

FORM 10-Q

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

For the quarterly period ended June 30, 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 000-33393

Northwest Biotherapeutics, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other Jurisdiction of Incorporation or Organization)

94-3306718

(I.R.S. Employer Identification No.)

**4800 Montgomery Lane, Suite 800
Bethesda, Maryland 20814**

(Address of Principal Executive Offices)

20814
(Zip Code)

(240) 497-9024

(Registrant's Telephone Number, Including Area Code)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(do not check if a 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 July 29, 2010, the total number of shares of common stock, par value \$0.001 per share, outstanding was 70,286,110.

NORTHWEST BIOTHERAPEUTICS, INC.

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Part I — Financial Information

NORTHWEST BIOTHERAPEUTICS, INC.
(A Development Stage Company)

Condensed Consolidated Balance Sheets
(in thousands)

	<u>December 31, 2009</u>	<u>June 30, 2010</u> (Unaudited)
Assets		
Current assets:		
Cash	\$ 65	\$ 180
Prepaid expenses and other current assets	36	201
Total current assets	<u>101</u>	<u>381</u>
Property and equipment:		
Laboratory equipment	29	29
Office furniture and other equipment	82	121
	<u>111</u>	<u>150</u>
Less accumulated depreciation and amortization	(111)	(111)
Property and equipment, net	—	39
Deposit and other non-current assets	2	16
Total assets	<u>\$ 103</u>	<u>\$ 436</u>
Liabilities And Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 3,249	\$ 3,360
Accounts payable, related party	6,328	6,755
Accrued expenses	1,874	2,042
Accrued expense, related party	1,329	1,404
Notes payable	2,650	1,650
Note payable to related parties	4,000	4,000
Convertible notes payable, net	—	733
Total current liabilities	<u>19,430</u>	<u>19,944</u>
Long term liabilities:		
Convertible notes payable, net	1,061	1,022
Convertible notes payable to related party, net	298	621
Total long term liabilities	<u>1,359</u>	<u>1,643</u>
Total liabilities	<u>20,789</u>	<u>21,587</u>
Stockholders' equity (deficit):		
Preferred stock, \$0.001 par value; 20,000,000 shares authorized and none issued and outstanding		
Common stock, \$0.001 par value; 150,000,000 shares authorized at December 31, 2009 and June 30, 2010 and 58,877,087 and 69,557,778 shares issued and outstanding at December 31, 2009 and June 30, 2010, respectively	58	70
Additional paid-in capital	169,202	183,258
Deficit accumulated during the development stage	(189,897)	(204,469)
Cumulative translation adjustment	(49)	(10)
Total stockholders' equity (deficit)	<u>(20,686)</u>	<u>(21,151)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 103</u>	<u>\$ 436</u>

See accompanying notes to condensed consolidated financial statements.

NORTHWEST BIOTHERAPEUTICS, INC.

(A Development Stage Company)

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended		Period from
	June 30,		June 30,		March 18,
	2009	2010	2009	2010	1996
					(Inception)
					to June 30,
					2010
Revenues:					
Research material sales	\$ —	\$ —	\$ —	\$ —	\$ 560
Contract research and development from related parties	—	—	—	—	1,128
Research grants and other	—	—	—	—	1,061
Total revenues	—	—	—	—	2,749
Operating cost and expenses:					
Cost of research material sales	—	—	—	—	382
Research and development	2,480	1,194	4,972	3,185	70,098
General and administrative	786	1,912	2,119	3,268	58,111
Depreciation and amortization	—	—	—	—	2,351
Loss on facility sublease	—	—	—	—	895
Asset impairment loss and other (gain) loss	389	—	389	—	2,445
Total operating costs and expenses	3,655	3,106	7,480	6,453	134,282
Loss from operations	(3,655)	(3,106)	(7,480)	(6,453)	(131,533)
Other income (expense):					
Warrant valuation	—	—	—	—	6,759
Loan conversion inducement	—	(4,522)	—	(4,522)	(10,139)
Gain on sale of intellectual property and property and equipment	—	—	—	—	3,664
Interest expense	(440)	(1,099)	(1,191)	(3,597)	(29,629)
Interest income and other	—	—	—	—	1,218
Net loss	(4,095)	(8,727)	(8,671)	(14,572)	(159,660)
Issuance of common stock in connection with elimination of Series A and Series A-1 preferred stock preferences	—	—	—	—	(12,349)
Modification of Series A preferred stock warrants	—	—	—	—	(2,306)
Modification of Series A-1 preferred stock warrants	—	—	—	—	(16,393)
Series A preferred stock dividends	—	—	—	—	(334)
Series A-1 preferred stock dividends	—	—	—	—	(917)
Warrants issued on Series A and Series A-1 preferred stock dividends	—	—	—	—	(4,664)
Accretion of Series A preferred stock mandatory redemption obligation	—	—	—	—	(1,872)
Series A preferred stock redemption fee	—	—	—	—	(1,700)
Beneficial conversion feature of Series D preferred stock	—	—	—	—	(4,274)
Net loss applicable to common stockholders	\$ (4,095)	\$ (8,727)	\$ (8,671)	\$ (14,572)	\$ (204,469)
Net loss per share applicable to common stockholders					
— basic and diluted	\$ (0.09)	\$ (0.14)	\$ (0.20)	\$ (0.23)	
Weighted average shares used in computing basic and diluted net loss per share	45,069	63,853	44,232	62,957	

See accompanying notes to condensed consolidated financial statements.

NORTHWEST BIOTHERAPEUTICS, INC.
(A Development Stage Company)

Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Six Months Ended June 30,		Period from March 18, 1996 (Inception) to June 30, 2010
	2009	2010	
Cash Flows from Operating Activities:			
Net Loss	\$ (8,671)	\$ (14,572)	\$ (159,660)
Reconciliation of net loss to net cash used in operating activities:			
Depreciation and amortization	—	—	2,351
Amortization of deferred financing costs	—	—	320
Amortization debt discount	659	721	20,422
Accrued interest converted to stock	—	1,047	1,307
Accreted interest on convertible promissory note	—	—	1,484
Stock-based compensation costs	658	1,020	10,524
Stock and warrants issued for services and other expenses	—	3,057	6,056
Loan conversion inducement	—	4,522	10,139
Warrant valuation	—	—	(6,759)
Asset impairment loss and loss (gain) on sale of properties	389	—	(936)
Loss on facility sublease	—	—	895
Increase (decrease) in cash resulting from changes in assets and liabilities:			
Prepaid expenses and other current assets	931	(179)	509
Accounts payable and accrued expenses	391	283	5,328
Related party accounts payable and accrued expenses	3,510	502	8,159
Accrued loss on sublease	—	—	(265)
Deferred rent	—	—	410
Net Cash used in Operating Activities	<u>(2,133)</u>	<u>(3,599)</u>	<u>(99,716)</u>
Cash Flows from Investing Activities:			
Purchase of property and equipment, net	(2)	(39)	(5,042)
Proceeds from sale of property and equipment	—	—	258
Proceeds from sale of intellectual property	—	—	1,816
Proceeds from sale of marketable securities	—	—	2,000
Refund of security deposit	—	—	(3)
Transfer of restricted cash	—	—	(1,035)
Net Cash used in Investing Activities	<u>(2)</u>	<u>(39)</u>	<u>(2,006)</u>
Cash Flows from Financing Activities:			
Proceeds from issuance of note payable	760	875	5,585
Proceeds from issuance of convertible notes payable to related parties	—	—	1,300
Proceeds from issuance of note payable to related parties	—	—	11,250
Repayment of note payable to related party	—	—	(6,700)
Proceeds from issuance of convertible promissory note and warrants, net of issuance costs	—	—	13,099
Repayment of convertible promissory note	—	—	(119)
Borrowing under line of credit, Northwest Hospital	—	—	2,834
Repayment of line of credit, Northwest Hospital	—	—	(2,834)
Payment on capital lease obligations	—	—	(323)
Payments on note payable	—	—	(420)
Proceeds from issuance preferred stock, net	—	—	28,708
Proceeds from exercise of stock options and warrants	—	—	228
Proceeds from issuance common stock, net	1,394	2,839	52,575
Payment of preferred stock dividends	—	—	(1,251)
Series A preferred stock redemption fee	—	—	(1,700)
Deferred financing costs	—	—	(320)

