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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from to

Commission file number: 001-33277

SYNTA PHARMACEUTICALS CORP.

(Exact name of registrant as specified in its charter)

Delaware	**04-3508648**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
45 Hartwell Avenue Lexington, Massachusetts	**02421**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(781) 274-8200**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

As of May 1, 2009, the registrant had 33,919,584 shares of common stock outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

SYNTA PHARMACEUTICALS CORP.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

(unaudited)

	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 41,155	$ 52,045
Marketable securities	43,598	21,518
Restricted cash	151	151
Collaboration receivable	—	16,000
Prepaid expenses and other current assets	1,072	1,507
Total current assets	85,976	91,221
Property and equipment, net	5,676	5,929
Other assets	103	103
Total assets	$ 91,755	$ 97,253
Liabilities and Stockholders' (Deficit)		
Current liabilities:		
Accounts payable	$ 10,615	$ 3,331
Accrued contract research costs	12,976	12,393
Other accrued liabilities	3,701	2,841
Capital lease obligations	1,877	2,170
Deferred collaboration revenue	13,782	12,588
Total current liabilities	42,951	33,323
Deferred collaboration revenue—long-term	119,675	114,415
Collaboration payable—long-term	8,545	6,294
Capital lease obligations—long-term	1,713	2,012
Total long-term liabilities	129,933	122,721
Total liabilities	172,884	156,044
Stockholders' deficit:		
Preferred stock, par value $0.0001 per share		
Authorized: 5,000,000 shares at March 31, 2009 and December 31, 2008; no shares issued and outstanding at March 31, 2009 and December 31, 2008	—	—
Common stock, par value $0.0001 per share		
Authorized: 100,000,000 shares at March 31, 2009 and December 31, 2008; 33,919,584 shares issued and outstanding at March 31, 2009 and December 31, 2008	3	3
Additional paid-in-capital	335,027	333,862
Accumulated other comprehensive income	11	15
Accumulated deficit	(416,170)	(392,671)
Total stockholders' deficit	(81,129)	(58,791)
Total liabilities and stockholders' deficit	$ 91,755	$ 97,253

See accompanying notes to condensed consolidated financial statements.

SYNTA PHARMACEUTICALS CORP.

Condensed Consolidated Statements of Operations

(in thousands, except share and per share amounts)

(unaudited)

	Three Months Ended March 31,	
	2009	2008
Collaboration revenues:		
License and milestone revenue	$ 4,073	$ 1,338
Cost sharing reimbursements, net	437	—
Total collaboration revenues	4,510	1,338
Operating expenses:		
Research and development	22,639	16,150
General and administrative	4,070	3,633
Restructuring (Note 10)	1,236	—
Total operating expenses	27,945	19,783
Loss from operations	(23,435)	(18,445)
Other income:		
Interest income	36	922
Interest expense	(100)	(127)
Investment income, net	(64)	795
Net loss	$ (23,499)	$ (17,650)
Basic and diluted weighted average common shares outstanding	33,872,016	33,730,230
Basic and diluted net loss per share	$ (0.69)	$ (0.52)

See accompanying notes to condensed consolidated financial statements.

SYNTA PHARMACEUTICALS CORP.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net loss	$ (23,499)	$ (17,650)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	1,165	2,136
Depreciation and amortization	693	678
Changes in operating assets and liabilities:		
Collaboration receivable	16,000	—
Prepaid expenses and other current assets	435	(647)
Accounts payable	7,284	2,043
Accrued expenses	1,443	(942)
Deferred collaboration revenue	6,454	(1,338)
Collaboration payable	2,251	—
Net cash provided by (used in) operating activities	12,226	(15,720)
Cash flows from investing activities:		
Purchases of marketable securities	(24,693)	—
Sales and maturities of marketable securities	2,609	—
Purchases of property and equipment	(382)	(395)
Net cash used in investing activities	(22,466)	(395)
Cash flows from financing activities:		
Proceeds from sale—leaseback of property and equipment	—	380
Payment of capital lease obligations	(650)	(636)
Net cash used in financing activities	(650)	(256)
Net decrease in cash and cash equivalents	(10,890)	(16,371)
Cash and cash equivalents at beginning of period	52,045	115,577
Cash and cash equivalents at end of period	$ 41,155	$ 99,206
Supplemental disclosure of noncash operating, investing and financing activities:		
Acquisition of equipment under capital leases	$ 58	$ 380
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 100	$ 127

See accompanying notes to condensed consolidated financial statements.

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements

(1) Nature of Business

Synta Pharmaceuticals Corp. (the Company) was incorporated in March 2000 and commenced operations in July 2001. The Company is a biopharmaceutical company focusing on discovering, developing and commercializing small molecule drugs to extend and enhance the lives of patients with severe medical conditions, including cancer and chronic inflammatory diseases.

The Company is subject to risks common to emerging companies in the drug development and pharmaceutical industry including, but not limited to, uncertainty of product development and commercialization, lack of marketing and sales history, dependence on key personnel, uncertainty of market acceptance of products, product liability, uncertain protection of proprietary technology, potential inability to raise additional financing and compliance with the U.S. Food and Drug Administration (FDA) and other government regulations.

In October 2007, the Company and GlaxoSmithKline (GSK) entered into a collaborative development, commercialization and license agreement for elesclomol (the GSK Agreement). Under the terms of the GSK Agreement, the Company has received a total of $130 million in non-refundable payments, including the $80 million upfront payment in November 2007, $40 million in operational milestones in 2008 and $10 million in an operational milestone in March 2009 (see Note 8).

In December 2008, the Company and Hoffman-La Roche (Roche) entered into a collaborative license agreement for the CRACM inhibitor program (the Roche Agreement). Under the terms of the Roche Agreement, the Company received a non-refundable upfront license payment of $16 million in January 2009 (see Note 9).

On February 26, 2009, the Company announced that it was suspending all clinical development of its lead drug candidate, elesclomol. On March 12, 2009, the Company committed to a restructuring that consisted primarily of a workforce reduction of approximately 90 positions, to a total of approximately 130 positions to better align its workforce to its revised operating plans following the suspension of the SYMMETRY clinical trial (see Note 10).

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements as of March 31, 2009 and for the three months ended March 31, 2009 and 2008 are unaudited. These unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position as of March 31, 2009 and the consolidated results of operations and cash flows for the three months ended March 31, 2009 and 2008. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009 or for any other interim period or any other future year. For more complete financial information, these condensed financial statements, and the notes hereto, should be read in conjunction with the audited financial statements for the year ended December 31, 2008 included in the Company's Annual Report on Form 10-K.

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include contract research accruals, recoverability of long-lived and deferred tax assets, measurement of stock-based compensation, and the periods of performance under the GSK Agreement and the Roche Agreement. The Company bases its estimates on historical experience and various other assumptions that management believes to be reasonable under the circumstances. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company's cash is deposited in a highly rated financial institution in the United States. Cash equivalents include a short-term U.S. Treasury money market fund. The Company considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. Changes in cash and cash equivalents may be affected by shifts in investment portfolio maturities, as well as actual cash disbursements to fund operations. The primary objective of the Company's investment activities is to preserve its capital for the purpose of funding operations and the Company does not enter into investments for trading or speculative purposes. Declines in interest rates, however, would reduce future investment income.

Marketable Securities

The Company considers its marketable securities available-for-sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Marketable securities consist of investments in high-grade corporate obligations that are guaranteed by the United States government, and government and government agency obligations that are classified as available-for-sale. Since these securities are available to fund current operations they are classified as current assets on the consolidated balance sheets. Marketable securities are stated at fair value, including accrued interest, with their unrealized gains and losses included as a component of accumulated other comprehensive income (loss), which is a separate component of stockholders' equity (deficit), until such gains and losses are realized. The fair value of these securities is based on quoted market prices. If a decline in value is considered other-than-temporary, based on available evidence, the unrealized loss is transferred from accumulated other comprehensive income (loss) to the consolidated statement of operations. Realized gains and losses are determined on the specific identification method.

During the three months ended March 31, 2009 and 2008, the Company recorded no realized gains or losses on marketable securities and there were no charges to write down marketable securities.

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Collaboration and License Agreements

The Company's principal sources of revenue may include upfront license payments, development milestones, reimbursement of research and development costs, profit sharing payments, sales milestones and royalties from its collaborations. The Company recognizes revenue from these sources in accordance with Staff Accounting Bulletin (SAB) 104, *Revenue Recognition*, or SAB 104, Emerging Issues Task Force (EITF) No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, or EITF No. 99-19, EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*, or EITF No. 00-21, and EITF No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, or EITF No. 01-09. The application of EITF No. 00-21 requires subjective analysis and requires management to make estimates and assumptions about whether deliverables within multiple-element arrangements are separable from the other aspects of the contractual arrangement into separate units of accounting and to determine the fair value to be allocated to each unit of accounting.

The Company evaluates the multiple deliverables within its respective collaborations in accordance with the provisions of EITF No. 00-21 to determine whether the delivered elements that are the obligation of the Company have value to its collaborators on a stand-alone basis and whether objective reliable evidence of fair value of the undelivered items exists. Deliverables that meet these criteria are considered a separate unit of accounting. Deliverables that do not meet these criteria are combined and accounted for as a single unit of accounting. The appropriate recognition of revenue is then applied to each separate unit of accounting.

The Company's deliverables under its collaboration agreements, including the related rights and obligations, contractual cash flows and performance periods, are more fully described in Notes 8 and 9. Certain of the deliverables have been combined as a single unit of accounting.

The cash flows associated with the single unit of accounting from the research and development portions of the Company's collaborations are recognized as revenue using a time-based model. Under this model, cash flow streams are recognized as revenue over the estimated performance period. Upon achievement of milestones, as defined in the collaboration agreements, revenue is recognized to the extent the accumulated service time, if any, has occurred. The remainder is deferred and recognized as revenue ratably over the remaining estimated performance period. A change in the period of time expected to complete the deliverable is accounted for as a change in estimate on a prospective basis. Revenue is limited to amounts that are non-refundable and that the Company's collaborators are contractually obligated to pay to the Company.

Collaborative Development, Commercialization and License Agreement with GSK

In October 2007, the Company and GSK entered into the GSK Agreement, as amended in June 2008, for elesclomol, a novel injectable, small molecule compound that triggers apoptosis, or programmed cell death, in cancer cells, which the Company believes has potential for the treatment of a broad range of cancer types. The GSK Agreement consists of the following key funding streams: an upfront license payment, product development milestones, reimbursements of certain development costs, sales milestones, profit sharing payments and product royalty payments.

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

The $80 million non-refundable upfront license payment the Company received from GSK in November 2007, together with the $260,000 fair value of an option to require GSK to purchase $25 million of the Company's common stock, is being recognized ratably using the time-based model over the estimated performance period which has been defined as the 15-year period through the earliest expiration date of the related patents, which the Company estimates to be the effective life of the GSK Agreement. There has been no change to this estimate to date. The Company is also recognizing product development milestones as collaboration revenue using the time-based model over the same performance period through November 2022. The Company recognizes as revenue on the date the milestone is achieved the portion of the milestone payment equal to the applicable amount of the performance period that has elapsed as of the date the milestone is achieved, with the balance being deferred and recognized on a straight-line basis over the remaining development period. As of March 31, 2009, the Company has achieved a total of $50 million in non-refundable operational milestones, including $40 million in the year ended December 31, 2008 that were paid by GSK in the fourth quarter of 2008 and $10 million in January 2009 that was paid by GSK in March 2009. The $50 million in operational milestones achieved to-date include $45 million related to the development of elesclomol for the treatment of metastatic melanoma and $5 million related to the development of elesclomol in another cancer indication. In the three months ended March 31, 2009 and 2008, the Company recognized $2.9 million and $1.3 million, respectively, of license and milestone revenue under the GSK Agreement.

