FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2008-08-14** | Period of Report: **2008-06-30**
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FILER

VELCERA, INC.

CIK:**1344300**| IRS No.: **203327015** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-51622** | Film No.: **081018647**
SIC: **3841** Surgical & medical instruments & apparatus

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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, 2008

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: 000-51622

Velcera, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	20-3327015
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

777 Township Line Road, Suite 170
Yardley, Pennsylvania 19067
(Address of principal executive offices)

(267) 757-3600
(Issuer's telephone number)

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 issuer 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer," "large 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 ☒

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

As of August 12, 2008 there were 12,059,579 shares of the issuer's common stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

VELCERA, INC.
(A Development Stage Company)

Condensed Consolidated Balance Sheets

	June 30, 2008 (Unaudited)	December 31, 2007 (See Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	**$3,144,579**	$5,767,955
Accounts receivable	**-**	190,000
Other current assets	**33,222**	139,468
Total current assets	**3,177,801**	6,097,423
Property and equipment, net	**54,701**	63,269
Other assets	**28,054**	28,054
Total assets	**$3,260,556**	$6,188,746
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	**$910,011**	$1,067,132
Deferred revenue	**-**	289,744
Total liabilities	**910,011**	1,356,876
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value; 10,000,000 shares authorized; none issued	**-**	-
Common stock, $.001 par value; 75,000,000 shares authorized; 12,059,579 and 12,039,804 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	**12,060**	12,040
Additional paid-in capital	**17,167,379**	16,869,867
Deficit accumulated during the development stage	**(14,828,894)**	(12,050,037)
Total stockholders' equity	**2,350,545**	4,831,870
Total liabilities and stockholders' equity	**$3,260,556**	$6,188,746

See Notes to Unaudited Condensed Consolidated Financial Statements.

VELCERA, INC.

(A Development Stage Company)

Unaudited Condensed Consolidated Statements of Operations

	Three months ended June 30, 2008	Three months ended June 30, 2007
Revenue	**$-**	$765,324
Operating expenses:		
Research and development	**1,232,987**	994,726
General and administrative	**463,614**	601,979
Total operating expenses	**1,696,601**	1,596,705
Loss from operations	**(1,696,601)**	(831,381)
Interest income	**17,815**	96,436
Net loss	**$(1,678,786)**	$(734,945)
Basic and diluted net loss per common share	**$(0.14)**	$(0.06)
Weighted average common shares outstanding – basic and diluted	**12,053,060**	12,039,804

See Notes to Unaudited Condensed Consolidated Financial Statements.

VELCERA, INC.

(A Development Stage Company)

Unaudited Condensed Consolidated Statements of Operations

	Six months ended June 30, 2008	Six months ended June 30, 2007	Period from September 24, 2002 (Inception) to June 30, 2008
Revenue	**$289,744**	$815,324	$1,954,630
Operating expenses:			
Research and development	**1,921,216**	1,656,657	10,094,500
General and administrative	**1,209,741**	997,529	7,220,787
Total operating expenses	**3,130,957**	2,654,186	17,315,287
Loss from operations	**(2,841,213)**	(1,838,862)	(15,360,657)
Interest expense	**-**	-	(4,317)
Interest income	**62,356**	140,108	536,080
Net loss	**$(2,778,857)**	$(1,698,754)	$(14,828,894)
Basic and diluted net loss per common share	**$(0.23)**	$(0.17)	
Weighted average common shares outstanding – basic and diluted	**12,046,469**	10,131,518	

See Notes to Unaudited Condensed Consolidated Financial Statements.

VELCERA, INC.
(A Development Stage Company)

Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity
For the Six Months Ended June 30, 2008

	Common Stock		Additional Paid-in	Deficit Accumulated During the Development	
	Shares	Amount	Capital	Stage	Total
Balance at January 1, 2008	12,039,804	$12,040	$16,869,867	$ (12,050,037)	$4,831,870
Stock-based compensation	-	-	257,982	-	257,982
Stock issued in connection with bonus	19,775	20	39,530	-	39,550
Net loss	-	-	-	(2,778,857)	(2,778,857)
Balance at June 30, 2008	**12,059,579**	**$12,060**	**$17,167,379**	**$ (14,828,894)**	**$2,350,545**

See Notes to Unaudited Condensed Consolidated Financial Statements.

VELCERA, INC.

(A Development Stage Company)

Unaudited Condensed Consolidated Statements of Cash Flows

	Six months ended June 30, 2008	Six months ended June 30, 2007	Period from September 24, 2002 (Inception) to June 30, 2008
Cash flows from operating activities:			
Net loss	**$(2,778,857)**	$(1,698,754)	$ (14,828,894)
Adjustments to reconcile net loss to net cash used in operating activities:			
Expenses paid by related parties satisfied through issuance of notes	**-**	-	67,339
Stock-based compensation - restricted stock	**-**	-	343,866
Stock-based compensation - bonus	**39,550**	-	39,550
Stock-based compensation - options	**257,982**	228,256	1,222,313
Depreciation and amortization	**8,568**	3,639	31,056
Changes in operating assets and liabilities:			
Unbilled revenue	**-**	(363,999)	-
Accounts receivable	**190,000**	-	-
Other current assets	**106,246**	(66,018)	(33,222)
Other assets	**-**	18,062	(28,054)
Accounts payable and accrued expenses	**(157,121)**	(387,973)	785,011
Deferred revenue	**(289,744)**	700,000	-
Net cash used in operating activities	**(2,623,376)**	(1,566,787)	(12,401,035)
Cash flows from investing activities:			
Purchase of certificate of deposit	**-**	-	(4,500,000)
Proceeds from maturity of certificate of deposit	**-**	-	4,500,000
Purchases of property and equipment	**-**	(10,318)	(85,757)
Net cash used in investing activities	**-**	(10,318)	(85,757)
Cash flows from financing activities:			
Proceeds from notes payable to related party	**-**	285,000	485,000
Repayment of notes payable to related party	**-**	-	(267,339)
Issuance of common stock to founders	**-**	-	3,259
Payments of deferred offering costs	**-**	-	(108,422)
Proceeds from private placements of common stock	**-**	8,855,607	15,518,873
Net cash provided by financing activities	**-**	9,140,607	15,631,371
Net (decrease) increase in cash and cash equivalents	**(2,623,376)**	7,563,502	3,144,579
Beginning of period	**5,767,955**	367,205	-

End of period	**$3,144,579**	$7,930,747	$ 3,144,579
Supplemental schedule of non-cash financing activities:			
Net liabilities assumed as part of recapitalization	**$-**	$125,000	$ 125,000
Notes payable to related party converted in private placement	**$-**	$285,000	$ 285,000

See Notes to Unaudited Condensed Consolidated Financial Statements.

VELCERA, INC.
(A Development Stage Company)

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 - Business, basis of presentation and summary of significant accounting policies:

Business:

Velcera, Inc. ("Velcera" or the "Company") was incorporated in the State of Delaware on September 24, 2002 as Veterinary Company, Inc. Velcera is a specialty pharmaceutical company focused on the acquisition, development and commercialization of pharmaceutical products for the pet health market. The Company currently licenses a transmucosal spray technology, trademarked *Promist*™, for the metered delivery of pharmaceutical products to animals. Additionally, in the first quarter of 2008, the Company created a wholly-owned subsidiary, Fidopharm, Inc. and licensed the rights to develop and commercialize parasiticide products for pets in the United States.

Basis of presentation:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, the unaudited condensed consolidated financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for fair presentation. Interim operating results are not necessarily indicative of results that may be expected for the full year ending December 31, 2008 or for any subsequent period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto of the Company which are included in post effective-amendment No. 1 on Form S-1 to our SB-2/A Registration Statement filed on April 28, 2008.

The Company’s primary activities since incorporation have been organizational activities, including recruiting personnel, establishing office facilities, acquiring licenses for its pharmaceutical compound pipeline, performing business and financial planning, performing research and development, and raising funds through the issuance of common stock. The Company has not generated significant revenues and, accordingly, the Company is considered to be in the development stage.

The Company has sustained operating losses and negative cash flows from operating activities since its inception and expects such losses and negative cash flows to continue over the next several years. Management plans to continue financing the operations with a combination of equity issuances and debt arrangements. If adequate funds are not available, the Company may be required to delay, reduce the scope of, or eliminate one or more of its research or development programs, or cease operations.

On February 27, 2007, pursuant to a merger agreement dated January 30, 2007 (the “Merger Agreement”), Velcera merged with and into Denali Acquisition Corp. (the “MergerCo”), a Delaware corporation and a wholly-owned subsidiary of Denali Sciences, Inc. (“Denali”), which at that time was a reporting public corporation with no operations. For accounting purposes, the merger has been accounted for as an acquisition of Denali and a recapitalization of Velcera. The historical financial statements presented are those of Velcera as a combined entity with Denali. The assets and liabilities of Denali have been included in the balance sheet at their book values. No intangibles were recorded as part of the transaction. This transaction is referred to throughout these condensed consolidated financial statements as the “Recapitalization”.

Note 1 - Business, basis of presentation and summary of significant accounting policies (continued):

Revenue Recognition

While the Company has not generated significant revenues and is considered to be in the development stage, the Company has entered into licenses and other arrangements. These arrangements are often complex as they may involve license, development and manufacturing components. Licensing revenue recognition requires significant management judgment to evaluate the effective terms of agreements, the Company's performance commitments and determination of fair value of the various deliverables under the arrangement. SEC Staff Accounting Bulletin No. 101, or SAB 101, superseded in part by SAB 104, provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. SAB 104 establishes the SEC's view that it is not appropriate to recognize revenue until all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured. SAB 104 also requires that both title and the risks and rewards of ownership be transferred to the buyer before revenue can be recognized. In addition, the Company will follow the provisions of Emerging Issues Task Force ("EITF") issue EITF 00-21, "Revenue Arrangements with Multiple Deliverables," which addresses certain aspects of revenue recognition for arrangements the Company expects to have in future periods that will include multiple revenue-generating activities. EITF 00-21 addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable, and there exists sufficient evidence of their fair values, to separately account for some or all of the deliverables (that is, there are separate units of accounting). In other arrangements, some or all of the deliverables are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. Our ability to establish objective evidence of fair value for the deliverable portions of the contracts may significantly impact the time period over which revenues will be recognized. For instance, if there is no objective fair value of undelivered elements of a contract, then the Company may be required to treat a multi-deliverable contract as one unit of accounting, resulting in all revenue being deferred and recognized ratably over the entire contract period. EITF 00-21 does not change otherwise applicable revenue recognition criteria. In arrangements where the deliverables cannot be separated, revenue related to up-front, time-based and performance-based payments will be recognized ratably over the entire contract performance period. For major licensing contracts, this will result in the deferral of significant revenue amounts where non-refundable cash payments have been received, but the revenue will not immediately be recognized due to the long-term nature of the respective agreements.

Subsequent factors affecting the initial estimate of the effective terms of agreements could either increase or decrease the period over which the deferred revenue is recognized.

Due to the requirement to defer significant amounts of revenue and the extended period over which the revenue will be recognized, along with the requirement to amortize the prepaid license discount and certain deferred development costs over an extended period of time, revenue recognized and cost of sales may be materially different from cash flows.

On an overall basis, the Company's reported revenues could differ significantly from future billings and/or unbilled revenue based on terms in agreements with customers. Unbilled revenues consist of costs incurred, but not billed to the customer or partner as of the end of the period. There were no unbilled amounts at June 30, 2008 or December 31, 2007.

Note 1 - Business, basis of presentation and summary of significant accounting policies (continued):

Revenue Recognition (continued):

To the extent milestone payments are non-refundable, the Company recognizes these time-based and performance-based payments ratably over the contract period. In the event an agreement allows for the reimbursement of research and development costs, revenue is recognized in accordance with EITF 99-19 "Reporting Revenues Gross as a Principal versus Net as an Agent." Under the guidance of EITF 99-19, reimbursements received for research and development costs are recorded as revenue in the statement of operations rather than as a reduction in expenses. In connection with a now-terminated development agreement, for the three and six months ended June 30, 2007, the Company recorded $765,324 revenue for the reimbursement of research and development costs. There were no such costs recognized for the three and six months ended June 30, 2008.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The primary estimates used by management are the determination of the allowance for doubtful accounts, recognition of revenue, and research and development costs. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, the estimates may ultimately differ from actual results.

Loss per common share:

Basic loss per common share excludes dilution and is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Since the Company has only incurred losses, basic and diluted loss per share are the same. Potentially dilutive securities excluded from the calculation were for outstanding options and warrants which totaled 4,559,452 and 3,695,955 at June 30, 2008 and 2007, respectively.

Note 1 - Business, basis of presentation and summary of significant accounting policies (continued):

Stock-based compensation:

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 123 (R), "Share-Based Payment." SFAS 123 (R) requires the compensation costs relating to share-based payment transaction be recognized in the financial statements. That cost is measured based on the fair value of the equity or liability instrument issued.