Net Cash provided by Financing Activities	2,154	3,714	101,912
Effect of exchange rates on cash	15	39	(10)
Net increase in cash	34	115	180
Cash at beginning of period	16	65	—
Cash at end of period	\$ 50	\$ 180	\$ 180
Supplemental disclosure of cash flow information — Cash paid during the period for interest	\$ —	\$ —	\$ 1,879
Supplemental schedule of non-cash financing activities:			
Equipment acquired through capital leases	\$ —	\$ —	\$ 285
Issuance of common stock in connection with elimination of Series A and Series A-1 preferred stock preferences	—	—	12,349
Issuance of common stock in connection with conversion of notes payable, convertible promissory notes and accrued interest	—	1,004	2,504
Modification of Series A preferred stock warrants	—	—	2,306
Modification of Series A-1 preferred stock warrants	—	—	16,393
Warrants issued on Series A and Series A-1 preferred stock dividends	—	—	4,664
Common stock warrant liability	—	—	11,841
Accretion of mandatorily redeemable Series A preferred stock redemption obligation	—	—	1,872
Debt discount on promissory notes	73	579	11,416
Conversion of convertible promissory notes and accrued interest to Series D preferred stock	—	—	5,324
Conversion of convertible promissory notes and accrued interest to Series A-1 preferred stock	—	—	7,707
Conversion of convertible promissory notes and accrued interest to common stock	—	—	269
Issuance of Series C preferred stock warrants in connection with lease agreement	—	—	43
Issuance of common stock for license rights	—	—	4
Liability for and issuance of common stock and warrants to Medarex	—	—	840
Issuance of common stock to landlord	—	—	35
Deferred compensation on issuance of stock options and restricted stock grants	—	—	759
Cancellation of options and restricted stock	—	—	849
Financing of prepaid insurance through note payable	—	—	491
Stock subscription receivable	—	—	480

See accompanying notes to condensed consolidated financial statements.

Northwest Biotherapeutics, Inc.
(A Development Stage Company)

Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Northwest Biotherapeutics, Inc. and its subsidiary, NW Bio Europe Sarl (collectively, the “Company”, “we”, “us”, and “our”). All material intercompany balances and transactions have been eliminated. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). All normal recurring adjustments which are necessary for the fair presentation of the results for the interim periods are reflected herein. Operating results for the three and six month periods ended June 30, 2009 and 2010 are not necessarily indicative of results to be expected for a full year.

The independent registered public accounting firm’s report on the financial statements for the fiscal year ended December 31, 2009 states that because of recurring operating losses, net operating cash flow deficits, and a deficit accumulated during the development stage, there is substantial doubt about the Company’s ability to continue as a going concern. A “going concern” opinion indicates that the financial statements have been prepared assuming the Company will continue as a going concern and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

2. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of the Company’s condensed consolidated financial statements are disclosed in Note 3 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Recent and Adopted Accounting Pronouncements

In March 2010, The Financial Accounting Standards Board (“FASB”) issued new authoritative guidance regarding revenue recognition to define a milestone and clarify that the milestone method of revenue recognition is a valid application of the proportional performance model when applied to research or development arrangements. Accordingly, a company can make an accounting policy election to recognize a payment that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. This guidance begins phasing in during the third quarter of 2010. We do not expect the implementation of this guidance to have a material impact on our consolidated financial statements.

In January 2010, the FASB issued new authoritative guidance regarding the disclosure of fair value measurements, which clarifies certain existing disclosure requirements as well as requiring new disclosures related to significant transfers between each fair value level as well as requiring additional information about Level 3 activity. We adopted the guidance in 2010 without material impact on our consolidated financial statements.

3. Stock-Based Compensation

Compensation expense for all stock-based awards is measured at the grant date based on the fair value of the award and is recognized as an expense, on a straight-line basis, over the employee's requisite service period (generally the vesting period of the equity award). The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Stock-based compensation expense is recognized only for those awards that are expected to vest using an estimated forfeiture rate. We estimate pre-vesting option forfeitures at the time of grant and reflect the impact of estimated pre-vesting option forfeitures in compensation expense recognized. For options and warrants issued to non-employees, the Company recognizes stock compensation costs utilizing the fair value methodology over the related period of benefit.

Stock-based compensation expense was as follows for the three and six months ended June 30 (in thousands):

	Three months ended		Six Months ended	
	June 30		June 30	
	2009	2010	2009	2010
Research and Development	\$ 139	\$ 177	\$ —	\$ 363
General and Administrative	329	329	658	657
Total stock-based compensation	\$ 468	\$ 506	\$ 658	\$ 1,020

During the three month periods ended June 30, 2009 and 2010 options to purchase 850,000 and 50,000, respectively, shares of common stock were issued. During the six month periods ended June 30, 2009 and 2010 options to purchase 850,000 and 100,000, respectively, shares of common stock were issued

At June 30, 2010, the unrecognized compensation expense related to stock options was \$2.6 million which is to be recognized over a weighted average period of 1.72 years.

4. Liquidity

The Company has experienced recurring losses from operations, and, as of June 30, 2010, had a working capital deficit of \$19.6 million and a deficit accumulated during the development stage of \$204.5 million. Of this \$204.5 million deficit, \$99.7 million (about half) reflects cash used in operations, and the remaining \$104.8 million reflects non-cash accounting measures.

Between 2004 and 2010, the Company has undergone a significant recapitalization through the transactions described below.

Toucan Capital and Toucan Partners

Toucan Capital Fund II, L.P. (“Toucan Capital”) loaned the Company \$6.75 million during 2004 and 2005. The Board’s Chairperson is the managing director of Toucan Capital. In April 2006, the \$6.75 million of notes payable plus all accrued interest were converted into shares of Series A-1 cumulative convertible Preferred Stock (the “Series A-1 Preferred Stock”). In connection with these loans the Company issued Toucan Capital a warrant to purchase 8,166,667 shares of Series A-1 Preferred Stock. The warrants to purchase Series A-1 Preferred Stock were later converted into warrants to purchase 17,256,888 shares of common stock in connection with the Conversion Agreement, described below.

On January 26, 2005, Toucan Capital purchased 32.5 million shares of Series A cumulative convertible preferred stock (the “Series A Preferred Stock”) at \$0.04 per share, for a total of \$1.276 million. In connection with the securities purchase agreement, the Company issued Toucan Capital a warrant to purchase 2,166,667 million shares of Series A Preferred Stock. The warrants to purchase Series A Preferred Stock were later converted into warrants to purchase 4,778,201 shares of common stock in connection with the Conversion Agreement, described below.

From November 14, 2005 through May 25, 2007, Toucan Partners, LLC (“Toucan Partners”) loaned the Company \$4.825 million under various promissory note agreements. The Board’s Chairperson is the managing member of Toucan Partners. The promissory note agreements were amended and restated into the 2007 Convertible Notes. The 2007 Convertible Notes also included warrants to purchase shares of Series A-1 Preferred Stock (“2007 Warrants”). The Company repaid \$5.3 million of principal and accrued interest due to Toucan Partners during 2007. The warrants to purchase Series A-1 Preferred Stock were later converted into warrants to purchase 8,832,541 shares of common stock in connection with the Conversion Agreement, described below.

Under the June 22, 2007 Conversion Agreement, Toucan Capital and Toucan Partners agreed to eliminate a number of rights, preferences and protections associated with the Series A Preferred Stock and the Series A-1 Preferred Stock and Toucan Capital received 4,287,851 shares of common stock and Toucan Partners received 2,572,710 shares of common stock. Also, Toucan Capital converted its preferred shares into 15,011,635 shares of common stock. Additionally under the conversion agreement the Company exchanged the warrants to purchase Series A-1 Preferred Stock and Series A Preferred Stock (discussed above) for warrants to purchase common stock. As a result of the conversion Toucan Capital received warrants to purchase 14,150,732 shares of Common Stock at an exercise price of \$0.60 per share and warrants to purchase 7,884,357 shares of Common Stock at an exercise price of \$0.15 per share and Toucan Partners received warrants to purchase 8,832,541 shares of Common Stock at an exercise price of \$0.60 per share.