Reimbursements of development costs to the Company by GSK are recorded as cost sharing revenue in the period in which the related development costs are incurred. Reimbursements by the Company to GSK for costs GSK incurs under the development program are recorded as a reduction of cost sharing revenue in the period in which the costs are incurred by GSK in accordance with EITF No. 01-09. Reimbursement of GSK's costs in an amount in excess of collaboration revenues otherwise recognized by the Company in a reporting period may result in negative revenue. Based on the guidance of EITF No. 99-19, the Company has determined that it is acting as a principal under the GSK Agreement and, as such, records these amounts as collaboration revenue. In the three months ended March 31, 2009, the Company recognized, as a reduction to revenue, $2.0 million of net cost sharing reimbursements to GSK under the GSK Agreement as the Company is solely responsible for funding 100% of the development costs of elesclomol for the treatment of metastatic melanoma until a specified limit of expenses has been incurred, after which continuing development costs are shared by GSK with the Company responsible for a modest share of the costs. No cost sharing reimbursements to GSK were recognized in the three months ended March 31, 2008.

Profit sharing payments are based upon a formula that provides for a range of 40-50% of net profits earned on U.S. sales of products included in the GSK Agreement. Royalty revenues are based upon a percentage of net sales in non-U.S. territories. Profit sharing payments and royalties from the sales of products included in the GSK Agreement will be recorded on the accrual basis when results are reliably measurable, collectibility is reasonably assured and all other revenue recognition criteria are met. Sales milestones, which are based upon the achievement of certain agreed-upon sales thresholds, will be recognized in the period in which the respective sales threshold is achieved and collectability is reasonably assured.

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

Collaborative License Agreement with Roche

In December 2008, the Company and Roche entered into the Roche Agreement to discover, develop, and commercialize small-molecule drugs targeting CRACM channels. The Roche Agreement consists of the following key funding streams: an upfront license payment, product development milestones, reimbursements of certain research and development costs, sales milestones and product royalty payments.

The $16 million non-refundable upfront license payment the Company received from Roche in January 2009 is being recognized ratably using the time-based model over the estimated performance period which has been defined as the 3.5-year period through the estimated date of completion of a phase 2a clinical trial for the first licensed compound. In the three months ended March 31, 2009, the Company recognized $1.1 million of license revenue under the Roche Agreement. Reimbursements of research and development costs to the Company by Roche are recorded as cost sharing revenue in the period in which the related research and development costs are incurred. In the three months ended March 31, 2009, the Company recognized $2.5 million of cost sharing revenue under the Roche Agreement. Development milestones will be recognized as collaboration revenue using the time-based model over the same performance period through mid-2012.

Royalty revenues are based upon a percentage of net sales. Royalties from the sales of products included in the Roche Agreement will be recorded on the accrual basis when results are reliably measurable, collectability is reasonably assured and all other revenue recognition criteria are met. Sales milestones, which are based upon the achievement of certain agreed-upon sales thresholds, will be recognized in the period in which the respective sales threshold is achieved and collectability is reasonably assured.

Deferred Collaboration Revenue

Consistent with the Company's policy on revenue recognition, deferred collaboration revenue represents cash received and amounts earned and invoiced for licensing and option fees and milestones, as well as cash received and amounts invoiced for research and development services to be performed by the Company. Such amounts are reflected as deferred collaboration revenue until revenue can be recognized under the Company's revenue recognition policy. Deferred collaboration revenue is classified as current if management believes the Company will complete the earnings process and be able to recognize the deferred amount as revenue within 12 months of the balance sheet date. At March 31, 2009, total deferred collaboration revenue was approximately $133.5 million, of which $13.8 million is current and will be recognized as revenue during the next 12 months.

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

For the three months ended March 31, 2009 and 2008, the fair value of each employee stock option award was estimated on the date of grant based on the fair value method using the Black-Scholes option pricing valuation model with the following weighted average assumptions:

	Three months ended March 31,	
	2009	2008
Risk-free interest rate	1.78%	3.16%
Expected life in years	6.25 years	6.25 years
Volatility	70%	70%
Expected dividend yield	—	—

The Company uses the Black-Scholes option pricing model as it is the most appropriate valuation method for its option grants. The Black-Scholes model requires inputs for risk-free interest rate, dividend yield, volatility and expected lives of the options. Since the Company has a limited history of stock activity, expected volatility is based on historical data from several public biotechnology companies similar in size and value to the Company that also have stock compensation plans with similar terms. The Company will continue using historical volatility and other similar public entity volatility information until historical volatility of the Company alone is relevant to measure expected volatility for future option grants. The Company estimates the forfeiture rate based on historical data. Based on an analysis of historical forfeitures, the Company has applied a forfeiture rate of 10% to all options that vest upon completion of the first year of service following the date of grant. The analysis will be re-evaluated at least annually and the forfeiture rate will be adjusted as necessary. The risk-free 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 the grant. The expected lives for options granted represent the period of time that options granted are expected to be outstanding. Since January 1, 2006 the Company has used the simplified method for determining the expected lives of options.

For awards with graded vesting, the Company allocates compensation costs under SFAS No. 123(R), *Share-Based Payment*, on a straight-line basis over the requisite service period. The Company amortizes the fair value of each option over each option's service period, which is generally the vesting period.

The Company accounts for stock options issued to non-employees in accordance with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, or SFAS No. 123, and EITF No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees, or in Conjunction with Selling Goods or Services*, which requires valuing and remeasuring such stock options to the current fair value until the performance date has been reached.

As part of its preparation of its quarterly financial statements for the three months ended March 31, 2008, the Company discovered that it had erroneously accounted for certain of its non-employee stock options during the last three quarters of 2007 under EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,* which may require stock options held by certain non-employee consultants to be accounted for as liabilities. Under this accounting it had reclassified approximately $1.9 million from additional paid-in capital to liabilities in the second quarter of 2007 and subsequently during the year adjusted the

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

fair value of the liability for changes in the market price of its common stock, resulting in a $553,000 credit to stock-based compensation expense for the year. In accordance with SAB No. 99, *Materiality*, and SAB No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*, the Company assessed the materiality of this error on its financial statements for the year ended December 31, 2007, using both the roll-over method and iron-curtain method as defined in SAB No. 108. The Company concluded the effect of this error was not material to its financial statements for the year ended December 31, 2007 and, as such, these financial statements are not materially misstated. The Company also concluded that providing for the correction of the error in 2008 would not have a material effect on its financial statements for the year ended December 31, 2008. Accordingly, the Company recorded a charge to stock-based compensation of $553,000 and a reclassification of approximately $1.9 million from liabilities to additional-paid-in-capital in the three months ended March 31, 2008 to correct this error.

The following table outlines the details of recognized and unrecognized expense for these stock-based compensation arrangements (in thousands):

	Stock compensation expense for the three months ended March 31,		Unrecognized stock compensation expense as of March 31,
	2009	2008	2009
Employee stock options	$ 1,075	$ 1,167	$ 6,630
Repriced employee stock options	—	59	—
Employee options issued below fair value	—	2	—
Non-employee stock options	17	567	—
Restricted stock	73	341	239
	$ 1,165	$ 2,136	$ 6,869

Stock-based compensation expense is allocated as follows (in thousands):

	Three months ended March 31,	
	2009	2008
Research and development	$ 896	$1,731
General and administrative	269	405
Total	$1,165	$2,136

Basic and Diluted Net Loss Per Common Share

Net loss per share is computed based on the guidance of SFAS No. 128, *Earnings Per Share*, requiring companies to report both basic net loss per common share, which is computed using the weighted average number of common shares outstanding during the period, and diluted net loss per common share, which is computed using the weighted average number of common shares outstanding and the weighted average dilutive potential common shares outstanding using the treasury stock method. However, for all periods presented, diluted net loss per share is the same as basic net loss per

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

share as the inclusion of weighted average shares of unvested restricted common stock and common stock issuable upon the exercise of stock options would be anti-dilutive.

The following table summarizes securities outstanding, prior to the application of the treasury stock method, as of each of the periods presented which were not included in the calculation of diluted net loss per share as their inclusion would be anti-dilutive.

	March 31,	
	2009	2008
Common stock options	4,465,593	4,602,638
Non-vested restricted common stock	42,558	140,211

Recent Accounting Pronouncements

The Company adopted SFAS No. 141R, *Business Combinations,* or SFAS No. 141R, on January 1, 2009. The pronouncement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The pronouncement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The adoption of SFAS No. 141R did not have a material impact on the Company's consolidated financial statements as there were no business combinations.

The Company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an Amendment of ARB No. 51,* or SFAS No. 160, on January 1, 2009. The pronouncement establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. The pronouncement also establishes disclosure requirements that identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The adoption of SFAS No. 160 did not have a material impact on the Company's consolidated financial statements as the Company does not have any noncontrolling interests.

The Company adopted EITF Issue No. 07-1, *Accounting for Collaborative Arrangements,* or EITF No. 07-1, on January 1, 2009 which requires collaborators to present the results of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. Further, EITF No. 07-1 clarified that the determination of whether transactions within a collaborative arrangement are part of a vendor-customer (or analogous) relationship subject to EITF No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).* EITF No. 07-1 is effective for fiscal years beginning on or after December 15, 2008. The adoption of EITF No. 07-1 did not have a material impact on the Company's consolidated financial statements.

In April 2009, FASB issued SFAS No. 107-1 and APB No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* or SFAS No. 107-1 and APB No. 28-1. SFAS No. 107-1 and APB

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

No. 28-1 amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments,* to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and APB No. 28, *Interim Financial Reporting,* to require those disclosures in summarized financial information at interim reporting periods. SFAS No. 107-1 and APB No. 28-1 is effective for interim reporting periods ending after June 15, 2009. The Company does not believe SFAS No. 107-1 and APB No. 28-1 will have a material impact on its disclosures for interim reporting periods.

In April 2009, FASB issued SFAS No. 115-2 and SFAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* or SFAS No. 115-2 and SFAS No. 124-2. SFAS No. 115-2 and SFAS No. 124-2 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to provide additional guidance on the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. SFAS No. 115-2 and SFAS No. 124-2 is effective for interim and annual reporting periods ending after June 15, 2009. The Company does not believe SFAS No. 115-2 and SFAS No. 124-2 will have a material impact on its results of operations or financial position.

In April 2009, FASB issued SFAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* or SFAS No. 157-4. SFAS No. 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements*, or SFAS No. 157, when the volume and level of activity for the asset or liability have significantly decreased, as well as guidance on identifying circumstances that indicate a transaction is not orderly. SFAS No. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and should be applied prospectively. The Company does not believe SFAS No. 157-4 will have a material impact on its results of operations or financial position.

In April 2009, FASB issued SFAS No. 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,* or SFAS No. 141R-1. SFAS No. 141R-1 amends and clarifies the initial recognition and measurement, subsequent measurement and accounting, and related disclosures arising from contingencies in a business combination under SFAS No. 141R, which is described above. Under SFAS No. 141R-1, assets acquired and liabilities assumed in a business combination that arise from contingencies will be recognized at fair value at the acquisition date only if fair value can be determined during the one-year post acquisition measurement period, and subsequently measured and accounted for using a systematic and rational basis depending on their nature. SFAS No. 141R-1 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS No. 141R-1 did not have an impact on the Company's consolidated financial statements as there were no business combinations during the quarter ended March 31, 2009.

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Notes to Consolidated Financial Statements (Continued)

(3) Cash, Cash Equivalents and Marketable Securities

A summary of cash and cash equivalents and available-for-sale marketable securities held by the Company as of March 31, 2009 and December 31, 2008 is as follows:

	March 31, 2009			
	Cost	Unrealized gains	Unrealized losses	Fair value
	(in thousands)			
Cash and cash equivalents:				
Cash and money market funds	$41,155	—	—	$41,155
Marketable securities:				
Corporate debt securities:				
Due within 1 year	15,479	14	—	15,493
U.S. sponsored entities:				
Due within 1 year	28,108	4	(7)	28,105
Total marketable securities	43,587	18	(7)	43,598
Total cash, cash equivalents and marketable securities	$84,742	$ 18	$ (7)	$84,753

	December 31, 2008			
	Cost	Unrealized gains	Unrealized losses	Fair value
	(in thousands)			
Cash and cash equivalents:				
Cash and money market funds	$52,045	—	—	$52,045
Marketable securities:				
Corporate debt securities:				
Due within 1 year	8,490	9	—	8,499
U.S. sponsored entities:				
Due within 1 year	13,013	6	—	13,019
Total marketable securities	21,503	15	—	21,518
Total cash, cash equivalents and marketable securities	$73,548	$ 15	$ —	$73,563

(4) Fair Value Measurements

The Company adopted SFAS No. 157, *Fair Value Measurements,* or SFAS No. 157, on January 1, 2008. SFAS No. 157 defines and establishes a framework for measuring fair value and expands disclosure about fair value measurements. The standard creates a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability.

