INOVIO PHARMACEUTICALS, INC.
Form 10-Q
August 05, 2011
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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, 2011

OR

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

For the transition period from to

Commission File Number 001-14888

INOVIO PHARMACEUTICALS, INC.

(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.)

1787 SENTRY PARKWAY WEST

BUILDING 18, SUITE 400

BLUE BELL, PENNSYLVANIA 19422

(Address of principal executive offices) (Zip Code)

(267) 440-4200

(Registrant s telephone number, including area code)

N/A

(Former name, if changed since last report)

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

The number of shares outstanding of the registrant s Common Stock, par value $0.001 per share, was 127,256,907 as of July 27, 2011.

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INOVIO PHARMACEUTICALS, INC.

FORM 10-Q

For the Quarterly Period Ended June 30, 2011

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Part I. Financial Information

Item 1. Financial Statements

INOVIO PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,594,293	$ 19,998,489
Short-term investments certificates of deposit	5,759,716	1,846,271
Accounts receivable	347,819	32,887
Accounts receivable from affiliated entity	90,421	72,149
Prepaid expenses and other current assets	822,227	273,975
Prepaid expenses and other current assets from affiliated entity	992,245	653,436
Total current assets	38,606,721	22,877,207
Fixed assets, net	306,113	276,795
Intangible assets, net	10,239,436	11,180,002
Goodwill	10,113,371	10,113,371
Investment in affiliated entity	8,383,650	11,360,888
Other assets	208,262	259,128
Total assets	$ 67,857,553	$ 56,067,391
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,242,943	$ 3,410,610
Accounts payable and accrued expenses due to affiliated entity	757,489	1,680,947
Accrued clinical trial expenses	426,471	178,328
Common stock warrants	4,867,672	370,926
Deferred revenue	233,161	420,897
Deferred revenue from affiliated entity	413,542	375,000
Total current liabilities	9,941,278	6,436,708
Deferred revenue, net of current portion	66,644	72,780
Deferred revenue from affiliated entity, net of current portion	2,149,194	2,336,694
Deferred rent, net of current portion	66,154	67,112
Deferred tax liabilities	53,186	53,186
Total liabilities	12,276,456	8,966,480
Stockholders equity:		
Inovio Pharmaceuticals, Inc. stockholders equity:		
Common stock	127,257	105,038
Additional paid-in capital	254,956,417	241,233,334
Accumulated deficit	(200,073,001)	(194,838,229)
Accumulated other comprehensive income	(2,941)	2,850

Total Inovio Pharmaceuticals, Inc. stockholders equity	55,007,732	46,502,993
Non-controlling interest	573,365	597,918
Total stockholders equity	55,581,097	47,100,911
Total liabilities and stockholders equity	$ 67,857,553	$ 56,067,391

See accompanying notes.

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INOVIO PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue:				
License fee and milestone revenue	$ 26,456	$ 55,941	$ 52,824	$ 122,495
License fee and milestone revenue from affiliated entity	105,208	118,750	198,958	125,806
Grant and miscellaneous revenue	2,288,099	960,168	5,273,246	2,259,947
Total revenue	2,419,763	1,134,859	5,525,028	2,508,248
Operating expenses:				
Research and development	4,463,978	3,083,229	8,885,777	5,813,824
General and administrative	3,092,386	3,027,593	6,411,618	6,077,751
Gain on sale of assets			(250,000)	
Total operating expenses	7,556,364	6,110,822	15,047,395	11,891,575
Loss from operations	(5,136,601)	(4,975,963)	(9,522,367)	(9,383,327)
Other income (expense):				
Interest income, net	7,799	13,594	20,574	48,155
Other income, net	4,898,758	676,179	7,219,706	1,704,172
Loss from investment in affiliated entity	(2,607,227)	(3,327,758)	(2,977,238)	(2,283,584)
Net loss	(2,837,271)	(7,613,948)	(5,259,325)	(9,914,584)
Net loss/ (gain) attributable to non-controlling interest	15,112	(2,490)	24,553	4,460
Net loss attributable to Inovio Pharmaceuticals, Inc.	$ (2,822,159)	$ (7,616,438)	$ (5,234,772)	$ (9,910,124)
Loss per common share basic and diluted:				
Net loss per share attributable to Inovio Pharmaceuticals, Inc. stockholders	$ (0.02)	$ (0.07)	$ (0.04)	$ (0.10)
Weighted average number of common shares outstanding basic and diluted	127,256,364	102,811,417	124,124,645	102,784,297

See accompanying notes.

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INOVIO PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net loss	$ (5,259,325)	$ (9,914,584)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	66,641	92,701
Amortization of intangible assets	940,566	960,453
Change in value of common stock warrants	(7,230,626)	(1,726,224)
Change in value of short-term investments auction rate securities		3,139,669
Change in value of auction rate security rights		(3,146,983)
Stock-based compensation	1,150,272	602,467
Interest income accrued on short term investments certificates of deposit	6,271	
Interest expense accrued on line of credit		60,822
Deferred rent	(958)	30,541
Loss from investment in affiliated company	2,977,238	2,283,584
Gain on sale of assets	(250,000)	
Changes in operating assets and liabilities:		
Accounts receivable	(314,932)	99,506
Accounts receivable from affiliated entity	(18,272)	(1,969,628)
Prepaid expenses and other current assets	(548,252)	(12,983)
Prepaid expenses and other current assets from affiliated entity	(338,809)	(4,924)
Other assets	50,866	21,419
Accounts payable and accrued expenses	80,476	(922,816)
Accounts payable and accrued expenses due to affiliated entity	(923,458)	(109,711)
Deferred revenue	(193,872)	(188,364)
Deferred revenue from affiliated entity	(148,958)	2,899,194
Net cash used in operating activities	(9,955,132)	(7,805,861)
Cash flows from investing activities:		
Purchase of short term investments certificates of deposit	(5,766,000)	(8,000,000)
Sale of short term investments certificates of deposit	1,840,000	751,808
Sale of short term investments auction rate securities		11,050,000
Purchases of capital assets	(95,959)	(132,529)
Proceeds from sale of assets	250,000	
Acquired intangible assets and other assets		(124,980)
Net cash (used in)/provided by investing activities	(3,771,959)	3,544,299
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants, net of issuance costs	24,309,472	
Proceeds from stock option and warrant exercises	12,930	76,451
Repayment of line of credit		(11,162,691)
Net cash provided by/(used in) financing activities	24,322,402	(11,086,240)
Effect of exchange rate changes on cash and cash equivalents	493	3,341

Increase/(Decrease) in cash and cash equivalents	10,595,804	(15,344,461)
Cash and cash equivalents, beginning of period	19,998,489	30,296,215
Cash and cash equivalents, end of period	$ 30,594,293	$ 14,951,754

See accompanying notes.