Toucan Partners loaned the Company \$1.0 million on August 19, 2008 under the terms of an unsecured promissory note (the “Toucan Partners August Loan”) with a principal amount of \$1,060,000 (reflecting an original issue discount of \$60,000). On September 28, 2009, the note principal and accrued interest (including a default penalty of 0.25% per month) amounting to \$1,156,718 was converted to 5,783,589 shares

of common stock at a conversion price of \$0.20. In connection with the conversion, the Company issued Toucan Partners a warrant to purchase 690,000 shares of common stock at an exercise price of \$0.20 per share.

Toucan Partners loaned the Company \$500,000 on December 22, 2008 under the terms of an unsecured 12% promissory note (the "Toucan Partners December Loan"). In connection with the promissory note, the Company issued to Toucan Partners a warrant to purchase 132,500 shares of common stock at an exercise price of \$0.40 per share and a term of 5 years. On September 28, 2009, the note principal and accrued interest (including a default penalty of 0.25% per month) amounting to \$552,738 was converted to 2,763,691 shares of common stock at a conversion rate of \$0.20. To bring the December Loan into conformity with the SDS and Private Lender notes issued in October and November 2008, as agreed by the parties at the time of the Toucan Partners December Loan, the Company issued Toucan Partners a warrant to purchase 513,841 shares of common stock at an exercise price of \$0.41 per share. In connection with the conversion, the Company issued Toucan Partners a warrant to purchase 152,375 shares of common stock at an exercise price of \$0.20 per share.

Toucan Partners and the Board's Chairperson also received a total of 2,504,034 shares of common stock as compensation for services rendered during 2008 and 2009.

Toucan Partners loaned the Company a total of \$1,300,000 on June 30, 2009, July 2, 2009 and July 17, 2009 under unsecured 6% convertible promissory notes due June 29, 2011, July 1, 2011 and July 16, 2011. The conversion feature of the notes allows Toucan Partners to convert the principal into shares of common stock at a conversion price of \$0.20.

As a result of the financings described above, as of June 30, 2010 Toucan Capital held:

- an aggregate of 19,299,486 shares of Common Stock;
- warrants to purchase 14,150,732 shares of Common Stock at an exercise price of \$0.60 per share; and
- warrants to purchase 7,884,357 shares of Common Stock at an exercise price of \$0.15 per share.

As a result of the financings described above, as of June 30, 2010, Toucan Partners and its managing member Ms. Linda Powers held:

- an aggregate of 12,882,490 shares of Common Stock (net of the sale of 750,000 shares by Toucan Partners in 2010 in open market transactions);
- warrants to purchase 8,832,541 shares of Common Stock at an exercise price of \$0.60 per share;
- warrants to purchase 513,841 shares of common stock at an exercise price of \$0.41;
- warrants to purchase 132,500 shares of common stock at an exercise price of \$0.40; and
- warrants to purchase 842,375 shares of common stock at an exercise price of \$0.20.

As of June 30, 2010, Toucan Capital, including the holdings of Toucan Partners, held 32,181,976 shares of common stock, representing approximately 46.3% of the common stock outstanding. Further, as of June 30, 2010, Toucan Capital, including the holdings of Toucan Partners, beneficially owned (including unexercised warrants) 64,538,322 shares of common stock, representing a beneficial ownership interest of approximately 56.8%.

Other Financings

In April 2006, the Company completed the PIPE Financing and raised approximately \$5.5 million from the issuance of 2.6 million shares of common stock.

On June 22, 2007, we placed 15,789,473 shares of common stock with foreign institutional investors at a price of £0.95 per share. The gross proceeds from the placement were approximately £15.0 million, or \$29.9 million, while net proceeds from the offering, after deducting commissions and expenses, were approximately £13.0 million, or \$25.9 million.

On January 16, 2009 we entered into a securities purchase agreement for \$700,000 with Al Rajhi Holdings who purchased 1,000,000 shares of our common stock at \$0.70 per share.

On March 27, 2009, we completed a private placement of 1.4 million shares of our common stock and received \$700,000.

Between February 22, 2010 and March 31, 2010, we sold 1,451,666 shares of common stock at \$0.75 per share for net proceeds of \$1,088,750.

During the three months ended June 30, 2010 we issued 2,333,333 shares of common stock at \$0.75 per share plus ten percent warrant coverage for net proceeds of \$1,750,000. As a result, the Company issued warrants to purchase 233,333 shares of common stock at an exercise price of \$0.75 per share for a period of three years from the date of issue.

Shareholder Loan

Al Rajhi loaned the Company \$4.0 million on May 12, 2008 under the terms of an unsecured promissory note with a principal amount of \$4,240,000 (reflecting an original issue discount of \$240,000). The note was initially due on November 12, 2008. Al Rajhi agreed to extend the term of the note of the loan until December 31, 2009. On February 22, 2010, Al Rajhi agreed to extend the term of the note to December 31, 2010. Additionally, Al Rajhi agreed to convert the interest accrued pursuant to the promissory note into shares of common stock. A total of \$853,952 was converted into 1,138,603 shares of common stock at a conversion price of \$0.75. In consideration of the extension the Company agreed to extend the term of the warrants issued to Al Rajhi to September 30, 2013.

Other Loans

On October 1, 2008, the Company entered into a \$1 million unsecured 12% Loan Agreement with SDS (the "SDS Loan"). The SDS Loan was initially due April 1, 2009. On May 27, 2010 SDS agreed to extend the term of the note to June 2, 2011. In consideration of the extension the Company issued SDS a warrant to purchase 474,000 shares of the Company's stock with an exercise price of \$0.53 per share. The warrants have a five year term.

On dates between October 21, 2008 and November 6, 2008, the Company entered into unsecured 12% Loan Agreements (the "Private Investor Loans") and Promissory Notes (the "Private Investor Promissory Notes") with SDS and a group of private investors (the "Private Investors"). Under the Private Investor Promissory Notes, SDS loaned the Company \$1 million and the Private Investors loaned the Company \$650,000 for a total of \$1.65 million. The Private Investor Promissory Notes were initially due in April 2009, and the Private Investors (excluding SDS) agreed to extend the maturity date to June 2010. The Private Investors agreed to further extend the maturity of the loans, maturing in June 2010, on terms that are currently being negotiated. Under the terms of a conversion and extension agreement, SDS converted the November 2008 \$1 million unsecured 12% loan and accrued interest payable into 5,024,400 shares of common stock during May 2010. The value of the stock issued to SDS in excess of the carrying amount of the loan principal and accrued interest payable that was converted was \$4,521,960. This amount was charged to loan conversion inducement expense in the accompanying consolidated statements of operations during the quarter ended June 30, 2010.

During March 2009, the Company received \$650,000 upon issuing unsecured 6% convertible loan agreements and promissory notes due in March 2011 to a group of private lenders ("Private Lenders").

During March 2009, the Company received \$110,000 upon issuing a unsecured 6% convertible loan agreement and promissory note due in March 2011 to a private lender ("Private Lender").

On dates between August 13, 2009 and September 24, 2009, the Company received \$580,000 upon issuing unsecured 6% convertible loan agreements and promissory notes due in August and September 2011 to a group of Private Lenders.

On dates between October 6, 2009 and December 31, 2009, the Company received \$720,000 upon issuing unsecured 6% convertible loan agreements and promissory notes due in October through December 2011 to a group of Private Lenders.

On dates between January 8, 2010 and March 29, 2010, the Company received \$875,000 upon issuing unsecured 6% convertible loan agreements and promissory notes due between January and March 2012 to a group of Private Lenders.

Going Concern

As of August 9, 2010, the Company had approximately \$0.7 million of cash on hand. The Company will need to raise additional capital in the near future to fund its clinical trials and other operating activities. The Company is in late stage discussions with multiple parties regarding potential funding transaction. However, these parties are not obligated to provide any financing.

The Company will require additional funding before it achieves profitability and there can be no assurance that its efforts to seek such funding will be successful. The Company may raise additional funds by issuing additional common stock or securities (equity or debt) convertible into shares of Common Stock, in which case, the ownership interest of its stockholders will be diluted. Any debt financing, if available, is likely to include restrictive covenants that could limit the Company's ability to take certain actions. Further, the Company may seek funding from Toucan Capital or Toucan Partners or their affiliates or other third parties. Such parties are under no obligation to provide the Company with any additional funds, and any such funding may be dilutive to stockholders and may contain restrictive covenants. The Company is currently exploring additional financings with several other parties; however, there can be no assurance that the Company will be able to complete any such

financings or that the terms of such financings will be attractive to the Company. If the Company's capital raising efforts are unsuccessful, its inability to obtain additional cash as needed could have a material adverse effect on the Company's financial position, results of operations and the Company's ability to continue its existence. The Company's independent registered public accounting firm has indicated in its report on the Company's consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2009 that there is substantial doubt about the Company's ability to continue as a going concern.