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(4) Fair Value Measurements (Continued)

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of March 31, 2009, all of the Company's financial assets that were subject to fair value measurements were valued using observable inputs and the Company had no financial liabilities that were subject to fair value measurement. The Company's financial assets valued based on Level 1 inputs consisted of cash and cash equivalents in a U.S. Treasury money market fund. The Company's financial assets valued based on Level 2 inputs consisted of high-grade commercial paper and government-agency bonds that are guaranteed by the U.S. government.

(5) Property and Equipment

Property and equipment consist of the following:

	March 31, 2009	December 31, 2008
	(in thousands)	
Laboratory equipment	$ 12,287	$ 12,093
Leasehold improvements	4,762	4,667
Computers and software	2,215	2,192
Furniture and fixtures	1,233	1,105
	20,497	20,057
Less accumulated depreciation and amortization	(14,821)	(14,128)
	$ 5,676	$ 5,929

Depreciation and amortization expenses of property and equipment were approximately $693,000 and $678,000 in the three months ended March 31, 2009 and 2008, respectively.

(6) Stock Plans

The 2006 Stock Plan provides for the grant of incentive stock options, nonstatutory stock options and non-vested stock to employees, officers, directors and consultants to the Company. A total of 5,100,000 shares of common stock have been reserved for issuance under the 2006 Stock Plan. In January 2009, the number of shares of common stock reserved for issuance under the 2006 Stock Plan was increased from 3,800,000 to 5,100,000 pursuant to an "evergreen" provision, which provides for an annual increase based on the lesser of 1,300,000 shares, 5% of the Company's then outstanding shares of common stock, or such other amount as the board of directors may determine. The increase was ratified by the board of directors in February 2009. The administration of the 2006 Stock Plan is under the general supervision of the compensation committee of the board of directors. The exercise price of the stock options is determined by the compensation committee or the board of directors, provided that incentive stock options are granted at not less than fair market value of the common stock on the date of grant and expire no later than ten years from the date the option is granted. Options generally vest over four years.

As of March 31, 2009, under its 2001 Stock Plan, the Company had options outstanding to purchase 2,481,746 shares of its common stock and had outstanding 12,500 restricted shares of common stock and had no shares available for future issuance.

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(6) Stock Plans (Continued)

As of March 31, 2009, under its 2006 Stock Plan, the Company had options outstanding to purchase 1,983,847 shares of its common stock, had outstanding 30,058 restricted shares of common stock and had available 3,045,333 shares available for future issuance.

Non-Vested ("Restricted") Stock Awards With Service Conditions

The Company's share-based compensation plan provides for awards of restricted shares of common stock to officers and non-employee directors. Restricted stock awards are subject to forfeiture if employment or service terminates during the prescribed retention period. The remaining unrecognized compensation expense on restricted stock at March 31, 2009 was $239,000. The weighted average period over which the balance is expected to be recognized is 1.4 years. Vesting may accelerate, with respect to restricted shares issued to a certain officer upon the FDA's approval of the Company's first new drug application, or NDA. Restricted shares issued to non-employee directors vest over the service period.

General Option Information

The following table summarizes stock option activity for the three months ended March 31, 2009:

	Shares	Weighted average exercise price of shares under plan
Outstanding at January 1, 2009	4,691,246	$ 10.41
Granted	85,500	6.69
Exercised	—	—
Cancelled	(311,153)	8.57
Outstanding at March 31, 2009	4,465,593	$ 10.47
Exercisable at March 31, 2009	3,151,105	$ 11.15

The weighted-average grant date fair values of options granted during the three months ended March 31, 2009 and 2008 was $4.38 and $5.68, respectively.

As of March 31, 2009, the total amount of unrecognized stock-based compensation expense was $6.9 million, which will be recognized over a weighted average period of 2.4 years.

Included in the Company's stock options outstanding at March 31, 2009 were 254,055 options issued to non-employee consultants with a weighted average exercise price of $8.60 of which all were vested. The compensation expense is recorded over the respective vesting periods and is subject to variable accounting treatment prior to vesting, whereby the Company remeasures the fair value of the options at the end of each reporting period. Changes in the fair value may result in an expense or a credit in each reporting period. Compensation expense related to these options in the three months ended March 31, 2009 and 2008 was approximately $17,000 and $567,000, including the $553,000 correction referred to in Note 2, respectively.

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(6) Stock Plans (Continued)

General Restricted Shares Information

The following table summarizes restricted stock activity during the three months ended March 31, 2009:

	Shares	Weighted average grant date fair value
Outstanding at January 1, 2009	172,620	$ 18.49
Granted	—	—
Vested	(130,062)	21.43
Cancelled	—	—
Outstanding at March 31, 2009	42,558	$ 9.51

(7) Accrued Expenses

Other accrued liabilities consist of the following:

	March 31, 2009	December 31, 2008
	(in thousands)	
Compensation and benefits	$ 711	$ 759
Professional fees	1,489	1,311
Restructuring	851	—
Other	650	771
	$3,701	$ 2,841

(8) Collaborative Development, Commercialization and License Agreement

In October 2007, as amended in June 2008, the Company and GSK entered into the GSK Agreement for elesclomol. Under the terms of the agreement, the companies will jointly develop and commercialize elesclomol in the United States, and GSK will have exclusive responsibility for the development and commercialization of elesclomol outside the United States. Pursuant to the agreement, the Company received a non-refundable upfront license payment of $80 million in November 2007. The Company is also eligible to receive potential operational, clinical and regulatory milestone payments from GSK of up to $585 million, which include both payments for operational progress, such as trial initiation and enrollment, and payments for positive clinical and regulatory outcomes, such as regulatory approval. Of the $585 million in potential payments, $145 million are related to the development in metastatic melanoma and $440 million are related to the development in other cancer indications. In addition, the Company is eligible to receive up to $300 million in potential commercial milestone payments from GSK based on achieving certain net sales thresholds. As of March 31, 2009, the Company has achieved a total of $50 million in non-refundable operational milestones, including $40 million in the year ended December 31, 2008 that were paid by GSK in the fourth quarter of 2008 and $10 million in the three months ended March 31, 2009 that was paid by GSK in March 2009. The $50 million in operational milestones achieved to-date include $45 million

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(8) Collaborative Development, Commercialization and License Agreement (Continued)

related to the development of elesclomol for the treatment of metastatic melanoma and $5 million related to the development of elesclomol in another cancer indication.

Under the GSK Agreement, the total worldwide development costs for elesclomol, including development in metastatic melanoma, are shared according to an agreed targeted percentage, which represents for the Company a modest share of total costs. This cost share is realized by the Company over time through both direct cost reimbursement payments and operational milestone payments.

The GSK Agreement specifies an initial period during which the Company is solely responsible for all development costs, up to an agreed-upon limit, associated with specific development activities related to seeking FDA approval of elesclomol for the treatment of metastatic melanoma, whether incurred by the Company or GSK. Also during this period, GSK is responsible for certain operational milestone payments to the Company in the amount of up to $50 million. Costs may be incurred by GSK during this period that are related to the development of elesclomol in metastatic melanoma. Such costs are the responsibility of the Company and have been recognized as a reduction of revenue under the GSK collaboration in the statement of operations; however, these costs are not required to be paid to GSK until after the final completion of the SYMMETRY trial, as defined in the GSK Agreement. Following the initial period, when total melanoma development costs have exceeded the pre-specified limit, additional costs incurred for the program will no longer be the sole responsibility of the Company and will be shared by GSK in accordance with the agreed targeted percentage defined in the GSK Agreement. Depending upon the future direction of the elesclomol program, the Company may be eligible for cost sharing payments under the GSK Agreement. In addition to development in metastatic melanoma, the Company also funds early clinical development of elesclomol in two other cancer indications. Satisfactory completion of these initial trials would result in certain milestone payments from GSK.

In the United States, the Company's share of the operating profits and losses from the commercialization and sales of elesclomol over the life of the product will range from 40-50%, with the percentage increasing as the level of annual sales increases. Prior to commercialization, the Company is responsible for funding 40% of pre-commercialization costs in the United States. The Company may elect not to participate in co-commercialization, in which case the Company would earn royalties in lieu of profit sharing. Outside of the United States, the Company will receive double-digit tiered royalties.

Under the GSK Agreement, GSK may, subject to the agreement of the Company, purchase up to $45 million of the Company's common stock in two separate tranches upon the achievement of specified development and regulatory milestones. In the first tranche, GSK would be obligated to buy $25 million of the Company's common stock at the sole discretion of the Company. The per share purchase price would be at a specified premium. The Company attributed $260,000 of value to this option to require GSK to purchase its common stock. The second tranche of $20 million of common stock would be subject to the agreement of both the Company and GSK. The per share purchase price would be at a specified premium.

GSK may terminate the GSK Agreement upon not less than three months' written notice at any time prior to the date of the first commercial sale of elesclomol and not less than six months' written notice at any time on and after such date. The Company is currently working with GSK to evaluate the data from the SYMMETRY trial to determine if development of elesclomol should continue or if the program should be terminated. Should GSK elect to terminate the partnership, all rights to the elesclomol program would be returned to the Company and the Company would be free to develop

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(8) Collaborative Development, Commercialization and License Agreement (Continued)

elesclomol alone or with another partner. In such case, the Company would owe a small royalty to GSK on future sales of elesclomol. To date, GSK has not notified the Company of any intent to terminate the GSK Agreement.

(9) Collaborative License Agreement with Roche

In December 2008, the Company and Roche entered into the Roche Agreement to discover, develop, and commercialize small-molecule drugs targeting CRACM channels. The goal is to develop a novel category of oral, disease-modifying agents for the treatment of rheumatoid arthritis, asthma, chronic obstructive pulmonary disease, or COPD, allergy, transplant rejection, and other autoimmune diseases and inflammatory conditions.

Under the terms of the agreement, Roche will fund research to be conducted by the Company during an initial two-year research period, which may be extended for additional one year terms by mutual agreement of the parties. Roche will receive worldwide rights to develop and commercialize certain products identified prior to the end of this research period. The Company retains co-development rights by conducting preclinical development and early clinical trials, and co-promotion rights in the United States in indications other than rheumatoid arthritis. All preclinical, clinical, and commercial costs will be paid by Roche.

Pursuant to the agreement, the Company received a non-refundable upfront license payment of $16 million in January 2009, which was recorded as a collaboration receivable as of December 31, 2008. Roche will pay all of the Company's research costs, with a minimum of $9 million in committed research support, and all of the Company's preclinical and clinical development costs for compounds nominated for clinical development.

The Company is eligible to receive additional payments, for each of three licensed products, should specified development and commercialization milestones be successfully achieved. Development milestones across multiple indications of up to $245 million could be earned for the first product, and up to half of this amount could be earned for each of the second and third products. Commercialization milestones of up to $170 million could be earned for each of three products. In addition, all commercial costs will be paid by Roche. The Company will receive tiered royalties on sales of all approved, marketed products.

Roche may terminate the agreement on a licensed compound-by-licensed compound basis upon providing advance written notice, but may not do so with respect to all licensed compounds until after a specified date.

(10) Restructuring

On February 26, 2009, the Company announced it had suspended its SYMMETRY clinical trial, the Phase 3 clinical study comparing elesclomol in combination with paclitaxel to paclitaxel alone in chemo-naïve patients with stage IV metastatic melanoma. In addition, all other trials of elesclomol were suspended.

On March 12, 2009, the Company committed to a restructuring that consisted primarily of an immediate workforce reduction of approximately 90 positions, to a total of approximately 130 positions to better align its workforce to its revised operating plans following the suspension of its SYMMETRY clinical trial. In the first quarter of 2009, the Company recorded a restructuring charge of

SYNTA PHARMACEUTICALS CORP.