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INOVIO PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business

Inovio Pharmaceuticals, Inc. (the Company or Inovio) is engaged in the discovery, development, and delivery of a new generation of vaccines, called DNA vaccines, focused on cancers and infectious diseases. The Company s SynCon® technology enables the design of universal DNA-based vaccines capable of providing cross-protection against new, unmatched strains of pathogens such as influenza. The Company s electroporation DNA delivery technology uses brief, controlled electrical pulses to increase cellular DNA vaccine uptake. Initial human data has shown this method can safely and significantly increase gene expression and immune responses. The Company s clinical programs include human papillomavirus (HPV)/cervical cancer (therapeutic), avian influenza (preventative), hepatitis C virus (HCV) and human immunodeficiency virus (HIV) vaccines. The Company is advancing preclinical research for a universal seasonal/pandemic influenza vaccine and other product candidates. The Company s partners and collaborators include University of Pennsylvania, Drexel University, National Microbiology Laboratory of the Public Health Agency of Canada, Program for Appropriate Technology in Health/Malaria Vaccine Initiative (PATH or MVI), National Institute of Allergy and Infectious Diseases (NIAID), Merck, ChronTech, University of Southampton, United States Military HIV Research Program (USMHRP), U.S. Army Medical Research Institute of Infectious Diseases (USAMRIID) and HIV Vaccines Trial Network (HVTN).

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Inovio have been prepared in accordance with U.S. 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, 2011, condensed consolidated statements of operations for the three and six months ended June 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the six months ended June 30, 2011 and 2010, 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, 2011 shown herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, or for any other period. These financial statements, and notes thereto, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010, included in the Company s Form 10-K filed with the U.S. Securities and Exchange Commission (SEC) on March 16, 2011. The balance sheet at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. The Company has evaluated subsequent events after the balance sheet date of June 30, 2011 through the date it filed these unaudited condensed consolidated financial statements with the SEC.

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 from operations of $2.8 million and $5.2 million, respectively, for the three and six months ended June 30, 2011. The Company had working capital of $28.7 million and an accumulated deficit of $200.1 million as of June 30, 2011. The Company s ability to continue its operations is dependent upon its ability to obtain additional capital in the future and achieve profitable operations. In January 2011, the Company closed a $24.3 million offering of its shares of common stock and warrants to purchase shares of common stock. The Company received net proceeds from the transaction of approximately $23.0 million, after deducting offering expenses. The Company expects to continue to rely on outside sources of financing to meet its capital needs and the Company may never achieve positive cash flow. These unaudited interim 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 interim condensed consolidated financial statements as of and for the period ended June 30, 2011 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.

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INOVIO PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Impact of Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board (the FASB) issued an update to conform existing guidance to the fair value measurement and disclosure requirements under U.S. GAAP and International Financial Reporting Standards. The amendments in this update change the wording used to describe many of the requirements under U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this update will be effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively. The adoption of these amendments is not expected to have a material impact on the Company s consolidated financial position, cash flow or results of operations.

In June 2011, the FASB issued an update which amends the presentation of comprehensive income. The objective of this update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Under this update, an entity has the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either choice, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The amendments in this update will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied prospectively. The adoption of these amendments is not expected to have a material impact on the Company s consolidated financial position, cash flow or results of operations.

4. Principles of Consolidation

These unaudited condensed consolidated financial statements include the accounts of Inovio Pharmaceuticals, Inc. and its domestic and foreign subsidiaries. In conjunction with the acquisition in June 2009 of VGX Pharmaceuticals (the Merger), we acquired an 88% interest in VGX Animal Health and certain shares in VGX International, Inc. (VGX Int l) (a publicly-traded company in South Korea). We consolidate VGX Pharmaceuticals and its subsidiary VGX Animal Health and record a non-controlling interest for the 12% of VGX Animal Health we do not own. Our investment in VGX Int l, which is recorded as investment in affiliated entity within the condensed consolidated balance sheets is accounted for at fair value on a recurring basis, with changes in fair value recorded on the condensed consolidated statements of operations within loss from investment in affiliated entity. All intercompany accounts and transactions have been eliminated upon consolidation.

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires companies to perform a qualitative analysis to determine whether a variable interest in another entity represents a controlling financial interest in a variable interest entity. A controlling financial interest in a variable interest entity is characterized by having both the power to direct the most significant activities of the entity and the obligation to absorb losses or the right to receive benefits of the entity. This guidance also requires on-going reassessments of variable interests based on changes in facts and circumstances. This guidance became effective for fiscal years beginning after November 15, 2009. The Company adopted the provisions of the guidance in the first quarter of 2010 and determined that none of the entities with which the Company currently conducts business and collaborations are variable interest entities, except VGXI (a wholly-owned subsidiary of VGX Int l). The Company determined that VGX Int l is the primary beneficiary to consolidate VGXI.

Reorganization

In July 2011, the Company completed liquidation of its inactive wholly-owned subsidiary Inovio Asia Pte. Ltd. (IAPL) and there was no impact on the Company s financial position.

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INOVIO PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Short-term Investments

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in comprehensive income/ (loss). The following is a summary of investments classified as available-for sale securities:

		As of June 30, 2011			
	Contractual Maturity (in years)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Certificates of deposit	Less than 1	$ 5,766,000	$	$ (6,284)	$ 5,759,716
Total		$ 5,766,000	$	$ (6,284)	$ 5,759,716

		As of December 31, 2010			
	Contractual Maturity (in years)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Certificates of deposit	Less than 1	$ 1,846,271	$	$	$ 1,846,271
Total		$ 1,846,271	$	$	$ 1,846,271

There were no realized gains or losses on our investments during the three and six months ended June 30, 2011 and 2010.

6. Marketable Securities and Fair Value Measurements

The guidance regarding fair value measurements establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table presents the Company s financial assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2011:

		Fair Value Measurements at June 30, 2011		
	Total	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Using Significant Other Unobservable Inputs (Level 2)	Using Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 29,054,863	$ 29,054,863	$	$

Certificates of deposit	5,759,716		5,759,716	
Investment in affiliated entity	8,383,650	8,383,650		
Total Assets	$ 43,198,229	$ 37,438,513	$ 5,759,716	$
Liabilities:				
Common stock warrants	$ 4,867,672	$	$	$ 4,867,672
Total Liabilities	$ 4,867,672	$	$	$ 4,867,672

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INOVIO PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents the Company s financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2010:

		Fair Value Measurements at December 31, 2010		
	Total	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Using Significant Other Unobservable Inputs (Level 2)	Using Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 16,852,609	$ 16,852,609	$	$
Certificates of deposit	1,846,271		1,846,271	
Investment in affiliated entity	11,360,888	11,360,888		
Total Assets	$ 30,059,768	$ 28,213,497	$ 1,846,271	$
Liabilities:				
Common stock warrants	$ 370,926	$	$	$ 370,926
Total Liabilities	$ 370,926	$	$	$ 370,926

Level 1 assets at June 30, 2011 and December 31, 2010 include money market funds held by the Company that are valued at quoted market prices, as well as the Company s investment in VGX Int l, for which the fair value is based on the market value of 8,075,775 common shares on June 30, 2011 listed on the Korean Stock Exchange.

Level 2 assets at June 30, 2011 and December 31, 2010 include certificates of deposit held by the Company with maturities that range from 91 days to 12 months. The Company determines fair value through broker quotations with reasonable levels of price transparency. Certificates of deposit are initially valued at the transaction price and subsequently valued, at the end of each reporting period, typically utilizing market observable data.

There are no Level 3 assets as of June 30, 2011 or December 31, 2010.

Level 3 liabilities held as of June 30, 2011 and December 31, 2010 consist of common stock warrant liabilities associated with warrants to purchase the Company s common stock issued in October 2006, August 2007, July 2009 and January 2011. If unexercised, the warrants will expire at various dates between October 2011 and January 2016.

