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: JUNE 30, 2012

☐ **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: 333-131722

SYNERGY PHARMACEUTICALS INC.
(Exact name of registrant as specified in its charter)

Delaware	**33-0505269**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
420 Lexington Avenue, Suite 1609, New York, New York	**10170**
(Address of principal executive offices)	(Zip Code)

(212) 297-0020
(Registrant's telephone number)

(Former Name, Former Address and Former Fiscal Year, if changed since last report)

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

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

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

The number of the registrant's shares of common stock outstanding was 65,806,178 as of August 8, 2012.

SYNERGY PHARMACEUTICALS, INC.
(A development stage company)

FORM 10-Q

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

SYNERGY PHARMACEUTICALS, INC.
(A development stage company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 27,426,900	$ 13,244,883
Available-for-sales securities	16,149,789	—
Prepaid expenses and other current assets	1,408,719	1,063,402
Total Current Assets	44,985,408	14,308,285
Property and equipment, net	2,464	5,773
Available-for-sale securities long term	4,010,787	—
Security deposits	19,511	14,025
Due from related party	1,936,609	1,541,456
Total Assets	$ 50,954,779	$ 15,869,539
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,154,469	$ 1,415,617
Accrued expenses	3,765,094	1,331,382
Total Current Liabilities	4,919,563	2,746,999
Derivative financial instruments, at estimated fair value-warrants	4,803,717	3,325,114
Total Liabilities	9,723,280	6,072,113
Stockholders' Equity:		
Preferred stock, Authorized 20,000,000 shares, at June 30, 2012 and December 31, 2011, none outstanding	—	—

Common stock, par value of $.0001 authorized 100,000,000 shares, outstanding 65,806,178 and 54,279,906 shares at June 30, 2012 and December 31, 2011, respectively	6,582	5,429
Additional paid-in capital	128,415,027	79,401,015
Deficit accumulated during development stage	(87,190,110)	(69,609,018)
Total Stockholders' Equity	$ 41,231,499	$ 9,797,426
	$ 50,954,779	$ 15,869,539

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SYNERGY PHARMACEUTICALS, INC
(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		November 15, 2005 (inception) to
	2012	2011	2012	2011	June 30, 2012
Revenues	$ —	$ —	$ —	$ —	$ —
Costs and Expenses:					
Research and development	7,626,268	2,354,450	12,964,408	3,832,576	41,377,562
Purchased in-process research and development	—	—	—	—	28,156,502
General and administrative	1,918,488	1,524,402	3,649,616	3,422,028	23,294,258
Loss from Operations	(9,544,756)	(3,878,852)	(16,614,024)	(7,254,604)	(92,828,322)
Interest and investment income	48,116	20,003	86,794	44,067	364,980
Interest expense	—	—		(11,877)	(11,877)
Other income	255,539	—	255,539	—	1,112,516
Change in fair value of derivative instruments-warrants	(1,317,347)	(697,660)	(1,309,401)	(1,036,375)	4,244,414
Total Other Income/(Expense)	(1,013,692)	(677,657)	(967,068)	(1,004,185)	5,710,033
Loss from Continuing Operations	(10,558,448)	(4,556,509)	(17,581,092)	(8,258,789)	(87,118,289)
Loss from discontinued operations	—	—	—	—	(71,821)
Net Loss	$ (10,558,448)	$ (4,556,509)	$ (17,581,092)	$ (8,258,789)	$ (87,190,110)
Weighted Average Common Shares Outstanding					
Basic and Diluted	60,416,068	46,642,901(*)	57,357,081	46,406,472(*)	
Net Loss per Common Share,					
Basic and Diluted	$ (0.17)	$ (0.10)(*)	$ (0.31)	$ (0.18)(*)	

The accompanying notes are an integral part of these condensed consolidated financial statements.

(*) Restated for 1:2 reverse stock split effective November 30, 2011.

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SYNERGY PHARMACEUTICALS, INC.
(A development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

Deficit

	Common Shares	Common Stock, Par Value	Additional Paid in Capital	Deficit Accumulated during the Development Stage	Total Stockholders' Equity (Deficit)
Balance at inception, November 15, 2005	—	$ —	$ —	$ —	$ —
Sale of unregistered common stock to founder	75,690,608	7,569	(5,569)	—	2,000
Sale of common stock	6,850,000	685	17,415	—	18,100
Net loss for the year	—	—	—	(16)	(16)
Balance, December 31, 2005	82,540,608	8,254	11,846	(16)	20,084
Net loss for the year	—	—	—	(20,202)	(20,202)
Balance, December 31, 2006	82,540,608	8,254	11,846	(20,218)	(118)
Capital contribution by shareholders	—	—	8,893	—	8,893
Net loss for the year	—	—	—	(20,043)	(20,043)
Balance, December 31, 2007	82,540,608	8,254	20,739	(40,261)	(11,268)
Cancellation of unregistered founder shares	(74,990,604)	(7,499)	7,499	—	—
Common stock issued via Exchange Transaction	22,732,380	2,273	27,276,588	—	27,278,861
Common stock issued via private placement —	2,520,833	252	3,024,748	—	3,025,000
Fees and expenses related to private placements	—	—	(73,088)	—	(73,088)
Stock based compensation expense	—	—	379,883	—	379,883
Net loss for the period	—	—	—	(31,755,180)	(31,755,180)
Balance, December 31, 2008	32,803,217	3,280	30,636,369	(31,795,441)	(1,155,792)
Common stock issued via private placements	11,407,213	1,141	15,968,959	—	15,970,100
Fees and expenses related to private placements	—	—	(260,002)	—	(260,002)
Common Stocks Issued for services rendered	1,250	1	1,499	—	1,500
Stock based compensation expense	—	—	1,053,062	—	1,053,062
Net loss for the period	—	—	—	(8,125,100)	(8,125,100)
Balance, December 31, 2009	44,211,680	4,422	47,399,887	(39,920,541)	7,483,768
Common stock issued via registered direct offering and private placement	1,209,000	121	7,178,879	—	7,179,000
Fees and expenses related to direct offering	—	—	(468,130)	—	(468,130)
Warrants reclassified to derivative liability	—	—	(3,784,743)	—	(3,784,743)
Common stock issued to extend lock-up agreements related to unregistered shares	670,933	67	(67)	—	—
Common stock Issued for services rendered	2,469	—	18,271	—	18,271
Stock based compensation expense	—	—	693,887	—	693,887
Net loss for the period	—	—	—	(15,221,441)	(15,221,441)
Balance, December 31, 2010	46,094,082	4,610	51,037,984	(55,141,982)	(4,099,388)
Common stock issued via registered direct offerings and private placements	7,733,093	773	34,368,291	—	34,369,064
Fees and expenses related to financing transactions — paid in cash	—	—	(2,148,383)	—	(2,148,383)
Fees and expenses related to financing transactions — paid in units of common stock and warrants	77,750	8	(8)	—	—
Warrants classified to derivative liability - net	—	—	(5,094,186)	—	(5,094,186)
Common stock issued to make whole certain unregistered shares	215,981	22	(22)	—	—
Exercise of warrant	80,000	8	415,301	—	415,309
Common stock issued for services rendered	79,000	8	341,287	—	341,295
Stock based compensation expense	—	—	480,751	—	480,751
Net loss for the period	—	—	—	(14,467,036)	(14,467,036)
Balance, December 31, 2011	54,279,906	$ 5,429	$ 79,401,015	$ (69,609,018)	$ 9,797,426
Common stock issued via registered direct offering	11,500,000	1,150	51,748,850	—	51,750,000
Fees and expenses related to financing transactions — paid in cash	—	—	(3,357,930)	—	(3,357,930)