Effective January 1, 2006, the Company accounts for stock options granted to non-employees on a fair value basis over the related period in accordance with Emerging Issues Task Force ("EITF") No. 96-18 "Accounting for Equity Instruments That Are Issued To Other Than Employees For Acquiring, or in Conjunction with Selling, Goods or Services."

For the three and six months ended June 30, 2008 and 2007, the Company recognized stock-based compensation expense to employees and consultants as follows:

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Directors and Employees	$112,112	$90,645	$235,088	$177,314
Consultants	18,538	6,474	22,894	50,942
Total	$130,650	$97,119	$257,982	$228,256

For the purpose of valuing options granted to employees and non-employees during the six months ended June 30, 2008 and 2007, the Company has used the Black-Scholes option pricing model with the following assumptions:

	Three months Ended June 30, 2008		**Three months Ended June 30, 2007**	
Dividend Yield	**0**	**%**	**0**	**%**
Risk-free Interest Rate	**2.88% - 3.57**	**%**	**4.54% - 4.90**	**%**
Volatility	**89**	**%**	**73% - 77**	**%**
Expected Life – years	**5**		**5**	

Dividend yield: The Company does not anticipate paying any cash dividends in the foreseeable future and therefore a dividend yield of zero assumed.

Risk-free interest rate: The risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Volatility: Expected volatility is based on industry comparables on the date of grant.

Expected life: Management uses historical information to estimate expected forfeitures to estimate the expected term of options within the valuation model. The expected term of awards represents the period of time that options granted are expected to be outstanding. Compensation cost is recognized using a straight-line method over the vesting or service period.

Note 1 - Business, basis of presentation and summary of significant accounting policies (continued):

Reclassifications:

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

Recent Accounting Pronouncements:

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. The Company adopted these new requirements beginning January 1, 2008. The adoption of SFAS 157 did not have a material effect on the Company’s consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115” (“SFAS 159”). SFAS 159 permits entities to elect to measure financial instruments and certain other items at fair value. Upon adoption of SFAS 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option can only be made at initial recognition of the asset or liability or upon a re-measurement event that gives rise to new-basis accounting. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Based on the Company’s current business, the Company elected not to adopted these new requirements beginning January 1, 2008.

In June 2007, the Emerging Issues Task Force of the FASB issued EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities," which is effective for fiscal years beginning after December 15, 2007 and interim periods within those fiscal years. EITF Issue No. 07-03 concluded that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided. The Company adopted these new requirements beginning January 1, 2008. The adoption of EITF Issue 07-3 did not have a material effect on the Company’s consolidated financial position or results of operations. The Company believes this EITF issue could have a material effect in the future.

In December 2007, the Emerging Issues Task Force of the FASB issued EITF Issue No. 07-1, "Accounting for Collaborative Arrangements," which is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The objective of EITF Issue No. 07-01 is to define the collaborative arrangements and to establish reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. The Company is currently assessing the potential impact of implementing this standard, but based on the Company’s business, it expects that this EITF Issue No. 07-01 could have a material effect on its consolidated financial position or results of operations.

Note 1 - Business, basis of presentation and summary of significant accounting policies (continued):

Recent Accounting Pronouncements (continued):

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No.141(R)"), which replaces SFAS No. 141, "Business Combinations." SFAS No. 141(R) retains the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, but SFAS No. 141(R) changes the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with an exception related to the accounting for valuation allowances on deferred taxes and acquired contingencies related to acquisitions completed before the effective date. SFAS No. 141(R) amends SFAS No. 109 to require adjustments, made after the effective date of this statement, to valuation allowances for acquired deferred tax assets and income tax positions to be recognized as income tax expense. Beginning January 1, 2009, the Company will apply the provisions of SFAS No. 141(R) to its accounting for applicable business combinations.

In December 2007, the FASB issued SFAS No. 160 ("SFAS No. 160"), "Noncontrolling Interests in Consolidated Financial Statements." SFAS No. 160 changes the classification of noncontrolling (formerly minority) interests on the balance sheet and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. Under the new standard, noncontrolling interests are considered equity and are to be reported as an element of stockholders' equity rather than outside of equity in the balance sheet. In addition, the current practice of reporting minority interest expense or benefit also will change. Under the new standard, net income will encompass the total income before minority interest expense. The income statement will include separate disclosure of the attribution of income between the controlling and noncontrolling interests. Increases and decreases in the noncontrolling ownership interest amount are accounted for as equity transactions. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 and earlier application is prohibited. Upon adoption, the balance sheet and the income statement should be recast retrospectively for the presentation of noncontrolling interests. The other accounting provisions of the statement are required to be adopted prospectively. The Company will adopt SFAS No. 160 as required and expects that the adoption will not have a material impact on its consolidated financial position or results of operations.

In 2008 the FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities." This statement requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand a company's use of derivative instruments and their effect on a company's financial position, financial performance, and cash flows. This statement is effective for the Company beginning on January 1, 2009. The Company will adopt SFAS No. 160 as required and expects that the adoption will not have a material impact on its consolidated financial position or results of operations.

Note 2 - Related party transactions:

Notes payable:

In January 2007, certain directors of the Company loaned the Company $285,000. These amounts were repaid in shares of the Company's common stock in the Company's February 2007 private placement.

Administrative Costs:

In May 2004, the Company signed an agreement to lease office space from the Chief Executive Officer. This operating lease commenced effective May 1, 2004 and was on a month-to-month basis and was terminated at the end of August 2007. Rent expense for the six months ended June 30, 2007 was $15,600.

Employment Agreement:

The Company has an employment agreement with its Chief Executive Officer. At June 30, 2008, future employment contract commitments for the Chief Executive Officer total $275,000.

Note 3 - Stockholders' Equity:

Preferred Stock:

Velcera is authorized to issue 10,000,000 shares of undesignated preferred stock, $.001 par value per share. The Board of Directors has the authority to issue preferred stock in one or more classes, to fix the number of shares constituting a class and the stated value thereof, and to fix the terms of any such class, including dividend rights, dividend rates, conversion or exchange rights, voting rights, rights and terms of redemption, the redemption price and the liquidation preference of such shares or class.

Common Stock:

Velcera is authorized to issue 75,000,000 shares of common stock, $.001 par value per share, of which a total of 12,059,579 and 12,039,804 shares were issued at June 30, 2008 and December 31, 2007, respectively. During the six months ended June 30, 2008, the Company issued 19,775 shares of common stock to the Chief Executive Officer at $2.00 per share in the connection with his bonus for the year ended December 31, 2007.

Stock Options:

During the six months ended June 30, 2008, the Company granted 309,344 stock options under its stock option plan to employees and directors with exercise prices ranging from $0.29 to $2.00 per share. The options have a 10-year term and vest over a three-year period from the date of grant.

During the six months ended June 30, 2008, the Company granted 25,125 stock options under its Stock Options Plan to consultants with exercise prices ranging from $0.29 to $0.90 per share. The options have a 10-year term and vest over a three-year period from the date of grant.

Note 3 - Stockholders' Equity (continued):

A summary of the Company's stock option activity and related information is as follows:

	Six months ended June 30, 2008		Six months ended June 30, 2007	
	Shares	Weighted Average Exercise Prices	Shares	Weighted Average Exercise Prices
Outstanding at beginning of period	1,242,610	$2.09	408,630	$2.07
Granted	334,469	$0.94	575,000	$1.87
Outstanding at end of period	1,577,079	$1.81	983,630	$1.95
Options exercisable	632,392	$2.30	366,169	$2.48
Weighted-average fair value of options granted during the period		$0.94		$1.23

The weighted average remaining contractual life of options outstanding and exercisable at June 30, 2008 is 8.7 years. The weighted average fair value of options outstanding as of June 30, 2008 is approximately $1.16 per option, as determined using the Black-Scholes option pricing model. The weighted average fair value of exercisable options as of June 30, 2008 is approximately $1.21.

As of June 30, 2008, total employee compensation expense related to non-vested options not yet recognized totaled approximately $834,000. The weighted-average remaining requisite service period of the unvested options was approximately 2 years.

The aggregate intrinsic value of stock options outstanding and excercisable at June 30, 2008 totaled $16,000 which represents the total intrinsic value (the difference between the Company's closing stock price on June 30, 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders, had all option holders been able to and in fact, had exercised their options on June 30, 2008.

Note 4 –Private Placement:

On February 27, 2007, the Company completed a private placement whereby the Company raised gross proceeds of approximately $9,998,327 ($9,140,607 net of offering costs) through the sale of 5,346,699 units, each consisting of one share of common stock and a warrant to purchase one-half of a share of common stock (the "Offering"). The per unit purchase price was $1.87. Each warrant has an exercise price equal to $1.87 per share, and is exercisable for 5 years from the final closing date of the Offering. The warrants do not have a cashless exercise feature, unless after one year from the date of issuance of a warrant, there is no effective registration statement registering, or no current prospectus available for, the resale of the common stock underlying the warrants held by an investor in the Offering. In that event, the warrants may also be exercised at such time by means of a "cashless exercise" in which the investor shall be entitled to receive a certificate for a certain number of warrant shares as set forth in the warrant held by such investor.

Note 4 –Private Placement (continued):

In connection with the Offering, the Company entered into a placement agency agreement, as amended, pursuant to which the Company agreed to pay the placement agent for its services, compensation in the form of: (a) cash commissions equal to 7% of the gross proceeds from the Offering and; (b) a warrant (the "Agent Warrant") to acquire a number of shares of common stock equal to 2% of the number of shares issued in the Offering. The Agent Warrant is exercisable for a period of five years from the closing of the Offering at an exercise price equal to $2.06 per share and contains a cashless exercise feature. Additionally, Velcera reimbursed the placement agent for its out-of-pocket expenses related to the Offering in an amount equal to $50,000, and has indemnified the placement agent for certain liabilities, including liabilities under the Securities Act of 1933, as amended.

In connection with the Offering, the Company agreed to register the common stock and the common stock issuable upon the exercise of the warrants with the SEC on an appropriate form (the "Registration Statement"). The Registration Statement was required to be filed with the SEC no later than April 27, 2007 or the Company would be subject to certain liquidating damages. The Registration Statement was filed with the SEC on April 27, 2007 and therefore no liquidated damages were incurred by the Company. The Company filed an amended Registration Statement on various dates the last of which was filed on October 18, 2007. The registration statement was declared effective on October 31, 2007.

Velcera provided weighted average anti-dilution protection to those investors who invested in Velcera's offering of common stock that closed in 2004 covering an aggregate of 2,031,634 shares of common stock (the "2004 Velcera Offering") The anti-dilution provisions were triggered when Velcera sold common stock for a price per share (or issues securities convertible into common stock with a conversion rate) that is less than the $3.50 per share paid in the 2004 Velcera Offering, subject to exceptions for certain types of issuances (the "2004 Anti-Dilution Rights"). As a result of the Offering, the 2004 Anti-Dilution Rights resulted in the Company issuing 711,005 shares of common stock to investors who invested in the 2004 Velcera Offering.

Note 5 – License and Development Agreement

On April 28, 2008, Velcera entered into an exclusive License and Development Agreement (the "Agreement") with a European company. Pursuant to the Agreement, the European Company granted to Velcera a non-royalty-bearing exclusive right for the United States, to develop and commercialize a parasiticide product for pets. Velcera has paid an upfront license fee of $500,000 and potential reimbursement of certain development costs. The Agreement has a term of 10 years and includes customary representations and warranties.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

The statements contained in this Quarterly Report on Form 10-Q that are not historical are 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, including statements regarding the expectations, beliefs, intentions, or strategies regarding the future. We intend that all forward-looking statements be subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In particular, this "Management's Discussion and Analysis of Financial Condition and Results of Operation" includes forward-looking statements that reflect our current views with respect to future events and financial performance. We use words such as we "expect," "anticipate," "believe," and "intend" and similar expressions to identify forward-looking statements. A number of important factors could, individually or in the aggregate, cause actual results to differ materially from those expressed or implied in any forward-looking statement. A number of important factors could, individually or in aggregate, cause actual results to differ materially from those expressed or implied in any forward-looking statements. Such factors include, but are not limited to, our ability to obtain additional financing, our ability to develop and maintain customer relationships, regulatory developments relating to our products, and our ability to protect our patented technology. Other risks are described under the section entitled "Risk Factors" in our Annual Report on Form 10-KSB filed on March 26, 2008.

Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Overview

We are developing a transmucosal oral mist drug delivery technology for use in companion animals. This innovative delivery technology called "Promist™" may address unmet needs for improved bioavailability, convenience of dosing and dosing compliance in the growing pet pharmaceutical market. We are currently developing two new pet medicines based upon known drugs delivered by the Promist™ technology with expected international approval dates through 2012.