Notes to Consolidated Financial Statements (Continued)

(10) Restructuring (Continued)

approximately $1.2 million for severance and estimated benefits continuation costs and outplacement services. The restructuring charges were recorded in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, or SFAS No. 146. In addition, the Company paid approximately $0.2 million in unused paid-time off that had been recognized as expense prior to the restructuring, including $0.1 million in the year ended December 31, 2008 and $0.1 million in the first quarter of 2009. As of March 31, 2009, approximately $0.6 million of the total estimated $1.4 million in restructuring related payments had been paid. The majority of the remaining payments are anticipated to be paid by the end of the second quarter of 2009.

To conserve additional capital resources, the Company will not renew one of its office building leases expiring in August 2009 and will consolidate its operations within its three other facilities. The Company does not anticipate a material impairment charge in connection with the facility consolidation.

The following table summarizes the restructuring activity as of March 31, 2009:

	Restructuring Charge	Payments	Restructuring Liability at March 31, 2009
Workforce reduction	$ 1,236	$ (385)	$ 851

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

You should read this discussion together with the consolidated financial statements, related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q. The following discussion may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission. These risks could cause our actual results to differ materially from any future performance suggested below.

Overview

We are a biopharmaceutical company focused on discovering, developing, and commercializing small molecule drugs to extend and enhance the lives of patients with severe medical conditions, including cancer and chronic inflammatory diseases. We have three clinical-stage drug candidates and several drug candidates in the preclinical and discovery stages, each of which has a distinct chemical structure, mechanism of action, and market opportunity. Each of our drug candidates was discovered and developed internally using our proprietary, unique chemical compound library and integrated discovery engine. In October 2007, as amended in June 2008, we entered into a global collaborative development, commercialization and license agreement, or the GSK Agreement, with GlaxoSmithKline, or GSK, for the joint development and commercialization of elesclomol, one of our oncology drug candidates. In December 2008, we entered into a collaborative license agreement, or the Roche Agreement, with Hoffmann-La Roche, or Roche, for our CRACM inhibitor program, which is currently in the lead optimization stage. We retain all rights to our other drug candidates and programs.

We believe that our demonstrated ability to generate new drug candidates from our discovery platform, our ability to effectively enroll and conduct clinical trials, and our ability to enter into partnerships with leading multinational pharmaceutical companies are important competitive advantages. We believe that these competitive advantages, together with our current diverse pipeline of drug candidates with distinct chemical structures and mechanisms of action, provide us with both near-term and long-term sustainable growth opportunities.

We were incorporated in March 2000 and commenced operations in July 2001. Since that time, we have been principally engaged in raising capital and in the discovery and development of novel drug candidates. Since our inception, we have had no revenues from product sales. We have funded our operations principally with $235.4 million in net proceeds from private placements of our common stock and Series A convertible preferred stock, $44.7 million in net proceeds from our initial public offering, or IPO, and $146 million in non-refundable partnership payments under the GSK Agreement and Roche Agreement, including $96 million in upfront payments and $50 million in operational milestones, which, together with the exercise of common stock warrants and options, provided aggregate net cash proceeds of approximately $427.4 million through March 31, 2009. We have also generated funds from government grants, equipment lease financings and investment income.

In February 2007, we raised $50.0 million in gross proceeds from the sale of 5,000,000 shares of our common stock in our IPO at $10.00 per share. The net offering proceeds to us after deducting approximately $5.3 million in expenses for underwriters' discounts, fees and commissions, legal, accounting, printing, listing and filing fees, and miscellaneous expenses were approximately $44.7 million. All outstanding shares of our Series A convertible preferred stock and $1.9 million in accumulated dividends on the Series A convertible preferred stock were converted into 6,278,765 shares of common stock upon the completion of the IPO. In accordance with Emerging Issues Task Force, or EITF, No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments,* we recorded a non-cash beneficial conversion charge of approximately $58.6 million in

February 2007 in connection with the contingent adjustable conversion feature of the Series A convertible preferred stock.

We have devoted substantially all of our capital resources to the research and development of our drug candidates. We have never been profitable and, as of March 31, 2009, we had an accumulated deficit of $416.2 million. We expect to incur significant operating losses for the foreseeable future as we advance our drug candidates from discovery through preclinical development and clinical trials, and seek regulatory approval and eventual commercialization. We will need to generate significant revenues to achieve profitability and may never do so.

The SYMMETRY Phase 3 Clinical Trial

On February 26, 2009, we suspended our global Phase 3 clinical trial of elesclomol plus paclitaxel in metastatic melanoma, called the SYMMETRY trial, following a meeting of the independent data monitoring committee, or DMC. The DMC noted that while an interim review of the primary endpoint of progression-free survival, or PFS, showed trends that favored the elesclomol arm of the study; the interim analysis of the secondary endpoint of overall survival, or OS, favored the control arm. The DMC report noted that the DMC "cannot be sure whether this is an adverse treatment effect, an effect of differing post-progression (off-study) treatments or a chance effect not relating to the study drugs at all" and that this was a "paradoxical outcome" not foreseen prior to study initiation. The DMC also noted in its report that the OS for the elesclomol arm is in the range of what one would expect for survival rates in large, multinational trials in metastatic melanoma; while the OS for the control arm was somewhat longer than would be expected. Of note is that the OS data from the SYMMETRY trial are not yet mature, in that a relatively small fraction of the total survival events have occurred, meaning that OS results from this trial may change substantially over time. We expect the survival data to mature by the end of 2009.

Based on the interim review, the DMC recommended that unblinded data be released to us, and that we provide appropriate notification to investigators and patients in order that they could jointly make informed decisions on whether to continue therapy. Following our review of the data and further discussion with the DMC, we decided to suspend the SYMMETRY trial and our other ongoing elesclomol trials, including our trial in prostate cancer and our single-agent dose-escalating trial, pending further analysis of the SYMMETRY trial results. We also notified the U.S. Food and Drug Administration, or FDA, of the SYMMETRY trial findings and our decision to suspend all ongoing elesclomol trials. Following our report to the FDA, the FDA concurred with our decision and placed each of these trials on clinical hold.

In our analysis of the SYMMETRY trial results to date, we have not identified any target organ toxicities or adverse events related to elesclomol that might explain an imbalance of deaths between the two arms. We and our partner for the elesclomol program, GSK, are currently investigating a number of aspects related to the SYMMETRY trial results that will inform our choices for future direction of this program, including whether or not to restart the program in melanoma and/or other cancer indications.

Restructuring

On March 12, 2009, we committed to a restructuring that consisted primarily of an immediate workforce reduction of approximately 90 positions, to a total of approximately 130 positions to better align our workforce to our revised operating plans following the suspension of our SYMMETRY clinical trial. In the first quarter of 2009, we recorded a restructuring charge of approximately $1.2 million for severance and estimated benefits continuation costs and outplacement services. The restructuring charges were recorded in accordance with Statement of Financial Accounting Standards, or SFAS, No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. In addition, we paid

approximately $0.2 million in unused paid-time off that had been recognized as expense prior to the restructuring, including $0.1 million in the year ended December 31, 2008 and $0.1 million in the first quarter of 2009. As of March 31, 2009, approximately $0.6 million of the total estimated $1.4 million in restructuring related payments had been paid. The majority of the remaining payments are anticipated to be paid by the end of the second quarter of 2009.

To conserve additional capital resources, we will not renew one of our office building leases expiring in August 2009 and will consolidate our operations within our three other facilities. We do not anticipate a material impairment charge in connection with the facility consolidation.

Oncology Programs

We have two clinical-stage programs and one preclinical-stage program in oncology:

Elesclomol

Elesclomol is our first-in-class oncology drug candidate that we believe kills cancer cells by triggering programmed cell death through elevating levels of reactive oxygen species, or ROS. In October 2007, we entered into a global partnership with GSK to jointly develop and commercialize elesclomol for all indications. In February 2009, we suspended the Phase 3 SYMMETRY trial, following a DMC meeting in which the DMC noted that while the primary endpoint of PFS showed trends that favored the elesclomol arm of the study; early analysis of the secondary OS endpoint favored the control arm. We simultaneously suspended the other ongoing studies with elesclomol, including a Phase 1/2 trial of elesclomol in combination with docetaxel and prednisone in prostate cancer and a monotherapy Phase 1 trial in solid tumors. The FDA has also placed our elesclomol trials on clinical hold. We and our partner for the elesclomol program, GSK, are currently investigating a number of aspects related to the SYMMETRY trial results that will inform our choices for future direction of this program, including whether or not to restart the program in melanoma and/or other cancer indications.

GSK Elesclomol Alliance

In October 2007, as amended in June 2008, we entered into the GSK Agreement, under which we are eligible to receive up to $1.01 billion in milestones and other payments, as well as share 40-50% of the profits and losses from sales in the United States and receive double-digit tiered royalties from net sales outside of the United States. Under the terms of the agreement, we and GSK will jointly develop and commercialize elesclomol in the United States, and GSK will have exclusive responsibility for the development and commercialization of elesclomol outside the United States. Pursuant to the agreement, we received a non-refundable upfront license payment of $80 million in November 2007. We are also eligible to receive potential operational, clinical and regulatory milestone payments from GSK of up to $585 million, which include both payments for operational progress, such as trial initiation and enrollment, and payments for positive clinical and regulatory outcomes, such as regulatory approval. Of the $585 million in potential payments, $145 million are related to the development in metastatic melanoma and $440 million are related to the development in other cancer indications. In addition to milestones related to operational progress in development and clinical and regulatory outcomes, we are eligible to receive up to $300 million in potential commercial milestone payments from GSK based on achieving certain net sales thresholds. As of March 31, 2009, we have achieved a total of $50 million in non-refundable operational milestones, including $40 million in the year ended December 31, 2008 that were paid by GSK in the fourth quarter of 2008 and $10 million in the three months ended March 31, 2009 that was paid by GSK in March 2009. The $50 million in operational milestones achieved to-date include $45 million related to the development of elesclomol for the treatment of metastatic melanoma and $5 million related to the development of elesclomol in another cancer indication.

Under the GSK Agreement, the total worldwide development costs for elesclomol, including the development in metastatic melanoma, are shared according to an agreed targeted percentage, which represents for us a modest share of total costs. This cost share is realized by us over time through both direct cost reimbursement payments and operational milestone payments.

The GSK Agreement specifies an initial period during which we are solely responsible for all development costs, up to an agreed-upon limit, associated with specific development activities related to seeking FDA approval of elesclomol for the treatment of metastatic melanoma, whether incurred by us or GSK. Also, during this period, GSK is responsible for certain operational milestone payments to us in the amount of up to $50 million. Costs may be incurred by GSK during this period that are related to the development of elesclomol in metastatic melanoma. Such costs are our responsibility and have been recognized as a reduction of revenue under the GSK collaboration in the statement of operations; however, these costs are not required to be paid to GSK until after the final completion of the SYMMETRY trial, as defined in the GSK Agreement. Following the initial period when total melanoma development costs have exceeded the pre-specified limit, additional costs incurred for the program will no longer be our sole responsibility and will be shared by GSK in accordance with the targeted percentage defined in the GSK Agreement. Depending upon the future direction of the elesclomol program, we may be eligible for cost sharing payments under the GSK Agreement. In addition to development in metastatic melanoma, we also fund early clinical development of elesclomol in two other cancer indications. Satisfactory completion of these initial trials would result in certain milestone payments from GSK.

In the United States, our share of the operating profits and losses from the commercialization and sales of elesclomol over the life of the product will range from 40-50%, with the percentage increasing as the level of annual sales increases. Prior to commercialization, we are responsible for funding 40% of pre-commercialization costs in the United States. We may elect not to participate in co-commercialization, in which case we would earn royalties in lieu of profit sharing. Outside of the United States, we will receive double-digit tiered royalties.

Under the GSK Agreement, GSK may, subject to our agreement, purchase up to $45 million of our common stock in two separate tranches upon the achievement of specified development and regulatory milestones. In the first tranche, GSK would be obligated to buy $25 million of our common stock at our sole discretion. The per share purchase price would be at a specified premium. We attributed $260,000 of value to this option to require GSK to purchase our common stock. The second tranche of $20 million of common stock would be subject to the agreement of both us and GSK. The per share purchase price would be at a specified premium.