There have been no transfers of assets or liabilities between the fair value measurement classifications.

As of June 30, 2011, the Company recorded a $4.9 million common stock warrant liability. The Company reassesses the fair value of the common stock warrants at each reporting date utilizing a Black-Scholes pricing model. Inputs used in the pricing model include estimates of stock price volatility, expected warrant life and risk-free interest rate. The Company develops its estimates based on historical data. As a result of these calculations, the Company recorded a decrease of $4.9 million and $7.2 million for the three and six months ended June 30, 2011, respectively, and a decrease of $670,000 and $1.7 million for the three and six months ended June 30, 2010, respectively. The decrease in the fair value is reflected in the Company s condensed consolidated statement of operations as a component of other income, net.

The following table presents the changes in fair value of the Company s total Level 3 financial liabilities for the six months ended June 30, 2011:

Balance at January 1, 2011	$ 370,926
Record fair value of warrants issued in January 2011 financing	11,727,372
Decrease in fair value included in other income, net	(7,230,626)
Balance at June 30, 2011	$ 4,867,672

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INOVIO PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Line of Credit

On August 26, 2008, the Company received notice from UBS Bank USA (UBS) that the Company s application had been approved for a $5.0 million uncommitted demand revolving line of credit (Line of Credit) secured by ARS held by the Company in an account with UBS Financial Services, Inc. (the Collateral Account), to provide additional working capital. On December 19, 2008, the Company amended its existing loan agreement with UBS Bank USA, which increased the existing credit line up to $12.1 million, with the ARS pledged as collateral. The Company fully drew down on the line of credit on December 23, 2008. Advances under the Line of Credit bore interest at LIBOR plus 1.00% (the Spread Over LIBOR). UBS was entitled to change the Spread Over LIBOR at its discretion when the Collateral consisting of ARS was sold, exchanged or otherwise conveyed by the Company for gross proceeds that were, in the aggregate, not less than the par value of such securities. The loan was treated as a no net cost loan , as it bore interest at a rate equal to the average rate of interest paid to the Company on the pledged ARS, and the net interest cost to the Company was zero. In July 2010, the Company sold all of the remaining ARS held at par value and the line of credit was paid off in full.

8. Goodwill and Intangible Assets

In accordance with the guidance regarding goodwill and other intangible assets, the Company s goodwill is not amortized, but is subject to an annual impairment test, which the Company performs as of November each year or sooner if indicators of impairment exist. The following sets forth the intangible assets by major asset class:

	Useful Life (Yrs)	June 30, 2011 Gross	June 30, 2011 Accumulated Amortization	June 30, 2011 Net Book Value	December 31, 2010 Gross	December 31, 2010 Accumulated Amortization	December 31, 2010 Net Book Value
Non-Amortizing:							
Goodwill(a)		$ 10,113,371	$	$ 10,113,371	$ 10,113,371	$	$ 10,113,371
Amortizing:							
Patents	8 - 17	5,802,528	(4,345,029)	1,457,499	5,802,528	(4,151,955)	1,650,573
Licenses	8 - 17	1,323,761	(1,003,748)	320,013	1,323,761	(989,374)	334,387
CELLECTRA®(b)	5 - 11	8,106,270	(2,519,903)	5,586,367	8,106,270	(1,915,126)	6,191,144
GHRH(b)	11	335,314	(66,007)	269,307	335,314	(50,166)	285,148
Other(c)	18	4,050,000	(1,443,750)	2,606,250	4,050,000	(1,331,250)	2,718,750
Total intangible assets		19,617,873	(9,378,437)	10,239,436	19,617,873	(8,437,871)	11,180,002
Total goodwill and intangible assets		$ 29,731,244	$ (9,378,437)	$ 20,352,807	$ 29,731,244	$ (8,437,871)	$ 21,293,373

(a) Goodwill was recorded from the Inovio AS acquisition in January 2005 and from the acquisition of VGX in June 2009 for $3.9 million and $6.2 million, respectively.
(b) CELLECTRA® and GHRH are developed technologies that were recorded from the acquisition of VGX.
(c) 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, 2011 was $469,000 and $941,000, respectively. Aggregate amortization expense on intangible assets for the three and six months ended June 30, 2010 was $479,000 and $960,000, respectively. Estimated aggregate amortization expense for each of the five succeeding fiscal years is $929,000 for the remainder of fiscal year 2011, $1.8 million for 2012, $1.8 million for 2013, $943,000 for 2014, and $870,000 for 2015.

9. Stockholders Equity

The following is a summary of the Company s authorized and issued common and preferred stock as of June 30, 2011 and December 31, 2010:

			Outstanding as of	
	Authorized	Issued	June 30, 2011	December 31, 2010
Common Stock, par $0.001	300,000,000	127,254,031	127,256,907	105,038,192
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	26	26
Series D Preferred Stock, par $0.001	1,966,292	1,966,292		

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INOVIO PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Common Stock

In January 2011, the Company entered into investor purchase agreements with investors relating to the issuance and sale of (a) 21,130,400 shares of common stock, and (b) warrants to purchase a total of 10,565,200 shares of common stock with an exercise price of $1.40 per share, for an aggregate purchase price of approximately $24.3 million. The shares of common stock and warrants were sold in units, consisting of one share of common stock and a warrant to purchase 0.50 of a share of common stock, at a purchase price of $1.15 per unit. The Warrants have a five-year term from the date of issuance and are first exercisable commencing on the 180th day after the date of issuance. The Company may call the warrants if the closing bid price of the common stock has been at least $2.80 over 20 trading days and certain other conditions are met. The Company received net proceeds from the transaction of approximately $23.0 million, after deducting the placement agent s fee and estimated offering expenses payable by the Company. The Company valued the registered warrants issued in connection with the January 2011 financing as of the issuance date using the Black Scholes pricing model and recorded a current liability on the condensed consolidated balance sheet of $11.7 million. The warrants were subsequently revalued as of June 30, 2011 to $4.8 million, and the Company recorded the decrease in fair value of $6.9 million within other income, net, on the condensed consolidated statement of operations for the six months ended June 30, 2011.

In August 2010, the Company entered into an At-The-Market Equity Distribution Agreement (the ATM Agreement) with an outside placement agent (the Placement Agent), under which the Company may, from time to time, offer and sell its common stock having aggregate sales proceeds of up to $25.0 million through or to the Placement Agent, for resale. Sales of the Company s common stock through the Placement Agent, if any, can be made by means of ordinary brokers transactions on the NYSE Amex or otherwise at market prices prevailing at the time of sale or as otherwise agreed upon by the Company and the Placement Agent. The Placement Agent will use commercially reasonable efforts to sell the Company s common stock from time to time, based upon instructions from the Company. The Company will pay the Placement Agent a commission, or allow a discount, as the case may be, in each case equal to 3.0% of the gross sales proceeds of any common stock sold through the Placement Agent under the ATM Agreement. The Company has agreed to reimburse the Placement Agent for certain expenses incurred by them in connection with the transactions contemplated by the ATM Agreement, up to an aggregate of $30,000, plus up to an additional $5,000 per calendar quarter related to ongoing maintenance, due diligence expenses and other expenses associated therewith.