5. Notes Payable

Notes Payable Originating During 2010

On dates between January 8, 2010 and March 29, 2010, the Company received \$875,000 upon issuing unsecured 6% convertible loan agreements and promissory notes due between January and March 2012 to a group of Private Lenders. The conversion feature allows the holders to elect in their discretion to receive shares of common stock at a conversion price of \$0.50. The intrinsic value of the convertible notes resulted in a beneficial conversion feature amounting to \$579,000 which was recorded as a debt discount to be amortized over the term of the notes.

Notes payable to related parties consist of the following at December 31, 2009 and June 30, 2010 (in thousands):

	December 31, 2009	June 30, 2010
12% note payable to Al Rajhi, due December 31, 2010	\$ 4,000	\$ 4,000
6% unsecured convertible note payable to Toucan Partners, due July, 2011 and November 2011, (net of discount of \$1,002 and \$679 in 2009 and 2010, respectively)	298	621
	<u>4,298</u>	<u>4,621</u>
Less current portion	(4,000)	(4,000)
Long-term notes payable to related parties (net)	\$ 298	\$ 621

Notes payable consist of the following at December 31, 2009 and June 30, 2010 (in thousands):

	December 31, 2009	June 30, 2010
12% unsecured note payable to SDS	\$ 1,000	\$ 1,000
12% unsecured notes payable to SDS and Private Investors	1,650	650
6% unsecured convertible notes payable to Private Lenders, due in August and September 2011, (net of discount of \$485 and \$341 in 2009 and 2010, respectively)	95	239
6% unsecured convertible notes payable to Private Lenders, due March 25, 2011, (net of discount of \$46 and \$27 in 2009 and 2010, respectively)	604	623
6% unsecured convertible note payable to Private Lender, due March 25, 2011	110	110
6% unsecured convertible notes payable to Private Lenders, due October, 2011, (net of discount of \$194 and \$141 in 2009 and 2010, respectively)	21	74
6% unsecured convertible notes payable to Private Lenders, due October and December 2011, (net of discount of \$274 and \$205 in 2009 and 2010, respectively)	231	300
6% unsecured convertible notes payable to Private Lenders, due between January and March 2012, (net of discount of \$466 in 2010)	-	409
	<u>3,711</u>	<u>3,405</u>
Less current portion	(2,650)	(2,383)
Long-term notes payable (net)	\$ 1,061	\$ 1,022

The current portion of notes payable at June 30, 2010, is reported in the accompanying consolidated balance sheet as follows (in thousands):

Notes payable, net	\$ 1,650
Convertible notes payable, net	733
	<u>\$ 2,383</u>

6. Net Income (Loss) Per Share Applicable to Common Stockholders

Basic net loss per share is calculated based on the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is computed on the basis of the weighted average number of common shares plus dilutive potential common shares outstanding using the treasury stock method. The potentially dilutive securities are antidilutive due to the Company's net losses and are as follows for all periods presented (in thousands):

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2010	2009	2010
Common stock options	2,400	4,096	2,400	4,096
Common stock warrants	35,000	38,200	35,000	38,200
Convertible Notes	1,200	16,200	1,200	16,200
Excluded potentially dilutive securities	38,600	58,496	38,600	58,496

7. Related Party Transactions

Cognate Agreement

On July 30, 2004, the Company entered into a service agreement with Cognate Therapeutics, Inc. (now known as Cognate BioServices, Inc., or Cognate), a contract manufacturing and services organization in which Toucan Capital has a majority interest. In addition, two of the principals of Toucan Capital are members of Cognate's board of directors and, on May 17, 2007, the managing director of Toucan Capital was appointed to serve as a director of the Company and to serve as the non-executive Chairperson of the Company's Board of Directors. Under the service agreement, the Company agreed to utilize Cognate's services for an initial two-year period, related primarily to manufacturing DCVax[®] product candidates, regulatory advice, research and development preclinical activities and managing clinical trials. The agreement expired on July 30, 2006; however, the Company continued to utilize Cognate's services under the same terms as set forth in the expired agreement. On May 17, 2007, the Company entered into a new service agreement with Cognate pursuant to which Cognate will provide certain consulting and, when needed, manufacturing services to the Company for its DCVax[®] -Brain Phase II clinical trial. Under the terms of the new contract, the Company paid a non-refundable contract initiation fee of \$250,000 and committed to pay budgeted monthly service fees of \$400,000, subject to quarterly true-ups, and monthly facility fees of \$150,000. Under the terms of the contract unless the contract is terminated earlier the contract will expire at the earlier of (i) the submission of an FDA biological license application/new drug application on the Company's brain cancer clinical trial or (ii) July 1, 2010. The Company may terminate this agreement with 180 days notice and payment of all reasonable wind-up costs and Cognate may terminate the contract in the event that the brain cancer clinical trial fails to complete enrollment by July 1, 2009. However, if such termination by the Company occurs at any time prior to the earlier of the submission of an FDA biological license application/new drug application on the Company's brain cancer clinical trial or July 1, 2010 or, such termination by Cognate results from failure of the brain cancer clinical trial to complete patient enrollment by July 1, 2009, the Company is obligated to make an additional termination fee payment to Cognate equal to \$2 million. Although the Company failed to complete enrollment for the brain cancer clinical trial by July 1, 2009 and as of July 1, 2010 has not submitted an FDA biological license application/new drug application on the Company's brain cancer clinical trial, Cognate has elected not to terminate the agreement and as such the \$2 million termination penalty has not been triggered. Since July 1, 2009, with the mutual agreement of Cognate and the Company, the agreement has continued on the same terms as included in the original agreement.

Cognate has moved its operations from Sunnyvale, California to its newer facility in Memphis, Tennessee. The current capacity in Memphis (using only part of the facility) is approximately 600 patients per year, which we believe will be sufficient for our Phase II clinical trial for DCVax[®] -Brain. We have made arrangements with Cognate to accommodate an increase in production capacity in the current facility on a stepwise or modular basis based on demand from approximately 600 patients to over 9,000 patients per year.

During the three months ending June 30, 2009 and 2010, respectively, the Company recognized approximately \$2.0 million and \$0.8 million of research and development costs related to three service agreements. During the six months ending June 30, 2009 and 2010, respectively, the Company recognized approximately \$4.0 million and \$2.0 million of research and development costs related to these service agreements. As of December 31, 2009 and June 30, 2010, accounts payable to Cognate amounted to approximately \$5.9 and \$5.8 million, respectively. The parties have agreed to review charges and adjust as needed.

During 2009, the Company and Cognate agreed that most of the accounts payable owed by the Company to Cognate, will be converted into shares of common stock instead of paid in cash. The conversion price will be no less favorable than the conversion price applied to any other creditor of the Company. The lowest conversion price applied to any other creditor of the Company to date following the agreement is \$0.20 per share. Accordingly, if no lower conversion price is applied to any other creditor prior to completion of the Cognate conversion, the Cognate conversion will take place at \$0.20 per share. The impact of the conversion will result in a reduction of liabilities for the amount converted. In addition, the Company will recognize the value of common stock issued in excess of the amount of accounts payable converted, if any, as a charge to operations when the conversion takes place. Initial review of the payables by both parties indicated a difference in the parties' respective

understanding of the amounts due. The parties are in the process of reviewing the accounts payable in order to reach agreement about such amounts and conversion arrangements.