Warrants classified to derivative liability	—	—	(169,203)	—	(169,203)
Common stock issued for services rendered	26,272	3	92,660	—	92,663
Stock based compensation expense	—	—	699,635	—	699,635
Net loss for the period	—	—	—	(17,581,092)	(17,581,092)
Balance, June 30, 2012 (unaudited)	65,806,178	$ 6,582	$ 128,415,027	$ (87,190,110)	$ 41,231,499

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SYNERGY PHARMACEUTICALS, INC.
(A development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Period from November 15, 2005 (Inception) to June 30, 2012
Cash Flows From Operating Activities:			
Net loss	$ (17,581,092)	$ (8,258,789)	$ (87,190,110)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	988	988	8,138
Loss on disposal of property and equipment	2,321	—	2,321
Stock-based compensation expense	792,298	296,558	3,760,947
Accretion of discount/premium on investment securities	(160,576)	—	(160,576)
Purchased in-process research and development	—	—	28,156,502
Change in fair value of derivative instruments-warrants	1,309,401	1,036,375	(4,244,414)
Changes in operating assets and liabilities:			
Security deposit	(5,486)	—	(19,511)
Accounts payable and accrued expenses	2,172,563	(191,634)	4,196,519
Prepaid expenses and other current assets	(345,317)	136,185	(1,408,719)
Total Adjustments	3,766,192	1,278,472	30,291,207
Net Cash Used in Operating Activities	(13,814,900)	(6,980,317)	(56,898,903)
Cash Flows From Investing Activities:			
Net cash paid on Exchange Transaction	—	—	(155,326)
Repayment from/(loans to) related parties	(395,153)	295,614	(1,936,609)
Purchases of available-for-sale securities	(20,000,000)	—	(20,000,000)
Additions to property and equipment	—	—	(12,195)
Net Cash (Used in) /Provided by Investing Activities	(20,395,153)	295,614	(22,104,130)
Cash Flows From Financing Activities:			
Capital contribution by shareholders	—	—	8,893
Issuance of common stock	—	—	2,000
Proceeds from sale of common stock	51,750,000	5,461,242	112,293,164
Proceeds from exercise of warrants		415,309	415,309
Proceeds from sale of unregistered common stock to founders	—	—	18,100
Fees and expenses related to sale of common stock	(3,357,930)	(395,620)	(6,307,533)
Net Cash Provided by Financing Activities	48,392,070	5,480,931	106,429,933
Net increase (decrease) in cash and cash equivalents	14,182,017	(1,203,772)	27,426,900
Cash and cash equivalents at beginning of period	13,244,883	1,707,516	—
Cash and cash equivalents at end of period	$ 27,426,900	$ 503,744	$ 27,426,900
Supplementary disclosure of cash flow information:			
Cash paid for taxes	$ 11,948	$ 8,021	$ 83,564
Value of warrants classified as derivative liability - net	$ 169,203	$ 3,920,500	$ 9,048,132
Value of common stock issued to induce stockholders to extend lock-up agreements	$ —	$ —	$ 3,235,040

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SYNERGY PHARMACEUTICALS, INC.
(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business Overview

Synergy Pharmaceuticals Inc. ("Synergy" or the "Company") is a biopharmaceutical company focused primarily on the development of drugs to treat gastrointestinal, or GI, disorders and diseases. Its lead product candidate is plecanatide (formerly called SP-304), a guanylyl cyclase C, or GC-C, receptor agonist, to treat GI disorders, primarily chronic constipation, or CC, and constipation-predominant- irritable bowel syndrome, or IBS-C. CC and IBS-C are functional gastrointestinal disorders that afflict millions of sufferers worldwide. CC is primarily characterized by constipation symptoms but a majority of these patients report experiencing bloating and abdominal discomfort as among their most bothersome symptoms. IBS-C is characterized by frequent and recurring abdominal pain and/or discomfort associated with chronic constipation. Synergy is also developing SP-333, its second generation GC-C receptor agonist for the treatment of gastrointestinal inflammatory diseases, such as ulcerative colitis, or UC.

2. Basis of Presentation and Accounting Policies

On July 14, 2008, Pawfect Foods Inc. ("Pawfect"), a Florida corporation incorporated on November 15, 2005, acquired 100% of the common stock of Synergy Pharmaceuticals, Inc., a Delaware corporation incorporated on September 11, 1992, and its wholly-owned subsidiary, Synergy Advanced Pharmaceuticals, Inc., (collectively "Synergy-DE"), under the terms of an Exchange Agreement among Pawfect, Callisto Pharmaceuticals, Inc. ("Callisto"), Synergy-DE, and certain other holders of Synergy-DE common stock ("Exchange Transaction").

Synergy acquired the GI drugs and related technology in connection with the Exchange Transaction. On July 21, 2008, Pawfect amended its articles of incorporation to effect the actions necessary to complete the transactions contemplated by the Exchange Transaction and changed its name to Synergy Pharmaceuticals, Inc. The acquisition of Synergy-DE was treated as an asset acquisition, since Synergy-DE is a development stage company and does not have the necessary inputs and outputs to meet the definition of a business. The results of operations of Synergy-DE are included in the accompanying consolidated financial statements from the date of acquisition. As a result of the acquisition of Synergy-DE on July 14, 2008, the Company decided to discontinue its pet food business and accordingly, amounts in the consolidated statements of operations and related notes for all historical periods have been restated to reflect these operations as discontinued.