Promist™ Delivery Technology

1. VEL504 is a potential new patent-protected product in the canine pain management category. The VEL504 product is based upon a drug already approved for use in dogs, but now will be delivered via Promist™ technology. Within an estimated global category with a market size of approximately $320 million per year, our product would be unique in convenience, speed of absorption and formulation differentiation. Effective May 29, 2007, we entered into an exclusive License and Development Agreement with Novartis. Pursuant to the agreement, we granted to Novartis a royalty-bearing worldwide exclusive right to finish the development and commercialize VEL504 for pets. In connection with the agreement, we received certain upfront license fees from Novartis, and were reimbursed certain research and development expenses. On March 5, 2008 the License and Development Agreement was terminated. All development work on VEL504 by Novartis ceased and the product and related data were returned to us. In May and June of 2008, we met with the FDA who confirmed the VEL504 product is approvable in accordance with the customary regulations pending completion of the development process as previously agreed with the FDA. No changes or additions to the plan of development or revisions to current protocols were deemed necessary by the FDA. We continue to believe that based upon current data and meetings with the FDA in May and June of 2008 the formulation of VEL504 is expected to be safe, effective and stable and can move forward through development to registration. We are now implementing plans to maximize the value of the VEL504 product and are aggressively working towards a license agreement. .

The VEL502 product is based upon a drug approved for human use, but now will be delivered via Promist™ technology. VEL502 is a potential new patent-protected veterinary product for treating pruritus associated with allergic atopic dermatitis in dogs. The options for treating canine allergies are currently very limited and rely largely upon immunosuppressive drugs, e.g., steroids. VEL502 is a commonly used human health drug with low bioavailability in canines when administered in conventional forms. However, our studies with Promist™ administration indicate the total drug exposure in the blood stream was approximately 30 fold greater than achieved with conventional tablet administration. We may be pursuing sub-licensing opportunities with other animal health companies to generate near-term licensing revenues and longer-term royalty streams for VEL502. In January 2008, we announced the results

2. of two studies. The first study reported was a non-pivotal acute safety trial, which resulted in no reported adverse events associated with VEL502 when administered at three and five times the projected dose. A double-blind, placebo-controlled pilot clinical study that evaluated VEL502 when administered after an initial one-week steroid treatment was conducted. Results from this study did not demonstrate a statistical difference between the treatment and placebo groups. These data differed from the results of a prior double-blind, placebo controlled pilot clinical study which showed a statistically valid treatment effect with VEL502 using two weeks of initial steroid treatment. Based on the results of VEL502 from the previous study, during the first quarter of 2008 we initiated a confirmatory clinical study using the initial two-week steroid treatment protocol. We completed enrollment of this study in June and expect to report results in the fourth quarter.

We have been focusing our R&D resources on these first two products utilizing the Promist™ technology to maximize the net value of these products to potential license partners and shareholders in the near term and we are aggressively seeking strategic partners for the sub-licensing of Promist™ technology for deployment with patented and non-patented animal health compounds that could benefit from any of multiple advantages afforded by the technology. The benefits of this delivery over conventional ingested forms are: (a) unique pharmacokinetic characteristics of speed of absorption as well as increased drug bioavailability due to avoidance of the 'first-pass' liver metabolism, (b) convenience of dosing with no need for the "patient" to swallow, (c) confidence of dosing with nothing to be spit-out or expelled, (d) potential for improved side effects by the avoidance of the gastro intestinal system, and (e) extended product lifecycle via patented, novel delivery. We intend to reduce costs in the short-term by reducing research and development expenses and headcount as we streamline operations and adjust our business model to developing Promist™-based products via partnerships with third-parties through sub-licensing and/or similar relationships. Thus, internal resources can be focused upon the Non-Promist™ pet health products where we believe there is a greater value proposition to the Company and its shareholders, while still pursuing licensing and royalty revenues from the Promist™ technology

Non-Promist™ Pet Health Products

We are exploring opportunities beyond the use of Promist™ delivery technology and have created a subsidiary to evaluate and develop these Non-Promist™ potential pet product candidates. These include parasiticides for pets, currently the largest pharmaceutical segment in pet health representing nearly 20% of the animal health market. At this stage we have identified several potential candidates for further investigation. We have met with the regulatory agency responsible for approving these products which has provided insight into the potential regulatory pathways for two product candidates. On April 28, 2008, we entered into an exclusive License and Development Agreement with a European Company. Pursuant to this License and Development Agreement, the European Company granted us a non-royalty-bearing exclusive right for the United States, to develop and commercialize parasiticide products for pets. We paid an upfront license fee of $500,000 and potential reimbursement of certain development costs. This License and Development Agreement has a term of 10 years and includes customary representations and warranties.

Due to its overall market size, we intend to focus more resources in the coming periods to develop Non-Promist™ product candidates, including parasiticides that we expect can increase shareholder value.

Results of Operations

Three Months Ended June 30, 2008 and 2007

Revenue: The Company recorded no revenue for the three months ended June 30, 2008 compared to $765,000 for the three months ended June 30, 2007. The revenue in 2007 was attributable to the now terminated License and Development Agreement with Novartis. This agreement was terminated in March 2008 and no additional revenue will be recorded from that agreement. We are aggressively pursuing a strategy to license VEL504 in the short-term.

General and administrative expenses: For the three months ended June 30, 2008, general and administrative expense was $464,000 compared to $602,000 for the three months ended June 30, 2007, representing a decrease of $138,000. This decrease is mainly attributable to the following: (1) $85,000 of lower compensation costs primarily associated with lower variable compensation accruals; (2) $62,000 in lower legal and accounting fees as we incurred additional costs in 2007 in becoming a publicly traded company; and (3) $35,000 in lower travel costs. These reductions in costs were partially offset by an increase of $25,000 in rental costs primarily for our new facility and $18,000 costs for market research on our products. We can expect our general and administrative costs to increase in the coming quarters as a result of being a public company and an increase spend associated with our Fidopharm subsidiary.

Research and development expenses: For the three months ended June 30, 2008, research and development expense was $1,233,000 compared to $995,000 for the three months ended June 30, 2007, representing an increase of $238,000. Research and development expense primarily consists of development costs and patent legal development of our pet health products. The increase in research and development costs is primarily attributable to the $500,000 license fee paid to in-license our parasiticide product in the second quarter of 2008. There was also an increase in spending on our VEL502 product as we conducted a non-pivotal confirmatory study in the second quarter of 2008. The cost increases were offset by lower spending on VEL504. In 2007, we were incurring costs to prepare for a pivotal trial on our VEL504 product. In 2008, we have received this product back from Novartis and are advancing its development while we aggressively pursue an out-licensing strategy. We intend to reduce costs in the short-term by reducing research and development expenses and headcount as we streamline operations and adjust our business model to developing Promist™-based products via partnerships with third-parties through sub-licensing and/or similar relationships. Thus, internal resources can be focused upon the Non-Promist™ pet health products where we believe there is a greater value proposition to the Company and its shareholders, while still pursuing licensing and royalty revenues from the Promist™ technology

Interest income: For the three months ended June 30, 2008, interest income was $18,000 as compared to $96,000 for the three months ended June 30, 2007. The decrease in interest income of $78,000 was a result of lower cash balances and interest rates in 2008 over the same period in 2007. Interest rates are lower and coupled with lower cash balances and we foresee lower interest income in coming quarters.

Net loss: For the three months ended June 30, 2008 our net loss was $1,679,000 compared to a net loss of $735,000 for the three months ended June 30, 2007. This increase in net loss of $944,000 is primarily related to lower revenue in 2008 as a result of the termination of the Novartis Agreement and higher research and development expenses.

Six Months Ended June 30, 2008 and 2007

Revenue: For the six months ended June 30, 2008, revenue was $290,000 compared to $815,000 for the six months ended June 30, 2007 representing a decrease of $525,000. This decrease in revenue is due to the termination of the License and Development Agreement with Novartis in March 2008. No additional revenue will be recorded from this agreement. We are aggressively pursuing a strategy to license VEL504.

General and administrative expenses: For the six months ended June 30, 2008, general and administrative expense was $1,210,000 compared to $998,000 for the six months ended June 30, 2007 representing an increase of $212,000. The increase is mainly attributable to the following (1) $117,000 in higher compensation costs primarily attributable to stock-based compensation for the issuance of options; (2) $52,000

in rental costs primarily for our new facility; and (3) $69,000 in marketing and market research costs on our products. These costs were partially offset by lower travel costs in the first six months of 2008 as compared to 2007.

Research and development expenses: For the six months ended June 30, 2008 research and development expense was $1,921,000 compared to $1,657,000 for the six months ended June 30, 2007 representing an increase of $264,000. Research and development expense primarily consists of development costs and patent legal development of our pet health products. The increase in research and development costs is primarily attributable to the $500,000 license fee paid to in-license our parasiticide product in the second quarter of 2008. There was also an increase in spending on our VEL502 product as we conducted a non-pivotal confirmatory study in the second quarter of 2008. The cost increases were offset by lower spending on VEL504. In 2007, we were incurring costs to prepare for a pivotal trial on our VEL504 product. In 2008, we have received this product back from Novartis and have been advancing its development while we aggressively pursue an out-licensing strategy. We intend to reduce costs in the short-term by reducing research and development expenses and headcount as we streamline operations and adjust our business model to developing Promist™-based products via partnerships with third-parties through sub-licensing and/or similar relationships. Thus, internal resources can be focused upon the Non-Promist™ pet health products where we believe there is a greater value proposition to the Company and its shareholders, while still pursuing licensing and royalty revenues from the Promist™ technology

Interest income: For the six months ended June 30, 2008, an interest income was $62,000 compared to interest income of $140,000 for the six months ended June 30, 2007. This decrease in interest income is a result of lower cash balances and lower interest rates in 2008 as compared to the same period in 2007. Interest rates are lower and coupled with lower cash balances and we foresee lower interest income in coming quarters.

Net loss: For the six months ended June 30, 2008 our net loss was $2,779,000 compared to a net loss of $1,699,000 for the six months ended June 30, 2006. This decreased net loss of $1,080,000 is related to the decrease in revenues and the above mentioned increases in operating expenses.

Liquidity and Capital Resources

From inception to June 30, 2008, we have incurred an aggregate net loss of $14,828,000 and negative cash flows from operating activities of $12,401,000, primarily as a result of expenses incurred through a combination of research and development activities related to the various technologies under our control and expenses supporting those activities.

We have financed our operations from inception through June 30, 2008 primarily through a 2004 equity financing totaling approximately $6.6 million in net proceeds and a February 2007 equity financing totaling approximately $9.1 million in net proceeds (see Recent Financings below) and cash received from our now terminated License and Development Agreement with Novartis. Total cash and cash equivalents as of June 30, 2008 were approximately $3.1 million. We believe that we have sufficient capital to fund our operations through the fourth quarter of 2008, but will need additional financing thereafter until we can achieve profitability and positive cash flows from operating activities, if ever.

Recent Financings

We completed a private placement offering in February 2007 whereby we raised gross proceeds of $9,998,327 ($9,140,607 net of offering expenses) through the sale of 5,346,699 units, each unit consisting of one share of common stock and a warrant to purchase one-half of a share of common stock at $1.87 per share (the "Offering"). The per unit purchase price was $1.87. Each warrant has an exercise price equal to $1.87 per share, and is exercisable through February 27, 2012. The warrants do not have a cashless exercise feature, unless after one year from the date of issuance of a warrant, there is no effective registration statement registering, or no current prospectus available for, the resale of the common stock underlying the warrants held by an investor in the Offering. In that event, the warrants may also be exercised at such time by means of a "cashless exercise" in which the investor shall be entitled to receive a certificate for a certain number of warrant shares as set forth in the warrant held by such investor.

In connection with the Offering, Velcera and Maxim Group, LLC ("Maxim") entered into a placement agency agreement, as amended pursuant to which we agreed to pay to Maxim for its services as placement agent, compensation in the form of (a) cash commissions equal to 7% of the gross proceeds from the Offering and (b) a warrant (the "Agent Warrant") to acquire a number of shares of common stock equal to 2% of the number of shares issued in the Offering. The Agent Warrant is exercisable for a period of 5 years from the closing of the Offering at an exercise price equal to $2.06 per share and contains a cashless exercise feature. Additionally, we reimbursed Maxim for its out-of-pocket expenses related to the Offering in an amount equal to $50,000, and indemnified Maxim for certain liabilities, including liabilities under the Securities Act.

In connection with the Offering, we agreed to register the common stock and the common stock issuable upon the exercise of the warrants with the SEC on the appropriate form. The Company was obligated to file this registration statement prior to or on April 27, 2007 or the Company would be subject to certain liquidated damages. This registration statement was filed with the SEC on April 27, 2007 and therefore no liquidated damages were incurred by the Company. The Company filed an amended Registration Statement on various dates the last of which was filed on October 18, 2007. The registration statement was declared effective on October 31, 2007.

We agreed to make such filings as are necessary to keep the registration statement effective until the date on which all of the shares of common stock held by each investor are fully saleable pursuant to Rule 144 (or any successor thereto) under the Securities Act. We also agreed to file any additional registration statements necessary to cover any additional shares of common stock issuable pursuant to any adjustments in the warrants and to cover any shares issuable upon payment of dividends in shares of common stock.

We bear the registration expenses (exclusive of transfer taxes, underwriters' discounts and commission) of all such registrations required in connection with the Offering; all reasonable costs (excluding commissions) related to the sale of common stock held by the investors in the Offering under Rule 144, as well as all reasonable fees and expenses of counsel to such investors up to $10,000 in an aggregate amount with respect to the review of any registration statement.