Toucan Capital Management

In accordance with a recapitalization agreement dated April 26, 2004 between the Company and Toucan Capital, as amended and restated on July 30, 2004 and further amended ten times between October 22, 2004 and November 14, 2005, pursuant to which Toucan Capital agreed to recapitalize the Company by making loans to the Company, the Company accrued and paid certain legal and other administrative costs on Toucan Capital's behalf. Pursuant to the terms of the Conversion Agreement discussed above, the recapitalization agreement was terminated on June 22, 2007. Subsequent to the termination of the recapitalization agreement, Toucan Capital continues to incur costs on behalf of the Company. These costs primarily relate to consulting costs and travel expenses incurred in support of the Company's international expansion efforts. In addition, during 2007, 2008 and 2009 the Company accrued and recorded rent expense due to Toucan Capital Corp. an affiliate of Toucan Capital for its office space in Bethesda, Maryland.

During the three months ending June 30, 2009 and 2010, respectively, the Company recognized approximately \$102,000 and nil of general and administrative costs for rent expense, as well as legal, travel and other costs incurred by Toucan Capital on the Company's behalf. At December 31, 2009 and June 30, 2010, accrued expenses payable to Toucan Capital amounted to \$0.5 million and \$1.4 million, respectively, and are included in the accompanying consolidated balance sheets.

Also during 2009, the Company agreed with Toucan Capital, Toucan Partners and Linda Powers (the Board's Chairperson) that a portion of the accrued expenses owed by the Company to these parties for certain expense reimbursements will be converted into shares of common stock instead of paid in cash. The parties agreed that these accrued expenses will be converted into common stock (at a conversion rate of \$0.20 per share). The impact of the conversion will result in a reduction of liabilities for the amount converted. In addition, the Company will recognize the value of common stock issued in excess of the amount of the accrued expenses converted, if any, as a charge to operations when the conversion takes place. Finalization of these arrangements is in process.

8. Contingencies and Commitments

The Company terminated its lease with Toucan Capital Corporation on December 31, 2009. The Company is obligated to make monthly payments of approximately \$5,000 during 2010 and 2011 and other amounts thereafter under the terminated lease. Management is not able to estimate the amount of obligations subsequent to 2011.

On March 17, 2010, we entered into a non-cancelable operating lease for 7,097 square feet of office space in Bethesda, Maryland, which expires in September 2012. Future minimum lease payments under the lease are \$73,188, \$163,475 and \$126,027, in 2010, 2011 and 2012, respectively. Rent expense for the three and six months ended June 30, 2009 and 2010 amounted to nil and \$35,674 and nil and \$41,649 respectively. The Company expects to lease part of this space to Toucan and proceeds of this sublease, if any, will be offset against the minimum lease payments specified above.

As of June 30, 2010, the Company has no other contractual commitments which result in material financial obligations other than the month to month agreement with Cognate, an office lease, and other contracts and obligations associated with the Company's clinical trials.

9. Stockholders' Equity (Deficit)

Common Stock Issuances

Between February 22, 2010 and March 31, 2010, we sold 1,451,666 shares of common stock at \$0.75 per share for net proceeds of \$1,088,750.

During the three months ended March 31, 2010, accrued interest payable to Al Rajhi under the promissory note dated May 12, 2008 amounting to \$853,952 was converted into 1,138,603 shares of common stock at a conversion rate of \$0.75 per share. The fair value of the common stock issued in excess of the accrued interest payable converted into common stock amounted to \$194,761 and is recorded to interest expense in the accompanying consolidated financial statements.

During the three and six months ended June 30, 2010, we issued nil and 358,850 shares of common stock valued at nil and \$278,390 based on the closing market price on the date of issuance of the shares to employees in lieu of cash payment of salaries earned in 2009.

During three and six months ended June 30, 2010, we issued 60,210 and 365,367 shares of common stock for services valued at \$30,380 and \$210,000, respectively based on the closing market price on the date of issuance of the shares.

During the three months ended June 30, 2010, we sold to private investors 2,333,333 shares of common stock at \$0.75 per share for net proceeds of \$1,750,000. In connection with this private placement, the Company issued warrants to purchase 233,333 shares of common stock, as described below.

On May 27, 2010 we issued 5,024,400 shares of common stock upon the conversion of a note payable and accrued interest payable due to SDS. The note payable and accrued interest payable converted amounted to \$1,004,880. The value of the stock issued to SDS in excess of the carrying amount of the loan principal and accrued interest payable that was converted was \$4,521,960. This amount was charged to loan conversion inducement expense in the accompanying consolidated statements of operations during the quarter ended June 30, 2010.

Stock Purchase Warrants

During 2009, Al Rajhi agreed to extend the due date of the May 12, 2008 promissory note in the amount of \$4 million, to December 31, 2009. As consideration for the extension of the due date to December 31, 2009, the Company issued Al Rajhi warrants to purchase 1,743,111 shares of common stock at an exercise price of \$0.63 with an exercise period of three years. During February 2010, Al Rajhi agreed to extend the due date of the promissory note to December 31, 2010. As consideration for the extension of the due date of the promissory note to December 31, 2010, the Company extended the term of the warrants by one year. The warrants now expire in September 2013. Upon extending the term of the warrants, the Company recognized the increase in the fair value of the warrants amounting to \$53,018 as a charge to interest expense in the accompanying consolidated financial statements. The fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, risk-free interest rate of 1.98% volatility of 201%, and a contractual life of 4 years.

During the three months ended March 31, 2010, the Company, Toucan Partners, and Toucan Capital agreed to extend the term of certain warrants held by Toucan parties an additional three years. The extension of the term applies to 7,884,357 warrants with an exercise price of \$0.15 held by Toucan Capital, 132,500 warrants with an exercise price of \$0.40 held by Toucan Partners, 14,150,732 warrants with an exercise price of \$0.60 held by Toucan Capital, and 8,832,541 warrants with an exercise price of \$0.60 held by Toucan Partners. Upon extending the term of the warrants, the Company recognized the increase in the fair value of the warrants amounting to \$1,500,722 as a charge to interest expense in the accompanying consolidated financial statements. The fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, risk-free interest rate of 2.46% volatility of 217%, and a contractual life of 5 years.

During the three months ended March 31, 2010, the Company issued warrants to purchase 100,000 shares of common stock at an exercise price of \$0.75 with a three year exercise period to a consultant. The fair value of the warrants amounting to \$72,494 was charged to general and administrative expense in the accompanying consolidated financial statements and was determined using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, risk-free interest rate of 1.7%, volatility of 198%, and a contractual life of 3 years.

During the three months ended June 30, 2010, the Company issued warrants to purchase 250,000 shares of common stock at an exercise price of \$1.00 per share with a three year exercise period to a consultant. The fair value of the warrants amounting to \$169,448 was charged to general and administrative expense in the accompanying consolidated financial statements and was determined using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, risk-free interest rate of 1.41%, volatility of 199%, and a contractual life of 3 years.

During the three months ended June 30, 2010, the Company issued warrants to purchase 300,000 shares of common stock at an exercise price of \$0.75 per share with a three year exercise period to a consultant. The fair value of the warrants amounting to \$203,054 was charged to general and administrative expense in the accompanying consolidated financial statements and was determined using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, risk-free interest rate of 1.0%, volatility of 198%, and a contractual life of 3 years.

In connection with the extension of the SDS October 2008 \$1 million unsecured 12% loan, the Company issued warrants to purchase 474,000 shares of common stock at an exercise price of \$0.53 per share with a three year exercise period. The fair value of the warrants amounting to \$472,931 was charged to interest expense in the accompanying consolidated financial statements and was determined using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, risk-free interest rate of 1.28%, volatility of 198%, and a contractual life of 5 years.

In connection with the issuance of 2,333,333 shares of common stock for proceeds of \$1,750,000 during the three months ended June 30, 2010, the Company issued warrants to purchase 233,333 shares of common stock at an exercise price of \$0.75 per share with a three year exercise period from the date of issue. The fair value of the warrants amounting to \$240,288 was determined using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, risk-free interest rate of 1.51%, volatility of 198%, and a contractual life of 3 years. The \$1,750,000 proceeds from the issuance of the common stock and warrants were allocated on a relative fair value basis. The relative fair value of the stock was estimated to be \$1,540,000 and the relative fair value of the warrants was estimated to be \$210,000.

10. Subsequent Events

On July 2, 2010 the Company entered into a securities purchase agreement with Ms. Linda F. Powers, the Chair of the Company's Board of Directors, under which Ms. Powers purchased 866,667 shares of common stock for \$650,000. In connection with this private placement the Company issued warrants to purchase 86,667 shares of common stock at an exercise price of \$0.75 per share with an exercise period of three years. The fair value of the warrants amounted to \$115,072 and was determined using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, risk-free interest rate of 1.04% volatility of 191%, and a contractual life of 3 years.