On November 29, 2011 the Company filed an amendment to its amended and restated articles of incorporation pursuant to which the Company effected a one for two (1:2) reverse stock split on its authorized, issued and outstanding shares of Common Stock, effective on November 30, 2011. All share and per share information has been adjusted to reflect the reverse stock split as if it had occurred at the beginning of the earliest period presented, (e.g. inception November 15, 2005).

On February 14, 2012, Synergy Pharmaceuticals, Inc., (the "Company") entered into an agreement and plan of merger (the "Agreement") with its wholly-owned subsidiary, Synergy Pharmaceuticals Inc., a Delaware corporation ("Synergy-DE") for the purpose of changing the state of incorporation of the Company to Delaware from Florida. Pursuant to the Agreement, the Company merged with and into Synergy-DE with Synergy-DE continuing as the surviving corporation.

These unaudited condensed consolidated financial statements include Synergy and its wholly-owned subsidiaries: (1) Synergy Advanced Pharmaceuticals, Inc. and (2) IgX, Ltd (Ireland—inactive). These unaudited condensed consolidated financial statements have been prepared following the requirements of the Securities and Exchange Commission ("SEC") and United States generally accepted accounting principles ("GAAP") for interim reporting. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, which include only normal recurring adjustments, necessary to present fairly Synergy's interim financial information. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2011 contained in the Company's Annual Report on Form 10-K filed with the Securities Exchange Commission ("SEC") on March 15, 2012. Certain items in the prior year's financial statements have been reclassified to conform to the current year's presentation. All intercompany balances and transactions have been eliminated.

Synergy's independent registered public accounting firm has issued a report on Synergy's December 31, 2011financial statements that included an explanatory paragraph referring to its recurring losses from operations and expressing substantial doubt in Synergy's ability to continue as a going concern without additional capital becoming available. These condensed consolidated financial statements as of June 30, 2012 and December 31, 2011 have been prepared under the assumption that Synergy will continue as a going concern. Synergy's ability to continue as a going concern is dependent upon its ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to generate revenue. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As of June 30, 2012, Synergy had an accumulated deficit of $87,190,110 and expects to incur significant and increasing operating losses for the next several years as the Company expands its research and development, continues clinical trials of plecanatide for the treatment of GI disorders, acquires or licenses technologies, advances other product candidates into clinical development, seeks regulatory approval and, if FDA approval is received, commercializes products. Because of the numerous risks and uncertainties associated with product development efforts, Synergy is unable to predict the extent of any future losses or when Synergy will become profitable, if at all.

Net cash used in operating activities was $13,814,900 for the six months ended June 30, 2012, as compared to net cash used of $6,980,317 for the six months ended June 30, 2011. As of June 30, 2012 Synergy has $27,426,900 of cash and cash equivalents on hand as compared to $13,244,883 of cash and cash equivalents on hand as of December 31, 2011. In addition, on June 30, 2012 Synergy held

$20,160,576 in available-for-sale securities, whereas the Company had no such investments as of December 31, 2011. As of June 30, 2012 Synergy had working capital of $40,065,845 as compared to working capital of $11,561,286 as of December 31, 2011.

On May 9, 2012, Synergy closed an underwritten public offering of 10,000,000 shares of common stock at an offering price of $4.50 per share. The gross proceeds from this offering were $45 million, before deducting underwriting discounts and commissions and other offering

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expenses of $2,952,930. Synergy also granted the underwriters a 45-day option to purchase up to an additional 1,500,000 shares of common stock at an offering price of $4.50 per share to cover over-allotments, if any. On June 6, 2012 the underwriters exercised all of the over-allotment option resulting in additional gross proceeds of $6,750,000, before deducting underwriting discounts, commissions and other offering expenses of $405,000, bringing total gross proceeds from the offering to $51,750,000.

Synergy may be required to raise additional capital to continue the development and commercialization of current product candidates and to continue to fund operations at the current cash expenditure levels. Synergy cannot be certain that additional funding will be available on acceptable terms, or at all. Recently worldwide economic conditions and the international equity and credit markets have significantly deteriorated and may remain difficult for the foreseeable future. These developments will make it more difficult to obtain additional equity or credit financing, when needed. To the extent that Synergy raises additional funds by issuing equity securities, Synergy's stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that impact Synergy's ability to conduct business. If Synergy is unable to raise additional capital when required or on acceptable terms, Synergy may have to (i) significantly delay, scale back or discontinue the development and/or commercialization of one or more product candidates; (ii) seek collaborators for product candidates at an earlier stage than otherwise would be desirable and on terms that are less favorable than might otherwise be available; or (iii) relinquish or otherwise dispose of rights to technologies, product candidates or products that Synergy would otherwise seek to develop or commercialize ourselves on unfavorable terms.

3. Financial Instruments - Cash, Cash Equivalents and Marketable Securities

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. The Company's marketable securities consist solely of investments in US Treasury Bills and Notes and have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the available-for-sale designations as of each balance sheet date.

The Company classifies its marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Marketable debt securities with maturities of 12 months or less are classified as short-term and marketable debt securities with maturities greater than 12 months are classified as long-term. The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The Company recognized no net realized gains or losses during the three and six month periods ended June 30, 2012. The maturities of the Company's long-term marketable securities range from one year to two years.

Cash equivalents and accounts payable are carried at amounts that approximate fair value due to their short-term maturities. As of June 30, 2012, gross unrealized losses were not material. The Company recognized no net realized gains or losses during the three and six month periods ended June 30, 2012. The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. Fair values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and the Company's intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment's amortized cost basis. During the three and six month periods ended June 30, 2012, the Company did not recognize any impairment charges. As of June 30, 2012, the Company did not consider any of its investments to be other-than-temporarily impaired.

4. Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income* ("ASU 2011-05") which is intended to facilitate the convergence of U.S. GAAP and International Financial Reporting Standards ("IFRS") as well as to increase the transparency of items reported in other comprehensive income. As a result of ASU 2011-05, all non-owner changes in stockholders' equity are required to be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. The option to present other comprehensive income in the statement of changes in equity has been eliminated. ASU 2011-05 is effective for fiscal years beginning after December 15, 2011 and should be applied retrospectively. The Company adopted this standard on January 1 2012 and the adoption did not have a material impact on the Company's consolidated financial statements.

