

CLEVELAND BIOLABS INC
Form 10-Q
May 14, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

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 001-32954

CLEVELAND BIOLABS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or
organization)

20-0077155
(I.R.S. Employer Identification No.)

73 High Street, Buffalo, New York
(Address of principal executive offices)

14203
(Zip Code)

(Registrant's telephone number, including area code) (716) 849-6810

(Former name, former address and former fiscal year,
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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 No

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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 the 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

Non-accelerated filer

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

As of May 10, 2010, there were 26,693,403 shares outstanding of registrant's common stock, par value \$0.005 per share.

CLEVELAND BIOLABS INC
10-Q
5/14/2010

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In this report, “Cleveland BioLabs,” “CBLI,” “we,” “us” and “our” refer to Cleveland BioLabs, Inc. Our common stock, par value \$0.005 per share is referred to as “common stock.”

CLEVELAND BIOLABS, INC.

BALANCE SHEETS

March 31, 2010 (unaudited) and December 31, 2009

	March 31 2010 (unaudited)	December 31 2009
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 5,214,287	\$ 963,100
Accounts receivable:		
Trade	2,713,499	3,391,347
Other current assets	495,355	381,030
Total current assets	8,423,141	4,735,477
EQUIPMENT		
Computer equipment	328,238	323,961
Lab equipment	1,300,427	1,159,478
Furniture	376,882	376,882
	2,005,547	1,860,321
Less accumulated depreciation	1,093,715	995,408
	911,832	864,913
OTHER ASSETS		
Intellectual property	963,464	929,976
Deposits	23,482	23,482
	986,946	953,458
TOTAL ASSETS	\$ 10,321,919	\$ 6,553,848

See accompanying notes

CLEVELAND BIOLABS, INC.

BALANCE SHEETS

March 31, 2010 (unaudited) and December 31, 2009

	March 31 2010 (unaudited)	December 31 2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 859,347	\$ 1,208,632
Deferred revenue	2,325,472	2,329,616
Accrued expenses	1,400,348	1,405,715
Accrued warrant liability	13,025,477	8,410,379
Total current liabilities	17,610,644	13,354,342
STOCKHOLDERS' EQUITY		
Preferred stock, \$.005 par value		
Authorized - 10,000,000 shares at March 31, 2010 and December 31, 2009		
Series D convertible preferred stock, Issued and outstanding 0 and 466.85 shares at March 31, 2010 and December 31, 2009, respectively		
	-	2
Common stock, \$.005 par value		
Authorized - 80,000,000 shares at March 31, 2010 and December 31, 2009, respectively		
Issued and outstanding 26,655,230 and 20,203,508 shares at March 31, 2010 and December 31, 2009, respectively		
	133,276	101,018
Additional paid-in capital	65,629,942	62,786,418
Accumulated deficit	(73,051,943)	(69,687,932)
Total stockholders' equity	(7,288,725)	(6,800,494)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,321,919	\$ 6,553,848

See accompanying notes

CLEVELAND BIOLABS, INC.

STATEMENTS OF OPERATIONS

Three Months Ended March 31, 2010 and 2009 (unaudited)

	Three Months Ended	
	March 31	March 31
	2010	2009
	(unaudited)	(unaudited)
REVENUE		
Grant and Contract	\$ 4,170,348	\$ 2,309,731
	4,170,348	2,309,731
OPERATING EXPENSES		
Research and development	3,697,780	2,502,881
Selling, general and administrative	1,929,501	1,121,890
Total operating expenses	5,627,281	3,624,771
LOSS FROM OPERATIONS	(1,456,933)	(1,315,040)
OTHER INCOME		
Interest income	5,773	5,308
Sublease revenue	50,225	4,505
Total other income	55,998	9,813
OTHER EXPENSE		
Warrant issuance costs	231,980	266,970
Interest expense	-	1,960
Change in value of warrant liability	1,731,096	1,384,772
	1,963,076	1,653,702
NET LOSS	(3,364,011)	(2,958,929)
DIVIDENDS ON CONVERTIBLE PREFERRED STOCK	-	(268,979)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$ (3,364,011)	\$ (3,227,908)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS PER SHARE OF COMMON STOCK - BASIC AND DILUTED	\$ (0.14)	\$ (0.24)
WEIGHTED AVERAGE NUMBER OF SHARES USED IN CALCULATING NET LOSS PER SHARE, BASIC AND DILUTED	23,512,617	13,607,114

See accompanying notes

CLEVELAND BIOLABS, INC.

STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2010 and 2009 (unaudited)

	March 31 2010 (unaudited)	March 31 2009 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (3,364,011)	\$ (2,958,929)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	98,307	91,599
Amortization	2,417	-
Noncash salaries and consulting expense	936,690	274,101
Warrant issuance costs	231,980	266,970
Change in value of warrant liability	1,731,096	1,384,772
Loss on abandoned patents	-	23,984
Changes in operating assets and liabilities:		
Accounts receivable - trade	677,848	(495,470)
Accounts receivable - interest	-	9,488
Other current assets	(114,326)	296,942
Accounts payable	(349,285)	(123,812)
Deferred revenue	(4,144)	18,174
Accrued expenses	(5,366)	(175,908)
Total adjustments	3,205,217	1,570,840
Net cash used in operating activities	(158,794)	(1,388,089)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of short-term investments	-	1,000,000
Purchase of equipment	(145,225)	(35,525)
Costs of patents pending	(35,905)	(39,402)
Net cash (used in) provided by investing activities	(181,130)	925,073
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of preferred stock	-	5,428,307
Financing costs on preferred stock	-	(720,175)
Issuance of common stock	5,000,002	-
Cash financing costs on common stock	(350,632)	-
Cash warrant issuance costs	(140,697)	(266,970)
Dividends	-	(549,766)
Exercise of stock options	52,837	6,788
Exercise of warrants	29,601	-
Net cash provided by financing activities	4,591,111	3,898,184
INCREASE IN CASH AND EQUIVALENTS	4,251,187	3,435,168

CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	963,100	299,849
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CASH AND EQUIVALENTS AT END OF PERIOD	\$ 5,214,287	\$ 3,735,017
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See accompanying notes

CLEVELAND BIOLABS, INC.

STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2010 and 2009 (unaudited)

	March 31 2010 (unaudited)	March 31 2009 (unaudited)
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ -	\$ 1,960
Cash paid during the period for income taxes	\$ -	\$ -
Supplemental schedule of noncash financing activities:		
Issuance of stock options to employees, consultants, and independent board members	\$ 330,246	\$ 101,563
Recapture of expense for nonvested options forfeited	\$ (38,787)	\$ (37,878)
Issuance of shares to consultants and employees	\$ 641,898	\$ 202,083
Amortization of restricted shares to be issued to employees and consultants	\$ 3,333	\$ 8,333
Conversion of warrant liability to equity due to exercise of warrants	\$ 64,615	\$ -
Noncash financing costs on common stock offering	\$ 227,486	\$ -
Noncash warrant issuance costs	\$ 91,283	\$ -
Conversion of preferred stock to common stock	\$ 1,454,540	\$ 2,172,605
Accrual of Series B preferred stock dividends	\$ -	\$ 268,979

Period From January 1, 2009 to December 31, 2009 and to
March 31, 2010 (unaudited)