GSK may terminate the GSK Agreement upon not less than three months' written notice at any time prior to the date of the first commercial sale of elesclomol and not less than six months' written notice at any time on and after such date. We are currently working with GSK to evaluate the data from the SYMMETRY trial to determine if we should continue the development of elesclomol or terminate the program. Should GSK elect to terminate the partnership, all rights to the elesclomol program would be returned to us and we would be free to develop elesclomol alone or with another partner. In such case, we would owe a small royalty to GSK on future sales of elesclomol. To date, GSK has not notified us of any intent to terminate the GSK Agreement.

STA-9090

STA-9090 is a novel, small molecule Hsp90 inhibitor drug candidate that we are developing for the treatment of a variety of cancers. STA-9090 has a unique chemical structure that is distinct from 17-AAG (geldanamycin) and other ancamycin derivatives. In preclinical studies, STA-9090 has shown the ability to inhibit multiple kinases with comparable potency to, and a broader activity profile than, specific kinase inhibitors such as imatinib (Gleevec), erlotinib (Tarceva), and sunitinib (Sutent). In

addition, STA-9090 has shown potency 10 to 100 times greater than the ancamycin family of Hsp90 inhibitors, as well as activity against a wider range of kinases. In *in vivo* models, STA-9090 has shown strong efficacy in a wide range of cancer types, including cancers resistant to Gleevec, Tarceva, and Sutent. We believe that this creates a distinct activity profile for STA-9090 and is a competitive advantage.

STA-9090 Ongoing Clinical Trials

We are currently enrolling patients in two Phase 1, open-label studies in patients with solid-tumor cancers to identify the maximum tolerated dose, or MTD, of STA-9090 based on once- and twice-a-week intravenous dosing schedules, respectively. In addition to an evaluation of safety and tolerability, patients in each of these studies will be assessed for tumor response based on the industry standard Response Evaluation Criteria in Solid Tumors, or RECIST, criteria. In March 2009, we initiated a Phase 1/2 open-label clinical study of STA-9090 in patients with hematologic cancers, with a twice-a-week dosing schedule. Later in 2009, we plan to initiate a Phase 1/2 trial in hematologic cancers with a once-a-week dosing schedule as well as one or more Phase 2 studies in solid-tumor cancers.

In our Phase 1 solid-tumor trials, we have escalated multiple dose-level cohorts in each study and have to date observed an acceptable safety profile. We have also seen biomarker activity that has increased with increasing doses of STA-9090. In addition to the acceptable safety profile and encouraging signs of biological activity, we have seen two confirmed responses, as defined by RECIST criteria, and a number of cases of prolonged stable disease. These responses and cases of stable disease occurred in a patient population that is generally refractory or resistant to treatments with other agents. We believe that these data are encouraging, suggest clinical activity of STA-9090 and support continued evaluation of STA-9090 in further studies.

2nd Generation Hsp90 Inhibitors

Earlier this year, we initiated preclinical development of a follow-on, small molecule, injectable Hsp90 inhibitor. This compound has a unique chemical structure that we believe enhances certain desirable properties. In addition, we are currently working on a new series of Hsp90 inhibitor compounds that may be orally administered. These compounds are in the lead optimization stage.

STA-9584

STA-9584 is a novel, injectable, small molecule compound that disrupts the blood vessels that supply tumors with oxygen and essential nutrients. In preclinical testing, STA-9584 has been shown to target both new and established tumor blood vessels, in contrast to the mechanism of action of angiogenesis inhibitors such as Avastin, which only prevent the formation of new tumor vasculature. STA-9584 has shown strong anti-tumor activity in a broad range of preclinical cancer models, including prostate, lung, breast, melanoma, and lymphoma. This program is currently in preclinical development.

Our Inflammatory Disease Programs

We have one clinical-stage program and one preclinical-stage program focusing on treatments for inflammatory diseases. Both of our inflammatory disease programs focus on oral, disease-modifying drug candidates that act through novel mechanisms and could potentially target multiple indications.

Apilimod (STA-5326)

Apilimod is a novel, orally administered, small molecule drug candidate we are developing for the treatment of autoimmune and other chronic inflammatory diseases. Apilimod inhibits the production of the cytokines interleukin-12, or IL-12, and interleukin-23, or IL-23, and thereby down-regulates the

inflammation pathways that underlie certain autoimmune and inflammatory diseases. We submitted the initial IND for apilimod in March 2003.

We are currently conducting a Phase 2a clinical trial of apilimod in patients with rheumatoid arthritis, or RA. The RA study completed initial enrollment of 22 patients and the preliminary results showed encouraging biomarker and clinical signals suggesting activity of apilimod in this indication. We have elected to enroll an additional cohort in this trial to explore a higher dose of apilimod. We expect to have results from this higher dose cohort in the fourth quarter of 2009. We are also exploring the possibility of using apilimod in a topical formulation to treat inflammatory diseases of the skin, such as psoriasis.

In addition to apilimod, we have also identified several other small molecule IL-12/23 inhibitors that we believe have comparable activity to apilimod with significantly improved pharmaceutical properties. We believe that these new compounds represent a promising opportunity to develop next-generation drug candidates that could be administered orally at higher doses than apilimod and potentially address a wider range of serious inflammatory diseases with high unmet medical needs.

CRACM Ion Channel Inhibitors

We have developed novel, small molecule inhibitors of calcium release activated calcium modulator, or CRACM, ion channels expressed on immune cells. The CRACM ion channel is the primary route for calcium entry into T cells and other immune cells, regulating multiple immune cell processes important for initiating and maintaining an inflammatory immune response. Our CRACM ion channel inhibitors have shown strong anti-inflammatory activity in preclinical studies both *in vitro* and *in vivo,* inhibiting T cell and mast cell activity, including cytokine release, degranulation, and immune cell proliferation. Potential applications include a wide range of inflammatory diseases and disorders for which modulating T cell and mast cell function has been shown to be critical, including rheumatoid arthritis, asthma, chronic obstructive pulmonary disease, or COPD, allergy, transplant rejection, and other autoimmune diseases and inflammatory conditions. This program is in the lead optimization stage. In December 2008, we entered into a global partnership with Roche to further develop our CRACM inhibitors. We anticipate nominating a development candidate for preclinical development in 2009 and are targeting Phase 1 initiation in 2010.

Roche CRACM Inhibitor Alliance

In December 2008, we entered into the Roche Agreement to discover, develop, and commercialize small-molecule drugs targeting CRACM channels. The goal is to develop a novel category of oral, disease-modifying agents for the treatment of rheumatoid arthritis, asthma, chronic obstructive pulmonary disease, or COPD, allergy, transplant rejection, and other autoimmune diseases and inflammatory conditions. Under the terms of the agreement, Roche will fund research to be conducted by us during an initial two-year research period. Roche will receive worldwide rights to develop and commercialize certain products identified prior to the end of this research period. We retain certain co-development and co-promotion rights. All preclinical, clinical, and commercial costs will be paid by Roche.

Pursuant to the agreement, we received a non-refundable upfront license payment of $16 million in January 2009, which was recorded as a collaboration receivable as of December 31, 2008. Roche will pay all of our research costs, with a minimum of $9 million in committed research support, and all of our development costs for compounds nominated for clinical development. We are eligible to receive additional payments, for each of three licensed products, should specified development and commercialization milestones be successfully achieved. Development milestones across multiple indications of up to $245 million could be earned for the first product, and up to half of this amount could be earned for each of the second and third products. Commercialization milestones of up to

$170 million could be earned for each of three products. In addition, all commercial costs will be paid by Roche. We will receive tiered royalties on sales of all approved, marketed products. Roche may terminate the agreement on a licensed compound-by-licensed compound basis upon providing advance written notice, but may not do so with respect to all licensed compounds until after a specified date.

Financial Operations Overview

Revenue

We have not yet generated any product revenue and do not expect to generate any product revenue in the foreseeable future, if at all. Our revenues have been generated primarily through partnership agreements with GSK and Roche. The terms of these agreements include payment to us of up-front license fees, milestone payments, research and development cost sharing, royalties and profit sharing. We will seek to generate revenue from product sales and from future collaborative or strategic relationships. Upfront license payments and milestones are recognized ratably as collaboration revenue using the time-based model over the estimated performance period and any changes in the estimated performance period could result in substantial changes to the period over which these revenues are recognized (see "Critical Accounting Policies and Estimates—Revenue Recognition"). In the future, we expect any revenue we generate will fluctuate from quarter-to-quarter as a result of the timing and amount of payments received under the GSK Agreement and the Roche Agreement and from future collaborations or strategic relationships, and the amount and timing of payments we receive upon the sale of our drug candidates, to the extent any are successfully commercialized.

Research and Development

Research and development expense consists of costs incurred in connection with developing and advancing our drug discovery technology and identifying and developing our drug candidates. We charge all research and development expenses to operations as incurred.

Our research and development expense consists of:

- internal costs associated with research, preclinical and clinical activities;
- payments to third party contract research organizations, investigative sites and consultants in connection with our preclinical and clinical development programs;
- costs associated with drug formulation and supply of drugs for clinical trials;
- personnel related expenses, including salaries, stock-based compensation, benefits and travel; and
- overhead expenses, including rent and maintenance of our facilities, and laboratory and other supplies.

We do not know if we will be successful in developing our drug candidates. We believe that accurately projecting total program-specific expenses through commercialization is not possible at this time. The timing and amount of these expenses will depend upon the costs associated with potential future clinical trials of our drug candidates, and the related expansion of our research and development organization, regulatory requirements, advancement of our preclinical programs and product manufacturing costs, many of which cannot be determined with accuracy at this time based on our stage of development. This is due to the numerous risks and uncertainties associated with the duration and cost of clinical trials, which vary significantly over the life of a project as a result of unanticipated events arising during clinical development, including with respect to:

- the number of clinical sites included in the trial;
- the length of time required to enroll suitable subjects;
- the number of subjects that ultimately participate in the trials; and
- the efficacy and safety results of our clinical trials and the number of additional required clinical trials.

Our expenditures are subject to additional uncertainties, including the terms and timing of regulatory approvals and the expense of filing, prosecuting, defending or enforcing any patent claims or other intellectual property rights. In addition, we may obtain unexpected or unfavorable results from our clinical trials. We may elect to discontinue, delay or modify clinical trials of some drug candidates or focus on others. A change in the outcome of any of the foregoing variables in the development of a drug candidate could mean a significant change in the costs and timing associated with the development of that drug candidate. For example, if the FDA or other regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate, or if we experience significant delays in any of our clinical trials, we would be required to expend significant additional financial resources and time on the completion of clinical development. Additionally, future commercial and regulatory factors beyond our control will evolve and therefore impact our clinical development programs and plans over time.

In 2009, we anticipate that our overall research and development expenses, including personnel costs and external costs in connection with clinical development activities, will decrease due to the suspension of our elesclomol program and subsequent restructuring. However, certain program costs are expected to increase as we advance clinical development of our STA-9090 program and commence preclinical development of our CRACM program. Also, a possible restart of the elesclomol program based upon the outcome of the investigation of the results of the SYMMETRY trial may result in increased research and development expenses.

Beyond our current lead drug candidates, we anticipate that we will select drug candidates and research projects for further development on an ongoing basis in response to their preclinical and clinical success, as well as commercial potential.

General and Administrative

General and administrative expense consists primarily of salaries and related expenses for personnel in executive, finance, business and commercial development, investor and medical community relations, human resources and administrative functions. Other costs include stock-based compensation costs, directors' and officers' liability insurance premiums, legal costs of pursuing patent protection of our intellectual property, fees for general legal, accounting, public-company requirements and compliance, and other professional services, as well as overhead-related costs not otherwise included in research and development. In 2009, we anticipate that our overall general and administrative expenses, including personnel costs and external commercial development costs, will decrease due to the suspension of our elesclomol program and subsequent restructuring.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our financial statements which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. We are required to make estimates and judgments with respect to accrued expenses, including contract research accruals, the recoverability of long-lived and deferred tax assets, measurement of stock-based compensation and the periods of performance under the GSK Agreement and the Roche Agreement. We base our estimates on historical experience, known trends and events, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources and the reported amounts of revenues and expenses. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following accounting policies and estimates are most critical to aid in understanding and evaluating our reported financial results.