In May 2011, FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820 to provide common fair value measurement and disclosure requirements in U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and International Financial Reporting Standards. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements, as well as providing guidance on how fair value should be applied where its use is already required or permitted by other standards within U.S. GAAP. ASU No. 2011-04 is to be applied prospectively, and early adoption is not permitted. For public entities, the amendments are effective during interim and annual periods beginning after

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December 15, 2011. The adoption of ASU No. 2011-04 on January 1, 2012 did not have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 provides for additional disclosures of both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The amendments in this Update are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, and disclosures required by these amendments should be provided retrospectively for all comparative periods presented. The adoption of ASU No. 2011-11 is not expected to have a material impact on the Company's consolidated financial statements.

5. Accounting for Shared-Based Payments

Stock Options

ASC Topic 718 *"Compensation—Stock Compensation"* requires companies to measure the cost of employee services received in exchange for the award of equity instruments based on the estimated fair value of the award at the date of grant. The expense is to be recognized over the period during which an employee is required to provide services in exchange for the award. ASC Topic 718 did not change the way Synergy accounts for non-employee stock-based compensation. Synergy continues to account for shares of common stock, stock options and warrants issued to non-employees based on the fair value of the stock, stock option or warrant, if that value is more reliably measurable than the fair value of the consideration or services received. The Company accounts for stock options issued and vesting to non-employees in accordance with ASC Topic 505-50 *"Equity-Based Payment to Non-Employees"* and accordingly the value of the stock compensation to non-employees is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Accordingly the fair value of these options is being "marked to market" quarterly until the measurement date is determined.

ASC Topic 718 requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) be classified as cash inflows from financing activities and cash outflows from operating activities. Due to Synergy's accumulated deficit position, no excess tax benefits have been recognized. Synergy accounts for common stock, stock options, and warrants granted to employees and non-employees based on the fair market value of the instrument, using the Black-Scholes option pricing model based on assumptions for expected stock price volatility, term of the option, risk-free interest rate and expected dividend yield, at the grant date.

Synergy adopted the 2008 Equity Compensation Incentive Plan (the "Plan") during the quarter ended September 30, 2008. Stock options granted under the Plan typically vest after three years of continuous service from the grant date and have a contractual term of ten years.

	Three Months Ended June 30,		Six Months Ended June 30		November 15, 2005 (inception) to
	2012	2011	2012	2011	June 30, 2012
Employees—included in research and development	$ 146,071	$ 37,157	$ 261,840	$ 73,906	$ 888,622
Employees—included in general and administrative	100,091	45,115	193,740	89,733	968,150
Non-employees—included in research and development	—	8,456	—	16,818	168,096
Non-employees—included in general and administrative	108,065	58,370	336,718	116,101	1,736,079
Total stock-based compensation expense	$ 354,227	$ 149,098	$ 792,298	$ 296,558	$ 3,760,947

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The unrecognized compensation cost related to non-vested employee stock options outstanding at June 30, 2012, net of expected forfeitures, was $4,038,235, to be recognized over a weighted-average remaining vesting period of 2.9 years. This unrecognized compensation cost does not include amounts related to 4,364,000 stock options which vest upon a change of control.

The estimated fair value of stock option awards was determined on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions during the following periods indicated.

	Six Months Ended	Six Months Ended

	June 30, 2012	June 30, 2011
Risk-free interest rate	0.97%-1.50%	(*)
Dividend yield	—	(*)
Expected volatility	60%	(*)
Expected term (in years)	6 years	(*)

(*) No stock options granted during this period.

A summary of stock option activity and of changes in stock options outstanding under the Plan is presented below:

	Number of Options	Exercise Price Per Share	Weighted Average Exercise Price Per Share	Intrinsic Value	Weighted Average Remaining Contractual Term
Balance outstanding, December 31, 2011	5,964,039	$ 0.50 – 4.30	$ 1.77	$ 10,631,388	8.2 years
Granted	1,272,000	$ 3.40 – 4.42	$ 3.89		
Exercised	—	$ —	$ —		
Forfeited	(105,000)	$ 3.40 – 4.38	$ 4.10		
Balance outstanding, June 30, 2012	7,131,039	$ 0.50 – 4.42	$ 2.11	$ 18,830,516	7.9 years
Exercisable at June 30, 2012	2,076,539	$ 0.50 – 4.30	$ 0.75	$ 8,306,391	6.2 years

6. Income Taxes

During the year ended December 31, 2011 the Company recorded refundable tax credits in prepaid and other current assets for its (i) 2010 New York State QETC credit, totaling $248,486 and (ii) its New York City Biotechnology Tax Credit for the tax year of 2011 totaling $118,437. On April 25, 2012, the Company received $246,402 for 2010 New York State QETC credit and on July 17, 2012, the Company collected $120,812 for 2011 New York City Biotechnology Tax Credit.

In addition, on June 15, 2012, the Company applied for its 2011 New York State QETC tax credit of $250,000 which is recorded as other income in the statement of operations for the quarter ended June 30, 2012.

7. Stockholder's Equity

On January 29, 2012 Synergy issued 26,272 unregistered shares of common stock to its corporate counsel for professional services rendered. The shares had a fair value on the date of issuance of $3.53 per share and $92,663 was recorded as legal expense during the quarter ended March 31, 2012.

On February 14, 2012, Synergy Pharmaceuticals, Inc., (the "Company") entered into an agreement and plan of merger (the "Agreement") with its wholly-owned subsidiary, Synergy Pharmaceuticals Inc., a Delaware corporation ("Synergy-DE") for the purpose of changing the state of incorporation of the Company to Delaware from Florida. Pursuant to the Agreement, the Company merged with and into Synergy-DE with Synergy-DE continuing as the surviving corporation. The directors and officers in office of the Company upon the effective date of the merger shall be the directors and officers of Synergy-DE, all of whom shall hold their directorships and offices until the election and qualification of their respective successors or until their tenure is otherwise terminated in accordance with the by-laws of Synergy-DE. The effective date of the merger was the date on which the Certificate of Merger is filed with the Secretary of State of Delaware and the Secretary of State of Florida. The Certificate of Merger was filed with the Secretary of State of Florida on February 15, 2012 and with the Secretary of State of Delaware on February 16, 2012.

On May 9, 2012, Synergy closed an underwritten public offering of 10,000,000 shares of common stock at an offering price of $4.50 per share. The gross proceeds from this offering were $45 million, before deducting underwriting discounts and commissions and other estimated

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offering expenses of $2,952,930. Synergy also granted the underwriters a 45-day option to purchase up to an additional 1,500,000 shares of common stock at an offering price of $4.50 per share to cover over-allotments, if any. On June 6, 2012 the underwriters exercised the over-allotment option resulting in additional gross proceeds of $6,750,000, before deducting underwriting discounts, commissions and other offering expenses of $405,000, bringing total gross proceeds from the offering to $51,750,000.