On July 14, 2010, the Company entered into unsecured 6% convertible Loan Agreements and Promissory Notes with a three private lenders (“Private Lenders”). Under the Notes the Private Lenders have provided bridge funding (“Bridge Funding”) to the Company in the amount of \$1,750,000. The Bridge Funding is to be repaid on the earlier of 5 business days from the date on which the Company receives \$1,600,000 in additional funding or February 14, 2012. The conversion feature allows the holders to receive shares of common stock only and not cash or other consideration, at a conversion price of \$0.50. Additionally the Private lenders received warrants to purchase 116,667 shares of the Company’s common stock at a price of \$0.75 per share.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes to those statements included with this report. In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The words “believe,” “expect,” “intend,” “anticipate,” and similar expressions are used to identify forward-looking statements, but some forward-looking statements are expressed differently. Many factors could affect our actual results, including those factors described under “Risk Factors” elsewhere in this report. These factors, among others, could cause results to differ materially from those presently anticipated by us. You should not place undue reliance on these forward-looking statements.

Overview

We are a development stage biotechnology company focused on discovering, developing and commercializing immunotherapy products that generate and enhance immune system responses to treat cancer. Data from our clinical trials suggest that our cancer therapies significantly extend both the time to recurrence and survival, while providing a superior quality of life with no debilitating side effects when compared with current therapies.

Our financing activities are described below under “— Liquidity and Capital Resources”. We will need to raise additional capital to fund our operations, including our Phase II DCVax[®] -Brain clinical trial. Depending on the trial results, we plan to seek product approval for DCVax[®] -Brain, our leading product candidate, in both the U.S. and E.U.

We have experienced recurring losses from operations and have a deficit accumulated during the development stage of \$204.5 million at June 30, 2010 of which \$99.7 million reflects cash expenditures and the remainder reflects non-cash charges. In addition, our independent registered public accounting firm has indicated in its report on our financial statements included in this Annual Report on Form 10-K that there is substantial doubt about our ability to continue as a going concern.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The critical accounting policies that involve significant judgments and estimates used in the preparation of our financial statements are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

Recent Accounting Pronouncements

See Note 2 to Condensed Consolidated Financial Statements in this Form 10-Q

Results of Operations

Operating costs:

Operating costs and expenses consist primarily of research and development expenses, including clinical trial expenses which increase when we are actively participating in clinical trials, and general and administrative expenses.

Research and development:

Discovery and preclinical research and development expenses include scientific personnel-related salary and benefit expenses, costs of laboratory supplies used in our internal research and development projects, travel, regulatory compliance, and expenditures for preclinical and clinical trial operation and management when we are actively engaged in clinical trials.

Because we are a development stage company, we do not allocate research and development costs on a project basis. We adopted this policy, in part, due to the unreasonable cost burden associated with accounting at such a level of detail and our limited number of financial and personnel resources. We shifted our focus, starting in 2002, from discovering, developing, and commercializing immunotherapy products to conserving cash and primarily concentrating on securing new working capital to re-activate our two DCVax® clinical trial programs.

General and administrative:

General and administrative expenses include administrative personnel related salary and benefit expenses, cost of facilities, insurance, travel, legal support, property and equipment and amortization of stock options and warrants.

Three Months Ended June 30, 2010 and 2009

We recognized a net loss of \$8.7 million for the three months ended June 30, 2010 compared to a net loss of \$4.1 million for the three months ended June 30, 2009. The increase in net loss was primarily attributable to loan conversion inducement costs related to the conversion of the SDS loan into equity and an increase in debt discount amortization and interest expense associated with notes payable that were outstanding during the three month period ended June 30, 2010.

Loss from Operations . The loss from operations decreased from \$3.7 million for the three months ended June 30, 2009 to \$3.1 million for the three months ended June 30, 2010. The decrease was due to reduced research and development staffing and contract manufacturing costs offset by higher legal costs related to management of intellectual property and higher consulting costs.

Research and Development Expense. Research and development expense decreased from \$2.5 million for the three months ended June 30, 2009 to \$1.2 million for the three months ended June 30, 2010. This decrease was primarily due to reduced staffing and lower contract manufacturing costs in 2010.

General and Administrative Expense. General and administrative expense was \$1.9 million for the three months ended June 30, 2010 compared to \$0.8 million for the three months ended June 30, 2009. The increase was due to higher legal costs related to intellectual property and an increase in consulting costs.

Interest (Expense). Interest expense increased from \$0.4 million for the three months ended June 30, 2009 to \$1.1 million for the three months ended June 30, 2010. Interest expense includes interest payable on notes payable, debt discount amortization and other financing costs. Interest expense for the three-month periods ended June 30, 2009 and June 30, 2010 was \$0.3 million and \$0.3 million respectively and debt discount amortization and other costs for the three month periods ended June 30, 2009 and June 30, 2010 was \$0.1 million and \$0.8 million respectively. The increase in debt discount amortization and other costs was primarily due to the higher amount of notes payable that were outstanding during the three month period ended June 30, 2010 and modification of the terms for common stock purchase warrants.

Six Months Ended June 30, 2010 and 2009

We recognized a net loss of \$14.6 million for the six months ended June, 2010 compared to a net loss of \$8.7 million for the six months ended June 30, 2009. The increase in net loss was primarily attributable to loan conversion inducement costs related to the conversion of the SDS loan into equity and an increase in debt discount amortization and interest associated with notes payable that were outstanding during the six month period ended June 30, 2010.

Loss from Operations . The loss from operations decreased from \$7.5 million for the six months ended June 30, 2009 to \$6.4 million for the six months ended June 30, 2010. The decrease was due to reduced research and development staffing and contract manufacturing costs offset by higher legal costs related to management of intellectual property and higher consultant costs.

Research and Development Expense. Research and development expense decreased from \$5.0 million for the six months ended June 30, 2009 to \$3.2 million for the six months ended June 30, 2010. This decrease was primarily due to reduced staffing and lower contract manufacturing costs in 2010.

General and Administrative Expense. General and administrative expense was \$3.3 million for the six months ended June 30, 2010 compared to \$2.1 million for the three months ended June 30, 2009. The increase was due to higher legal costs related to intellectual property and an increase in consulting costs.

Interest (Expense). Interest expense increased from \$1.2 million for the six months ended June 30, 2009 to \$3.6 million for the three months ended June 30, 2010. Interest expense includes interest payable on notes payable, debt discount amortization and other financing costs. Interest expense for the six month period ended June 30, 2009 and June 30, 2010 was \$0.5 million and \$0.6 million respectively and debt discount amortization and other costs for the six months ended June 30, 2009 and June 30, 2010 was \$0.7 million and \$3.0 million respectively. The

increase in debt amortization and other costs for the six month period ended June 30, 2010 was primarily due to an increase in the notes payable that were outstanding during the six month period ended June 30, 2010. In addition, interest expense includes \$1.6 million of expense from the modification of warrant agreements during the 2010 period.

Liquidity and Capital Resources

At June 30, 2010, cash totaled \$180,000, compared to \$65,000 at December 31, 2009. Working capital was a deficit of \$19.6 million at June 30, 2010, compared to a deficit of \$19.3 million at December 31, 2009. The working capital deficit increased as of June 30, 2010 primarily due to an increase in current liabilities due to an increase in accounts payable and accrued liabilities in 2010. Cash balances increased during the quarter ended June 30, 2010 due primarily to the financing transactions discussed below that were executed in 2010.

The change in cash for the six month periods presented was comprised of the following (in thousands):

	Six Months Ended		Change
	June 30, 2009	June 30, 2010	
Net cash provided by (used in):			
Operating activities	\$ (2,133)	\$ (3,599)	\$ (1,466)
Investing activities	(2)	(39)	(37)
Financing activities	2,154	3,714	1,560
Effect of exchange rates on cash	15	39	24
Increase in cash	<u>\$ 34</u>	<u>\$ 115</u>	<u>\$ 81</u>

Operating Activities

We used \$3.6 million in cash for operating activities during the six months ended June 30, 2010. The increase in cash used in operating activities was a result of the increase in operating expenses.