We also provided investors in the Offering with corporate anti-dilution protection in the event of (a) a stock dividend or distribution payable in shares of capital stock (b) a subdivision of outstanding common stock into a larger number of shares, (c) a combination of outstanding common stock into a smaller number of shares or (d) the issuance by reclassification of common stock of any shares of capital stock.

We provided weighted average anti-dilution protection to those investors who invested in our 2004 offering relating to an aggregate of 2,031,634 shares of common stock (the "2004 Velcera Offering"). The anti-dilutions provisions were triggered when we sold common stock for a price per share (or issues securities convertible into common stock with a conversion rate) that is less than the $3.50 per share paid in the 2004 Velcera Offering, subject to exceptions for certain types of issuances (the "2004 Anti-Dilution Rights"). As a result of the 2004 Anti-Dilution Rights, we issued 711,005 shares of common stock to investors who invested in the 2004 Velcera Offering. The anti-dilution provisions have expired.

Future Financing Needs

Our continued operations will depend on whether we are able to raise additional funds through various potential sources, such as equity and debt financing. Through June 30, 2008, all of our financing has been through private placements of common stock and cash received from our now terminated License and Development Agreement with Novartis. We will continue to fund operations from cash on hand and through various sources of capital, including equity and debt instruments. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. Based on our current resources, we believe that we have sufficient capital to fund our operations through the fourth quarter of 2008, but will need additional financing in order to maintain operations or achieve profitability, if ever.

We have incurred negative cash flow from operations since our inception. We have spent, and we expect to continue to spend, substantial amounts in connection with implementing our business strategy, including planned product development efforts, clinical trials, and research and discovery efforts. Given the current and desired pace of development of our two product candidates and the development of a potential parasiticide, over the next 12 months we estimate that that our research and development expenses will be approximately $3.1 million.

We expect we will need approximately $4.3 million for general and administrative expenses during the next 12 months. These expenditures are estimates and any number of occurrences could negatively impact our expected cash flow.

The actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. These factors include, but are not limited to, the following:

- the progress of research activities;
- the number and scope of research programs;
- the progress of pre-clinical and clinical development activities;
- the progress of the development efforts of parties with whom we may enter into research and development or licensing agreements;
- the amount of sub-licensing revenue earned;
- our ability to maintain current research and development programs and to establish new research and development and licensing arrangements;
- the cost involved in prosecuting, enforcing and defending patent claims and other intellectual property rights;
- legal challenges fr0m business partners or competitors; and
- the cost and timing of regulatory approvals.

We have based our estimate on assumptions that may prove to be wrong. We may need to obtain additional funds sooner than planned or in greater amounts than we currently anticipate. Potential sources of financing include strategic relationships, public or private sales of equity or debt and other sources. We may seek to access the public or private equity markets when conditions are favorable due to our long-term capital requirements. It is uncertain whether additional funding will be available when we need it on terms that will be acceptable to us, or at all. If we raise funds by selling additional shares of common stock or other securities convertible into common stock, the ownership interest of our existing stockholders will be diluted. If we are not able to obtain financing when needed, we may be forced to cease operations. As a result, we may have to significantly limit our operations and our business, consolidated financial condition and results of operations would be materially harmed.

Operating Activities

Net cash used in operating activities was $2,623,000 for the six months ended June 30, 2008 as compared to $1,567,000 for the six months ended June 30, 2007. This $1,056,000 increase in cash used in operations is primarily a result of a $1,052,000 increase in the Company's net loss.

Total assets decreased by $2,928,000 from $6,189,000 at December 31, 2007 to $3,261,000 at June 30, 2008 primarily as a result of a decrease in cash from year end used to fund our operations. Total liabilities decreased by $447,000 from $1,357,000 at December 31, 2007 to $910,000 at June 30, 2008 primarily as a result of a decrease in deferred revenue from cash received in connection with milestone payments received from Novartis which the Company was recognizing ratably of the term of the contract and a decrease in accounts payable and accrued expenses.

Plan of Operation

Our plan of operation for the period from July 1, 2008 through June 30, 2009 is to continue implementing our business strategy, including the development of our two product candidates, out-licensing initiatives and the development of a potential parasiticide. We expect our principal expenditures during the next 12 months to include:

- operating expenses, including research and development, legal and general and administrative expenses; and
- product development expenses.

We intend to use clinical research organizations and third parties to perform our formulation research, clinical studies and manufacturing. We have been focusing R&D resources on these first two products utilizing the Promist™ technology to maximize the net value of these products to potential license partners and shareholders in the near term and we are aggressively seeking strategic partners for the sub-licensing of Promist™ technology. We intend to reduce costs in the short-term by reducing research and development expenses and headcount as we streamline operations and adjust our business model to developing Promist™-based products via partnerships with third-parties

through sub-licensing and/or similar relationships. Thus, internal resources can be focused upon the Non-Promist™ pet health products where we believe there is a greater value proposition to the Company and its shareholders, while still pursuing licensing and royalty revenues from the Promist™ technology.

Our continued operations will depend on whether we are able to raise additional funds through various potential sources, such as equity and debt financing. We will continue to fund operations from cash on hand and through various sources of capital, including equity and debt instruments. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. If we are not able to obtain financing when needed, we may be forced to cease operations. As a result, we may have to significantly limit our operations and our business, consolidated financial condition and results of operations would be affected.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants discuss their most "critical accounting policies" in management's discussion and analysis of financial condition and results of operations. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The primary estimates used by management are the determination of the allowance for doubtful accounts, recognition of revenue, and research and development costs. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, the estimates may ultimately differ from actual results.

Revenue Recognition

While the Company has not generated significant revenues and is considered to be in the development stage, the Company has entered into licenses and other arrangements. These arrangements are often complex as they may involve license, development and manufacturing components. Licensing revenue recognition requires significant management judgment to evaluate the effective terms of agreements, the Company's performance commitments and determination of fair value of the various deliverables under the arrangement. SEC Staff Accounting Bulletin No. 101, or SAB 101, superseded in part by SAB 104, provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. SAB 104 establishes the SEC's view that it is not appropriate to recognize revenue until all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectability is reasonably assured. SAB 104 also requires that both title and the risks and rewards of ownership be transferred to the buyer before revenue can be recognized. In addition, the Company will follow the provisions of Emerging Issues Task Force ("EITF") issue EITF 00-21, "Revenue Arrangements with Multiple Deliverables," which addresses certain aspects of revenue recognition for arrangements the Company expects to have in future periods that will include multiple revenue-generating activities. EITF 00-21 addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. In some arrangements, the different revenue-generating activities (deliverables) are sufficiently separable, and there exists sufficient evidence of their fair values, to separately account for some or all of the deliverables (that is, there are separate units of accounting). In other arrangements, some or all of the deliverables are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. Our ability to establish objective evidence of fair value for the deliverable portions of the contracts may significantly impact the time period over which revenues will be recognized. For instance, if there is no objective fair value of undelivered elements of a contract, then the Company may be required to treat a multi-deliverable contract as one unit of accounting, resulting in all revenue being deferred and recognized ratably over the entire contract period. EITF 00-21 does not change otherwise applicable revenue recognition criteria. In arrangements where the deliverables cannot be separated, revenue related to up-front, time-based and performance-based payments will be recognized ratably over the entire contract performance period. For major licensing contracts, this will result in the deferral of significant revenue amounts where non-refundable cash payments have been received, but the revenue will not immediately be recognized due to the long-term nature of the respective agreements.

Subsequent factors affecting the initial estimate of the effective terms of agreements could either increase or decrease the period over which the deferred revenue is recognized.

Due to the requirement to defer significant amounts of revenue and the extended period over which the revenue will be recognized, along with the requirement to amortize the prepaid license discount and certain deferred development costs over an extended period of time, revenue recognized and cost of sales may be materially different from cash flows.

On an overall basis, the Company's reported revenues could differ significantly from future billings and/or unbilled revenue based on terms in agreements with customers. Unbilled revenues consist of costs incurred, but not billed to the customer or partner as of the end of the period. There were no unbilled amounts at June 30, 2008 or December 31, 2007.

To the extent milestone payments are non-refundable, the Company recognizes these time-based and performance-based payments ratably over the contract period. In the event an agreement allows for the reimbursement of research and development costs, revenue is recognized in accordance with EITF 99-19 "Reporting Revenues Gross as a Principal versus Net as an Agent." Under the guidance of EITF 99-19, reimbursements received for research and development costs are recorded as revenue in the statement of operations rather than as a reduction in expenses. In connection with a now terminated development agreement, for the three and six months ended June 30, 2007, the Company recorded $765,324 of revenue for the reimbursement of research and development costs. There were no such costs recognized for the three and six months ended June 30, 2008.

Research and development

Research and development expenditures are expensed as incurred. We often contract with third parties to facilitate, coordinate and perform agreed upon research and development activities. To ensure that research and development are expensed as incurred, we measure and record prepaid assets or accrue expenses on a quarterly basis for such activities based on the work performed under the contracts. These contracts typically call for the payment of fees for services at the initiation of the contract and/or upon the achievement of certain clinical trial milestones. In the event that we prepay fees for future milestones, we record the prepayment as a prepaid asset and amortize the asset into research and development expense over the period of time the contracted research and development services are performed. Most professional fees are incurred throughout the contract period. These professional fees are expensed based on their percentage of completion at a particular date. These contracts generally include pass through fees. Pass through fees include, but are not limited to, regulatory expenses, investigator fees, travel costs and other miscellaneous costs including shipping and printing fees. Because these fees are incurred at various times during the contract term and they are used throughout the contract term, we record them as incurred.

Stock-based compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standard ("SFAS") No. 123(R), "Share-Based Payment," ("SFAS 123(R)") for employee options using the modified prospective transition method. SFAS 123(R) revised SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"), to eliminate the option to use the intrinsic value method and requires us to expense the fair value of all employee options over the vesting period. We selected the Black-Scholes method to determine the fair value of options granted to employees. Under the modified prospective transition method, we recognized compensation cost for the three months ended June 30, 2008 and 2007 which includes 1) current period compensation cost related to stock-based payments granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123; and 2) current period compensation cost related to stock-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with SFAS 123(R). In accordance with the modified prospective method, we have not restated prior period results.

Effective January 1, 2006, we account for stock options granted to non-employees on a fair value basis over the vesting period using the Black-Scholes option pricing method in accordance with SFAS 123(R) and Emerging Issues Task Force ("EITF") No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF No. 96-18"). The initial non-cash charge to operations for non-employee options with vesting is revalued at the end of each reporting period based

upon the change in the fair value of our common stock and amortized to consulting expense over the related vesting period. Prior to January 1, 2006, we accounted for stock options granted to non-employees on a fair value basis over the vesting period using the Black-Scholes option pricing method in accordance with SFAS 123 and EITF No. 96-18.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our financial instruments include cash and cash equivalents,. Our main investment objectives are the preservation of investment capital and the maximization of after-tax returns on our investment portfolio. Consequently, we invest with only high-credit-quality issuers and limit the amount of credit exposure to any one issuer. We do not use derivative instruments for speculative or investment purposes.

Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of June 30, 2008, the carrying value of our cash and cash equivalents approximated fair value. We have in the past and may in the future obtain marketable debt securities (principally consisting of commercial paper, corporate bonds and government securities) having a weighted average duration of one year or less. Consequently, such securities would not be subject to significant interest rate risk.

Item 4T. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures

As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15 and 15d-15 of the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Internal controls over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

PART II – OTHER INFORMATION

Item 6. EXHIBITS

Exhibit No.	Description
10.1	Amended and Restated License and Development Agreement, dated April 28, 2008*
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32.1	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Confidential treatment has been requested as to certain portions of this exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VELCERA, INC.

Date: August 14, 2008 By: /s/ Dennis F. Steadman

Dennis F. Steadman

President and Chief Executive Officer

Date: August 14, 2008 By: /s/ Matthew C. Hill

Matthew C. Hill

Chief Financial Officer

Index to Exhibits Filed with this Report

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*Confidential treatment has been requested as to certain portions of this exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Portions herein identified by ** have been omitted pursuant to a request for confidential treatment and have been filed separately with the Commission pursuant to Rule 24b-2 of the Exchange Act of 1934, as amended.

AMENDED & RESTATED LICENSE AND DEVELOPMENT AGREEMENT

By

and

Between

**** and**

FIDOPHARM, INC.

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AMENDED & RESTATED LICENSE AND DEVELOPMENT AGREEMENT

THIS AMENDED & RESTATED LICENSE AND DEVELOPMENT AGREEMENT ("**Agreement**") is made as of this 22nd day of April 2008 (**"Effective Date"**), by and between: **, a company having offices at **(**"***"**), and Fidopharm, Inc., a company having offices 777 Township Line Road, Suite 170, Yardley, Pennsylvania 19067 (**"Fidopharm"**). Fidopharm and **are together referred to as **"Parties"** and individually as a **"Party"**.

RECITALS

WHEREAS, **is developing ACI-based products for manufacture and commercialization for veterinary or animal application uses.