8. Research and Development Expense

Research and development costs include expenditures in connection with an in-house research and development laboratory, salaries and staff costs, application and filing for regulatory approval of proposed products, purchased in-process research and development, regulatory and scientific consulting fees, as well as contract research, patient costs, drug formulation and tableting, data collection, monitoring, insurance and FDA consultants.

In accordance with FASB ASC Topic 730-10-55, Research and Development, Synergy recorded prepaid research and development

costs of $897,806 and $577,745 as of June 30, 2012 and December 31, 2011, respectively, for nonrefundable pre-payments for production of drug substance and analytical testing services for its drug candidates. In accordance with this guidance, Synergy expenses deferred research and development costs when drug compound is delivered and services are performed.

9. Derivative Financial Instruments

Effective January 1, 2009, the Company adopted provisions of ASC Topic 815-40, "Derivatives and Hedging: Contracts in Entity's Own Equity" ("ASC Topic 815-40"). ASC Topic 815-40 clarifies the determination of whether an instrument issued by an entity (or an embedded feature in the instrument) is indexed to an entity's own stock, which would qualify as a scope exception under ASC Topic 815-10.

Synergy Derivative Financial Instruments

Effective January 1, 2009, the Company adopted provisions of ASC Topic 815-40, "Derivatives and Hedging: Contracts in Entity's Own Equity" ("ASC Topic 815-40"). ASC Topic 815-40 clarifies the determination of whether an instrument issued by an entity (or an embedded feature in the instrument) is indexed to an entity's own stock, which would qualify as a scope exception under ASC Topic 815-10.

Based upon the Company's analysis of the criteria contained in ASC Topic 815-40, Synergy has determined that certain warrants issued in connection with sale of its common stock must be classified as derivative instruments. In accordance with ASC Topic 815-40, the fair value of these warrants is being re-measured at each balance sheet date and any resultant changes in fair value is being recorded in the Company's statement of operations. The Company estimates the fair value of certain warrants using the Black-Scholes option pricing model in order to determine the associated derivative instrument liability and change in fair value described above. The range of assumptions used to determine the fair value of the warrants at each period end during the six months ended June 30, 2012 and June 30, 2011 were

	Six Months Ended June 30,	
	2012	2011
Estimated fair value of Synergy common stock	$4.05 - $4.75	$2.56 - $3.30
Expected warrant term	2.4 – 5.7 years	5-7 years
Risk-free interest rate	0.32% - 1.33%	1.2% - 2.5%
Expected volatility	60%	90%
Dividend yield	—	—

Estimated fair value of stock is the closing market price of the Company's common stock on the date of warrant issuance and at the end of each reporting period when the derivative instruments are marked to market. Expected volatility is based on historical volatility of Synergy's common stock. The warrants have a transferability provision and based on guidance provided in SAB 107 for instruments issued with such a provision, Synergy used the full contractual term as the expected term of the warrants. The risk free rate is based on the U.S. Treasury security rates for maturities consistent with the expected remaining term of the warrants and the date of grant or quarterly revaluation.

Certain of Synergy's warrants issued during the six months ended June 30, 2012 and June 30, 2011 contained a price protection clause which variable term required the Company to use a binomial model to determine fair value. The range of assumptions used to determine the fair value of the warrants at each period end during the six months ended June 30, 2012 and June 30, 2011 was as follows:

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	Six Months Ended June 30,	
	2012	2011
Estimated fair value of Synergy common stock	$3.28 - $4.50	$1.89
Expected warrant term	4.4 – 4.6 years	7 years
Risk-free interest rate	0.72% - 1.03%	2.64%
Expected volatility	60%	90%
Dividend yield	—	—

In the Binomial model, the assumption for estimated fair value of the stock is based on a Black-Scholes based apportionment of the unit price paid for the shares and warrants issued in Synergy's most recent registered direct unit offerings, which resulting stock prices were deemed to be arms-length negotiated prices. Expected volatility is based on historical volatility of Synergy's common stock. The warrants have a transferability provision and based on guidance provided in SAB 107 for instruments issued with such a provision, Synergy used the full contractual term as the expected term of the warrants. The risk free rate is based on the U.S. Treasury security rates for maturities consistent with the expected remaining term of the warrants.

The following table sets forth the components of changes in the Synergy's derivative financial instruments liability balance for the periods indicated:

Date	Description	Warrants	Derivative Instrument Liability

12/31/2010	Balance of derivative financial instruments liability	728,469	$ 3,487,959
3/31/2011	Fair value of new warrants issued during the quarter	210,000	$ 1,312,673
3/31/2011	Change in fair value of warrants during the quarter recognized as other expense in the statement of operations	—	$ 338,715
3/31/2011	Balance of derivative financial instruments liability	938,469	$ 5,139,347
6/30/2011	Fair value of new warrants issued during the quarter	611,207	$ 2,607,827
6/30/2011	Exercise of warrants during the quarter	(80,000)	$ (486,328)
6/30/2011	Change in fair value of warrants during the quarter recognized as other expense in the statement of operations	—	$ 697,660
6/30/2011	Balance of derivative financial instruments liability	1,469,676	$ 7,958,506
9/30/2011	Fair value of new warrants issued during the quarter	40,458	$ 285,128
9/30/2011	Change in fair value of warrants during the quarter recognized as other income in the statement of operations	—	$ (4,382,796)
9/30/2011	Balance of derivative financial instruments liability	1,510,134	$ 3,860,838
12/31/2011	Fair value of new warrants issued during the quarter	1,810,294	$ 3,082,203
12/31/2011	Reclass of derivative liability to equity during the quarter	(1,055,268)	$ (1,707,317)
12/31/2011	Change in fair value of warrants during the quarter recognized as other income in the statement of operations	—	$ (1,910,610)
12/31/2011	Balance of derivative financial instruments liability	2,265,160	$ 3,325,114
3/31/2012	Fair value of new warrants issued during the quarter	—	—
3/31/2012	Change in fair value of warrants during the quarter	—	(7,946)
3/31/2012	Balance of derivative financial instruments liability	2,265,160	$ 3,317,168
6/30/2012	Fair value of new warrants issued during the quarter	112,500	169,202
6/30/2012	Change in fair value of warrants during the quarter	—	1,317,347
6/30/2012	Balance of derivative financial instruments liability	2,377,660	$ 4,803,717

Synergy Fair Value Measurements

The following table presents the Company's liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2011 and June 30, 2012:

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Description	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2011	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2012
Derivative liabilities related to Warrants	$ —	$ —	$ 3,325,114	$ 3,325,114	$ —	$ —	$ 4,803,717	$ 4,803,717

The following table sets forth a summary of changes in the fair value of the Company's Level 3 liabilities for the six months ended June 30, 2012:

Description	Balance at December 31, 2011	Fair Value of warrants upon issuance	Unrealized (gains) or losses	Balance as of June 30, 2012
Derivative liabilities related to Warrants	$ 3,325,114	$ 169,202	$ 1,309,401	$ 4,803,717

The unrealized gains or losses on the derivative liabilities are recorded as a change in fair value of derivative liabilities in the Company's statement of operations. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At each reporting period, the Company reviews the assets and liabilities that are subject to ASC Topic 815-40. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3.