During the six months ended June 30, 2011, the Company sold a total of 1,028,905 shares of common stock under the ATM Agreement. The sales were made at a weighted average price of $1.35 per share with net proceeds to the Company of $1.4 million, after deducting commissions and other fees. As of June 30, 2011, the Company has sold a total of 3,023,577 shares of common stock under the ATM Agreement. The sales were made at a weighted average price of $1.25 per share with net proceeds to the Company of $3.7 million, after deducting commissions and other fees.

In July 2009, the Company entered into a securities purchase agreement with certain institutional investors relating to the sale and issuance of (a) 11,111,110 shares of common stock and (b) warrants to purchase a total of 2,777,776 shares of common stock with an exercise price of $3.50 per share, for an aggregate purchase price of approximately $30 million. The shares of common stock and warrants were sold in units, consisting of one share of common stock and a warrant to purchase 0.25 of a share of common stock, at a purchase price of $2.70 per unit. The Company received net proceeds from the transaction of approximately $28.4 million, after deducting offering expenses. The issued warrants expired in August 2010, unexercised.

Upon the closing of the Merger in June 2009, an aggregate of 41,492,757 shares of the Company s common stock were issued to the former stockholders of VGX, and an additional 18,794,187 shares of the Company s common stock were reserved for issuance upon exercise of the assumed options and warrants and conversion of the principal of and maximum interest payable on the VGX convertible debt. In August 2009 the VGX convertible debt was automatically converted into 4,600,681 shares of the Company s common stock. VGX warrants assumed were ten-year warrants to purchase an aggregate of 4,923,406 shares of the Company s common stock with an exercise price ranging from $0.05 to $1.28 per share, expiring at various dates between March 25, 2013 and April 28, 2016. As of June 30, 2011, none of these warrants have been exercised.

The Company accounts for registered common stock warrants issued in October 2006, August 2007, July 2009 and January 2011 under the authoritative guidance on 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

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INOVIO PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

issuance of registered securities upon exercise and do not sufficiently preclude an implied right to net cash settlement. The Company classifies registered warrants on the consolidated balance sheet as a current liability, which is revalued at each balance sheet date subsequent to the initial issuance. 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. The Company develops its estimates based on historical data. A small change in the estimates used may have a relatively large change in the estimated valuation. The Company uses 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, net.

Warrants

The following table summarizes the warrants outstanding as of June 30, 2011:

	Total Warrants Outstanding		
Issued in connection with:	**Exercise Price**	**Number Outstanding**	**Expiration Date**
January 2011 financing	$ 1.40	10,565,200	January 27, 2016
July 2009 financing	$ 3.38	333,333	July 1, 2014
Warrants assumed in June 2009 Merger	$ 0.05-$1.28	4,920,527	March 24, 2013-April 28, 2016
October 2006 financing	$ 2.87	2,364,394	October 13, 2011
August 2007 consulting services	$ 3.00	150,000	August 3, 2012
Total		18,333,454	

In December 2010, warrants expired to purchase 3,462,451 shares of our common stock issued in connection with our December 2005 private placement.

In September 2010, warrants expired to purchase 150,000 shares of our common stock, which were issued in connection with a license agreement with the University of South Florida Research Foundation, Inc. (USF).

Stock Options

The Company has one active stock and cash-based incentive plan, the Amended and Restated 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, approved by the stockholders as amended on May 2, 2008, and approved by the stockholders as amended and restated on August 25, 2009 and May 14, 2010. On May 14, 2010 the stockholders approved to increase the aggregate number of shares available for grant under the Incentive Plan by 2,000,000 shares and to provide that the aggregate number of shares available for grant under the plan will automatically increase on January 1 of each year beginning in 2011 by a number of shares equal to the lesser of (1) 2,055,331 shares or (2) such lesser number of shares as the Board of Directors may determine. On January 1, 2011 the number of securities available for future issuance increased by 2,055,331 shares. At June 30, 2011, the Incentive Plan reserved 7,805,331 shares of common stock for issuance upon exercise of incentive awards granted and to be granted at future dates. At June 30, 2011, the Company had 2,316,777 shares of common stock available for future grant under the plan, and 240,000 shares of vested restricted stock and options to purchase 4,933,341 shares of common stock outstanding under the plan. The awards granted and available for future grant under the Incentive Plan generally vest over three years and have a maximum contractual term of ten years. The Incentive Plan terminates by its terms on March 31, 2017.

The Incentive Plan supersedes all of the Company s previous stock option plans, which include the Amended 2000 Stock Option Plan and the VGX Equity Compensation Plan, under which the Company had options to purchase 1,743,933 and 7,692,317 shares of common stock outstanding at June 30, 2011, respectively. The terms and conditions of the options outstanding under these plans remain unchanged.

10. Net loss 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 warrants was anti-dilutive for the period presented in 2011 and 2010, there is no difference between basic and diluted loss per share.

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INOVIO PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. Stock-Based Compensation

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 expected to vest on a straight-line basis. All option 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 for the three and six month periods ended June 30, 2011 and 2010 are presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Risk-free interest rate	1.16%-1.72%	1.64%	1.16%-1.89%	1.64%-2.65%
Expected volatility	134%	134%	134%	134%
Expected life in years	4	4	4	4
Dividend yield				
Forfeiture rate	11%	13%	11%	13%

Total compensation cost for the Company s stock plan that has been recognized in the condensed consolidated statement of operations for the three and six months ended June 30, 2011 was $248,000 and $1.2 million, respectively, of which $92,000 and $285,000 was included in research and development expenses and $156,000 and $865,000 was included in general and administrative expenses, respectively.

Total compensation cost for the Company s stock plan that has been recognized in the condensed consolidated statement of operations for the three and six months ended June 30, 2010 was $168,000 and $461,000, respectively, of which $46,000 and $151,000 was included in research and development expenses and $122,000 and $310,000 was included in general and administrative expenses, respectively.

As of June 30, 2011, there was $1.3 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for Inovio stock options, which the Company expects to recognize over a weighted-average period of 2.0 years. All compensation expense related to Inovio stock options granted prior to the Merger was fully vested upon the Merger.

As of June 30, 2010, there was $1.3 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for Inovio stock options, which the Company expects to recognize over a weighted-average period of 2.1 years, as well as $54,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements from VGX stock options assumed in the Merger, which the Company expects to recognize over a weighted-average period of six months.

The weighted average grant date fair value per share was $0.73 and $0.79 for employee and director stock options granted during the three and six months ended June 30, 2011, respectively, and $0.95 and $0.93 for employee and director stock options granted during the three and six months ended June 30, 2010, respectively.

There was no restricted stock granted during the three and six months ended June 30, 2011 or 2010.

The fair value of options granted to non-employees at the measurement dates were 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, 2011 was $(79,000) and $1,000, respectively. Total stock-based compensation for options granted to non-employees for the three and six months ended June 30, 2010 was $5,000 and $141,000, respectively.

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INOVIO PHARMACEUTICALS, INC.

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(Unaudited)

VGX AH, a majority owned subsidiary of VGX, has adopted a 2007 equity incentive plan for the issuance of options to employees and consultants. There were no options granted under this plan during the three and six months ended June 30, 2011 or 2010.