WHEREAS, the largest market in the world for ACI-based products for veterinary or animal application uses is the United States.

WHEREAS, the Parties agree that Fidopharm has the requisite expertise and infrastructure to register and commercialize veterinary products in the United States.

WHEREAS, **desires to grant Fidopharm an exclusive license to use its know-how and under its patent rights to, use, make, have made, market, offer for sale, import or export and sell ACI-based products for veterinary or animal application use in the United States, and Fidopharm desires to obtain such license.

AND WHEREAS, **shall cause the JV to execute a supply agreement contemporaneously with the execution of this Agreement providing for the exclusive supply of Products to Fidopharm for sale and distribution in the Territory.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, the Parties, intending to be legally bound, hereby agree as follows:

1. DEFINITIONS

As used herein, the following terms shall have the respective meanings set forth below:

1.1 **"ACI"** means (a) Active A and/or (b) Active B.

1.2 **"Active A"** shall have the meaning on Schedule 1.

1.3 **"Active B"** shall have the meaning on Schedule 1.

1.4 **"Affiliate"** means any individual, corporation, company, partnership, trust, limited liability company, association or other business entity (**"Person"**) which directly or indirectly controls, is controlled by or is under common control with the Party in question. As used in this definition of "Affiliate," the term "control" shall mean, as to any Person, (a) direct or indirect ownership of fifty percent (50%) or more of the voting interests or other ownership interests in the Person in question (or such lesser percentage which is the maximum allowed to be owned by such Person in a particular jurisdiction); (b) direct or indirect ownership of fifty percent (50%) or more of the interest in the income of the Person in question; or (c) possession, directly or indirectly, of the power to direct or cause the direction of management or policies of the Person in question (whether through ownership of securities or other ownership interests, by contract or otherwise). Notwithstanding the foregoing, the owners of preferred stock (or common stock issued upon conversion thereof) of a Party such as financial institutions, venture capital funds and private equity investors will not be its "Affiliates" for purposes of this Agreement.

1.5 **"Commercial Sale"** means sale of Products by Fidopharm or its Affiliates to a Third Party in the Territory, other than distribution in connection with clinical trials of Products conducted by Fidopharm.

1.6 **"Confidential Information"** means all secret or confidential proprietary information or data of a Party provided in written, oral, graphic, video, computer, electronic or other form to the other Party.

1.7 "**Controlled**" means, with respect to any intellectual property right or other intangible property, the possession by license or ownership by a Party (or by an Affiliate) to grant to the other Party access or a license or sublicense as provided herein without violating the terms of any written contract with any Third Party.

1.8 **"Development"** means research and chemical development activities, including without limitation toxicology, test method development and stability testing, process development, formulation development, delivery system development, quality assurance and quality control development, statistical analysis, efficacy studies, product performance studies, environmental impact studies, manufacturing process development and scale-up, regulatory affairs, and product approval and regulatory activities other than filing for and seeking Product Registrations.

1.9 **"Field"** means any and all veterinary or animal application uses.

1.10 "**JV**" means ** Limited, which shall be the entity responsible for supplying Products to Fidopharm.

1.11 **"Know-How"** means any proprietary technical or other information relating to Products and the make, use or sale of Products, including technology, experience, formulae, concepts, discoveries, trade secrets, inventions, modifications, improvements, data (including all chemical, clinical, toxicological, analytical, and quality control data), results, designs, ideas, analyses, methods, techniques, assays, research plans, procedures, tests, processes (including manufacturing processes, specifications and techniques), laboratory records, reports, summaries, and information contained in submissions to, and information received from, regulatory authorities, that are Controlled by **, its Affiliates, JV or Manufacturer as of the Effective Date or during the Term.

1.12 **"Law"** or **"Laws"** means the laws, statutes, rules, codes, regulations, orders, judgments and/or ordinances of any governmental authority (including without limitation the Regulatory Authority).

1.13 **"Manufacturer"** shall have the meaning set forth in Schedule 1, which shall be amended upon the mutual agreement of the Parties.

1.14 **"Patents"** means (a) the patents and patent applications listed in Schedule 2, (b) all patents and patent applications related to Products that may be obtained, including the make, use or sale of Products and (c) all patents and patent applications which are divisions, continuations, continuations-in-part, reissues, renewals, re-examinations, foreign counterparts, substitutions or extensions of or to any patent applications or patents described in clauses (a) or (b) of this sentence, that are Controlled by **, its Affiliates, JV or Manufacturer as of the Effective Date or during the Term. The Parties hereby acknowledge that there are no Patents as of the Effective Date; provided, that upon the filing of a Patent application ** shall create a Schedule 2 which shall be updated as necessary.

1.15 **"Products"** means any product containing ACI as its active chemical ingredient and which is covered by Patents and/or uses Know-How, including, but not limited to the following Products:

(a) **"Product A"** means a product Developed by **(including by any Affiliate of **or by any Third Party (on behalf of **or its Affiliates)) meeting the specifications set forth in Schedule 1; and

(b) **"Product B"** means a product Developed by **(including by any Affiliate of ** or by any Third Party (on behalf of **or its Affiliates)) meeting the specifications set forth in Schedule 1.

1.16 **"Product Registration"** means, with respect to a Product in a particular country or territory, the registration or regulatory approval granted by the applicable governmental authority in such country or territory allowing for such Product to be marketed, distributed, sold or imported there.

1.17 **"Regulatory Authority"** means the United State's agency with jurisdiction over Products.

1.18 **"Specifications"** means, with respect to a Product, the specifications for such Product set forth in the Product Registration or as otherwise agreed to by the Parties.

1.19 **"Supply Agreement"** means that Amended & Restated Manufacture and Supply Agreement entered into with the JV contemporaneously with this Agreement.

1.20 **"Territory"** means the United States and all of its states, territories and protectorates.

1.21 **"Third Party"** means any entity or person other than ** or Fidopharm or their respective Affiliates.

1.22 **"Unit"** means a ** of Product.

1.23 **Additional Definitions.** Each of the following definitions is set forth in the Section of this Agreement indicated below:

Definition	Section
Agreement	Preamble
Copyrighted Materials	2.3
Costs	11.5
Development Data	4.4(b)
Development Plan	4.2(a)
Effective Date	Preamble
Fidopharm	Preamble
Force Majeure	13.1
Indemnifying Party	10.3
Initial Products	4.1
Initial Term	11.1
**	Preamble
Parties	Preamble
Party	Preamble
Person	1.1
Registration and Commercialization Plan	5.2
ROFN Notice	2.4
Term	11.1
Territory Development	4.7
Territory Development Costs	4.7
Third Party-Patent Infringement Notice	7.4
Trademark	5.3

2. LICENSE GRANT AND OTHER RIGHTS

2.1 **Exclusive License.**

(a) Subject to the terms and conditions of this Agreement, ** hereby grants Fidopharm an exclusive license, with a right to sublicense, to use the Know-How and under the Patents to, use, make, have made, market, offer for sale and import or export Products in the Field in the Territory. For clarity, Fidopharm's right to export hereunder shall not include the right to export Product to end-users or commercial distributors outside of the Territory.

(b) Notwithstanding the license grant above, Fidopharm shall not make or have Products made and supplied (other than through the JV) for Commercial Sale in the Territory unless there as been a Failure (as defined in the Supply Agreement).

2.2 Right of Reference. ** hereby grants Fidopharm the right to access, reference and use all data and regulatory filings (including all Product Registrations Controlled by **, its Affiliates, JV and Manufacturer) and regulatory communications associated with any submissions for the Products to the extent permitted under applicable Laws. Where required in order for Fidopharm to obtain such access, ** shall or shall cause the appropriate party to, as soon as reasonably possible (and in any event no later than thirty (30) days from the date of Fidopharm's request), provide the applicable governmental authority with notice of its consent to such access by Fidopharm in the appropriate form. In the event that ** grants any Third Party any rights in Products, (i) ** shall use its best efforts to ensure that any such Third Party will grant ** a right to access, reference and use any and all data and regulatory filings related to Products and (ii) ** hereby grants Fidopharm a right to access, reference and use any and all data and regulatory filings related to Products which ** has such a right to access; provided, that in any event ** shall ensure that any such Third Party shall be subject to safety and adverse event reporting obligations no less stringent than the terms and conditions contained in Section 8.3 and Fidopharm shall be made aware of any such safety or adverse events within twenty-four (24) hours of ** being informed of such an event. ** reserves the right to use such data worldwide in support of any registration held by it or a Third Party partner.

2.3 Copyrighted Materials. To the extent that ** develops or has developed any manuals, logos, and other copyrighted works for use with Products (individually and collectively, the **"Copyrighted Materials"**), ** hereby grants Fidopharm a royalty-free, non-exclusive license to use and distribute such Copyrighted Materials in connection with marketing, promoting, selling or importing Products in the Field in the Territory.

2.4 Exclusive Right of First Negotiation. Prior to ** granting to a Third Party a license or similar right (including a co-promotion right or an option to acquire such license or right) to market, offer for sale, import or export one (1) or more products containing ACI (other than Products) in the Field in the Territory, it shall so advise Fidopharm in writing (an **"ROFN Notice"**). Upon request by Fidopharm within thirty (30) days after its receipt of the ROFN Notice, ** and Fidopharm shall discuss the terms and conditions under which ** would grant to Fidopharm rights to market, offer for sale, import or export such products in the Field in the Territory. If the Parties agree to grant such rights to Fidopharm, including the terms and conditions of such grant, the Parties shall prepare and execute an amendment to this Agreement incorporating such additional rights and terms. If Fidopharm does not so request within the thirty (30) day period after its receipt of the ROFN Notice, or if the Parties do not agree in writing on the terms of such additional grant of rights to Fidopharm within ninety (90) days after the date of the ROFN Notice to Fidopharm, ** shall be free to grant to one or more Third Parties the right to market, offer for sale, import or export such products in the Field in the Territory, on such terms as ** considers appropriate.

3. CONSIDERATION

3.1 Upfront Payment. In partial consideration of the grant of rights under this Agreement and **'s obligations to conduct the Development activities provided hereunder, Fidopharm shall pay ** an upfront payment of five hundred thousand dollars (US$500,000) within fourteen (14) days of the Effective Date.

3.2 Supply Agreement. As further consideration of the grant of rights under this Agreement and its obligations to conduct the Development activities provided hereunder, Fidopharm shall contemporaneously with this Agreement enter into the Supply Agreement.

3.3 No Additional Consideration. ** shall be entitled to no additional consideration for the grant of rights to Fidopharm under this Agreement and **'s obligations to conduct the Development activities other than as provided under this Article 3 and Section 4.7 below.

4. DEVELOPMENT

4.1 Overview. ** shall be primarily responsible, at its sole cost except as otherwise specifically provided herein, for designing and conducting all Development activities necessary to receive Product Registrations for the Product A and Product B (together, the **"Initial Products"**) in accordance with the Development Plan. Fidopharm shall be responsible, at its sole cost, for submitting the Product Registrations to the Regulatory Authority.

4.2 Development Plan.

(a) The Development of the Initial Products shall be governed by a development plan (the **"Development Plan"**). The initial Development Plan shall be attached hereto as Schedule 4.2. The Development Plan shall include options for 'essentially similar' and complete clinical package registration data routes with costings, timelines, stage payments, ** and other elements to be set forth in the Development Plan.

(b) The Development Plan, together with any updates thereto, shall be prepared and approved as follows from time to time during the Term, each Party shall have the right to propose amendments to and amend the existing Development Plan; provided, that in any event ** shall present Fidopharm an updated Development Plan at least once per calendar year for its review and approval, not to be unreasonably withheld or delayed. Fidopharm shall have a period of twenty-one (21) days from the date that the updated Development Plan is received to provide its approval. If approval or rejection is not provided to ** within such twenty-one (21)-day period, then the Development Plan shall be deemed approved. For purposes of clarity, no change to the Development Plan shall be made without the prior written approval of both Parties.

4.3 Diligence. ** shall carry out the Development activities, in strict accordance with the Development Plan and the timelines set forth therein, necessary for obtaining the Product Registrations as set forth in this Agreement, including generating any additional data necessary to obtain Product Registration specifically for the Territory at Fidopharm's instruction. Fidopharm shall file the Product Registrations in accordance with the Registration and Commercialization Plan based on the data provided by **.

4.4 Reporting and Data.

(a) Upon request, ** shall promptly, but in no event later than thirty (30) days after such request provide Fidopharm with (i) a summary in reasonable detail of all data generated or obtained from each discrete Development activity performed under the Development Plan, such as any toxicology study, pharmacokinetics study or stability study, (ii) a summary of the Development progress against the projected Development progress set forth in the current Development Plan and (iii) a final report of the results of each Development activity, together with all material supporting data.

(b) ** shall provide Fidopharm copies of all substantive or material information with respect to the Development of Products, including clinical data compiled with respect to Products and all information and data filed with any governmental authority with respect to Products outside of the Territory, as soon as reasonably practicable after such information, data or results become available to or compiled by **, including any drafts and final versions of any study reports (the **"Development Data"**). Subject to the terms and conditions of this Agreement, Fidopharm shall have the right to use the Development Data or any portion thereof for the purpose of obtaining Product Registrations and commercializing Products in the Territory.