10. Loss per Share

Basic and diluted net loss per share is presented in conformity with ASC Topic 260, *Earnings per Share*, ("ASC Topic 260") for all periods presented. In accordance with ASC Topic 260, basic and diluted net loss per common share was determined by dividing net loss applicable to common stockholders by the weighted-average common shares outstanding during the period. Diluted weighted-average shares are the same as basic weighted-average shares because shares issuable pursuant to the exercise of stock options would have been antidilutive.

For the three and six months ended June 30, 2012 the effect of 7,131,039 outstanding stock options and 5,647,203 warrants were excluded from the calculation of diluted loss per share because the effect was antidilutive. For the three and six months ended June 30, 2011 the effect of 4,157,029 outstanding stock options and 1,469,676 warrants were excluded from the calculation of diluted loss per share because the effect was antidilutive.

11. Related Parties

As of June 30, 2012 Callisto owns 34% of Synergy's outstanding shares.

As of June 30, 2012 Synergy had advanced Callisto $1,936,609 which is Callisto's share of Synergy payments for common operating costs since July 2008 that Callisto was unable to fund. The indebtedness as of December 31, 2011 is evidenced by an unsecured promissory note which bears interest at 6% per annum. Due to the uncertainty surrounding Callisto's ability to raise capital Synergy is unable to determine when this balance will be repaid and accordingly Synergy has classified the balance due as a long term asset.

As of June 30, 2012 and December 31, 2011, the balances due from Callisto are comprised of the following amounts:

	June 30, 2012	December 31, 2011
Rent, utilities and property taxes	$ 145,481	$ 90,166
Insurance and other facilities related overhead	277,309	249,635
Independent accountants and legal fees	611,222	510,331
Financial printer and transfer agent fees	227,190	217,476
Salaries and consulting fees of shared executives	317,739	289,270
Working capital advances, net of repayments	357,668	184,578
Total due from Callisto	$ 1,936,609	$ 1,541,456

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12. Subsequent Events

On July 17, 2012, Synergy collected its 2011 New York City Biotechnology Tax Credit of $120,812.

On July 20, 2012, Synergy entered into an Agreement and Plan of Merger (the "Merger Agreement") with Callisto. Pursuant to the Merger Agreement, following the satisfaction or waiver of each of the applicable conditions set forth in the Merger Agreement, Callisto and Synergy will merge (the "Merger"), whereupon Callisto's separate corporate existence will cease and Synergy will continue as the surviving corporation of the Merger. Callisto is Synergy's largest shareholder and is a development stage biopharmaceutical company focused primarily on the development of drugs to treat gastrointestinal disorders and diseases.

As a result of the Merger, each outstanding share of Callisto common stock will be converted into the right to receive 0.17 of one share of Synergy common stock (the "Exchange Ratio") as set forth in the Merger Agreement and the 22,295,000 shares of Synergy held by Callisto will be canceled. Under the terms of the Merger Agreement at closing, Synergy will issue, and Callisto stockholders will receive in a tax-free exchange, shares of Synergy common stock such that Callisto stockholders will own approximately 38.3 percent of the combined company on a pro forma basis and Synergy stockholders will own approximately 61.7 percent. Each share of Synergy Common Stock received in connection with the Merger shall be subject to a lock-up beginning on the effective date of the Merger and ending on the earlier of (i) eighteen (18) months after such date or (ii) a Change in Control (as defined in the Merger Agreement).

The consummation of the Merger is subject to various customary closing conditions, including but not limited to, (i) approval by Callisto's and Synergy's stockholders, (ii) the Registration Statement on Form S-4 shall have been declared effective by the SEC and (iii) the shares of Synergy common stock to be issued in the Merger shall have been approved for listing on The NASDAQ Capital Market. Upon consummation of the Merger the related party balances due from Callisto, $1,936,609 as of June 30, 2012, (See Note 11) will be eliminated in consolidation. Callisto's common stock currently trades on the Over the Counter Bulletin Board under the symbol "CLSP.OB", and Callisto's recent filings with the SEC are available at http://www.sec.gov.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our condensed consolidated financial statements and other financial information appearing elsewhere in this quarterly report. In addition to historical information, the following discussion and other parts of this quarterly report contain forward-looking statements. You can identify these statements by forward-looking words such as "plan," "may," "will," "expect," "intend," "anticipate," believe," "estimate" and "continue" or similar words. Forward-looking statements include information concerning possible or assumed future business success or financial results. You should read statements that contain these words carefully because they discuss future expectations and plans, which contain projections of future results of operations or financial condition or state other forward-looking information. We believe that it is important to communicate future expectations to investors. However, there may be events in the future that we are not able to accurately predict or control. Accordingly, we do not undertake any obligation to update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties set forth under "Risk Factors" in our Annual Report on Form 10-K as of and for the year ended December 31, 2011 and other periodic reports filed with the United States Securities and Exchange Commission ("SEC"). Accordingly, to the extent that this Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of Synergy, please be advised that Synergy's actual financial condition, operating results and business performance may differ materially from that projected or estimated by Synergy in forward-looking statements.

Overview

We are a biopharmaceutical company focused primarily on the development of drugs to treat gastrointestinal, or GI, disorders and diseases. Our lead product candidate is plecanatide (formerly called SP-304), a guanylyl cyclase C, or GC-C, receptor agonist, to treat GI disorders, primarily chronic constipation, or CC, and constipation-predominant- irritable bowel syndrome, or IBS-C. CC and IBS-C are functional gastrointestinal disorders that afflict millions of sufferers worldwide. CC is primarily characterized by constipation symptoms but a majority of these patients report experiencing bloating and abdominal discomfort as among their most bothersome symptoms. IBS-C is characterized by frequent and recurring abdominal pain and/or discomfort associated with chronic constipation. We are also developing SP-333, our second generation GC-C receptor agonist for the treatment of gastrointestinal inflammatory diseases, such as ulcerative colitis, or UC.