	Stockholders' Equity	
	Common Stock	
	Shares	Amount
Balance at January 1, 2009	13,775,805	\$ 68,879
Issuance of options	-	-
Issuance of restricted shares	291,532	1,458
Recapture of expense for nonvested options forfeited	-	-
Restricted stock awards	-	-
Exercise of options	194,675	973
Conversion of Series B Preferred Shares to Common	4,693,530	23,468
Dividends on Series B Preferred shares	-	-
Issuance of shares - Series D financing	-	-
Allocation of financing proceeds to fair value of Series D warrants	-	-
Fees associated with Series D Preferred offering	-	-
Conversion of Series D Preferred Shares to Common	572,353	2,862
Exercise of warrants	675,613	3,378
Net Loss	-	-
Balance at December 31, 2009	20,203,508	\$ 101,018
Issuance of options	-	-
Issuance of shares	190,062	950
Recapture of expense for nonvested options forfeited	-	-
Restricted stock awards	-	-
Exercise of options	40,862	204
Issuance of shares - February 2010 financing	1,538,462	7,692
Allocation of financing proceeds to fair value of warrants	-	-
Fees associated with February 2010 offering	-	-
Conversion of Series D Preferred Shares to Common	4,576,979	22,885
Exercise of warrants	105,357	527
Net Loss	-	-
Balance at March 31, 2010	26,655,230	\$ 133,276

CLEVELAND BIOLABS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Period From January 1, 2009 to December 31, 2009 and to
March 31, 2010 (unaudited)

	Stockholders' Equity			
	Preferred Stock			
	Series B	Amount	Series D	Amount
Balance at January 1, 2009	3,160,974	\$ 15,805	-	\$ -
Issuance of options	-	-	-	-
Issuance of restricted shares	-	-	-	-
Recapture of expense for nonvested options forfeited	-	-	-	-
Restricted stock awards	-	-	-	-
Exercise of options	-	-	-	-
Conversion of Series B Preferred Shares to Common	(3,160,974)	(15,805)	-	-
Dividends on Series B Preferred shares	-	-	-	-
Issuance of shares - Series D financing	-	-	543	3
Allocation of financing proceeds to fair value of Series D warrants	-	-	-	-
Fees associated with Series D Preferred offering	-	-	-	-
Conversion of Series D Preferred Shares to Common	-	-	(76)	(1)
Exercise of warrants	-	-	-	-
Net Loss	-	-	-	-
Balance at December 31, 2009	-	\$ -	467	\$ 2
Issuance of options	-	-	-	-
Issuance of shares	-	-	-	-
Recapture of expense for nonvested options forfeited	-	-	-	-
Restricted stock awards	-	-	-	-
Exercise of options	-	-	-	-
Issuance of shares - February 2010 financing	-	-	-	-
Allocation of financing proceeds to fair value of warrants	-	-	-	-
Fees associated with February 2010 offering	-	-	-	-
Conversion of Series D Preferred Shares to Common	-	-	(467)	(2)
Exercise of warrants	-	-	-	-
Net Loss	-	-	-	-
Balance at March 31, 2010	-	\$ -	-	\$ -

CLEVELAND BIOLABS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Period From January 1, 2009 to December 31, 2009 and to
March 31, 2010 (unaudited)

	Stockholders' Equity			Total	Comprehensive Income (Loss)
	Additional Paid-in Capital	Other Comprehensive Income/(Loss)	Accumulated Deficit		
Balance at January 1, 2009	\$ 56,699,750	\$ -	\$(56,246,172)	\$ 538,261	
Issuance of options	1,784,240	-	-	1,784,240	
Issuance of restricted shares	991,612	-	-	993,070	
Recapture of expense for nonvested options forfeited	(50,197)	-	-	(50,197)	
Restricted stock awards	33,333	-	-	33,333	
Exercise of options	361,884	-	-	362,857	
Conversion of Series B Preferred Shares to Common	(7,663)	-	-	-	
Dividends on Series B Preferred shares	-	-	(615,351)	(615,351)	
Issuance of shares - Series D financing	5,428,304	-	-	5,428,307	
Allocation of financing proceeds to fair value of Series D warrants	(3,016,834)			(3,016,834)	
Fees associated with Series D Preferred offering	(720,175)	-	-	(720,175)	
Conversion of Series D Preferred Shares to Common	(2,861)			-	
Exercise of warrants	1,285,026			1,288,404	
Net Loss	-	-	(12,826,409)	(12,826,409)	\$ (12,826,409)
Balance at December 31, 2009	\$ 62,786,418	\$ -	\$(69,687,932)	\$ (6,800,494)	
Issuance of options	330,246	-	-	330,246	
Issuance of shares	640,948	-	-	641,898	
Recapture of expense for nonvested options forfeited	(38,787)	-	-	(38,787)	
Restricted stock awards	3,333	-	-	3,333	
Exercise of options	52,633	-	-	52,837	
Issuance of shares - February 2010 financing	4,992,310	-	-	5,000,002	
Allocation of financing proceeds to fair value of warrants	(2,629,847)			(2,629,847)	
Fees associated with February 2010 offering	(578,118)	-	-	(578,118)	
	(22,883)			-	