12. Comprehensive Loss

Comprehensive loss for the three and six months ended June 30, 2011 and June 30, 2010 includes net loss, unrealized loss on investments and foreign currency translation adjustments. A summary of the Company s comprehensive loss is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Comprehensive loss:				
Net loss	$ (2,837,271)	$ (7,613,948)	$ (5,259,325)	$ (9,914,584)
Foreign currency translation adjustments	579	(1,519)	493	3,341
Unrealized loss on short-term investments	(4,679)		(6,284)	
Comprehensive loss	$ (2,841,371)	$ (7,615,467)	$ (5,265,116)	$ (9,911,243)

13. Supplemental Disclosures of Cash Flow Information

	Six Months Ended June 30,	
	2011	2010
Supplemental schedule of financing activities:		
Interest paid	$	$ 60,822

14. Related-Party Transactions

The Company conducts transactions with its affiliated entity, VGX Int l.

In July 2011 the Company purchased an additional 145,000 shares of VGX Int l at a price of approximately $0.71 per share in connection with a common stock rights offering, reducing its ownership percentage to approximately 16.1%.

On March 24, 2010, the Company entered into a Collaboration and License Agreement (the VGX Int l Agreement) with VGX Int l. Under the VGX Int l Agreement, the Company granted VGX Int l an exclusive license to Inovio s SynCon® universal influenza vaccine delivered with electroporation to be developed in certain countries in Asia (the Product). As consideration for the license granted to VGX Int l, the Company received payment of $3.0 million, and will receive research support, annual license maintenance fees and royalties on net Product sales. The Company recorded the $3.0 million as deferred revenue from affiliated entity, and will recognize it as revenue over the eight year expected period of the Company s performance obligation. In addition, contingent upon achievement of clinical and regulatory milestones, the Company will receive development payments over the term of the VGX Int l Agreement. The VGX Int l Agreement also provides Inovio with exclusive rights to supply devices for clinical and commercial purposes (including single use components) to VGX Int l for use in the Product. The term of the VGX Int l Agreement commenced upon execution and will extend on a country by country basis until the last to expire of all Royalty Periods for the territory (as such term is defined in the VGX Int l Agreement) for any Product in that country, unless the VGX Int l Agreement is terminated earlier in accordance with its provisions as a result of breach, by mutual agreement, or by VGX Int l s right to terminate without cause

upon prior written notice.

For the three and six months ended June 30, 2011, the Company recognized revenue from VGX Int l of $105,000 and $199,000, respectively, which consisted of licensing fees. Operating expenses related to VGX Int l for the three and six months ended June 30, 2011 include $1.1 million and $2.3 million, respectively, related to manufacturing and engineering services. At June 30, 2011 and December 31, 2010 we had an accounts receivable balance of $72,000 and $72,000, respectively, from VGX Int l and its subsidiaries.

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INOVIO PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

For the three and six months ended June 30, 2010, the Company recognized revenue from VGX Int l of $119,000 and $126,000, respectively, which consisted of licensing fees. Operating expenses related to VGX Int l for the three and six months ended June 30, 2010 include $618,000 and $751,000, respectively, related to manufacturing and engineering services.

For the three and six months ended June 30, 2010, the Company received sublease income from VGX Int l of $55,000 and $110,000 for the facility in The Woodlands, TX, which offset the Company s lease expense. In November 2010, this facility lease was transferred to a wholly-owned subsidiary of VGX Int l.

In June 2011, Bryan Kim, a member of VGX Int l s board of directors and former president and chief executive officer of VGX Int l, terminated his employment with the Company as Vice President of Asian operations. In September 2010, Young Park, a member of VGX Int l s board of directors, terminated his employment with the Company as general counsel. Mr. Park currently serves as president and chief executive officer of VGX Int l.

In August 2010, Dr. J. Joseph Kim, the Company s CEO, resigned from his position on the VGX Int l board of directors. Dr. Kim previously served as chief executive officer of VGX Int l prior to the Company s acquisition of VGX Pharmaceuticals, Inc. in June 2009.

On March 24, 2011, the Company completed the sale of certain assets related to certain non-DNA vaccine technology and intellectual property relating to selective electrochemical tumor ablation (SECTA) to OncoSec Medical Incorporated, or OncoSec, pursuant to an Asset Purchase Agreement dated March 14, 2011 by and between the Company and OncoSec.

The president and Chief Executive Officer of OncoSec previously served as the Company s Vice President of Finance and Operations. Additionally, the Company s Chairman, Avtar Dhillon, M.D., is also the non-executive Chairman of OncoSec.

At June 30, 2011 we had an accounts receivable balance of $18,000 from OncoSec.

The Company has received payment of $250,000 from OncoSec as of June 30, 2011 and will receive an additional $2.75 million in scheduled payments over a period of two years from the closing date and a royalty on any potential commercial product sales related to the SECTA technology if and when a product is approved. No receivable has been recorded for the $2.75 million due from OncoSec as collection of the funds is not reasonably assured. Pursuant to a cross-license agreement dated March 21, 2011, the Company obtained a fully paid-up, exclusive, worldwide license to certain of the SECTA technology patents in the field of gene or nucleic acids, outside of those encoding cytokines, delivered by electroporation. The Company also granted to OncoSec a non-exclusive, worldwide license to certain non-SECTA technology patents in the SECTA field for the following consideration:

(a) a fee for any sublicense of the Company s technology;

(b) a royalty on net sales of any business developed with the Company s technology; and

(c) repayment by OncoSec for any amount the Company pays to a licensor of our technology that is a direct result of the license.

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

This report contains forward-looking statements, as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We are under no obligation to update any of the forward-looking statements after the filing of this Quarterly Report to conform such statements to actual results or to changes in our expectations.

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this Quarterly Report. Readers are also urged to carefully review and consider the various disclosures made by us that attempt to advise interested parties of the factors that affect our business, including without limitation the disclosures made in Item 1A of Part II of this Quarterly Report under the Caption Risk Factors and under the captions Management s Discussion and Analysis of Financial Condition and Results of Operations, and Risk Factors and in our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Risk factors that could cause actual results to differ from those contained in the forward-looking statements include but are not limited to: our history of losses; our lack of products that have received regulatory approval; uncertainties inherent in clinical trials and product development programs, including but not limited to the fact that pre-clinical and clinical results may not be indicative of results achievable in other trials or for other indications, that results from one study may not necessarily be reflected or supported by the results of other similar studies, that results from an animal study may not be indicative of results achievable in human studies, that clinical testing is expensive and can take many years to complete, that the outcome of any clinical trial is uncertain and failure can occur at any time during the clinical trial process, and that our electroporation technology and DNA vaccines may fail to show the desired safety and efficacy traits in clinical trials; the availability of funding; the ability to manufacture vaccine candidates; the availability or potential availability of alternative therapies or treatments for the conditions targeted by us or our collaborators, including alternatives that may be more efficacious or cost-effective than any therapy or treatment that we and our collaborators hope to develop; whether our proprietary rights are enforceable or defensible or infringe or allegedly infringe on rights of others or can withstand claims of invalidity; and the impact of government healthcare proposals.