Plecanatide

We are currently developing plecanatide, a synthetic hexadecapeptide designed to mimic the actions of the GI hormone uroguanylin, for the treatment of CC and IBS-C. Plecanatide is an agonist of GC-C receptor.

Plecanatide is covered by a U.S. patent issued on May 9, 2006 with respect to composition of matter that expires on March 25, 2023, subject to possible patent term extension, and a U.S. patent issued on September 21, 2010 with respect to composition of matter that expires on June 9, 2022, subject to possible patent term extension. We have filed patent applications to broaden our patent estate covering GC-C receptor agonists.

On October 24, 2011, we initiated dosing of patients in a Phase II/III clinical trial of plecanatide to treat chronic constipation. This study is being conducted at 110 sites in the United States and is designed to enroll 880 patients with CC who will be treated with one of three doses of plecanatide (0.3, 1.0 or 3.0 mg) or placebo taken once daily over a period of 12 weeks. The study's primary objective is the measure of complete spontaneous bowel movements, or CSBMs, using a responder analysis. The trial will also cover spontaneous bowel movements, or SBMs, and daily constipation symptoms, as well as the impact of plecanatide on disease-specific quality of life measures. On April 9, 2012, we announced that we have reached the halfway mark for total enrollment in the clinical trial with over 800 patients screened, resulting in a total of 440 randomized enrolled patients to date. We anticipate completing enrollment in the third quarter of 2012 and reporting top line data in the fourth quarter of 2012.

We are also preparing to initiate a Phase IIb clinical trial of plecanatide for the treatment of IBS-C in patients during 2012.

SP-333

We are also developing a second generation GC-C receptor analog, SP-333, which is currently in pre-clinical development for the treatment of gastrointestinal inflammatory diseases. SP-333 is a synthetic analog of uroguanylin, a natriuretic hormone which is normally produced in the body's intestinal tract. Deficiency of this hormone is thought to be one of the primary reasons for the formation of polyps that can lead to colon cancer, as well as debilitating and difficult-to-treat GI inflammatory disorders such as UC and Crohn's disease. We plan to submit an Investigational New Drug application, or IND, to the U.S. Food and Drug Administration, or FDA, and intend to initiate a Phase 1 clinical trial of SP-333 in volunteers during the second half of 2012. The study is planned to be conducted at 40 U.S. sites and enroll over 300 patients.

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Recent Developments

On May 9, 2012, we closed an underwritten public offering of 10,000,000 shares of common stock at an offering price of $4.50 per share. The gross proceeds from this offering were $45 million, before deducting underwriting discounts and commissions and other offering expenses of $2,952,930. We also granted the underwriters a 45-day option to purchase up to an additional 1,500,000 shares of common stock at an offering price of $4.50 per share to cover over-allotments, if any. On June 6, 2012 the underwriters exercised of the over-allotment option resulting in additional gross proceeds of $6,750,000, before deducting underwriting discounts, commissions and other offering expenses of $405,000, bringing total gross proceeds from the offering to $51,750,000 and net proceeds of $48,387,070.

On July 20, 2012, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Callisto Pharmaceuticals, Inc. ("Callisto"). Pursuant to the Merger Agreement, following the satisfaction or waiver of each of the applicable conditions set forth in the Merger Agreement, Callisto and we will merge (the "Merger"), whereupon Callisto's separate corporate existence will cease and we will continue as the surviving corporation of the Merger. Callisto is our largest shareholder and is a development stage biopharmaceutical company focused primarily on the development of drugs to treat gastrointestinal disorders and diseases.

As a result of the Merger, each outstanding share of Callisto common stock will be converted into the right to receive 0.17 of one share of our common stock (the "Exchange Ratio") as set forth in the Merger Agreement and the 22,295,000 shares of ours held by Callisto will be canceled. Under the terms of the Merger Agreement at closing, we will issue, and Callisto stockholders will receive in a tax-free

exchange, shares of our common stock such that Callisto stockholders will own approximately 38.3 percent of the combined company on a pro forma basis and our stockholders will own approximately 61.7 percent. Each share of Synergy Common Stock received in connection with the Merger shall be subject to a lock-up beginning on the effective date of the Merger and ending on the earlier of (i) eighteen (18) months after such date or (ii) a Change in Control (as defined in the Merger Agreement).

The consummation of the Merger is subject to various customary closing conditions, including but not limited to, (i) approval by Callisto's and our stockholders, (ii) the Registration Statement on Form S-4 shall have been declared effective by the SEC and (iii) the shares of our common stock to be issued in the Merger shall have been approved for listing on The NASDAQ Capital Market. Upon consummation of the Merger the related party balances due from Callisto, $1,936,609 as of June 30, 2012, will be eliminated in consolidation. Callisto's common stock currently trades on the Over the Counter Bulletin Board under the symbol "CLSP.OB", and Callisto's recent filings with the SEC are available at http://www.sec.gov.

FINANCIAL OPERATIONS OVERVIEW

From inception through June 30, 2012, we have sustained cumulative net losses of $87,190,110. From inception through June 30, 2012, we have not generated any revenue from operations and expect to incur additional losses to perform further research and development activities and do not currently have any commercial biopharmaceutical products. We do not expect to have such for several years, if at all.

Our product development efforts are thus in their early stages and we cannot make estimates of the costs or the time they will take to complete. The risk of completion of any program is high because of the many uncertainties involved in bringing new drugs to market including the long duration of clinical testing, the specific performance of proposed products under stringent clinical trial protocols, the extended regulatory approval and review cycles, our ability to raise additional capital, the nature and timing of research and development expenses and competing technologies being developed by organizations with significantly greater resources.

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60 requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Our accounting policies are described in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA of our Annual Report on Form 10-K as of and for year ended December 31, 2011, filed with the SEC on March 15, 2012. There have been no changes to our critical accounting policies since December 31, 2011.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

For a discussion of our contractual obligations see (i) our Financial Statements and Notes To Consolidated Financial Statements— Note 7. *Commitments and Contingencies*, and (ii) Item 7 Management Discussion and Analysis of Financial Condition and Results of Operations— *Contractual Obligations and Commitments*, included in our Annual Report on Form 10-K as of December 31, 2011 and changes in contractual obligations and commitments as reported in our Form 10-Q for the three months ended and as of March 31, 2012. There have been no changes in our contractual obligations and commitments during the three months ended June 30, 2012.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as of June 30, 2012.