4.5 Compliance with Laws. ** or its agents shall perform its responsibilities under this Article 4, including those set forth in the Development Plan, in accordance with all applicable Laws.

4.6 Access to Records and Facilities. ** shall maintain scientific records, in sufficient detail and in good scientific manner appropriate for obtaining Patents and regulatory purposes, which shall fully and properly reflect all work done and results achieved in the performance of Development under this Agreement. Fidopharm shall be entitled to have access during regular business hours and upon reasonable advance notice, to **'s records and facilities relating to the Development of Products for the purpose of monitoring compliance with all applicable Laws and other applicable regulatory requirements. In all Third Party agreements involving the Development of Products, ** shall require that the Third Parties thereto provide ** with access to such Third Party facilities and all such data generated by Third Parties. Fidopharm shall have the right to inspect such facilities on behalf of ** in the event that:

(a) a specific concern is raised regarding Product by any governmental authority (including the Regulatory Authority);

(b) a routine inspection/audit for Regulatory Authority purposes;

(c) a routine inspection to confirm compliance with the terms of this Agreement, including without limitation, the progress of Product Development; or

(d) a routine inspection/audit for a Fidopharm customer.

For clarity, inspection and audits pursuant to Section 4.6(d) shall be limited to two (2) separate visits in any twelve (12) month period for each specific Third Party; provided, that additional reasonable inspections/audits shall be permitted upon Fidopharm obtaining **'s prior consent, which shall not be unreasonably withheld, conditioned or delayed. All inspection/audit costs shall be borne by the Party incurring such costs.

4.7 Territory Specific Development. To the extent that additional Development is necessary solely to obtain the Product Registration in the Territory (**"Territory Development"**), ** shall supplement the current Development Plan with a budget setting forth the reasonable costs for conducting the Territory Development specific activities (**"Territory Development Costs"**) and shall submit such supplement to Fidopharm for its consent and upon approval of such Territory Development Costs by Fidopharm, Fidopharm shall reimburse such costs as they are incurred.

5. PRODUCT REGISTRATION AND COMMERCIALIZATION

5.1 Product Registration. Fidopharm shall, at its sole expense, use commercially reasonable efforts to obtain and maintain Product Registrations in accordance with the Registration and Commercialization Plan. Fidopharm shall be the sole owner of all Product Registrations in the Territory. For clarity, Fidopharm shall have the sole right in determining whether or not to obtain and/or maintain any specific Product Registration in the Territory.

5.2 Registration and Commercialization Plans. No less than thirty (30) days prior to first Commercial Sale Fidopharm shall provide an annual development plan for its activities in order to obtain Product Registrations and after first Commercial Sale Fidopharm shall provide an annual commercialization plan for its efforts to commercialize Products (the **"Registration and Commercialization Plan"**). Fidopharm shall update the Registration and Commercialization Plan annually and shall provide such updated plan to ** not later than thirty (30) days before start of each year. The Registration and Commercialization Plan description shall be agreed between the Parties.

5.3 Trademarks. Fidopharm shall have the sole right to determine the trademark(s) or trade name(s) that Fidopharm shall adopt for use with Products (the "**Trademark**"). All goodwill generated through the use of Trademarks by Fidopharm shall inure to the benefit of Fidopharm. Fidopharm shall own all Trademarks and shall register and maintain such Trademarks at its sole cost and discretion.

5.4 Cooperation. ** shall provide (a) reasonable cooperation and support to Fidopharm in connection with maintenance of the Product Registration and (b) all information (including Confidential Information) that is reasonably required for the Development and/or commercialization of Products. Subject to Article 9, Fidopharm may use such Confidential Information solely for the purpose of Developing and commercializing Products.

5.5 Reporting. Each Party shall keep the other Party informed of developments known by it that would reasonably be expected to have a material adverse effect on any Product or Product Registration, including, but not limited to, the general regulatory strategy for Products in the Territory.

6. SUPPLY OF PRODUCTS.

6.1 Supply Agreement. Contemporaneously with the execution of this Agreement Fidopharm shall enter into the Supply Agreement with the JV. Pursuant to the terms of the Supply Agreement, the JV shall supply Fidopharm's requirements of Products. Notwithstanding the foregoing, as between Fidopharm and **, in the event of a conflict between the Supply Agreement and this Agreement, Fidopharm's rights in regards to the licenses (and any other intellectual property related to the Products) and Product Registrations related to the Products shall be governed solely by the terms of this Agreement.

6.2 Technology Transfer. In the event that there is a Failure (as defined in the Supply Agreement) or if this Agreement is terminated pursuant to Section 11.2(b), 11.3 or 11.4, (a) the restrictions set forth in Section 2.1(b) of this Agreement shall no longer be applicable (which for clarity, means that Fidopharm shall have the right to manufacture, or have manufactured, Product itself or by a Third Party) and (b) ** shall undertake, and/or, as necessary, cause the JV and Manufacturer to undertake, an immediate transfer to Fidopharm or its designee of all technology and Know-How necessary, useful or used to manufacture Products. ** shall also make available, or cause to be made available any individuals who may be useful implementing the manufacturing processes related to Products.

7. PATENTS

7.1 Prosecution and Maintenance of Patents. ** will prosecute and maintain the Patents at its sole cost in the Territory, using counsel of its choice reasonably acceptable to Fidopharm and shall not abandon any Patent without the prior written consent of Fidopharm. During the Term, ** pursuant to this Section 7.1 shall copy Fidopharm, or have Fidopharm copied, on all material or substantive documents regarding Patents, which are received from or to be filed in any patent office in the Territory, promptly following receipt from the patent office and within a reasonable time prior to filing with the patent office (but not less than thirty (30) days), as applicable, including copies of each patent application, office action, response to office action, declaration, information disclosure statement, request for terminal disclaimer, request for patent term extension and request for reexamination. Fidopharm shall have the right to comment on the prosecution of such Patents and provide such comments to **'s patent counsel, and ** shall consider all such comments in good faith. For the purposes of this Section 7.1, "***prosecute and maintain***" means, with respect to a patent, the preparing, filing, prosecuting and maintenance of such patent, as well as re-examinations, reissues and requests for patent term extensions and the like with respect to such patent, together with the conduct of interferences, the defense of oppositions and other similar proceedings and appeals thereof with respect to a patent, but shall not include enforcement litigation or the defense of declaratory judgment actions. Also, as used in this Section 7.1, to "abandon" particular Patent shall include deciding not to defend against an opposition, not to defend an interference or similar proceeding, not to pursue an appeal of an adverse decision or not to pursue particular claims, in each case with respect to such Patent in the United States Patent & Trademark Office.

7.2 Notification of Infringement. The Parties shall promptly inform each other of any information that comes to their attention involving (a) actual or apparent infringements or misappropriations of the Patents, by any Third Party in the Territory, or (b) claims of alleged infringement made by any Third Party against either Party or its respective Affiliates or sub-licensees resulting from the Development, manufacture, import, offer for sale, sale or use of Products.

7.3 Enforcement Against Third Parties.

(a) **Notice.** If either Party reasonably believes that a Third Party is conducting any activities in the Territory that may constitute actual or potential infringement of the Patents, such Party shall promptly notify the other Party of such activities.

(b) **Fidopharm's First Right to Enforce.** Except as otherwise agreed, Fidopharm shall have the first right to bring and control any action or proceeding under such Patents in respect to an alleged infringement occurring in the Territory. If Fidopharm fails to bring an action or proceeding with respect to an alleged infringement occurring in the Territory within one-hundred-twenty (120) days following a request by ** to do so, ** shall have the right to bring and control any such action or proceeding with respect to such Patents.

(c) **Cooperation.** The Parties shall reasonably cooperate with each other in all actions or proceedings described in this Section 7.3, to the extent pertaining to an alleged infringement. The non-controlling Party agrees to be joined as a party plaintiff if necessary to prosecute the action or proceeding and shall provide all reasonable cooperation (including any necessary use of its name) required to prosecute such litigation; provided that the controlling Party shall reimburse the non-controlling Party for out-of-pocket expenses reasonably incurred in providing such cooperation at the controlling Party's request. The non-controlling Party will be entitled to be represented by counsel of its own choice at its own expense.

(d) **Recoveries.** Any recovery obtained by any Party as a result of any proceeding described in this Section 7.3, by settlement or otherwise, shall be applied in the following order of priority: (i) first, to reimburse each Party for all litigation costs in connection with such proceeding paid by that Party and not otherwise recovered (on a pro rata basis based on each Party's respective litigation costs, to the extent the recovery was less than all such litigation costs); and (ii) second, the remainder shall be kept by the controlling Party.

7.4 Alleged Infringement of Third Party's Patents. In the event that either Party is named as a defendant in any legal or other action or proceeding, including any settlement or negotiation, or learns of any threatened action or proceeding with respect to any alleged infringement of a Third Party patent or other proprietary right as a result of Developing, manufacturing, importing, offering for sale, selling or using Products such Party will promptly notify the other Party in writing (a **"Third Party-Patent Infringement Notice"**). The Parties will closely coordinate regarding any infringement, or alleged infringement, of Third Party rights related to Products; provided, that in the Territory, Fidopharm shall have the first right but not the obligation to defend any action brought by, or negotiate a settlement with, a Third Party claiming any infringement or potential infringement by Products of such Third Party's rights. In the event that Fidopharm elects not to, or fails to, initiate any defense or settlement within one-hundred-twenty (120) days following its receipt of a Third Party-Patent Infringement Notice, ** shall have the right to take such steps as may be considered necessary or appropriate by ** to defend such infringement claim. Each Party shall render such reasonable assistance as may be requested by the defending Party in connection with such infringement actions. If one Party requests the other Party's reasonable assistance in connection with such infringement claims or actions, the requesting Party shall reimburse the other Party for such direct, out-of-pocket expenses as are reasonably incurred during the course of its providing such requested assistance.

8. REPRESENTATIONS, WARRANTIES AND COVENANTS.

8.1 ** Representations, Warranties and Covenants. ** hereby represents, warrants and covenants to Fidopharm as follows:

(a) The execution and delivery by ** of this Agreement and the performance by ** of its obligations hereunder have been duly authorized by all necessary corporate action on the part of **, and do not conflict with the terms of any other contract, agreement, arrangement or understanding to which ** is a party.

(b) Except as set forth herein, no consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority is required on the part of ** in connection with the valid execution, delivery and performance of this Agreement.

(c) ** is and will be in compliance through the term of this Agreement in all material respects with all Laws applicable to its performance under this Agreement.

(d) There is no action or proceeding pending or threatened against ** that questions the validity of this Agreement or any action taken by ** in connection with the execution of this Agreement.

(e) In regards to intellectual property:

(i) ** has not knowingly infringed any Third Party patent rights in developing Products. In the event that ** becomes aware of any Third Party patents rights being infringed, or potentially being infringed, by the development, manufacture or commercialization of a Product, ** shall notify Fidopharm of such infringement or potential infringement within twenty-four (24) hours of gaining such knowledge.

(ii) as of the Effective Date, there are no pending proceedings in any court or arbitration, administrative or other tribunal which are concerned with the validity or ownership of any of the Patents or Know-How. Without derogation from the foregoing, there are no oppositions, revocation, cancellation, invalidation or rectification proceedings pending in relation to any of the Patents or Know-How in any court. No Third Party has notified ** or any ** Affiliate of its intention to bring any such proceedings.

(iii) ** has not and no ** Affiliate has received any written complaints or threats and there are no pending proceedings or claims, alleging that the exploitation of the Patents or Know-How infringe or would infringe the intellectual property rights of any Person;

(iv) Details of the Patents are set out in Schedule 2 and all the details are correct. Without derogation from the generality of the foregoing, the Patents are subsisting and all applications for Patents indicated in Schedule 2 as pending are pending. The legal and beneficial owner or applicant for registration of each of the Patents specified in Schedule 2 is correctly stated;

(v) The Patents and Know-How are the only intellectual property rights owned by, licensed to or used by ** or its Affiliates in relation to Products and to the best of **'s knowledge no intellectual property rights other than the Patents or Know-How are required in order to Develop, manufacture, use, import and/or sell or commercialize Products in the Territory;

(vi) All actions required to be taken before the Effective Date for the prosecution and maintenance of the Patents (including all applicable fees due and payable before such date) have been taken or paid; and

(vii) The Patents are not and, during the Term, will not become subject to any encumbrance or lien in favor of any Third Party that is inconsistent with or otherwise restricts the rights and sublicenses granted to Fidopharm hereunder.

(f) In regards to Development:

(i) ** **

(ii) All trials related to Products have been carried out and will be carried out in accordance with all relevant Laws;

(iii) Neither ** nor any ** Affiliate is engaged in any litigation, opposition or arbitration proceedings affecting or relating to Products, the Patents, Know-How (including but not limited to claims relating to product liability) as plaintiff or defendant and there are no such proceedings pending or threatened by or against ** or any ** Affiliate and ** is not aware of facts or circumstances likely to give rise to any such proceedings; and

(iv) No injunction has been granted against ** or its Affiliates in connection with Products, the Patents or Know-How.