Revenue Recognition

Collaboration and License Agreements

Our principal sources of revenue may include upfront license payments, development milestones, reimbursement of research and development costs, profit sharing payments, sales milestones and royalties from our collaborations. We recognize revenue from these sources in accordance with Staff Accounting Bulletin, or SAB, 104, *Revenue Recognition*, or SAB 104, Emerging Issues Task Force, or EITF, No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent*, or EITF No. 99-19, EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*, or EITF No. 00-21, and EITF No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, or EITF No. 01-09. The application of EITF No. 00-21 requires subjective analysis and requires management to make estimates and assumptions about whether deliverables within multiple-element arrangements are separable from the other aspects of the contractual arrangement into separate units of accounting and to determine the fair value to be allocated to each unit of accounting.

We evaluate the multiple deliverables within our respective collaborations in accordance with the provisions of EITF No. 00-21 to determine whether the delivered elements that are our obligation have value to our collaborators on a stand-alone basis and whether objective reliable evidence of fair value of the undelivered items exists. Deliverables that meet these criteria are considered a separate unit of accounting. Deliverables that do not meet these criteria are combined and accounted for as a single unit of accounting. The appropriate recognition of revenue is then applied to each separate unit of accounting.

Our deliverables under our collaboration agreements, including the related rights and obligations, contractual cash flows and performance periods, are more fully described in Notes 8 and 9 of the accompanying consolidated financial statements. Certain of the deliverables have been combined as a single unit of accounting.

The cash flows associated with the single unit of accounting from the research and development portions of our collaborations are recognized as revenue using a time-based model. Under this model, cash flow streams are recognized as revenue over the estimated performance period. Upon achievement of milestones, as defined in the collaboration agreements, revenue is recognized to the extent the accumulated service time, if any, has occurred. The remainder is deferred and recognized as revenue ratably over the remaining estimated performance period. A change in the period of time expected to complete the deliverable is accounted for as a change in estimate on a prospective basis. Revenue is limited to amounts that are non-refundable and that our collaborators are contractually obligated to pay us.

Collaborative Development, Commercialization and License Agreement with GSK

In October 2007, we and GSK entered into the GSK Agreement, as amended in June 2008, for elesclomol, a novel injectable, small molecule compound that triggers apoptosis, or programmed cell death, in cancer cells, which we believe has potential for the treatment of a broad range of cancer types. The GSK Agreement consists of the following key funding streams: an upfront license payment, product development milestones, reimbursements of certain development costs, sales milestones, profit sharing payments and product royalty payments.

The $80 million non-refundable upfront license payment we received from GSK in November 2007, together with the $260,000 fair value of an option to require GSK to purchase $25 million of our

common stock, is being recognized ratably using the time-based model over the estimated performance period which has been defined as the 15-year period through the earliest expiration date of the related patents, which we estimate to be the effective life of the GSK Agreement. There has been no change to this estimate to date. We are also recognizing product development milestones as collaboration revenue using the time-based model over the same performance period through November 2022. We recognize as revenue on the date the milestone is achieved the portion of the milestone payment equal to the applicable amount of the performance period that has elapsed as of the date the milestone is achieved, with the balance being deferred and recognized on a straight-line basis over the remaining development period. As of March 31, 2009, we have achieved a total of $50 million in non-refundable operational milestones, including $40 million in the year ended December 31, 2008 that were paid by GSK in the fourth quarter of 2008 and $10 million in the three months ended March 31, 2009 that was paid by GSK in March 2009. The $50 million in operational milestones achieved to-date include $45 million related to the development of elesclomol for the treatment of metastatic melanoma and $5 million related to the development of elesclomol in another cancer indication. In the three months ended March 31, 2009 and 2008, we recognized $2.9 million and $1.3 million, respectively, of license and milestone revenue under the GSK Agreement.

Reimbursements of development costs to us by GSK are recorded as cost sharing revenue in the period in which the related development costs are incurred. Reimbursements by us to GSK for costs GSK incurs under the development program are recorded as a reduction of cost sharing revenue in the period in which the costs are incurred by GSK in accordance with EITF No. 01-09. Reimbursement of GSK's costs in an amount in excess of collaboration revenues otherwise recognized by us in a reporting period may result in negative revenue. Based on the guidance of EITF No. 99-19, we have determined that we are acting as a principal under the GSK Agreement and, as such, record these amounts as collaboration revenue. In the three months ended March 31, 2009, we recognized, as a reduction to revenue, $2.0 million of net cost sharing reimbursements to GSK under the GSK Agreement as we are solely responsible for funding 100% of the development costs of elesclomol for the treatment of metastatic melanoma until a specified limit of expenses has been incurred, after which continuing development costs are shared by GSK with us responsible for a modest share of the costs. No cost sharing reimbursements to GSK were recognized in the three months ended March 31, 2008.

Profit sharing payments are based upon a formula that provides for a range of 40-50% of net profits earned on U.S. sales of products included in the GSK Agreement. Royalty revenues are based upon a percentage of net sales in non-U.S. territories. Profit sharing payments and royalties from the sales of products included in the GSK Agreement will be recorded on the accrual basis when results are reliably measurable, collectibility is reasonably assured and all other revenue recognition criteria are met. Sales milestones, which are based upon the achievement of certain agreed-upon sales thresholds, will be recognized in the period in which the respective sales threshold is achieved and collectability is reasonably assured.

Collaborative License Agreement with Roche

In December 2008, we and Roche entered into the Roche Agreement to discover, develop, and commercialize small-molecule drugs targeting CRACM channels. The Roche Agreement consists of the following key funding streams: an upfront license payment, product development milestones, reimbursements of certain research and development costs, sales milestones and product royalty payments.

The $16 million non-refundable upfront license payment that we received from Roche in January 2009 is being recognized ratably using the time-based model over the estimated performance period which has been defined as the 3.5-year period through the estimated date of completion of a phase 2a clinical trial for the first licensed compound. In the three months ended March 31, 2009, we recognized $1.1 million of license revenue under the Roche Agreement. Reimbursements of research and

development costs to us by Roche are recorded as cost sharing revenue in the period in which the related research and development costs are incurred. In the three months ended March 31, 2009, we recognized $2.5 million of cost sharing revenue under the Roche Agreement. Development milestones will be recognized as collaboration revenue using the time-based model over the same performance period through mid-2012.

Royalty revenues are based upon a percentage of net sales. Royalties from the sales of products included in the Roche Agreement will be recorded on the accrual basis when results are reliably measurable, collectibility is reasonably assured and all other revenue recognition criteria are met. Sales milestones, which are based upon the achievement of certain agreed-upon sales thresholds, will be recognized in the period in which the respective sales threshold is achieved and collectability is reasonably assured.

Deferred Collaboration Revenue

Consistent with our policy on revenue recognition, deferred collaboration revenue represents cash received and amounts earned and invoiced for licensing and option fees and milestones, as well as cash received and amounts invoiced for research and development services to be performed by us. Such amounts are reflected as deferred collaboration revenue until revenue can be recognized under our revenue recognition policy. Deferred collaboration revenue is classified as current if management believes we will complete the earnings process and be able to recognize the deferred amount as revenue within 12 months of the balance sheet date. As of March 31, 2009, total deferred collaboration revenue was approximately $133.5 million, of which $13.8 million is current and will be recognized as revenue during the next 12 months.

Accrued Expenses and Accrued Contract Research Liabilities

As part of the process of preparing financial statements, we are required to estimate accrued expenses. This process involves identifying services which have been performed on our behalf, and estimating the level of service performed and the associated cost incurred for such service as of each balance sheet date in our financial statements. Given our current business, the primary area of uncertainty concerning accruals which could have a material effect on our business is with respect to service fees paid to contract manufacturers in conjunction with the production of clinical drug supplies and to contract research organizations in connection with our preclinical studies and clinical trials. In connection with all of the foregoing service fees, our estimates are most affected by our understanding of the status and timing of services provided. The majority of our service providers, including contract research organizations, invoice us in arrears for services performed. In the event that we do not identify some costs which have begun to be incurred, or we under or over estimate the level of services performed or the costs of such services in a given period, our reported expenses for such period would be understated or overstated. We currently reflect the over or under accrual of expenses directly in our operations in the period the amount was determined.

Our arrangements with contract research organizations in connection with clinical trials often provide for payment prior to commencing the project or based upon predetermined milestones throughout the period during which services are expected to be performed. We recognize expense relating to these arrangements based on the various services provided over the estimated time to completion. The date on which services commence, the level of services performed on or before a given date, and the cost of such services are often determined based on subjective judgments. We make these judgments based upon the facts and circumstances known to us based on the terms of the contract or our ongoing monitoring of service performance. In the three months ended March 31, 2009 and 2008, respectively, we had arrangements with multiple contract research organizations whereby these organizations commit to performing services for us over multiple reporting periods. We currently recognize and plan to continue to recognize the expenses associated with these arrangements based on

our expectation of the timing of the performance of components under these arrangements by these organizations. Generally, these components consist of the costs of setting up the trial, monitoring the trial, closing the trial and preparing the resulting data.

With respect to financial reporting periods presented in this Quarterly Report on Form 10-Q, and based on our receipt of invoices from our third party providers, the timing of our actual costs incurred have not differed materially from our estimated timing of such costs. In light of the foregoing, we do not believe our estimates of future expenses and our practice of making judgments concerning the accrual of expenses are reasonably likely to change in the future. There were no changes in our estimates and accruals for contract service fees that had a material effect on our net losses in the three months ended March 31, 2009 and 2008, respectively.

Stock-Based Compensation

We continue to use the Black-Scholes option pricing model as it is the most appropriate valuation method for our option grants. The Black-Scholes model requires inputs for risk-free interest rate, dividend yield, volatility and expected lives of the options. Since we do not have a significant history of stock trading activity, expected volatility is based on historical data from several public companies similar in size and value to us. We will continue to use a weighted average approach using historical volatility and other similar public entity volatility information until historical volatility of our common stock is relevant to measure expected volatility for future option grants. We estimate the forfeiture rate based on historical data. Our options generally vest 25% after one year of service and quarterly over three years thereafter. Based on an analysis of historical forfeitures, we applied a forfeiture rate of 10% to all options that vest upon completion of the first year of service following the date of grant. The analysis will be re-evaluated at least annually and the forfeiture rate will be adjusted as necessary. 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 the grant. The expected lives for options granted represent the period of time that options granted are expected to be outstanding. Since January 1, 2006, we have used the simplified method for determining the expected lives of options.

For awards with graded vesting, we allocate compensation costs under SFAS No. 123R, *Share-Based Payment,* on a straight-line basis over the requisite service period. Accordingly, we amortize the fair value of each option over each option's service period, which is generally the vesting period.

We account for stock options issued to non-employees in accordance with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and EITF No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees, or in Conjunction with Selling Goods or Services,* which requires valuing and remeasuring such stock options to the current fair value until the performance date has been reached.

Our net loss includes compensation costs in the amount of $1.2 million and $2.1 million for the three months ended March 31, 2009 and 2008, respectively, and no income tax benefit related to our stock-based compensation arrangements for employee and non-employee awards. As of March 31, 2009, the total amount of unrecognized stock-based compensation expense was $6.9 million, which will be recognized over a weighted average period of 2.4 years.