Conversion of Series D Preferred
Shares to Common

Exercise of warrants	93,689			94,216		
Net Loss	-	-	(3,364,011)	(3,364,011)	\$	(3,364,011)
Balance at March 31, 2010	\$ 65,629,942	\$	-	\$ (73,051,943)	\$	(7,288,725)

See accompanying notes

CLEVELAND BIOLABS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

Cleveland BioLabs, Inc. (“CBLI” or “Company”) is a biotechnology company focused on developing biodefense, tissue protection and cancer treatment drugs based on the concept of modulation of cell death for therapeutic benefit. The Company was incorporated under the laws of the State of Delaware on June 5, 2003 and is headquartered in Buffalo, New York.

The Company’s financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and on a going concern basis which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. The Company has incurred substantial losses from operations which raises a question about its ability to continue as a going concern. The Company sustained a net loss of \$3,364,011 for the three months ended March 31, 2010 and \$12,826,409 for the fiscal year ended December 31, 2009.

The Company continues to explore investment and licensing arrangements and also plans to submit proposals for government contracts and grants over the next two years totaling over \$10 million and have three applications totaling nearly \$43 million that are pending approval. Many of the proposals will be submitted to government agencies that have awarded contracts and grants to the Company in the recent past. Finally, the Company has implemented cost containment efforts that permit the incurrence of those costs that are properly funded, either through a government contract or grant or other capital sources. It is expected that the successful implementation of the financing and cost containment efforts identified above will allow the Company to continue to realize its assets and liquidate its liabilities in the ordinary course of business.

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation - The information at March 31, 2010 and for the three months ended March 31, 2010 and March 31, 2009, is unaudited. In the opinion of management, these financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with CBLI’s audited financial statements for the year ended December 31, 2009, which were contained in the Company’s Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

B. Cash and Equivalents - The Company considers highly liquid investments with a maturity date of three months or less to be cash equivalents. In addition, the Company maintains cash and equivalents at financial institutions, which may exceed federally insured amounts at times and which may, at times, significantly exceed balance sheet amounts due to outstanding checks.

C. Marketable Securities and Short Term Investments - The Company considers investments with a maturity date of more than three months to be short-term investments and has classified these securities as available-for-sale. Such investments are carried at fair value, with unrealized gains and losses included as accumulated other comprehensive income (loss) in stockholders' equity. The cost of available-for-sale securities sold is determined based on the specific identification method.

D. Accounts Receivable - The Company extends unsecured credit to customers under normal trade agreements and according to terms of government contracts and grants, which generally require payment within 30 days.

Management estimates an allowance for doubtful accounts which is based upon management's review of delinquent accounts and an assessment of the Company's historical evidence of collections. There is no allowance for doubtful accounts as of March 31, 2010 and December 31, 2009.

E. Equipment - Equipment is stated at cost and depreciated over the estimated useful lives of the assets (generally five years) using the straight-line method. Leasehold improvements are depreciated on the straight-line method over the shorter of the lease term or the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to expense as incurred. Major expenditures for renewals and betterments are capitalized and depreciated. Depreciation expense was \$98,307 and \$91,599 for the three months ended March 31, 2010 and 2009, respectively.