General

We are engaged in the discovery, development, and delivery of a new generation of vaccines, called DNA vaccines, focused on cancers and infectious diseases. Our SynCon® technology enables the design of universal DNA-based vaccines capable of providing cross-protection against new, unmatched strains of pathogens such as influenza. Our electroporation DNA delivery technology uses brief, controlled electrical pulses to increase cellular DNA vaccine uptake. Initial human data has shown this method can safely and significantly increase gene expression and immune responses. Our clinical programs include HPV/cervical cancer (therapeutic), avian influenza (preventative), HCV and HIV vaccines. We are advancing preclinical research for a universal seasonal/pandemic influenza vaccine as well as other products. Our partners and collaborators include University of Pennsylvania, Drexel University, National Microbiology Laboratory of the Public Health Agency of Canada, Program for Appropriate Technology in Health/Malaria Vaccine Initiative (PATH or MVI), National Institute of Allergy and Infectious Diseases (NIAID), Merck, ChronTech, University of Southampton, United States Military HIV Research Program (USMHRP), U.S. Army Medical Research Institute of Infectious Diseases (USAMRIID) and HIV Vaccines Trial Network (HVTN).

All of our potential human products are in research and development phases. We have not generated any revenues from the sale of any such products, and we do not expect to generate any such revenues for at least the next several years. We earn revenue from license fees and milestone revenue, collaborative research and development agreements, grants and government contracts. Our product candidates will require significant additional research and development efforts, including extensive preclinical and clinical testing. All product candidates that we advance to clinical testing will require regulatory approval prior to commercial use, and will require significant costs for commercialization. We may not be successful in our research and development efforts, and we may never generate sufficient product revenue to be profitable.

Recent Developments

On January 27, 2011, we entered into investor purchase agreements with investors relating to the issuance and sale of (a) 21,130,400 shares of common stock, and (b) warrants to purchase a total of 10,565,200 shares of common stock with an exercise price of $1.40 per share, for an aggregate purchase price of approximately $24.3 million. The shares of common stock and warrants were sold in units, consisting of one share of common stock and a warrant to purchase 0.50 of a share of common stock, at a purchase

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price of $1.15 per unit. The warrants have a five-year term from the date of issuance and are first exercisable commencing on the 180th day after the date of issuance. We may call the warrants if the closing bid price of the common stock has been at least $2.80 over 20 trading days and certain other conditions are met. We received net proceeds from the transaction of approximately $23.0 million, after deducting the placement agent s fee and other estimated offering expenses.

On March 24, 2010, we entered into our Agreement with VGX Int l. Under the VGX Int l Agreement, we granted VGX Int l an exclusive license to the Product, i.e., Inovio s SynCon® universal influenza vaccine delivered with electroporation to be developed in certain countries in Asia.

As consideration for the license granted to VGX Int l, we have received payment of $3.0 million as a research and development initiation fee, and will receive research support, annual license maintenance fees and royalties on net Product sales. In addition, contingent upon achievement of clinical and regulatory milestones, we will receive development payments over the term of the VGX Int l Agreement. The VGX Int l Agreement also provides us with exclusive rights to supply devices for clinical and commercial purposes (including single use components) to VGX Int l for use in the Product.

The term of the VGX Int l Agreement commenced upon execution and will extend on a country by country basis until the last to expire of all Royalty Periods for the territory (as such term is defined in the VGX Int l Agreement) for any Product in that country, unless the VGX Int l Agreement is terminated earlier in accordance with its provisions as a result of breach, by mutual agreement, or by VGX Int l s right to terminate without cause upon prior written notice.

In January 2010, we announced that we expanded our existing license agreement with the University of Pennsylvania, adding exclusive worldwide licenses for technology and intellectual property for novel DNA vaccines against pandemic influenza, Chikungunya, and foot-and-mouth disease. The amendment also encompasses new chemokine and cytokine molecular adjuvant technologies. The technology was developed in the University of Pennsylvania laboratory of Professor David B. Weiner, a pioneer in the field of DNA vaccines, and chairman of our scientific advisory board. Under the terms of the original license agreement completed in 2007, we obtained exclusive worldwide rights to develop multiple DNA plasmids and constructs with the potential to treat and/or prevent HIV, HCV, HPV and influenza and included molecular adjuvants. These prior and most recent agreements and amendments provide for royalty payments, based on future sales, to the University of Pennsylvania.

As of June 30, 2011, we had an accumulated deficit of $200.1 million. We expect to continue to incur substantial operating losses in the future due to our commitment to our research and development programs, the funding of preclinical studies, clinical trials and regulatory activities and the costs of general and administrative activities.

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 audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP. There have been no changes to our critical accounting policies during the three and six months ended June 30, 2011 other than the adoption of recent accounting pronouncements discussed below. The preparation of these 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. 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 that are reasonably assured and recognize them ratably over the minimum remaining period of our performance obligations. Payments for milestones that are not reasonably assured are treated as the culmination of a separate earnings process and are recognized as revenue when the milestones are achieved.

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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. We record payments under these agreements, which are non-refundable, as revenue as the related research expenditures are incurred pursuant to the terms of the agreements and provided collectability is reasonably assured.

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, collectability is reasonably assured, and as the expenditures are incurred.

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 and DNA vaccines. Research and development expenses consist of expenses incurred in performing research and development activities including salaries and benefits, facilities and other overhead expenses, clinical trials, contract services and other outside expenses. Research and development expenses are charged to operations as they are incurred.

Valuation and Impairment Evaluations of Goodwill and Intangible Assets. Goodwill represents the excess of acquisition cost over the fair value of the net assets of acquired businesses. As of June 30, 2011, our intangible assets resulting from the acquisition of VGX and Inovio AS, and additional intangibles including previously capitalized patent costs and license costs, net of accumulated amortization, totaled $10.2 million. Intangible assets are amortized over their estimated useful lives ranging from 5 to 18 years. We are concurrently conducting Phase II, Phase I and pre-clinical trials using acquired intangibles, and we have entered into certain significant licensing agreements for use of these acquired intangibles.

Historically we have recorded patents at cost and amortized these costs using the straight-line method over the expected useful lives of the patents or 17 years, whichever is less. Patent costs consist of the consideration paid for patents and related legal costs. Effective June 1, 2009, in connection with our acquisition of VGX, we will expense all new patent costs as incurred. We will continue to amortize patent costs currently capitalized over the expected life of the patent. The effect of this change was immaterial to prior periods. We record license costs 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.

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. While our current and historical operating and cash flow losses are potential indicators of impairment, we believe the future cash flows to be received from our intangible assets will exceed the intangible assets carrying value, and accordingly, we have not recognized any impairment losses through June 30, 2011.

Goodwill and intangible assets with indefinite lives are not amortized but instead are measured for impairment annually, or when events indicate that impairment exists. Our accounting policy with respect to reviewing goodwill for impairment is a two step process. The first step of the impairment test compares the fair value of our reporting unit with its carrying value including allocated goodwill. If the carrying value of our reporting unit exceeds its fair value, then the second step of the impairment test is performed to measure the impairment loss, if any. We test goodwill for impairment at the entity level, which is considered our reporting unit. Our estimate of fair value is determined using both the Discounted Cash Flow method of the Income Approach and the Guideline Public Company method of the Market Approach. The Discounted Cash Flow method estimates future cash flows of our business for a certain discrete period and then discounts them to their present value. The Guideline Public Company method computes value indicators (multiples) from the operating data of the selected publicly traded guideline companies. After these multiples were evaluated, appropriate value indicators were selected and applied to the operating statistics of the reporting unit to arrive at indications of value. Specifically, we relied upon the application of Total Invested Capital based valuation multiples for each guideline company. In applying the Income and Market Approaches, premiums and discounts were determined and applied to estimate the fair values of the reporting unit. To arrive at the indicated value of equity under each approach, we then assigned a relative weighting to the resulting values from each approach to determine whether the carrying value of the reporting unit exceeds its fair value, thus requiring step two of the impairment test.