Consolidated Results of Operations

Three Months Ended March 31, 2009 Compared with Three Months Ended March 31, 2008

Collaboration Revenue

	Three Months Ended March 31,		2009 to 2008 Change	
	2009	2008	$	%
	(dollars in millions)			
License and milestone revenue—GSK	$ 2.9	$ 1.3	$ 1.6	123%
License and milestone revenue—Roche	1.1	—	1.1	—%
	4.0	1.3	2.7	208%
Cost sharing reimbursements, net—GSK	(2.0)	—	(2.0)	—%
Cost sharing reimbursements, net—Roche	2.5	—	2.5	—%
	0.5	—	0.5	—%
Total collaboration revenue	$ 4.5	$ 1.3	$ 3.2	246%

In October 2007, we entered into a collaborative development, commercialization and license agreement with GSK for elesclomol. In the three months ended March 31, 2009, license and milestone revenue increased by $1.6 million over the three months ended March 31, 2008 due to the timing of achieving $50 million to-date in operational milestones between the third quarter of 2008 and the first quarter of 2009 for the development of elesclomol for the treatment of metastatic melanoma and another cancer indication. In addition, in the three months ended March 31, 2009, we recognized, as a reduction to revenue, $2.0 million of net cost sharing reimbursements to GSK under the GSK Agreement as we are solely responsible for funding 100% of the development costs of elesclomol for the treatment of metastatic melanoma until a specified limit of expenses has been incurred, after which continuing development costs are shared by GSK with us responsible for a modest share of the costs. No cost sharing reimbursements to GSK were recognized in the three months ended March 31, 2008. (See Notes 2 and 8 in the accompanying condensed consolidated financial statements.)

In December 2008, we entered into a collaborative license agreement with Roche to discover, develop, and commercialize small-molecule drugs targeting CRACM channels. In the three months ended March 31, 2009, we recognized $1.1 million of license revenue in connection with the $16 million non-refundable upfront license payment we received from Roche in January 2009. Reimbursements of research and development costs to us by Roche are recorded as cost sharing revenue in the period in which the related research and development costs are incurred. In the three months ended March 31, 2009, we recognized $2.5 million of cost sharing revenue under the Roche Agreement. (See Notes 2 and 9 in the accompanying condensed consolidated financial statements.)

Research and Development Expense

	Three Months Ended March 31,		2009 to 2008 Change	
	2009	2008	$	%
	(dollars in millions)			
Clinical-stage drug candidates				
Elesclomol	$ 15.6	$ 11.1	$ 4.5	41%
STA-9090	2.3	1.8	0.5	28%
Apilimod	0.2	0.2	—	—%
Total clinical-stage drug candidates	18.1	13.1	5.0	38%
CRACM	2.1	1.8	0.3	17%
Other early stage programs	2.4	1.3	1.1	85%
Total research and development	$ 22.6	$ 16.2	$ 6.4	40%

In the three months ended March 31, 2009, costs incurred under our elesclomol program increased by $4.5 million over the three months ended March 31, 2008, including decreases of $0.2 million for personnel costs, related research supplies and operational overhead, and $0.6 million for stock compensation, offset by a $5.3 million increase for external costs. On February 26, 2009, we suspended the SYMMETRY trial, our global, pivotal Phase 3 clinical trial which was initiated in the third quarter of 2007, as well as the additional ongoing clinical studies using the sodium salt, water soluble formulation of elescomol, including the Phase 1/2 trial of elesclomol in combination with docetaxel and prednisone in prostate cancer that was initiated in the fourth quarter of 2008 and the monotherapy Phase 1 trial in solid tumors that was initiated in January 2009. Subsequently, on March 12, 2009, we committed to a restructuring that consisted primarily of an immediate workforce reduction. The $5.3 million increase in external costs was principally due to the advancement of the SYMMETRY trial reflective of the completion of patient enrollment in early February 2009, the conduct of registration manufacturing required for a possible new drug application, or NDA, filing in 2009, and the commencement of the prostate and monotherapy trials, as well as wind-down activities and early contract termination fees following the suspension of the SYMMETRY trial. The $0.6 million decrease in stock compensation was due in part to the workforce reduction in the first quarter of 2009 and in part to the non-recurring correction recognized in the first quarter of 2008. (See Note 2 in the accompanying condensed consolidated financial statements.)

In the three months ended March 31, 2009, costs incurred under our STA-9090 program increased by $0.5 million over the three months ended March 31, 2008, including a $0.1 million increase for personnel costs, related research supplies, operational overhead and stock compensation, and a $0.4 million increase for external costs. The increase in external costs was principally due to the commencement of the Phase 1/2 trial in hematological cancers in March 2009 and the supporting clinical drug supply for all of the ongoing clinical trials.

In the three months ended March 31, 2009, there was no change in the costs incurred in connection with apilimod over the three months ended March 31, 2008, as a $0.1 million increase for personnel costs, related research supplies, operational overhead and stock compensation was offset by a $0.1 million decrease for external costs.

In the three months ended March 31, 2009, costs incurred under our CRACM program increased by $0.3 million over the three months ended March 31, 2008, including a $0.2 million decrease for personnel costs, related research supplies, operational overhead and stock compensation, offset by a $0.5 million increase for external costs. The increase in external costs was principally due to the commencement of early development activities prior to nominating a candidate for preclinical development later this year.

In addition, in the three months ended March 31, 2009, costs incurred under our other early-stage programs increased by $1.1 million over the three months ended March 31, 2008, including increases of $0.8 million for personnel costs, related research supplies, operational overhead and stock compensation, and $0.3 million for external costs.

General and Administrative Expense

	Three Months Ended March 31,		2009 to 2008 Change	
	2009	2008	$	%
	(dollars in millions)			
General and administrative	$4.1	$3.6	$0.5	14%

The increase in general and administrative expense principally resulted from an increase of $0.2 million for personnel costs and related overhead in connection with increased headcount and stock compensation, and an increase of $0.3 million in external professional fees, including intellectual

property and general legal fees, public-company reporting and compliance requirements, director and officer insurance premiums, investor and medical-community relations and commercial development, as well as in corporate taxes.

Investment Income, net

	Three Months Ended March 31,		2009 to 2008 Change	
	2009	2008	$	%
	(dollars in millions)			
Investment income, net	$(0.1)	$0.8	$(0.9)	(113)%

The decrease in net investment income was principally due to declining interest rates and lower average cash balances.

Liquidity and Capital Resources

Sources of Funds

We have incurred significant operating losses since our inception. We have funded our operations principally with $235.4 million in net proceeds from private placements of our common stock and Series A convertible preferred stock, $44.7 million in net proceeds from our initial public offering, and $146 million in non-refundable partnership payments under the GSK Agreement and the Roche Agreement, including $96 million in upfront payments and $50 million in operational milestones, which, together with the exercise of common stock warrants and options, provided aggregate net cash proceeds of approximately $427.4 million through March 31, 2009. We have also generated funds from government grants, equipment lease financings and investment income.

As of March 31, 2009, we had $84.8 million in cash, cash equivalents and marketable securities, an increase of $11.2 million from $73.6 million as of December 31, 2008. This increase principally reflects $29 million in partnership payments by GSK and Roche in the first quarter of 2009, offset by cash used in operations as discussed under Cash Flows below. The $29 million in partnership payments include $10 million by GSK for a non-refundable operational milestone achieved in January 2009 for the development of elesclomol for the treatment of metastatic melanoma and $19 million by Roche for the $16 million non-refundable upfront payment that was recorded as a collaboration receivable as of December 31, 2008 and $3 million for research and development support.

In October 2007, we entered into the GSK Agreement and received a non-refundable upfront cash payment of $80 million in November 2007. We are also eligible to receive potential operational, clinical and regulatory milestone payments from GSK of up to $585 million, which include both payments for operational progress, such as trial initiation and enrollment, and payments for positive clinical and regulatory outcomes, such as regulatory approval. Of the $585 million in potential payments, $145 million are related to the development in metastatic melanoma and up to $440 million are related to the development of elesclomol in other cancer indications. In addition, we are eligible to receive up to $300 million in potential commercial milestone payments from GSK based on achieving certain net sales thresholds. As of March 31, 2009, we have achieved a total of $50 million in non-refundable operational milestones, including $40 million in the year ended December 31, 2008 that were paid by GSK in the fourth quarter of 2008 and $10 million in January 2009 that was paid by GSK in March 2009. The $50 million in achieved operational milestones to-date include $45 million related to the development of elesclomol for the treatment of metastatic melanoma and $5 million related to the development of elesclomol in another cancer indication. Depending upon the future direction of the elesclomol program, we may be eligible for cost sharing and additional milestone payments under the GSK Agreement.

In December 2008, we entered into the Roche Agreement and received a non-refundable upfront license payment of $16 million in January 2009, which was recorded as a collaboration receivable as of December 31, 2008. Under the terms of the agreement, Roche will pay all of our research costs, with a minimum of $9 million in committed research support, and all of our development costs for compounds nominated for clinical development. We are eligible to receive additional payments, for each of three licensed products, should specified development and commercialization milestones be successfully achieved. Development milestones across multiple indications of up to $245 million could be earned for the first product, and up to half of this amount could be earned for each of the second and third products. Commercialization milestones of up to $170 million could be earned for each of three products. In addition, all commercial costs will be paid by Roche. We will receive tiered royalties on sales of all approved, marketed products.

Cash Flows

The following table provides information regarding our cash position, cash flows and capital expenditures for the three months ended years ended March 31, 2009 and 2008.

	Three Months Ended March 31,	
	2009	2008
	(dollars in millions)	
Cash, cash equivalents and marketable securities	$ 84.8	$ 99.2
Working capital	43.0	80.7
Cash flows provided by (used in):		
Operating activities	12.2	(15.7)
Investing activities	(22.5)	(0.4)
Financing activities	(0.7)	(0.2)
Capital expenditures (included in investing activities)	(0.1)	(0.4)

In the three months ended March 31, 2009, our operating activities provided cash of $12.2 million, including the receipt of $29 million in partnership payments by GSK and Roche offset by $16.8 million in net cash used in operations. In the three months ended March 31, 2008, our operating activities used cash of $15.7 million. The use of cash in these periods principally resulted from our losses from operations, as adjusted for non-cash charges for depreciation and stock-based compensation, and changes in our working capital accounts.

Our investing activities used cash of $22.5 million in the three months ended March 31, 2009, including purchases of marketable securities in the amount of $24.7 million and purchases of property and equipment in the amount of $0.4 million, offset by sales and maturities of marketable securities of $2.6 million. Our investing activities used cash of $0.4 million in the three months ended March 31, 2008 for the purchases of property and equipment.

Our financing activities used cash of $0.7 million and $0.2 million in the three months ended March 31, 2009 and 2008, respectively. We raised $0.4 million in proceeds from the sale and lease-back of property and equipment in the three months ended March 31, 2008. We repaid $0.7 million and $0.6 million in capital equipment leases in the three months ended March 31, 2009 and 2008, respectively.

Contractual Obligations and Commitments

There have been no material changes to the contractual obligations and commitments included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Funding Requirements

We expect to incur substantial expenses and generate significant operating losses as we continue to advance our drug candidates into preclinical studies and clinical trials and as we:

- complete the previously announced restructuring;
- wind-down the suspended SYMMETRY trial;
- evaluate the data from the recently suspended Phase 3 SYMMETRY trial of elesclomol and determine in conjunction with our partner, GSK, whether to continue development of elesclomol or to terminate the development program;
- complete the ongoing and contemplated Phase 1, Phase 1/2 and Phase 2 clinical trials of STA-9090 in solid tumors and hematologic cancers and initiate additional clinical trials of STA-9090, if supported by the earlier stage clinical trial results;
- complete preclinical development of our second generation Hsp90 inhibitor and initiate clinical trials of this compound, if supported by the preclinical data;
- complete preclinical development of STA-9584 and initiate clinical trials, if supported by positive preclinical data;
- complete the current Phase 2a clinical trial of apilimod for the treatment of rheumatoid arthritis, or RA, and possibly initiate additional Phase 2 clinical trials of apilimod in RA or other inflammatory disease indications;
- advance our CRACM inhibitor program into preclinical development and possibly into clinical trials, if supported by positive preclinical data and consistent with our obligations under the Roche Agreement;
- discover, develop, and seek regulatory approval for backups of our current drug candidates and other new drug candidates;
- identify additional compounds or drug candidates and acquire rights from third parties to those compounds or drug candidates through licenses, acquisitions or other means; and
- commercialize any approved drug candidates.