F. Impairment of Long-Lived Assets - Long-lived assets to be held and used, including equipment and intangible assets subject to depreciation and amortization, are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amounts of the assets or related asset group may not be recoverable. Determination of recoverability is based on an estimate of discounted future cash flows resulting from the use of the asset and its eventual disposition. In the event that such cash flows are not expected to be sufficient to recover the carrying amount of the asset or asset group, the carrying amount of the asset is written down to its estimated net realizable value.

G. Intellectual Property - The Company capitalizes the costs associated with the preparation, filing, and maintenance of patent applications relating to intellectual property. If the patent applications are approved, costs paid by the Company associated with the preparation, filing, and maintenance of the patents will be amortized on a straight-line basis over the shorter of 20 years from the initial application date or the anticipated useful life of the patent. If the patent application is not approved, the costs associated the patent application will be expensed as part of selling, general and administrative expenses at that time. Capitalized intellectual property is reviewed annually for impairment.

A portion of this intellectual property is owned by the Cleveland Clinic Foundation (“CCF”) and granted to the Company through an exclusive licensing agreement. As part of the licensing agreement, CBLI agrees to bear the costs associated with the preparation, filing and maintenance of patent applications relating to this intellectual property. Gross capitalized patents and patents pending costs were \$711,538 and \$688,355 for ten patent applications as of March 31, 2010 and December 31, 2009, respectively. One of the CCF patent applications was approved by several nations and is being amortized on a straight-line basis over the weighted average estimated remaining life of approximately fifteen years. The remainder of the CCF patent applications are still pending approval. The Company recognized \$2,417, and \$0 in amortization expense for the three months ended March 31, 2010 and 2009, respectively.

The Company also has submitted patent applications as a result of intellectual property exclusively developed and owned by the Company. Gross capitalized patents pending costs were \$210,034 and \$199,371 for four patent applications as of March 31, 2010 and December 31, 2009, respectively. The patent applications are still pending approval.

The Company has also submitted two patent applications as a result of the collaborative research agreement with the Roswell Park Cancer Institute (“RPCI”). As part of this collaborative agreement, CBLI agrees to bear the costs associated with the preparation, filing and maintenance of patent applications related to the intellectual property being developed. Gross capitalized patents pending costs were \$10,399 and \$8,340 for two patent applications as of March 31, 2010 and December 31, 2009, respectively. The patent applications are still pending approval.

The Company has also submitted one patent application as a result of the collaborative research agreement with the ChemBridge Corporation (“ChemBridge”). As part of this collaborative agreement, CBLI agrees to bear the costs associated with the preparation, filing and maintenance of patent applications related to the intellectual property being developed. Gross capitalized patents pending costs were \$38,484 for this patent application as of March 31, 2010 and December 31, 2009. The patent applications are still pending approval.

Below is a summary of the major identifiable intangible assets and weighted average amortization periods for each identifiable asset:

	As of March 31, 2010			Weighted Average Amortization Period (Years)
	Cost	Accumulated Amortization	Net Intangible Asset	
Intangible Assets				
Patents	\$ 150,888	\$ 6,991	\$ 143,897	14.7
Patent Applications	819,567	-	819,567	n.a.
	\$ 970,455	\$ 6,991	\$ 963,464	

The estimated amortization expense for the next five years for approved patents is as follows:

2010	\$ 9,801
2011	\$ 9,801
2012	\$ 9,801
2013	\$ 9,801
2014	\$ 9,801

H.Line of Credit - The Company has a working capital line of credit that is fully secured by cash equivalents and short-term investments. This fully-secured, working capital line of credit carries an interest rate of prime minus 1%, a borrowing limit of \$600,000, and expires on May 31, 2010. At March 31, 2010 and December 31, 2009, there were no outstanding borrowings under this credit facility.

I. Accrued Warrant Liability – The Company issued warrants as part of the Series D Private Placement (as defined in Note 3) and as part of the 2010 Common Stock Equity Offering (as defined in Note 3). The warrants are accounted for as derivative instruments in accordance with the FASB Accounting Standards Codification on derivatives and hedging as the warrants are not indexed to the Company’s stock and as the warrants contain a cashless exercise provision. The warrants are initially recorded as accrued warrant liabilities based on their fair values on the date of issuance. Subsequent changes in the value of the warrants are shown in the statement of operations as “Change in value of warrant liability.”