We conduct the impairment test annually on November 30th for each fiscal year for which goodwill is evaluated for impairment. We are also aware of the requirement to evaluate goodwill for impairment at other times should circumstances arise. To date, we have concluded that the fair value of the reporting unit significantly exceeded the carrying value and therefore, step two of the impairment test has never been performed.

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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 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 pursuant to the authoritative guidance on 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. 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, net.

Adoption of Recent Accounting Pronouncements

We describe below recent pronouncements that may have a significant effect on our financial statements. We do not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to our financial condition, results of operations, or related disclosures.

Accounting Standards Update 2009-13 In October 2009, the Financial Accounting Standards Board (the FASB) issued an Accounting Standard Update which replaces the concept of allocating revenue consideration amongst deliverables in a multiple-element revenue arrangement according to fair value with an allocation based on selling price. The amended guidance also establishes a hierarchy for determining the selling price of revenue deliverables sold in multiple element revenue arrangements. The selling price used for each deliverable will be based on vendor-specific objective evidence (VSOE) if available, third-party evidence if VSOE is not available, or management s estimate of an element s stand-alone selling price if neither VSOE nor third-party evidence is available. The amendments in this update also require an allocation of selling price amongst deliverables be performed based upon each deliverable s relative selling price to total revenue consideration, rather than on the residual method previously permitted. The updated guidance is effective for the first annual reporting period beginning on or after June 15, 2010, and may be applied retrospectively for all periods presented or prospectively to arrangements entered into or materially modified after the adoption date. We prospectively adopted the updated guidance on January 1, 2011 and will apply the amended guidance to revenue arrangements containing multiple deliverables that are entered into or significantly modified on or after January 1, 2011. We now allocate revenue consideration, excluding contingent consideration, based on the relative selling prices of the separate units of accounting contained within an arrangement containing multiple deliverables. Selling prices are determined using fair value, when available, or our estimate of selling price when fair value is not available for a given unit of accounting. As we did not enter into any new collaborations or materially modify any existing collaborations, adoption of this guidance had no impact on our results of operations for the three and six months ended June 30, 2011.

Accounting Standards Update 2010-17 Effective January 1, 2011, we adopted the FASB s revised the authoritative guidance for research and development milestone recognition. The revised guidance is not required and does not represent the only acceptable method of revenue recognition. Milestones, as defined per the revised guidance, are (1) events that can only be achieved in whole or in part on either the entity s performance or on the occurrence of a specific outcome resulting in the entity s performance (2) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (3) that would result in additional payments being due to us. We evaluate events under this guidance at the inception of an arrangement to determine the existence of milestones and if they are substantive. The adoption of the revised guidance has not had and is not expected to have a material impact on our results of operations as it is consistent with our historical practice of milestone revenue recognition.

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Results of Operations

Revenue. We had total revenue of $2.4 million and $5.5 million for the three and six months ended June 30, 2011, respectively, as compared to $1.1 million and $2.5 million for the three and six months ended June 30, 2010, respectively. Revenue primarily consists of license fees, milestone revenue and grants and government contracts.

Revenue from license fees and milestone revenue was $132,000 and $252,000 for the three and six months ended June 30, 2011, respectively, as compared to $175,000 and $248,000 for the three and six months ended June 30, 2010, respectively. The decrease for the three-month period ended June 30, 2011, as compared to the comparable period in 2010, was mainly due to lower revenues recognized from various smaller license agreements. The increase for the six month period ended June 30, 2011, as compared to the comparable period in 2010, was mainly due to higher revenues recognized from the VGX Int l Agreement entered into in March 2010, offset by lower revenues recognized from various smaller license agreements.

During the three and six months ended June 30, 2011, we recorded grant and miscellaneous revenue of $2.3 million and $5.3 million, respectively, as compared to $960,000 and $2.3 million for the three and six months ended June 30, 2010, respectively. The increase was primarily due to higher revenues recognized from our contract with the NIAID of $1.7 million and $4.5 million for the three and six months ended June 30, 2011 as compared to $945,000 and $1.8 million for the same periods in 2010, respectively. The NIAID contract, which was modified in September 2010, has an initial term of five years with two one-year options (period of performance is September 30, 2008 September 29, 2015 including the two options). The current value of the contract for the five years is $24.6 million with option years six and seven valued at $1.3 million and $1.0 million, respectively, for a total potential value of $26.9 million, and will fund research and development for HIV DNA-based vaccines delivered via our proprietary electroporation system. These increases were also attributable to higher revenue recognized under our PATH Malaria Vaccine Initiative (MVI) contract of $282,000 and $399,000 for the three and six months ended June 30, 2011 as compared to $0 and $239,000 for the same periods in 2010, respectively. PATH is an international nonprofit organization funded by private donors. We have a research program and agreement with the PATH MVI to evaluate in a preclinical feasibility study our SynCon® DNA vaccine development platform to target antigens from *Plasmodium* species and deliver them intradermally using the CELLECTRA® electroporation device. The initial agreement with MVI was for $685,000 and was completed in February 2010. In September 2010 we entered into an amended agreement with PATH to further this study in non-human primates. The amended agreement has a total value of $804,000 and is expected to be completed by August 2011. These increases were also due to new revenue recognized during the three and six month periods ended June 30, 2011 from our subcontracts with Drexel University and the University of Pennsylvania as well as from our Small Business Innovation Research (SBIR) grant of $263,000 and $407,000, respectively. These increases were partially offset by no revenue recognized from the Department of Defense (U.S. Army) grant during the three and six months ended June 30, 2011 when compared to $0 and $200,000 for the same periods in 2010, respectively. The U.S. Army grant, which commenced in 2008, had a total value of $933,000 and was completed in May 2010. This project funded research and development of DNA-based vaccines delivered via our proprietary electroporation system and focused on identifying DNA vaccine candidates with the potential to provide rapid, robust immunity to protect against bio-warfare and bioterror attacks.

Research and Development Expenses. Research and development expenses for the three and six months ended June 30, 2011, were $4.5 million and $8.9 million, respectively, as compared to $3.1 million and $5.8 million for the three and six months ended June 30, 2010, respectively. The increase for the three-month period year over year, was primarily due to $989,000 in higher clinical trial costs including the initiation of the HPV Phase II study, $293,000 in higher costs related to work performed for the NIAID contract, $210,000 in higher compensation expense due to increased employee headcount as well as a $113,000 increase in inventory purchases in preparation for clinical trials. These increases were partially offset by a $529,000 decrease in expenses related to influenza studies, among other variances. The increase for the six-month period year over year, was primarily due to $2.2 million in higher clinical trial costs including the initiation of the HPV Phase II study, $580,000 in higher costs related to work performed for the NIAID contract, $314,000 in higher compensation expense due to increased employee headcount as well as a $161,000 increase in inventory purchases in preparation for clinical trials. These increases were partially offset by a $500,000 decrease in expenses related to influenza studies, among other variances.

