authorize the issuance of preferred stock which can be created and issued by the board of directors without prior stockholder approval, commonly referred to as "blank check" preferred stock, with rights senior to those of common stock;
- provide for a classified board of directors; and
- prohibit stockholder action by written consent.

In addition, we are governed by the provisions of Section 203 of Delaware General Corporate Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us. These and other provisions in our amended and restated certificate of incorporation and bylaws and under Delaware law could reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions.

A small number of our stockholders could exercise control over us and could affect decisions made by our stockholders.

A small number of our stockholders control a large block of our common stock, and, if acting in concert, could have the voting power to exert substantial influence over actions which require stockholder approval and generally to direct our affairs, including decisions regarding the election of directors, mergers, consolidations and the sale of all or substantially all of our assets and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of the Company, which could deprive our stockholders of an opportunity to receive a premium for their shares as part of a sale of the Company and might reduce the price of our shares. These actions may be taken even if they are opposed by our other stockholders.

Catastrophic events may disrupt or otherwise adversely affect the markets in which we operate, our business and our profitability.

Our business may be adversely affected by a war, terrorist attack, natural disaster or other catastrophe. A catastrophic event could have a direct negative impact on us by, for example, affecting the ability of our sales

force to travel to conduct in-person product demonstrations or an indirect impact on us by, for example, affecting our customers or the overall economy. Although we have contingency plans in place to protect against both man-made and natural threats, it is impossible to fully anticipate and protect against all potential catastrophes. Despite our preparations, a security breach, criminal act, military action, power or communication failure, earthquake, flood, severe storm or the like could lead to disruptions to our operations, or damage to our important facilities. If any of these events happen, we may be exposed to unexpected liability, our reputation may be tarnished, and there could be a material adverse effect on our business and financial results.

Risks Relating to our Knockout Mouse Business Specifically

We have only a finite inventory of products and unless we are able to expand our inventory, we may not be able to achieve or sustain sufficient revenues to fund our operations.

At present, and for the last eight years, we have had a finite and static knockout mouse product inventory. We have no current research and development operations or activities with respect to knockout mice. We have approximately 900 knockout mouse lines at the mouse stage (cryopreserved as frozen embryos) and approximately 450 knockout lines at the ES cell stage. Because we have a finite and, at present, static, inventory of products available for licensing to third parties, we will likely not be able to sustain our business unless we expand our product inventory. And, even if we desire to expand our product inventory, it may not be feasible to do so depending on competition, third party license restrictions and availability of additional capital.

Almost all of our knockout mouse inventory is stored and managed by a single third party service provider, and a natural disaster at one or more of their facilities is possible and could result in a prolonged interruption of our business or a complete loss of our product inventory.

Almost all of our knockout mouse inventory is stored and managed by Charles River Laboratories (“CRL”). We and CRL have taken precautions to safeguard our inventory, including through insurance, and the storage of multiple and redundant embodiments of the knockout mouse inventory to allow for their possible regeneration. However, a natural disaster, such as an earthquake, fire, power loss or flood, could cause substantial delays or result in the complete loss of our product inventory.

There are only a finite number of current and potential pharmaceutical customers for our products and, therefore, we may not succeed, especially if there is continued consolidation in the pharmaceutical industry.

We currently have customer relationships with most of the world’s largest pharmaceutical companies. Because of our reliance on revenues generated from these relationships, we may not succeed unless we can attract more customers or expand our relationships with existing customers.

Over the past several years, companies in the pharmaceutical industry have undergone significant consolidation. As such companies merge, we will have fewer potential customers for our products. Also, if two or more of our present or future customers merge, we may not be able to receive the same fees under agreements with the combined entities that we were able to receive under agreements with these customers prior to their merger. Any of these developments could materially harm our business or financial condition.

We may experience intense competition from other entities, and this competition could adversely affect our database business.

The human and mouse genomes contain a finite number of genes. The human genome has been mapped and identified. Our competitors have identified and will continue to identify the sequence of numerous genes in order to obtain proprietary positions with respect to those genes. In addition, our competitors may seek to identify and determine the biological function of numerous genes in order to obtain intellectual property rights with respect to specific uses of these genes, and they may accomplish this before we do.