The Series D Private Placement warrants carry a seven-year term and are exercisable for common shares of the Company at \$1.60 per share. The Company has a balance in accrued warrant liability of \$10,725,784 and \$8,410,379 at March 31, 2010 and December 31, 2009 for these warrants, respectively.

The 2010 Common Stock Equity Offering warrants carry a five-year term and are exercisable six months after the grant date for common shares of the Company at \$4.50 per share. The Company has a balance in accrued warrant liability of \$2,299,693 and \$0 at March 31, 2010 and December 31, 2009 for these warrants, respectively.

J. Fair Value of Financial Instruments - Financial instruments, including cash and equivalents, accounts receivable, notes receivable, accounts payable and accrued liabilities, are carried at net realizable value.

The Company values its financial instruments in accordance with the FASB Accounting Standards Codification on fair value measurements and disclosures which establishes a hierarchy for the inputs used to measure fair value. The fair value hierarchy prioritizes the valuation inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring a company to develop its own assumptions. The Company does not have any significant assets or liabilities measured at fair value using Level 1 or Level 2 inputs as of March 31, 2010 and December 31, 2009.

The Company carries its Series D Private Placement warrants at fair value totaling \$10,725,784 and \$8,410,379 as of March 31, 2010 and December 31, 2009, respectively. The Company carries its 2010 Common Stock Equity Offering warrants at fair value totaling \$2,299,693 and \$0 as of March 31, 2010 and December 31, 2009, respectively. The Company used Level 3 inputs for valuation of the warrants, and their fair values were determined using the Black-Scholes option pricing model based on the following assumptions:

	Preferred D Warrant Value at March 31, 2010	2010 Offering Warrant Value at March 31, 2010
Stock price	\$ 3.56	\$ 3.56
Exercise price	\$ 1.60	\$ 4.50
Term in years	2.99	2.67
Volatility	100.87%	104.53%
Annual rate of quarterly dividends	-	-
Discount rate- bond equivalent yield	1.60%	1.41%

Fair Value
As of

Fair Value Measurements at
March 31, 2010
Using Fair Value Hierarchy

	March 31, 2010		
Liabilities	Level 1	Level 2	Level 3
Series D Preferred Warrant liability	\$ 10,725,784		\$ 10,725,784
2010 Offering Warrant liability	\$ 2,299,693		\$ 2,299,693
Total	\$ 13,025,477		\$ 13,025,477

At March 31, 2010 the assumption for term in years used to value the Series D Private Placement warrants was changed based on an analysis of warrant exercise activity for the twelve months since issuance. At the time the warrants were issued, an expected term of two years was established based on the expectation that the warrants would be exercised earlier in their term as the warrants were immediately exercisable at a price below the market price of the stock. At March 31, 2010, the Company determined that the safe harbor method for determination of the expected term assumption was more appropriate based on the limited exercise experience to date. The safe harbor method calculates the expected term as one half of the remaining term of the warrants.

The Company recognized a fair value measurement loss of \$2,380,019 and \$1,384,772 on the Series D Private Placement warrants for the three months ended March 31, 2010 and March 31, 2009, respectively. The Company recognized a fair value measurement gain of \$648,923 and \$0 on the 2010 Common Stock Equity Offering warrants for the three months ended March 31, 2010 and March 31, 2009, respectively. In total, the Company recognized a fair value measurement loss of \$1,731,096 and \$1,384,772 for the three months ended March 31, 2010 and March 31, 2009, respectively.

The Company does not have any other non-recurring assets and liabilities that are required to be presented on the balance sheets at fair value.

K. Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under these circumstances. Actual results could differ from those estimates.

L. Revenue Recognition - Revenue sources consist of government grants, government contracts and commercial development contracts.