Investing Activities

The cash used in investing activities was related to equipment used in the new leased headquarters building.

Financing Activities

During the six months ended June 30, 2010, our financing activities consisted of proceeds from notes payable amounting to \$0.9 million and proceeds from the issuance of common stock amounting to \$2.8 million. The 2010 financing transactions consisted of:

Between February 22, 2010 and March 31, 2010, we sold 1,451,666 shares of common stock at \$0.75 per share for net proceeds of \$1,088,750.

Between April and June 2010 we completed a private placement of 2.3 million shares of our common stock and received \$1,750,000 and the purchase carried 10% warrants.

On dates between January 8, 2010 and March 29, 2010, the Company received \$875,000 upon issuing unsecured 6% convertible loan agreements and promissory notes due between January and March 2012 to a group of Private Lenders.

During the six months ended June 30, 2009, our financing activities consisted of proceeds from notes payable amounting to \$0.8 million and proceeds from the issuance of common stock amounting to \$1.4 million. The 2009 financing transactions consisted of:

During the six months ended June 30, 2009 we received \$1.4 million from the issuance of 2.4 million shares of common stock.

During March 2009, the Company received \$760,000 upon issuing unsecured 6% convertible loan agreements and promissory notes due in March 2011 to a group of private lenders.

We estimate that our current funding is sufficient to enable us to proceed with our current (reduced) activities under our DCVax[®] -Brain program. Our ongoing funding requirements will depend on many factors, including the number of staff we employ, the pace of patient enrollment in our brain cancer trial, the cost of establishing clinical studies and compassionate use/named patient programs in other countries, and unanticipated developments. Without additional capital, we will not be able to proceed with significant enrollment in our DCVax[®] -Brain clinical trial or move forward with compassionate use/named patients programs or with any of our other product candidates for which investigational new drug applications have been cleared by the FDA. We will also be constrained in developing our second generation manufacturing processes, which offer the potential for significant reduction in product costs.

Additional funding will be required in the near future and there can be no assurance that our efforts to seek such funding will be successful. If our capital raising efforts are unsuccessful, our inability to obtain additional cash as needed could have a material adverse effect on our financial position, results of operations and our ability to continue our existence. Our independent registered public accounting firm has indicated in its report on our financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2009 that there is substantial doubt about our ability to continue as a going concern. We may seek additional funds through the issuance of additional common stock or other

securities (equity or debt) convertible into shares of common stock, which could dilute the ownership interest of our stockholders. We may seek funding from Toucan Capital or Toucan Partners or their affiliates or other third parties. Such parties are under no obligation to provide us any additional funds, and any such funding may be dilutive to stockholders and may contain restrictive covenants that could limit our ability to take certain actions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive, financial and accounting officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive, financial and accounting officer concluded that, as of June 30, 2010, in light of the material weaknesses described below, our disclosure controls and procedures were not effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our chief executive officer, financial and accounting officer, to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods prescribed by the SEC.

Management's Report on Internal Controls Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive, financial and accounting officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting as of June 30, 2010. This evaluation was based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Based on management's evaluation as of June 30, 2010, our management identified the material weaknesses set forth below in our internal control over financial reporting:

- (i) The Company's process for internally reporting material information in a systematic manner to allow for timely filing of material information is ineffective, due to its inherent limitations from being a small company, and there exist material weaknesses in internal control over financial reporting that contribute to the weaknesses in our disclosure controls and procedures. These weaknesses include the lack of:
 - appropriate segregation of duties;
 - appropriate oversight and review;
 - internal accounting technical expertise;
 - preparation, review and verification of internally developed documentation;
 - controls in place to insure that all material developments impacting the financial statements are reflected; and
 - executed agreements for significant contracts.
- (ii) Lack of a sufficient number of independent directors for our board and audit committee. We currently only have one independent director on our board, which is comprised of three directors, and on our audit committee. Although we are considered a controlled company, whereby a group holds more than 50% of the voting power, and as such are not required to have a majority of our board of directors be independent it is our intention to have a majority of independent directors in due course.
- (iii) Lack of a financial expert on our audit committee. We currently do not have an audit committee financial expert, as defined by SEC regulations on our audit committee as defined by the SEC.
- (iv) Insufficient corporate governance policies. Although we have a code of ethics which provides broad guidelines for corporate governance, our corporate governance activities and processes are not always formally documented. Specifically, decisions made by the board to be carried out by management should be documented and communicated on a timely basis to reduce the likelihood of any misunderstandings regarding key decisions affecting our operations and management.
- (v) Inadequate approval and control over transactions and commitments made on our behalf by related parties. Specifically, during the year certain related party transactions were not effectively communicated to all internal personnel who needed to be involved to account for

and report the transaction in a timely manner. This resulted in material adjustments during the quarterly reviews and annual audit, respectively, that otherwise would have been avoided if effective communication and approval processes had been maintained.

Our company's management concluded that in light of the material weaknesses described above, our company did not maintain effective internal control over financial reporting as of June 30, 2010 based on the criteria set forth in Internal Control—Integrated Framework issued by the COSO.

Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting that occurred during the fiscal quarter ended June 30, 2010 that has materially affected, or is reasonably expected to materially affect, our internal controls over financial reporting.

Inherent Limitations

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Part II — Other Information

Item 1. Legal Proceedings

From time to time, we are involved in claims and suits that arise in the ordinary course of our business. Although management currently believes that resolving any such claims against us will not have a material adverse impact on our business, financial position or results of operations, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. In addition to any such claims and suits, we are involved in the following legal proceedings.

SOMA Arbitration

In January, 2003, Toucan Capital initiated contact with the Company through a letter expressing interest in investing. The Company's then business managers (who left the Company that year) did not engage with Toucan. In the spring and summer of 2003, Toucan hired a former employee of the Company, and Toucan retained external advisers who conducted due diligence on the Company. In January, 2004, Toucan pursued investment discussions with the Company at an investment conference. Those discussions led to initial investment by Toucan a few weeks later, in February 2004, followed by further investment in March and culminating in a recapitalization of the Company pursuant to an agreement completed in April, 2004.

On October 15, 2003, the Company engaged Soma Partners, LLC (Soma), a New Jersey-based investment bank, to help raise funding for the Company. Although Toucan had initiated contact with the Company ten months earlier and had been conducting due diligence on the Company both internally and externally over the course of those ten months, and although Soma was not present at the January 2004 discussions and did not know such discussions were taking place, thereafter Soma sought to receive investment banking fees on all investment made by Toucan into the Company, despite the chronology of events.

The Company sought to reach a negotiated settlement. Soma declined to reduce the amount of its claims, and filed an arbitration case to pursue the claims. Soma also expanded its claims to include not only the investments made by Toucan in 2004, but also all future financings which might be made pursuant to the recapitalization plans that Toucan and the Company had developed for up to \$40 million of future financings. In its arbitration case at various points, Soma sought growing amounts of cash fees and in excess of 10 million shares of stock or warrants.

The arbitration case turned on whether Soma had "first introduced" Toucan to the Company. The Company vigorously disputed Soma's claims and defended itself. The arbitration was held in March and May 2005, and all claims were decided in the Company's favor.

Soma then filed a series of appeals during 2005. In the first appeal, the court rejected all of Soma's claims and confirmed the decision reached in the arbitration. Soma then filed another appeal in 2006. In that appeal, the court found an issue with the selection of the arbitrator, and remanded the case for a new arbitration. Sometime during this period, Soma went out of business, but its former principals still continue to pursue the claims against the Company.

The new arbitration was conducted in May and June of 2009, by a three-arbitrator panel. Once again, all claims were decided in the Company's favor. Soma's former principals did not file further appeals after that decision, and the case is now finally closed.

Lonza Patent Infringement Claim

In late June 2007, the Company received a favorable ruling from a Swiss regulatory agency (the B.A.G.), which was expected at the time to enable the Company to begin providing its DCVax[®] dendritic cell vaccines to patients commercially through designated medical centers in Switzerland. Within weeks after this decision was announced, on July 27, 2007, Lonza Group AG ("Lonza"), a large Swiss based corporation,

filed a lawsuit against us in the U.S., alleging infringement of some eight different patents, relating to recombinant DNA methods, sequences, vectors and other technology relating to gene modifications of cells, cell lines and host cells.