A number of companies, institutions and government-financed entities are engaged in gene sequencing, gene discovery, gene expression analysis, gene function determination and other gene-related service businesses, including the generation of knockout mice. Many of these companies, institutions and entities have greater financial and human resources than we do and have been conducting research longer than we have. Significant competition also arises from entities using standard target identification approaches, traditional knockout mouse technology and other functional genomics technologies. These competitors may have or may acquire intellectual property rights in functional or other data that are superior to or dominant over our rights. Furthermore, other methods for conducting functional genomics research may ultimately prove more advanced, in some or all respects, to the use of knockout mice. In addition, technologies more advanced than or superior to our gene function identification technology may be developed, thereby rendering our technologies obsolete. We expect that competition in our industry will continue to intensify. Moreover, the pharmaceutical industry has undergone significant mergers and this trend is expected to continue. This concentration of the industry could further limit our potential customer base and therefore materially harm our business.

Also, the National Institutes of Health (NIH) and other government entities have initiated an effort to create a public inventory of knockout mice. Specifically, the NIH intends to knock out the entire genome in mice (the Knockout Mouse Project, or KOMP). If KOMP or other governmental knockout efforts are successful, the competition for Deltagen would be very high and Deltagen may not succeed in competing against these efforts.

There have been very few drugs developed and commercialized using genomics-based research and, therefore, the future of our products and programs is uncertain.

Very few of the limited number of drugs developed to date using genomics-based research have reached the commercial market. We cannot assure you that genomics-based drug development efforts will ultimately be commercially successful. We cannot assure you that a particular gene function in a mouse will have any correlation to a human patient's response to a particular drug. It is difficult to successfully select those genes with the most potential for commercial development. Furthermore, we do not know that any products based on genes that are the subject of our research can be successfully developed or commercialized. If commercial opportunities are not realized from genomics-based research, our existing customers could stop using our products or we could have difficulty attracting or retaining customers.

Risks Relating to our Benten Business Specifically

Our subsidiary, Benten BioServices, is an early-stage company that we expect will realize significant net losses for the foreseeable future.

Benten is an early-stage company with no operating history and we expect that it will realize significant net losses for the foreseeable future. We expect to incur significant net losses as we develop our services and products, expand our marketing and sales efforts, and pursue our business development strategy. We intend to invest significantly in our Benten business before we expect cash flow from operations will be adequate to cover our anticipated expenses. We cannot provide any assurance that we will generate sufficient revenues from our Benten business for it to become profitable. If we are unable to execute our business strategy and grow our Benten business, our financial condition and results of operations will be materially and adversely affected.

Benten will require significant additional capital to support business growth and this capital might not be available.

Starting up the Benten business will require significant additional funds to respond to business challenges or opportunities, including the need to develop new products or services or enhance our planned products and services. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to develop and continue to support our Benten operations and to respond to business challenges could be significantly limited. If adequate funds are not available, we may have to curtail our operations significantly or liquidate.

Benten operates in a highly competitive industry and some of our competitors are better established and have significantly greater resources than we have.

The market for providing testing, manufacturing and development services for biologics and other biomedical products is highly competitive, with rapid technological advances and constantly improving price/performance. As the market expands, we expect the entrance of additional competitors, who may have longer operating histories, more extensive international operations, greater name recognition, and/or substantially greater technical, marketing and financial resources. Competition may result in significant discounting and lower gross margins which could have a detrimental effect on our business, operating results and financial condition.

Because the sales cycle for our services to universities, contract manufacturers, pharmaceutical companies and biotechnology customers is typically lengthy and unpredictable, our results may fluctuate significantly from period to period.

The sales cycle for our services to universities, contract manufacturers, pharmaceutical companies and biotechnology customers may be lengthy and take unexpected turns. Thus, it is difficult to predict when sales will occur or how much revenue they will generate.

If we are unable to attract or retain customers to our Benten services, our business and financial results will be adversely affected.

If we are unable to attract initial customers, keep our customers satisfied, sell additional services to our customers or attract new customers, then our business and financial results may suffer. A variety of factors could affect our ability to successfully attract and retain customers, including the level of demand for our services, the level of competition from other vendors, the quality of our customer service, our pricing compared to that of our competitors, our ability to update our services and develop new services, features needed by customers, and our ability to design and integrate new services.

Failure to manage our growth properly could adversely affect our revenue and operating results.

We anticipate expanding our Benten operations rapidly during the next few years. We intend to continue to expand in order to pursue existing and potential market opportunities and are in the process of soliciting and hiring additional personnel. Our planned growth will place significant demand on management, internal controls, and financial and operational resources. In order to successfully manage our growth, we must:

- hire, train and manage additional qualified personnel and retain existing personnel;
- improve existing and implement new operational, financial and management controls, reporting systems and procedures; and
- expand and manage multiple relationships with our customers, suppliers, strategic partners and other third parties.

In addition, we will need to establish the infrastructure necessary to execute on our development strategy. If we are not able to accomplish the foregoing, our business and results of operations could be harmed significantly.