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, 2011, were $3.1 million and $6.4 million, respectively, as compared to $3.0 million and $6.1 million for the three and six months ended June 30, 2010, respectively. The increase for the three-month period year over year, was primarily due to a $390,000 increase in severance expenses as well as a $114,000 increase in legal and investor relations outside services. These increases were partially offset by a decrease in compensation expense, license maintenance fees and consultant stock compensation of $142,000, 149,000 and $94,000, respectively. The increase for the six-month period year over year, was primarily due to a $507,000 increase in severance expenses, a $550,000 increase in stock based compensation due to an increase in total options granted during the period and severance

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related stock option expense, and a $203,000 increase in legal and investor relations outside services. These increases were partially offset by a decrease in compensation expense, accounting fees, legal fees, and consultant stock compensation of $220,000, $134,000, $155,000 and $163,000, respectively.

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 for our stock plans for the three and six months ended June 30, 2011 was $248,000 and $1.2 million, respectively. From these amounts, $92,000 and $285,000 was included in research and development expenses and $156,000 and $865,000 was included in general and administrative expenses, for the three and six months ended June 30, 2011, respectively. Total compensation cost for our stock plans for the three and six months ended June 30, 2010 was $168,000 and $461,000 respectively. From these amounts, $46,000 and $151,000 was included in research and development expenses and $122,000 and $310,000 was included in general and administrative expenses, for the three and six months ended June 30, 2010, respectively. The increase was primarily due to a significant increase in total options granted during the periods in 2011 as well as severance related expense recognized in 2011.

Interest Income, net. Interest income, net, for the three and six months ended June 30, 2011 was $8,000 and $21,000 respectively, as compared to $14,000 and $48,000 for the three and six month ended June 30, 2010, respectively. The decrease was primarily due to a lower interest rate earned on our accounts.

Other Income, net. We recorded other income, net, for the three and six months ended June 30, 2011 of $4.9 million and $7.2 million, respectively, as compared to $676,000 and $1.7 million for the three and six months ended June 30, 2010, respectively. The increase was primarily due to the revaluation of registered common stock warrants issued by us in January 2011, as well as those issued in October 2006, August 2007 and July 2010. We are required to revalue the warrants at each balance sheet date to fair value. If unexercised, the warrants will expire at various dates between August 2011 and January 2016.

Gain (Loss) from investment in affiliated entity. Gain (loss) is a result of the change in the fair market value of the investment as of June 30, 2011.

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 and government grants.

Working Capital and Liquidity

As of June 30, 2011, we had working capital of $28.7 million, as compared to $16.4 million as of December 31, 2010. The increase in working capital during the six months ended June 30, 2011 was primarily due to the January 2011 financing. In January 2011, the Company entered into investor purchase agreements with investors relating to the issuance and sale of (a) 21,130,400 shares of common stock, and (b) warrants to purchase a total of 10,565,200 shares of common stock with an exercise price of $1.40 per share, for an aggregate purchase price of approximately $24.3 million. The shares of common stock and warrants were sold in units, consisting of one share of common stock and a warrant to purchase 0.50 of a share of common stock, at a purchase price of $1.15 per unit. The Company received net proceeds from the transaction of approximately $23.0 million, after deducting the placement agent s fee and estimated offering expenses payable by the Company. This increase in working capital was partially offset by the $4.8 million valuation of the registered common stock warrants issued in connection with the January 2011 financing that are classified as a current liability on the consolidated balance sheet, as well as due to expenditures related to our research and development activities and various general and administrative expenses related to legal, consultants, accounting and audit, and corporate development.

Net cash used in operating activities was $10.0 million and $7.8 million for the six months ended June 30, 2011 and 2010, respectively. The increase was primarily the result of the increased spending on clinical, engineering and other research and development activities to support our programs.

Net cash (used in) /provided by investing activities was $(3.8 million) and $3.5 million for the six months ended June 30, 2011 and 2010, respectively. The increase was primarily the result of timing differences in short-term investment purchases, sales and maturities.

Net cash provided by/ (used in) financing activities was $24.3 million and $(11.1 million) for the six months ended June 30, 2011 and 2010, respectively. The fluctuation was primarily due to the proceeds from our January 2011 financing as well as our At-The-Market Equity

Distribution Agreement.

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Prior to July 1, 2010, we held Auction Rate Securities (ARS), which were municipal debt obligations with an underlying long-term maturity. Due to conditions in the global credit markets these securities were not liquid as of December 31, 2009. In December 2008, we, via our wholly-owned subsidiary Genetronics, which held the ARS, accepted an offer of ARS Rights from UBS that permitted us to require UBS to purchase our ARS at par value at any time during the period of June 30, 2010 through July 2, 2012. On July 1, 2010, we exercised the ARS Rights, and we sold the remaining ARS at par value.

In conjunction with the acceptance of the ARS Rights, we also amended our existing loan agreement with UBS Bank USA, increasing the existing credit line up to $12.1 million, with the ARS pledged as collateral. We fully drew down on the line of credit in December 2008. On July 1, 2010, upon exercise of our ARS Rights, the line of credit was paid in full.

We initiated an At-The-Market Equity Distribution Agreement in August 2010 and raised $3.7 million net of expenses, as of June 30, 2011.

As of June 30, 2011, we had an accumulated deficit of $200.1 million. We have operated at a loss since 1994, and we expect to continue to operate at a loss for some time. The amount of the accumulated deficit will continue to increase, as it will be expensive to continue research and development efforts. If these activities are successful and if we receive approval from the FDA to market our DNA vaccine products, then we will need to raise additional funding to market and sell the approved vaccine products and equipment. We cannot predict the outcome of the above matters at this time. We are evaluating potential collaborations as an additional way to fund operations. We will continue to rely on outside sources of financing to meet our capital needs beyond the third quarter of 2013.

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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, and the recent fluctuations in interest rates and availability of funding in the credit markets primarily impact the performance of our investments. 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

We account for our common stock warrants pursuant to the authoritative guidance on 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 that is revalued at each balance sheet date subsequent to the initial issuance.

In December 2008, we, via our wholly-owned subsidiary Genetronics, which held the ARS, accepted an offer of ARS Rights from our investment advisor, UBS Financial Services, Inc., a subsidiary of UBS AG, or UBS. The ARS Rights permitted us to require UBS to purchase our ARS at par value at any time during the period of June 30, 2010 through July 2, 2012. On July 1, 2010 we exercised the ARS Rights, and we sold the remaining ARS held by us at par value.

Foreign Currency Risk

We have operated primarily in the United States and most transactions during the three and six months ended June 30, 2011 have been made in United States dollars. Accordingly, we have not had any material exposure to foreign currency rate fluctuations, with the exception of the valuation of our equity investment in VGX Int l, which is denominated in South Korean Won. We do not have any foreign currency hedging instruments in place.

Certain transactions related to us are denominated primarily in foreign currencies, including Euros, British Pounds, Canadian Dollars and South Korean Won. 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 we conduct business, including the impact of the existing crisis in the global financial markets in such countries and the impact on both the United States dollar and the noted foreign currencies.

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 2011.