Revenues from government grants and contracts are for research and development purposes and are recognized in accordance with the terms of the award and the government agency. Grant revenue is recognized in one of two different ways depending on the grant. Cost reimbursement grants require us to submit proof of costs incurred that are invoiced by us to the government agency, which then pays the invoice. In this case, grant revenue is recognized during the period that the costs were incurred according to the terms of the government grant. Fixed cost grants require no proof of costs at the time of invoicing, but proof is required for audit purposes and grant revenue is recognized during the period that the costs were incurred according to the terms of the government grant. The grant revenue under these fixed costs grants is recognized using a percentage-of-completion method, which uses assumptions and estimates. These assumptions and estimates are developed in coordination with the principal investigator performing the work under the government fixed-cost grants to determine key milestones, expenses incurred, and deliverables to perform a percentage-of-completion analysis to ensure that revenue is appropriately recognized. Critical estimates involved in this process include total costs incurred and anticipated to be incurred during the remaining life of the grant.

Government contract revenue is recognized as allowable research and development expenses are incurred during the period and according to the terms of the government contract.

The Company recognizes revenue related to the funds received from the State of New York under the sponsored research agreement with the Roswell Park Cancer Institute (“RPCI”). This results in the recognition of revenue as allowable costs are incurred. The Company recognizes revenue on research laboratory services and the subsequent use of related equipment. The amount paid as a payment toward future services related to the equipment is recognized as a prepaid asset and will be recognized as revenue ratably over the useful life of the asset and the prepaid asset is recognized as expense.

Commercial revenue is recognized when the service or development is delivered or upon complying with the relevant terms of the commercial agreement.

M. Deferred Revenue – Deferred revenue results when payment is received in advance of revenue being earned. The Company makes a determination as to whether the revenue has been earned by applying a percentage-of-completion analysis to compute the need to recognize deferred revenue. The percentage of

completion method is based upon (1) the total income projected for the project at the time of completion and (2) the expenses incurred to date. The percentage-of-completion can be measured using the proportion of costs incurred versus the total estimated cost to complete the contract.

The Company received \$2,000,000 in funds from the State of New York through RPCI during the second quarter of 2007. The Company received an additional \$1,000,000 in funds from the State of New York through RPCI during the second quarter of 2008. The Company is recognizing this revenue over the terms and conditions of the sponsored research agreement. The Company recognizes revenue on research laboratory services and the purchase and subsequent use of related equipment. The amount paid as a payment toward future services related to the equipment is recognized as a prepaid asset and will be recognized as revenue ratably over the useful life of the asset.

For the three months ended March 31, 2010, the Company recognized \$4,144 as revenue resulting in a balance of deferred revenue of \$2,325,472 at March 31, 2010. At December 31, 2009, the balance in deferred revenue was \$2,329,616.

N. Research and Development – Research and development expenses consist primarily of costs associated with salaries and related expenses for personnel, costs of materials used in research and development, costs of facilities and costs incurred in connection with third-party collaboration efforts. Expenditures relating to research and development are expensed as incurred.

O. Equity Incentive Plan - On May 26, 2006, the Company's Board of Directors adopted the 2006 Equity Incentive Plan ("Plan") to attract and retain persons eligible to participate in the Plan, motivate participants to achieve long-term Company goals, and further align participants' interests with those of the Company's other stockholders. The Plan was to expire on May 26, 2016 and the aggregate number of shares of stock which could be delivered under the Plan may not exceed 2,000,000 shares. On February 14, 2007, these 2,000,000 shares were registered with the SEC by filing a Form S-8 registration statement. On April 29, 2008, the stockholders of the Company approved an amendment and restatement of the Plan (the "Amended Plan"). The Amended Plan increases the number of shares available for issuance by an additional 2,000,000 shares, clarifies other aspects of the Plan, contains updates that reflect changes and developments in federal tax laws and extends the expiration date of the Plan to April 29, 2018. As of March 31, 2010 there were 2,634,682 stock options and 527,594 shares granted under the Amended Plan and 83,104 shares forfeited leaving 920,828 shares of stock to be awarded under the Amended Plan.