(g) Neither ** or any ** Affiliate has nor will provide (directly or indirectly) any Third Party access or rights to use its Know-How (including, without limitation, use of any data or under any Patents) for Development, regulatory approval or commercialization of any product containing Active A at a concentration range between **and **weight/volume.

(h) As of the Effective Date, neither it nor its Affiliates has been debarred or is subject to debarment and neither ** nor any of its Affiliates will use in any capacity, in connection with the Development or commercialization of Products, any Person who has been debarred pursuant to Section 306 of the United States Federal Food, Drug and Cosmetic Act, or who is subject of a conviction described in such section. Further, ** agrees to inform Fidopharm in writing immediately if it or any Person who is performing services hereunder is debarred or is the subject of a conviction described in Section 306, or if any action, suit, claim, investigation or legal administrative proceeding is pending or, to the best of **'s knowledge, is threatened, relating to the debarment of **, its Affiliates or any Person used in any capacity by ** or its Affiliates in connection with the Development or commercialization of Products.

8.2 Fidopharm Representations and Warranties. Fidopharm hereby represents and warrants to ** as follows:

(a) The execution and delivery by Fidopharm of this Agreement and the performance by Fidopharm of its obligations hereunder have been duly authorized by all necessary corporate action on the part of Fidopharm, and do not conflict with the terms of any other contract, agreement, arrangement or understanding to which Fidopharm is a Party.

(b) Except as set forth herein, no consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority is required on the part of Fidopharm in connection with the valid execution, delivery and performance of this Agreement, where the failure to obtain any of the foregoing would not have a material adverse impact on the ability of Fidopharm to meet its obligations hereunder.

(c) Fidopharm is and will be in material compliance throughout the Term with all of the applicable Laws relating to Products in the Territory.

8.3 Regulatory Cooperation.

(a) The Parties shall disclose to each other all reports or other knowledge they receive with respect to adverse experiences, and reports of mislabeling, stability failures or microbiological contamination.

(b) In addition to and without limiting the requirements of Section 8.3(a) above, Fidopharm and ** agree, throughout the duration of this Agreement, to notify the other Party immediately of any information concerning any serious or unexpected side effect, injury, toxicity or sensitivity reaction, or any unexpected incidents, and the severity thereof, associated with the clinical uses, studies, investigations, tests and marketing of Products, whether or not determined to be attributable to Products. Each Party shall cooperate with the other to resolve any complaints received by either Party with respect to Products.

(c) Each of Fidopharm and ** shall promptly deliver to the other all material correspondence that such Party may receive, directly or indirectly, from regulatory authorities in jurisdictions where such Party (or its sublicensees, distributors, or sub-distributors) has rights to market Products, except for procedural, nonsubstantive communications which do not relate to the safety or efficacy of Products. Fidopharm and ** shall also immediately notify the other Party about any information such Party receives regarding any threatened or pending action by a governmental agency that may affect the safety and efficacy claims of Products or the continued marketing, promotion, distribution, sale or manufacture of Products. Upon receipt of any such information, the Parties shall consult in an effort to arrive at a mutually acceptable procedure for taking appropriate action, provided that nothing contained herein shall be construed as restricting either Party's right to make a timely report of such matter to any governmental or regulatory agency or take other action that it deems to be appropriate or required by applicable law or regulation. It is Fidopharm's responsibility to report adverse events in accordance with local Laws and requirements to governmental or regulatory agencies in the Territory.

(d) Without limiting the foregoing, it is also understood that each Party may notify any of its Affiliates, licensees, distributors or sub-licensees of any incident or event reported by either Party under this Section 8.3. In addition, each Party shall, and shall require its respective Affiliates to: (i) to the extent permissible under time constraints and reporting requirements, provide to the other Party in advance of initial or periodic submission to the applicable regulatory authorities any and all adverse event reports from clinical trials and commercial experiences with Products; (ii) provide such adverse event reports to the other Party contemporaneously with the provision of such reports to the applicable regulatory authority; and (iii) adhere to all requirements of applicable Laws which relate to the reporting and investigation of adverse events and keep the other Party informed of such events. If a Party contracts with a Third Party for any research to be performed by such Third Party on Products, that Party shall require such Third Party to report to the contracting Party the information set forth above.

8.4 Compliance with Laws. Both Parties shall comply in all material respects with all applicable Laws with respect to the supply, Development, testing, marketing, promotion, storage, import, distribution and sale of Products.

9. CONFIDENTIALITY

9.1 Confidentiality; Nondisclosure; Nonuse. During the Term, and for ten (10) years after the termination of this Agreement, each Party shall keep confidential the other Party's Confidential Information and, except as expressly permitted herein, shall not disclose such Confidential Information to any Third Party in any manner whatsoever, in whole or in part, without first obtaining the other Party's prior written consent to such disclosure. The standard of care required of each Party in protecting the confidentiality of the other Party's Confidential Information shall be at least as strict as the same standard of care that the receiving Party uses in protecting its own Confidential Information, but in no event shall either Party use less than a reasonable standard of care. Neither Party shall use any Confidential Information of the other Party for any purpose other than to perform its obligations under this Agreement or as otherwise authorized under this Agreement. The receiving Party shall ensure that its employees, representatives, and agents comply with this provision, and shall be responsible for any breach by such employees, representatives, or agents.

9.2 Exception to Confidential Information. The foregoing obligations of confidentiality, nondisclosure and nonuse shall not apply to any Confidential Information (a) which is now public knowledge or which hereafter becomes public knowledge through no breach of this Agreement by the receiving Party; (b) which the receiving Party received without restriction from an independent Third Party; (c) which the receiving Party can demonstrate was already in its possession at the time of receipt from the disclosing Party and not subject to another agreement between the Parties; or (d) which the receiving Party can demonstrate was independently developed by the receiving Party in the course of work by the officers, directors, employees, consultants or agents of itself or of its Affiliates, subsidiaries or related companies without the aid, use or application of Confidential Information of the disclosing Party.

9.3 Notification of Mandatory Disclosure. Each Party may use or disclose Confidential Information of the other Party to the extent such use or disclosure is reasonably necessary in complying with applicable Laws or required by governmental authorities or pursuant to a court order or otherwise submitting information to governmental authorities in connection with clinical trials or applying for Product Registrations, negotiating or making a permitted sublicense or otherwise exercising its rights hereunder; provided that if a Party is required under applicable Laws or court order to make any such disclosure of the other Party's Confidential Information, it shall (i) give prompt written notice to the disclosing Party of the proposed disclosure, and allow the disclosing Party at least fourteen (14) business days to object to all or any portion of the disclosure before it is disclosed; (ii) provide written notice of disclosure immediately thereafter, if advance notice is not possible; (iii) minimize the extent of such disclosure, to the extent possible; and (iv) seek confidential treatment of such information prior to its disclosure, it being understood that any information so disclosed shall otherwise remain subject to the limitations on use and disclosure hereunder.

9.4 Patent Application Filing. Notwithstanding anything to the contrary, if a disclosing Party has not filed a necessary Patent application with respect to any applicable Confidential Information, it may require the receiving Party to delay the proposed authorized or required disclosure (to the extent the disclosing Party may legally do so), for up to ninety (90) days, to allow for the filing of such an application.

9.5 Permitted Disclosure to Third Parties. Except as expressly permitted in this Agreement, neither Party shall disclose this Agreement or any terms of this Agreement to any Third Party without the prior written consent of the other Party; except that such consent shall not be required for disclosure to actual or prospective investors, collaboration partners or the other party in a proposed investment, merger, acquisition or a similar transaction, or to a Party's accountants, attorneys and other professional advisors (provided that such disclosures shall be subject to continued confidentiality obligations at least as strict as is set forth herein). To the extent that either Party determines that it or the other Party is required to file or register this Agreement or a notification thereof to comply with the requirements of an applicable stock exchange or NASDAQ regulation or any governmental authority, including without limitation the U.S. Securities and Exchange Commission, such Party shall promptly inform the other Party thereof. Prior to making any such filing, registration or notification, the Parties shall agree on the provisions of this Agreement for which the Parties shall seek confidential treatment, it being understood that if one Party determines to seek confidential treatment for a provision for which the other Party does not, then the Parties will use reasonable efforts in connection with such filing to seek the confidential treatment of any such provision. The Parties shall cooperate, each at its own expense, in such filing, registration or notification, including without limitation such confidential treatment request, and shall execute all documents reasonably required in connection therewith.

10. INDEMNIFICATION AND INSURANCE

10.1 **'s Indemnification Obligations. ** shall indemnify and hold Fidopharm harmless from and against any direct costs, expenses (including, without limitation, reasonable attorneys' fees) or damages which arise from breach by ** of any of its representations, covenants, warranties or obligations set forth herein, including, without limitation, any claims in connection with (i) failure of Products supplied by ** to meet the Specifications, or (ii) any breach of its representations, warranties or covenants hereunder, except to the extent such damages are caused by or arise from (x) the gross negligence or willful misconduct of Fidopharm; or (y) any matter as to which Fidopharm has agreed to indemnify ** hereunder.

10.2 Fidopharm's Indemnification Obligations. Fidopharm shall indemnify and hold ** harmless from and against any direct costs, expenses (including, without limitation, reasonable attorneys' fees) or damages which arise from the breach by Fidopharm of any of its representations, covenants, warranties or obligations set forth herein or from the marketing, sale or distribution of Products by Fidopharm and its Affiliates, distributors and permitted sublicensees, except to the extent such damages were caused by or arise from (i) the gross negligence or willful misconduct of **; or (ii) any matter as to which ** has agreed to indemnify Fidopharm hereunder.

10.3 Indemnification Procedure.

(a) Promptly after the receipt by any Party hereto of notice of (a) any claim or (b) the commencement of any action or proceeding, such Party shall, if a claim with respect thereto is to be made against any Party obligated to provide indemnification pursuant to Section 10.1 or 10.2 hereof (the **"Indemnifying Party"**), give such Indemnifying Party written notice of such claim or the commencement of such action or proceeding. Such Indemnifying Party shall have the right, at its option, to compromise or defend, subject to Section 10.3(c) below, at its own expense and by its own counsel, any such matter involving the asserted liability of the Party seeking such indemnification. Such notice, and the opportunity to compromise or defend, shall be a condition precedent to any liability of the Indemnifying Party under the indemnification provisions of Section 10.1 or 10.2. In the event that any Indemnifying Party shall undertake to compromise or defend any such asserted liability, it shall promptly notify the Party seeking indemnification of its intention to do so, and the Party seeking indemnification agrees to cooperate fully with the Indemnifying Party and its counsel in the compromise of, or defense against, any such asserted liability. In any event, the indemnified Party shall have the right, at its own expense, to participate in the defense of such asserted liability, provided, that the Indemnifying Party's counsel shall make all final decisions concerning the defense or, subject to Section 10.3(c) below, compromise or settlement of such litigation.

(b) Each of the Parties hereto shall be entitled to be represented at any proceedings brought against the other Party under this Article 10 by its own counsel, at its own expense, and shall cooperate fully with the other Party in any such proceeding, provided it is adequately reimbursed for its out-of-pocket costs and expenses, excluding attorneys' fees.

(c) Neither Party may settle a claim described in this Article 10 in a manner which would impose upon the other Party any monetary obligation or require such other Party to submit to an injunction or otherwise limit its rights, in each case, without the prior written consent of such other Party, which consent shall not be unreasonably withheld, conditioned, or delayed.

10.4 Insurance. The Parties shall each maintain insurance in amounts commercially reasonable for the veterinary pharmaceutical industry commensurate with their rights and obligations hereunder.

11. TERM AND TERMINATION

11.1 Term. The initial term of this Agreement shall begin on the Effective Date and shall continue for ten (10) years after the first Commercial Sale (the **"Initial Term"**) unless earlier terminated pursuant to this Article 11. At the expiration of the Initial Term, the term of this Agreement shall automatically renew for successive five (5) year periods (the Initial Term and all such renewal periods, the **"Term"**) unless written notice of non-renewal is provided by Fidopharm to ** at least sixty (60) days prior to the applicable renewal date.

11.2 Termination by Fidopharm.

(a) Fidopharm shall have the right to terminate this Agreement without cause and without penalty upon ninety (90) days prior written notice to **, provided, that such period shall be extended for a reasonable period (not to exceed another sixty (60) days) in order to effect the transfer of Product Registrations pursuant to Section 11.6(e). For clarity, any early, *without cause* termination by Fidopharm ahead of Product registration deems all fees / costs paid to ** as not refundable. Should such a termination by Fidopharm occur during the implementation of the Development Plan, Fidopharm shall be liable for all reasonable non-cancelable ongoing costs, solely in regards to the Territory, necessary to complete the then current Development activities; provided, that ** shall immediately terminate such ongoing commitments as soon as possible and shall not incur any non-necessary expenses in effectuating such termination.

