



## Letter to Our Shareholders

Blue Bell, PA – January 17, 2007 –

### Dear Valued Shareholder:

The beginning of year 2007 provides an opportunity to review our achievements in the past year as well as to share our core strategy for growth in the new year.

Looking back, 2006 was another significant growth year for VGX Pharmaceuticals in all aspects of our business, including R&D, Business Development, and Finance. Our product pipeline, in particular, now encompasses not only a solid infectious diseases portfolio but also includes novel drug candidates for treating cancer and inflammatory diseases; and with the addition of the VGX International (KSE 011000), our affiliate in Seoul, Korea, we have begun building a strong foundation to become a truly global, fully-functional biopharmaceutical company.

### R&D

#### **Our core strengths and value come from our multiple, novel drug pipeline:**

**PICTOVIR™**, our novel HIV compound, is currently in a multi-site, multi-dose Phase II study for assessing anti-HIV effects in higher doses. We are continuing patient enrollments at three different sites: the University of Pennsylvania, Georgetown University, and the VA Hospital in Philadelphia, PA. All of these steps are progressing as planned.

Moreover, we are making significant progress in testing **VGX-410C**, our candidate for hepatitis C virus infection, in another Phase II clinical trial. We have successfully completed the patient enrollment stage for the lower dosage arms (150 mg & 300 mg), and we expect to start the patient enrollment phase for the higher dosage (600 mg) study in 1Q 2007. Currently, these studies are on-going at St. Louis University, the University of Connecticut, and the University of Pennsylvania.

In the past year, we have also made a significant progress in bringing our lead preclinical candidates closer to clinical testing. Among our achievements is the successful establishment and completion of cGMP manufacturing of these drug candidates in 2006. **VGX-150** (Melanoma treatment), our lead cancer drug candidate, is completing IND-enabling preclinical toxicology studies and an IND for the Phase I clinical trials is expected to be filed in early 2007. The preclinical efficacy data in animal models for VGX-150 has been featured in the November issue of **Molecular Therapy** (vol 14, no 5, Nov. 2006; pages 647-655).

Another of our exciting Phase I candidates is **VGX-1027** (Type 1 Diabetes and Rheumatoid Arthritis). We are currently conducting multiple IND-enabling pre-clinical toxicology studies for VGX-1027 at Charles River Laboratories. Pre-clinical efficacy studies have been published in the *Journal of Pharmacology & Experimental Therapeutics (JPET)* (<http://jpet.aspetjournals.org>). An IND for Phase I clinical trial is expected to be filed in the second half of 2007.

Furthermore, we are making tremendous progress in developing VGX-100 as a cancer therapy candidate and VGX-750 as a candidate to treat inflammatory diseases. The progress from this research was published in the prestigious *Nature Cell Biology* in 2006 (Vol 8, no. 2, Pages 170-179).

**The number of our novel drug candidates in our pipeline is very competitive with that of other major biopharmaceutical and biotechnology companies. Our efforts for advancing VGX drug candidates to the next stages of development will continue to be the core growth strategy for 2007.**

### **Business Developments**

**Strategic alliances and license agreements play a vital role in advancing drug development strategy**

In 2006, we entered into a worldwide non-exclusive license with Inovio Biomedical Corp. (AMEX: INO) for the use of their patented DNA delivery technology to use in the delivery of VGX-150 to control the growth of melanoma and other cancers. This provides an opportunity to attack and treat cancers recalcitrant to current therapies; thus positioning the Company in a leadership position in the biotechnology field for the cancer treatment. A peer-reviewed journal, *Molecular Therapy*, recently published a scientific paper describing VGX's data from a mouse model showing complete regression of established melanoma tumors after the introduction of (VGX-150) using electroporation technology. Visit [www.vgxp.com](http://www.vgxp.com) for further details.

Furthermore in 2006, we entered into a worldwide exclusive license with VGX International, our affiliate based in Seoul, Korea to conduct research, develop, and market VGX-1027 for Type 1 Diabetes (T1D). Under the terms of this agreement, VGX Pharmaceuticals and VGX International will collaborate on pre-clinical as well as all phases of clinical trials for the development of VGX-1027 for T1D indication. Separately, we are developing detailed plans for VGX International to play a key role in the marketing and sale of VGX Pharmaceutical products in Asia as well as other developing regions. A continuing and strong collaboration with VGX International will provide important synergies and enhance the efficiency of our development activities for new drug compounds, while allowing for a more rapid transformation of both entities into globally competitive biopharmaceutical companies.

**We will continue to look for additional strategic opportunities (licenses and acquisitions) and potential collaborations with other biopharmaceutical companies in order to strengthen our drug development programs and expand our visibility in the global biopharmaceutical markets.**

## **Finance**

### **Maintain transparency and strong cash position.**

In fulfilling a requisite milestone in the preparation to become a public company, we have successfully completed the financial audits for fiscal years 2003 to 2005. Ernst & Young, LLP was the independent auditor. The audited financial statements are also an important tool for making strategic decisions and attracting distinguished board members. We are planning to complete the fiscal year 2006 audit during the first half of 2007.

Our financial position has never been stronger than it is today. On the other hand, we are well aware of the expected increase in expenses this year as we make strides in advancing our pipeline. We are ever mindful of our fiduciary responsibilities to our investors and will continue to minimize costs and find creative ways to limit cash outlays. Our goal is to become a public company this year and we will strive to achieve this goal in 2007.

## **Human Resources**

### **Our biggest asset is our people.**

We have attracted and added key personnel in the areas of R&D, Clinical Development and Product Development as part of our ongoing efforts to build out our management team. In 2007, we will continue our growth in hiring and managing capable people to carry out our ambitious development and growth objectives.

## **Outlook for 2007**

We take pride in VGX's effective and efficient approaches to developing novel drug candidates. This focused development strategy has allowed us to build a diverse and strong pipeline with multiple drug candidates in the short history of our company. This strategy has also benefited us in minimizing overall expenses for developing potential treatments that could someday improve the lives of many patients inflicted with grave diseases worldwide. Our overall strategy will continue to provide us with excellent growth opportunities for 2007 and many more years to come.

On balance, 2006 was a very positive year for VGX. We are also expecting 2007 to be a very exciting year as we continue to build upon the foundation that we have been laying since our inception. It is my sincere hope that we will have additional positive news to share with our investors in 2007.

Thank you for your continued support.

Sincerely,  
J. Joseph Kim, Ph.D.  
President and CEO

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### **About VGX Pharmaceuticals**

VGX Pharmaceuticals is a biopharmaceutical company with small molecules and biologics product candidates for the treatment of infectious diseases, cancer and inflammatory diseases. The Company's clinical development programs include PICTOVIR™ for HIV infection and VGX-410C for chronic HCV infection, both of which are currently in Phase II clinical trials. In addition, Phase I clinical trials will be initiated in 2007 for VGX-150 for the treatment of Melanoma and VGX-1027 for inflammatory diseases. VGX's research pipelines include new generation of DNA vaccines and therapeutics as well as CELLECTRA™, a proprietary DNA delivery device. The product candidates and technology programs are protected by the Company's extensive global intellectual property portfolio. More information about VGX can be found at [www.vgxp.com](http://www.vgxp.com).

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