Our funding requirements will depend on a number of factors, including:

- our determination, based on the ongoing analysis of the data from the recently suspended Phase 3 SYMMETRY trial, to continue the development of elesclomol or to terminate the development program;
- our ability to fulfill our obligations under and otherwise maintain the GSK Agreement and for GSK to satisfy its obligations under the GSK Agreement, including payment of funding obligations and milestone payments;
- the progress and results of our ongoing Phase 1 and Phase 1/2 clinical trials of STA-9090, any additional Phase 1 or Phase 2 clinical trials of STA-9090 we may initiate and any later-stage clinical trials we may initiate in the future based on the results of the earlier stage clinical trials;
- the results of our preclinical studies of STA-9584 and testing of our CRACM inhibitors, and our decision to initiate clinical trials, if supported by the preclinical and other test results;
- our ability to fulfill our obligations under and otherwise maintain the Roche Agreement and for Roche to satisfy its obligations under the Roche Agreement, including payment of funding obligations and milestone payments;

- the costs, timing, and outcome of regulatory review of our drug candidates;
- the progress and results of the current Phase 2a clinical trial of apilimod for the treatment of RA and any future clinical trials we may initiate for RA or other inflammatory disease indications;
- the scope, progress, results, and cost of preclinical development, clinical trials, and regulatory review of any new drug candidates we may discover or acquire;
- the costs of preparing, filing, and prosecuting patent applications and maintaining, enforcing, and defending intellectual property-related claims;
- our ability to establish additional strategic collaborations and licensing or other arrangements on terms favorable to us;
- the costs to satisfy our obligations under potential future collaborations; and
- the timing, receipt, and amount of sales or royalties, if any, from elesclomol, apilimod, STA-9090, STA-9584, our CRACM inhibitors and our other potential products.

Liquidity

On February 26, 2009, we announced that we were suspending all clinical development of our lead drug candidate, elesclomol. On March 12, 2009, we committed to an immediate restructuring that consisted primarily of a workforce reduction of approximately 90 positions, to a total of approximately 130 positions to better align our workforce to our revised operating plans following the suspension of our SYMMETRY clinical trial. In the first quarter of 2009, we recorded a restructuring charge of approximately $1.2 million for severance and estimated benefits continuation costs and outplacement services. In addition, we paid approximately $0.2 million in unused paid-time off that had been recognized as expense prior to the restructuring, including $0.1 million in the year ended December 31, 2008 and $0.1 million in the first quarter of 2009. As of March 31, 2009, approximately $0.6 million of the total estimated $1.4 million in restructuring related payments had been paid. The majority of the remaining payments are anticipated to be paid by the end of the second quarter of 2009.

To conserve additional capital resources, we will not renew one of our office building leases expiring in August 2009 and will consolidate our operations within our three other facilities. We do not anticipate a material impairment charge in connection with the facility consolidation.

We do not anticipate that we will generate product revenue in the foreseeable future, if at all. We expect our continuing operating losses to use cash for operations over the next several years and such cash use may increase from year to year. Based on our current operating plans, we expect our existing funds, together with research and development reimbursements and approximately $5 million of milestone payments anticipated in connection with certain preclinical and clinical achievements anticipated under the Roche agreement, will be sufficient to fund operations into 2011. While we believe that the milestone payments from Roche will be received as forecasted, we have contingency plans in place should the receipt of the milestone payments be delayed or not achieved at all or if clinical progress in our various programs does not progress as expected, which plans focus on the reduction of spending on less critical research and development activities.

There are numerous factors that are likely to affect our spending levels, including the extent of clinical trials and other development activities for STA-9090, our second generation Hsp90 inhibitor, STA-9584, apilimod, CRACM inhibitors in collaboration with Roche, the timing and amount of milestone payments to be received from Roche, the rate of enrollment of patients in clinical trials, the progress of our discovery research and preclinical programs, the impact of potential business development activities and future direction of the elesclomol program, among other factors. In addition, depending upon the future direction of the elesclomol program, we may also incur additional

expenses and may correspondingly receive cost sharing and milestone payments under our agreement with GSK. These variables could result in higher or lower spending levels which could impact the sufficiency of our current funds if we are to continue operations in accordance with our current plans and achieve our intended timelines for development.

We may require significant additional funds earlier than we currently expect in order to conduct additional clinical trials and conduct additional preclinical and discovery activities. Because of the numerous risks and uncertainties associated with the development and commercialization of our drug candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated clinical trials.

To the extent our capital resources are insufficient to meet our future capital requirements, we will need to finance our future cash needs through public or private equity offerings, collaboration agreements, debt financings or licensing arrangements. However, the credit markets and the financial services industry have recently been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States federal government. These events have generally made equity and debt financing more difficult to obtain. Additional funding may not be available to us on acceptable terms or at all. In addition, the terms of any financing may adversely affect the holdings or the rights of our stockholders. For example, if we raise additional funds by issuing equity securities or by selling debt securities, if convertible, further dilution to our existing stockholders may result. If we raise funds through collaboration agreements or licensing arrangements, we may be required to relinquish rights to our technologies or drug candidates, or grant licenses on terms that are not favorable to us.

If adequate funds are not available, we may be required to terminate, significantly modify or delay our research and development programs, reduce our planned commercialization efforts, or obtain funds through collaborators that may require us to relinquish rights to our technologies or drug candidates that we might otherwise seek to develop or commercialize independently. We may elect to raise additional funds even before we need them if the conditions for raising capital are favorable.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

Recent Accounting Pronouncements

We adopted SFAS No. 141R, *Business Combinations,* or SFAS No. 141R, on January 1, 2009. The pronouncement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The pronouncement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The adoption of SFAS No. 141R did not have a material impact on our consolidated financial statements as there were no business combinations.

We adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an Amendment of ARB No. 51,* or SFAS No. 160, on January 1, 2009. The pronouncement establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. The pronouncement also establishes disclosure requirements that identify and distinguish between the interests of the parent and the interests of the

noncontrolling owners. The adoption of SFAS No. 160 did not have a material impact on our consolidated financial statements as we do not have any noncontrolling interests.

We adopted EITF Issue No. 07-1, *Accounting for Collaborative Arrangements,* or EITF No. 07-1, on January 1, 2009 which requires collaborators to present the results of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. Further, EITF No. 07-1 clarified that the determination of whether transactions within a collaborative arrangement are part of a vendor-customer (or analogous) relationship subject to EITF No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*. EITF No. 07-1 is effective for fiscal years beginning on or after December 15, 2008. The adoption of EITF No. 07-1 did not have a material impact on our consolidated financial statements.

In April 2009, FASB issued SFAS No. 107-1 and APB No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* or SFAS No. 107-1 and APB No. 28-1. SFAS No. 107-1 and APB No. 28-1 amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments,* to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and APB No. 28, *Interim Financial Reporting,* to require those disclosures in summarized financial information at interim reporting periods. SFAS No. 107-1 and APB No. 28-1 is effective for interim reporting periods ending after June 15, 2009. We do not believe that SFAS No. 107-1 and APB No. 28-1 will have a material impact on its disclosures for interim reporting periods.

In April 2009, FASB issued SFAS No. 115-2 and SFAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* or SFAS No. 115-2 and SFAS No. 124-2. SFAS No. 115-2 and SFAS No. 124-2 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to provide additional guidance on the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. SFAS No. 115-2 and SFAS No. 124-2 is effective for interim and annual reporting periods ending after June 15, 2009. We do not believe that SFAS No. 115-2 and SFAS No. 124-2 will have a material impact on its results of operations or financial position.

In April 2009, FASB issued SFAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* or SFAS No. 157-4. SFAS No. 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, *Fair Value Measurements*, or SFAS No. 157, when the volume and level of activity for the asset or liability have significantly decreased, as well as guidance on identifying circumstances that indicate a transaction is not orderly. SFAS No. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and should be applied prospectively. We do not believe SFAS No. 157-4 will have a material impact on its results of operations or financial position.

In April 2009, FASB issued SFAS No. 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,* or SFAS No. 141R-1. SFAS No. 141R-1 amends and clarifies the initial recognition and measurement, subsequent measurement and accounting, and related disclosures arising from contingencies in a business combination under SFAS No. 141R, which is described above. Under SFAS No. 141R-1, assets acquired and liabilities assumed in a business combination that arise from contingencies will be recognized at fair value at the acquisition date only if fair value can be determined during the one-year post acquisition measurement period, and subsequently measured and accounted for using a systematic and rational basis depending on their nature. SFAS No. 141R-1 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The

adoption of SFAS No. 141R-1 did not have an impact on our consolidated financial statements as there were no business combinations during the quarter ended March 31, 2009.

Certain Factors That May Affect Future Results of Operations

The Securities and Exchange Commission, or SEC, encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This Quarterly Report on Form 10-Q contains such "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

Words such as "may," "anticipate," "estimate," "expects," "projects," "intends," "plans," "believes" and words and terms of similar substance used in connection with any discussion of future operating or financial performance, identify forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially and adversely from those described in the forward-looking statements. These risks include, but are not limited to those set forth under the heading "Risk Factors" contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008 that we have filed with the SEC.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this Quarterly Report on Form 10-Q might not occur. Stockholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to Synta or to any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Sensitivity. As of March 31, 2009, we had cash, cash equivalents and marketable securities of $84.8 million consisting of cash deposited in a highly rated financial institution in the United States and in a short-term U.S. Treasury money market fund, as well as high-grade commercial paper and government-agency securities that are guaranteed by the U.S. government. The primary objective of our investment activities is to preserve our capital for the purpose of funding operations and we do not enter into investments for trading or speculative purposes. We believe that we did not have material exposure to high-risk investments such as mortgage-backed securities, auction rate securities or other special investment vehicles, or SIV's, within our money-market fund investments. We believe that we do not have any material exposure to changes in fair value as a result of changes in interest rates. Declines in interest rates, however, would reduce future investment income. During the three months ended March 31, 2009, we had investment income of approximately $36,000. If overall interest rates fell by 10% during the three months ended March 31, 2009, our interest income would have decreased by less than $4,000, assuming consistent investment levels.

Capital Market Risk. We currently have no product revenues and depend on funds raised through other sources. One possible source of funding is through further equity offerings. Our ability to raise funds in this manner depends upon capital market forces affecting our stock price.

Item 4. Controls and Procedures.

(a) *Evaluation of Disclosure Controls and Procedures.* Our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating

our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their desired control objectives. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) *Changes in Internal Controls.* There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently not a party to any material legal proceedings.

Item 1A. Risk Factors.

There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) *Exhibits*

31.1 Certification of principal executive officer under Section 302(a) of the Sarbanes-Oxley Act of 2002.

31.2 Certification of principal financial officer under Section 302(a) of the Sarbanes-Oxley Act of 2002.

32.1 Certifications of the principal executive officer and the principal financial officer under Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

SYNTA PHARMACEUTICALS CORP.

By: /s/ SAFI R. BAHCALL, PH.D.

Safi R. Bahcall, Ph.D.
President and Chief Executive Officer
(principal executive officer)

Date: May 7, 2009

By: /s/ KEITH S. EHRLICH, C.P.A.

Keith S. Ehrlich, C.P.A.
Vice President Finance and Administration, Chief Financial Officer
(principal accounting and financial officer)

Date: May 7, 2009

Exhibit 31.1

CERTIFICATIONS UNDER SECTION 302

I, Safi R. Bahcall, Ph.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Synta Pharmaceuticals Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(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 registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2009

/s/ SAFI R. BAHCALL, PH.D.

Safi R. Bahcall, Ph.D.
President and Chief Executive Officer
(principal executive officer)

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Exhibit 31.2

CERTIFICATIONS UNDER SECTION 302

I, Keith S. Ehrlich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Synta Pharmaceuticals Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(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 registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2009

/s/ KEITH S. EHRLICH, C.P.A.

Keith S. Ehrlich, C.P.A.
Vice President, Finance and Administration,
Chief Financial Officer
(principal accounting and financial officer)

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Exhibit 32.1

CERTIFICATIONS UNDER SECTION 906

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Synta Pharmaceuticals Corp., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period ended March 31, 2009 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2009

/s/ SAFI R. BAHCALL, PH.D.

Safi R. Bahcall, Ph.D.
President and Chief Executive Officer
(principal executive officer)

Dated: May 7, 2009

/s/ KEITH S. EHRLICH, C.P.A.

Keith S. Ehrlich, C.P.A.
Vice President, Finance and Administration, Chief Financial Officer
(principal accounting and financial officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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