During the three months ended March 31, 2010, the Company issued 144,029 stock options and 20,338 shares of common stock for the following:

- 63,029 stock options issued to employees and consultants under the Company's incentive bonus plan.
 - 60,000 stock options to two new employees as part of their compensation.
- 16,000 stock options to a consultant for payment of corporate strategy consulting services rendered.
 - 5,000 stock options to two consultants for payment of accounting services rendered.
- 60,724 shares of common stock to three consultants for payment of corporate strategy consulting services rendered. The shares were valued at \$219,922.
- 28,388 shares of common stock to five consultants for payment of financial and investor relations consulting services rendered. The shares were valued at \$77,569.

During the year ended December 31, 2009, the Company issued 787,932 stock options and 211,532 shares of common stock for the following:

- 452,932 stock options issued to employees and consultants under the Company's incentive bonus plan.
 - 140,000 stock options to independent directors as part of their compensation as directors.
 - 135,000 stock options to employees and consultants for a performance bonus.
 - 60,000 stock options to a consultant for payment of investor relations services rendered.
- 103,484 shares of common stock to three consultants for payment of corporate strategy consulting services rendered. The shares were valued at \$399,323.
- 78,048 shares of common stock to five consultants for payment of financial and investor relations consulting services rendered. The shares were valued at \$291,763.
- 30,000 shares of common stock to an employee for a performance bonus. The shares were valued at \$99,900.

P. Stock-Based Compensation - The Company recognizes and values employee stock-based compensation under the provisions of the FASB Accounting Standards Codification on stock compensation.

The fair value of each stock option granted is estimated on the grant date. The Black Scholes model is used for standard stock options, but if market conditions are present within the stock options, the Company utilizes Monte Carlo simulation to value the stock options. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect the Company's experience. The Company uses a risk-free rate published by the St. Louis Federal Reserve at the time of the option grant, assumes a forfeiture rate of zero, assumes an expected dividend yield rate of zero based on the Company's intent not to issue a dividend in the foreseeable future, uses an expected life based on the safe harbor method, and computes an expected volatility based on similar high-growth, publicly-traded, biotechnology companies. In 2008, the Company began to include the use of its own stock in the volatility calculation and is layering in the volatility of the stock of the Company with that of comparable companies

since there is not adequate trading history to rely solely on the volatility of the Company. The Company recognizes the fair value of share-based compensation in net income on a straight-line basis over the requisite service period.

During the three months ended March 31, 2010 and March 31, 2009, the Company granted 144,029 and 0 stock options, respectively. The Company recognized a total of \$330,246 and \$101,563 in expense related to stock options for the three months ended March 31, 2010 and March 31, 2009, respectively. The Company also recaptured \$38,787 and \$37,878 of previously recognized expense due to the forfeiture of non-vested stock options during the three months ended March 31, 2010 and March 31, 2009, respectively.

The assumptions used to value these option and grants using the Black-Scholes option valuation model are as follows:

	2010 YTD	2009
Risk-free interest rate	2.37-2.75%	1.87-2.74%
Expected dividend yield	0%	0%
Expected life	5-6 years	5-6 years
Expected volatility	85.35-89.44 %	84.13-90.06%

The weighted average, estimated grant date fair values of stock options granted during the three months ended March 31, 2010 and March 31, 2009 were \$2.67 and \$0, respectively.

The following tables summarize the stock option activity for the three months ended March 31, 2010 and March 31, 2009, respectively.

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)
Outstanding, December 31, 2009	2,517,007	\$ 5.46	
Granted	144,029	\$ 3.73	
Exercised	40,862	\$ 1.95	
Forfeited, Canceled	51,927	\$ 7.07	
Outstanding, March 31, 2010	2,568,247	\$ 5.39	7.91
Exercisable, March 31, 2010	2,260,372	\$ 5.18	7.85

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)
Outstanding, December 31, 2008	1,948,874	\$ 6.17	
Granted	-	n/a	
Exercised	10,132	\$ 0.67	