None of the Company's DCVax[®] products involve, or have ever involved, any gene modifications of any of the cells. The lawsuit was groundless and we defended ourselves vigorously, including making clear that we would seek court sanctions under the Federal Rules of Civil Procedure against Lonza and its counsel for filing a complaint without any reasonable basis. Within five months after filing its extensive complaint, Lonza unilaterally withdrew nearly all of the claims in it – all claims except certain claims relating to our DCVax[®] -Prostate product.

Regarding the DCVax[®]-Prostate product, Lonza sought to still pursue its claims on the basis that although the Company itself had never used any gene expression or gene modification technology, instead Medarex – who had served as the contract manufacturer of the PSMA antigen (biomarker) in DCVax[®]-Prostate and supplied the finished PSMA antigen to us – had potentially used Lonza’s gene expression system. Although the Company had had no involvement in (and no knowledge of) Medarex’s choice of manufacturing method, and had simply contracted with Medarex for delivery of a quantity of finished PSMA, Lonza sought to hold the Company liable for this because Lonza had reached a business deal with Medarex several years earlier which precluded Lonza pursuing claims against Medarex.

We continued to dispute and defend ourselves vigorously against Lonza’s remaining claims concerning DCVax[®]-Prostate. During the course of the case, Lonza proposed several times for us to take a license to their gene expression technology. Since we had no use for their technology, we declined.

Within another four months after Lonza’s unilateral withdrawal of all other claims in its complaint, in April 2008 we and Lonza entered into a settlement to dispose of the last of Lonza’s claims. Under this settlement, we refused to pay make any monetary payment of any kind, refused to take a license to Lonza’s technology, and agreed to only one thing: to destroy our remaining inventory of PSMA which had been produced by Medarex, and which had been sitting in our freezers for nearly ten years. Under this settlement, the last of Lonza’s claims were dismissed with prejudice (meaning they cannot be re-filed), thus ending the case.

Stockholder Class Action

In February 2007, the Company applied to the Bundesamt für Gesundheit (B.A.G.) in Switzerland for an Authorization for Use, so that the Company could make DCVax[®] available to patients commercially at designated medical centers in Switzerland. At that time, the B.A.G. had jurisdiction over transplants, and a separate agency, Swissmedic, had jurisdiction over drugs and other medical products. Our DCVax[®] dendritic cell vaccine was classified as a standardized transplant. The B.A.G. had jurisdiction to issue Authorizations for Use, which were a form of limited regulatory approval for which there is no counterpart or similar form of approval in the U.S. Swissmedic had jurisdiction to issue Marketing Authorizations, which are full commercial approvals without limitations, and which are similar to product approvals that are issued by the Food and Drug Administration (FDA) in the U.S.

In June 2007, the Company received a favorable decision from the B.A.G. granting the Authorization for Use for which the Company had applied. As this was a material event, the Company issued a press release announcing and describing it. A tremendous amount of activity in our stock followed the announcement, and the stock price rose quite substantially. There was also a large amount of confusion about what the Company had received. Various parties thought the Company had received a Marketing Authorization from Swissmedic. No one was familiar with an Authorization for Use from the B.A.G. After growing controversy in the days following our public announcement of the Authorization for Use, the Company issued a second public announcement clarifying that the Company had neither applied for nor received a Marketing Authorization from Swissmedic. The Company also sought to clarify in the second announcement what the Authorization for Use was, and what it provided.

Following our second public announcement, our stock price dropped sharply. Within the next weeks and months, six class action lawsuits were filed by parties who bought stock between our first public announcement and our second one, seeking damages on the basis that our public announcements had not been clear enough and had been misleading.

The Company disputed the claims and strongly defended ourselves. In January, 2009, the Company reached a settlement which disposed of all six class action cases, in their entirety, for a single payment of \$1 million. The Company entered this settlement because the amount to be paid was a small fraction of what it would have cost to proceed with litigation of the cases. The settlement also removed the diversion of management time and attention, which was needed on the Company’s operations. The entire \$1 million settlement payment and all of our defense costs were paid by our Directors’ and Officers’ liability insurance. The settlement executed in January of 2009 was approved by the applicable court in June 2009, and all of the cases were dismissed with prejudice (meaning they cannot be re-filed), thus ending these cases. Our Directors’ and Officers’ liability insurer has renewed and continued our coverage throughout the time since these cases were brought, unaffected by these cases.

We have no other legal proceedings pending at this time.

Item 1A. Risk Factors

Not required for smaller reporting companies

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Between February 22, 2010 and March 31, 2010, we sold 1,451,666 shares of common stock at a purchase price of \$0.75 per share for net proceeds of \$1,088,750.

On February 22, 2010, we agreed to extend the term of the note made in favor of Al Rajhi in the principal amount of \$4 million issued on May 12, 2008 from December 31, 2009 to December 31, 2010. Additionally, Al Rajhi agreed to convert the interest accrued pursuant to the promissory into shares of common stock. A total of \$853,952 was converted into 1,138,603 shares of common stock at a conversion price of \$0.75. In consideration of the extension, the Company agreed to extend by one year the term of the warrants issued to Al Rajhi.

During the three months ended June 30, 2010, we sold 2,333,333 shares of common stock at \$0.75 per share for net proceeds of \$1,750,000.

On May 27, 2010 we issued 5,024,400 shares of common stock in respect of the conversion the principal and accrued interest payable of a note due to SDS.

The sales of the securities identified above were made pursuant to privately negotiated transactions that did not involve a public offering of securities and, accordingly, we believe that these transactions were exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act and Rule 506 of Regulation D. The agreements executed in connection with this sale contain representations to support the Company's reasonable belief that the Investor had access to information concerning the Company's operations and financial condition, the Investor acquired the securities for their own account and not with a view to the distribution thereof in the absence of an effective registration statement or an applicable exemption from registration, and that the Investor are sophisticated within the meaning of Section 4(2) of the Securities Act and are "accredited investors" (as defined by Rule 501 under the Securities Act). In addition, the issuances did not involve any public offering; the Company made no solicitation in connection with the sale other than communications with the Investor; the Company obtained representations from the Investor regarding their investment intent, experience and sophistication; and the Investor either received or had access to adequate information about the Company in order to make an informed investment decision. All of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

Item 3. Defaults upon Senior Securities

None

Item 4. (Removed and Reserved)

Item 5. Other Information

None

Item 6. Exhibits

- 3.1 Seventh Amended and Restated Certificate of Incorporation (3.1)(1)
- 3.2 Third Amended and Restated Bylaws (3.1)(2)
- 3.3 Amendment to the Seventh Amended and Restated Certificate of Incorporation (3.2)(2)
- 3.4 Amendment to Seventh Amended and Restated Certificate of Incorporation (3.4)(3)
- *31.1 Certification of President (Principal Executive Officer and Principal Financial and Accounting Officer), Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *32.1 Certification of President, Chief Executive Officer and Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-
- (1) Incorporated by reference to the exhibit shown in the preceding parentheses filed with the Registrant's registration statement Form S-1 (File No. 333-67350) on July 17, 2006.
 - (2) Incorporated by reference to the exhibit shown in the preceding parentheses filed with the Registrant's Current Report on Form 8-K on June 22, 2007.
 - (3) Incorporated by reference to the exhibit shown in the preceding parentheses filed with the Post-Effective Amendment No. 2 to the Registrant's Registration Statement on Form S-1 on January 28, 2008.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHWEST BIOTHERAPEUTICS, INC

Dated: August 17, 2010

By: /s/ Alton L. Boynton

Alton L. Boynton

President and Chief Executive Officer

(Principal Executive Officer)

NORTHWEST BIOTHERAPEUTICS, INC.
(A Development Stage Company)

EXHIBIT INDEX

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* Filed herewith.

SECTION 302 CERTIFICATION

I, Alton L. Boynton, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Northwest Biotherapeutics, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 17, 2010

By: /s/ Alton L. Boynton
Alton L. Boynton
President and Chief Executive Officer
(Principal Executive Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Northwest Biotherapeutics, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2010, as filed with the Securities and Exchange Commission (the "Report"), I, Alton L. Boynton, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 17, 2010

/s/ Alton L. Boynton

Alton L. Boynton

President and Chief Executive Officer

(Principal Executive Financial and Accounting Officer)