(b) In the event that Fidopharm terminates the Supply Agreement pursuant to Section 12.2 or 12.3 therein, Fidopharm shall have the right to terminate this Agreement immediately and without penalty upon written notice to **.

11.3 Termination for Breach. In the event of any material default by either Party in the performance of any of the terms and conditions of this Agreement, the other Party may terminate this Agreement upon ninety (90) days' written notice; provided that (i) if during such ninety (90) day period the Party against whom the material default is claimed cures such default, (ii) if such breach cannot be cured within such ninety (90) day period, such Party takes reasonable steps to commence and proceeds diligently thereafter to cure such default and, in fact, cures such default within a reasonable period of time, or (iii) if such default is cured in any other manner satisfactory to the other Party as a substitute for full performance, then this Agreement will continue in full force and effect until it expires as provided herein.

11.4 Termination for Bankruptcy, etc. Either Party shall be entitled to terminate this Agreement immediately:

(a) if any creditor of the other Party or any other person levies or attempts to levy any distress, execution, sequestration or other process over the business assets of the other Party or an encumbrancer takes or attempts to take possession of the business or assets of the other Party;

(b) if a petition shall be presented for the winding up of the other Party or if a meeting is convened for the purpose of passing a resolution for the winding up of the other Party;

(c) if a receiver, administrative receiver, manager, trustee or administrator shall be appointed over all or any part of the business or assets of the other Party;

(d) if the other Party or any director or creditor of such other Party shall present a petition to the court for an administrative order in respect of such other Party;

(e) if the other Party shall convene a meeting of its creditors or shall make any proposal for or enter into any compromise, composition or scheme of arrangement with its creditors or make any assignment for the benefit of its creditors;

(f) if the other Party shall be deemed to be unable to pay its debts within the meaning of any relevant insolvency law or any relevant insolvency decree or regulation (or any statutory amendment or reenactment thereof); or

(g) if any event analogous to the foregoing shall occur under the laws of any relevant jurisdiction.

11.5 Termination for Failure. In the event ** fails to provide (a) the necessary technical and regulatory batches needed for Product Registration in the Territory for the Initial Products within the agreed to timeline in the Development Plan; or (b) provide by December 31, 2008 (i) shelf life data under accelerated conditions demonstrating **-month and **-month accelerated stability for Product A and Product B and (ii) clinical efficacy of Product B, each from an independent lab reasonably acceptable to Fidopharm, and reasonable acceptability of **of Product A and Product B ** by Fidopharm based on commercial viability of Products, Fidopharm shall have the right to terminate this Agreement immediately and upon such termination ** shall reimburse any payments made to it under this Agreement and one hundred percent (100%) of the cost and expenses expended by Fidopharm to Develop, register and commercialize Products in the Territory up to five hundred thousand dollars ($500,000), including all costs and expenses for obtaining the Product Registrations (together with the upfront payment, the **"Costs"**); provided, that in the event ** has accomplished (x) subsection (i) of Section (b) above, the reimbursement shall be reduced by forty percent (40%) of the Costs, and/or (y) subsection (ii) of Section (b) above, the reimbursement shall be reduced by another forty percent (40%) of the Costs and/or (z) Section (a) above, the reimbursement shall be reduced by another twenty (20%) of the Costs.

11.6 Effect of Expiration or Termination.

(a) No expiration or termination of this Agreement pursuant to this Article 11 shall relieve either Party of obligations accrued to such date of expiration or termination or of obligations which continue by the terms hereof beyond such expiration or termination, including, but not limited to, any payment obligations hereunder. Articles 1, 9, 10 and 13 and Sections 2.4, 5.3, 6.2, 8.1, 8.2 and this Section 11.6 shall survive the termination or expiration of this Agreement

(b) In the event that this Agreement expires or is terminated pursuant to Section 11.2(b), 11.3 or 11.4 the licenses granted hereunder to Fidopharm shall become irrevocable, royalty-free, non-exclusive licenses, with the right to grant sublicenses, to market, promote and sell Products in the Field in the Territory.

(c) Within thirty (30) days following the termination of this Agreement, each Party shall destroy, delete (as to Confidential Information stored in electronic format) or return to the other Party all Confidential Information of the other Party, and shall provide the other Party written certification of such destruction or return.

(d) After termination of this Agreement, Fidopharm shall cease using or selling Products pursuant to the license grant herein (for clarity, the preceding shall not limit Fidopharm's rights pursuant to the licenses granted under Section 11.6(b)); provided, however, that Fidopharm may continue to sell in the ordinary course of business for a period of twelve (12) months reasonable quantities of Products which are manufactured and in Fidopharm's normal inventory at the date of termination; provided that such Product had been ordered in-line with Fidopharm's forecast.

(e) In the event of termination of this Agreement by Fidopharm pursuant to Section 11.2(a), Fidopharm shall (i) transfer to ** all rights, title and interests in and to the Product Registration and (ii) take such other steps requested by **, all of the foregoing at **'s sole cost and expense, to effect the transfer. Fidopharm will provide all reasonable support, at **'s reasonable cost, to facilitate the transfer of such Product Registrations in a timely manner.

12. INJUNCTIVE RELIEF AND DISPUTE RESOLUTION

12.1 Equitable Relief. Notwithstanding anything to the contrary in this Agreement, either Party will have the right to seek temporary injunctive relief or the ordering of specific performance in any court of competent jurisdiction as may be available to such Party under the laws and rules applicable in such jurisdiction with respect to any matters arising out of the other Party's performance of or failure to perform its obligations under this Agreement.

12.2 Dispute Resolution. In the event the Parties are unable to resolve any controversy or claim arising from this Agreement (**"Dispute"**), the Parties will submit such Dispute to arbitration under the rules of the American Arbitration Association, as the same may be amended by mutual agreement of the Parties. The Dispute shall be submitted to an expert panel in the pertinent field for binding arbitration. Such expert panel may be mutually agreed by the Parties, but if no such agreement is reached within ten (10) days after the written notice from one Party to the other, then each Party shall promptly select one expert, and those two (2) shall select a third expert, the three (3) of whom shall comprise the expert panel. The arbitrator(s) shall determine what discovery will be permitted, based on the principle of limiting the cost and time which the parties must expend on discovery; provided, the arbitrator(s) shall permit such discovery as they deem necessary to achieve an equitable resolution of the dispute. Both Parties will cooperate in providing fully to each other all requested information and documents relating to the arbitration proceedings, except for information and documents subject to any privilege. The place of any arbitration proceedings shall be New York, New York or such other location as the Parties may mutually agree. During the arbitration proceedings, except for the matter that is in dispute and under arbitration, this Agreement shall continue to be implemented by both Parties. Unless the expert panel for good cause determines otherwise, each Party shall bear one-half of the fees and expenses of the experts and shall bear its own costs and attorneys' fees in connection with the arbitration proceeding; provided that the arbitrator(s) may in their discretion award to the prevailing party the costs and expenses incurred by the prevailing party in connection with the arbitration proceeding. The decision and/or

award rendered by the arbitrator(s) shall be written, final and non-appealable and may be entered in any court of competent jurisdiction. The provisions of this subsection shall not prohibit either Party from seeking equitable relief to restrain any breach or threatened breach of this Agreement at any time in any court of competent jurisdiction as may be available to such Party under the laws and rules applicable in such jurisdiction. The arbitral proceedings and all pleadings and written evidence shall be in the English language. Any written evidence originally in a language other than English shall be submitted in English translation accompanied by the original or true copy thereof.

13. MISCELLANEOUS

13.1 Force Majeure. Neither Party hereto shall be liable for damages, nor shall this Agreement be terminable or cancelable by reason of any delay or default in such Party's performance hereunder (other than the payment of monies due and owing to a Party under this Agreement) if such default or delay is caused by acts of God, acts of public enemies, war or insurrection, civil commotion, destruction of production facilities or materials by earthquake, fire, flood or storm, epidemics, labor disputes or strikes, or failure of public utilities (**"Force Majeure"**). Each Party shall endeavor to resume its performance hereunder as soon as reasonably possible if such performance is delayed or interrupted by reason of Force Majeure.

13.2 Further Assurances. Each of the Parties shall, from time to time during the term of this Agreement, upon request by the other, execute and deliver all such further documents or instruments as may be required in order to give effect to the purpose and intent of this Agreement.

13.3 Assignment. Neither Party shall assign this Agreement without the prior written consent of the other Party, provided, that either Party may assign this Agreement without the prior written consent of the other Party (a) to an Affiliate or (b) to a party in connection with the sale or transfer of substantially all of its assets with respect to the business to which this Agreement is related to such party. Any permitted assignee shall assume all obligations of its assignor under this Agreement. Any purported assignment in violation of this Section 13.3 shall be void. No assignment shall relieve either Party of responsibility for the performance of any accrued obligation that such Party then has hereunder.

13.4 Choice of Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, USA, without giving effect to its principles of conflicts of laws. The Parties hereby submit to the exclusive jurisdiction of, and waive any venue objections against, federal and state courts of competent jurisdiction in the State of Delaware in any litigation or dispute arising out of this Agreement. The prevailing party in any dispute or legal action regarding the subject matter of this Agreement shall be entitled to recover attorney's fees and costs.

13.5 Notices. Any notice, request or other communication required or permitted by this Agreement to be given by any Party to another Party shall be in writing and either mailed by registered or certified mail, return receipt requested, by express delivery service or by facsimile transmission, addressed to such Party, Attention: the Managing Director, at its address indicated in the preamble or to such other address as such Party previously may have designated by like written notice. Notice shall be deemed to have been given upon receipt. Facsimile transmission numbers for the Parties are as follows:

If to Fidopharm:
Fidopharm, Inc.
777 Township Line Road, Suite 170
Yardley, PA 19067
United States of America
Attn: **
Tel:
Fax:

with a copy to:
Morgan, Lewis & Bockius
1701 Market Street
Philadelphia PA, 19103
United States of America
Attn: Fahd M.T. Riaz, Esq.
Tel: (215) 963-5372
Fax: (215) 963-5001

If to **:
**
**

with a copy to:
**

13.6 Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof and supersedes all prior written or oral agreements or understandings regarding the subject matter hereof or in conflict with its terms, including but not limited to, the License and Development Agreement entered into by the Parties on February 15, 2008. This Agreement will be construed as if it were drafted jointly by the Parties and shall not be strictly construed against either Party.

13.7 Amendments; Waivers. No modification of any of the terms of this Agreement shall be deemed valid unless it is in writing and signed by the Party against whom such modification is sought to be enforced. The failure of either Party to insist upon the strict performance of any term of this Agreement or the waiver by either Party of any breach under this Agreement shall not prevent the subsequent strict enforcement of such term nor be deemed a waiver of any subsequent breach.

13.8 Severability. In the event any court declares illegal or unenforceable, as written or applied, any provision of this Agreement, such provision shall be severed and the remaining provisions of this Agreement shall continue in full force and effect as if such provision had been deleted or made inapplicable to the situations to which such provision cannot be legally applied. The Parties shall use their best efforts to agree upon a valid and enforceable provision as a substitute for the severed provision, taking into account the intent of this Agreement.

13.9 Independent Contractors. Each Party is an independent contractor under this Agreement. Nothing contained in this Agreement is intended nor is to be construed so as to constitute ** or Fidopharm as partners or joint venturers with respect to this Agreement. Neither Party shall have any express or implied right or authority to assume or create any obligations on behalf of or in the name of the other Party, or to bind the other Party to any other contract, agreement or undertaking with any Third Party or Affiliate.

13.10 Counterparts. This Agreement may be executed by fax and in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

13.11 Headings. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

***** Remainder of Page Intentionally Left Blank; Signature Page Follows *****

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the Effective Date.

FIDOPHARM, INC.

/s/ **

Name: **

Title: President & CEO

/s/ **

Name: **

Title: CEO

SCHEDULE 1

**

SCHEDULE 2

Patents

No Patents exist as of the Effective Date.

SCHEDULE 4.2

**

EXHIBIT 31.1

CERTIFICATION

I, Dennis F. Steadman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Velcera, 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 quarterly 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 issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer 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 issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly 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 issuer'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 quarterly report based on such evaluation; and

(d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer'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 issuer'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 issuer's internal control over financial reporting.

Date: August 14, 2008

By: /s/ Dennis F. Steadman

Dennis F. Steadman
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Matthew C. Hill, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Velcera, 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 quarterly 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 issuer as of, and for, the periods presented in this quarterly report;

4. The issuer's other certifying officer(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer 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 issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly 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 issuer'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 quarterly report based on such evaluation; and

(d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer'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 issuer'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 issuer's internal control over financial reporting.

Date: August 14, 2008

By: /s/ Matthew C. Hill

Matthew C. Hill
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION
OF
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Velcera, Inc. do hereby certify that:

(a) the Quarterly Report on Form 10-Q of Velcera, Inc. for the quarter ended June 30, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Velcera, Inc.

Dated: August 14, 2008

By: /s/ Dennis F. Steadman
Dennis F. Steadman
President and Chief Executive Officer

Dated: August 14, 2008

By: /s/ Matthew C. Hill
Matthew C. Hill
Chief Financial Officer