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RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2012 AND 2011

We had no revenues during the three months ended June 30, 2012 and 2011 because we do not have any commercial biopharmaceutical products and we do not expect to have such products for several years, if at all.

Research and development expenses for the three months ended June 30, 2012 ("Current Quarter") increased $5,271,818 or 224%, to $7,626,268 from $2,354,450 for the three months ended June 30, 2011("Prior Year Quarter"). This increase in research and development expenses was largely attributable to continuing the development of our plecanatide and SP-333 product candidates. The following table sets forth our research and development expenses directly related to our product candidates for the three months ended June 30, 2012 and 2011. These expenses were primarily external costs associated with chemistry, manufacturing, controls including costs of drug substance and product (CMC), as well as preclinical studies and clinical trial costs, as follows:

	Three Months Ended June 30,	
Drug candidates	**2012**	**2011**
Plecanatide	$ 6,044,000	$ 2,019,000
SP-333	848,000	—
Total direct cost	$ 6,892,000	$ 2,019,000

In addition, indirect research and development costs related to in-house staff compensation, facilities, depreciation, share-based compensation and research and development support services are not directly allocated to specific drug candidates. These indirect costs

increased approximately $400,000 due to higher compensation, employee benefits, and scientific, regulatory advisory fees of $ 735,000 in the Current Quarter, as compared to $335,000 during the Prior Year Quarter.

General and administrative expenses increased $394,086 or 26%, to $1,918,488 for the Current Quarter from $1,524,402 for the three months ended June 30, 2011. These increased expenses were primarily the result of (i) higher compensation and related employee benefits of approximately $624,000 in the Current Quarter as compared to $430,000 during the Prior Year Quarter, (ii) higher facilities cost of approximately $305,000 in the Current Quarter as compared to $187,000 during the Prior Year Quarter and (iii) higher corporate legal services of approximately $246,000 for the Current Quarter, as compared to $153,000 for the Prior Year Quarter, as a result increased intellectual property related costs.

Net loss for the Current Quarter was $10,588,448 as compared to a net loss of $4,556,509 incurred for the Prior Year Quarter. This increase in our net loss of $6,031,939, or 132% was a result of the increases in operating expenses discussed above, and the loss resulting from the change in fair value of derivative instruments-warrants of $1,317,347 during the Current Quarter, as compared to $697,660 during the Prior Year Quarter.

SIX MONTHS ENDED JUNE 30, 2012 AND 2011

We had no revenues during the six months ended June 30, 2012 and 2011 because we do not have any commercial biopharmaceutical products and we do not expect to have such products for several years, if at all.

Research and development expenses for the six months ended June 30, 2012 ("Current Period") increased $9,131,832 or 238%, to $12,964,408 from $3,832,576 for the six months ended June 30, 2011("Prior Year Period"). This increase in research and development expenses was largely attributable to continuing the development of our plecanatide and SP-333 product candidates. The following table sets forth our research and development expenses directly related to our product candidates for the six months ended June 30, 2012 and 2011. These direct expenses were primarily external costs associated with chemistry, manufacturing, controls including drug substance and product (CMC), as well as preclinical studies and clinical trial costs, as follows:

	Six Months Ended June 30,	
Drug candidates	**2012**	**2011**
Plecanatide	$ 10,677,000	$ 3,180,000
SP-333	954,000	—
Total direct cost	$ 11,631,000	$ 3,180,000

In addition, indirect research and development costs related to in-house staff compensation, facilities, depreciation, share-based compensation and research and development support services are not directly allocated to specific drug candidates were $681,000 higher due

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to (i) higher compensation and employee benefits of $963,000 in the Current Period, as compared to $549,000 during the Prior Year Period, as a result of increased staffing levels required to support the our Phase II/III trial which was initiated in October 2011 and (ii) higher scientific and regulatory advisory fees and expenses of $370,000 in the Current Period, as compared to $103,000 during the Prior Year Period, as we are now planning the IND filings for two new clinical studies.

General and administrative expenses increased $227,588 or 6%, to $3,649,616 for the Current Period from $3,422,028 for the Prior Year Period. These increased expenses were primarily the result of higher facilities cost of approximately $605,000 in the Current Period as compared to $397,000 during the Prior Year Period.

Net loss for the Current Period was $ 17,581,092 as compared to a net loss of $8,258,789 incurred for the Prior Year Period. This increase in our net loss of $9,322,303, or 113% was a result of the increases in operating expenses discussed above, and losses resulting from the change in fair value of derivative instruments-warrants of $1,309,401 during the Current Period, as compared to $1,036,375 during the Prior Year Period.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2012 we had $27,426,900 of cash and cash equivalents on hand as compared to $13,244,883 of cash and cash equivalents on hand as of December 31, 2011. In addition, on June 30, 2012 we held $20,160,576 in available-for-sale securities, US Treasury Bills and Notes, whereas we had no such investments as of December 31, 2011. As of June 30, 2012 we had working capital of $40,065,845 as compared to working capital of $11,561,286 as of December 31, 2011.

On May 9, 2012, we closed an underwritten public offering of 10,000,000 shares of common stock at an offering price of $4.50 per share. The gross proceeds from this offering were $45 million, before deducting underwriting discounts and commissions and other estimated offering expenses of $2,952,930. We also granted the underwriters a 45-day option to purchase up to an additional 1,500,000 shares of common stock at an offering price of $4.50 per share to cover over-allotments, if any. On June 6, 2012 the underwriters exercised all of the over-allotment option resulting in additional gross proceeds of $6,750,000, before deducting underwriting discounts, commissions and other offering expenses of $405,000, bringing total gross proceeds from the offering to $51,750,000.

We will be required to raise additional capital to complete the development and commercialization of current product candidates and to continue to fund operations at the current cash expenditure levels. Recent worldwide economic conditions, as well as domestic and

international equity and credit markets, have significantly deteriorated and may remain depressed for the foreseeable future. These developments will make it more difficult to obtain additional equity or credit financing, when needed. We cannot be certain that additional funding will be available on acceptable terms, or at all. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that impact our ability to conduct business.

If we are unable to raise additional capital when required or on acceptable terms, we may have to (i) significantly delay, scale back or discontinue the development and/or commercialization of one or more product candidates; (ii) seek collaborators for product candidates at an earlier stage than otherwise would be desirable and on terms that are less favorable than might otherwise be available; or (iii) relinquish or otherwise dispose of rights to technologies, product candidates or products that we would otherwise seek to develop or commercialize ourselves on unfavorable terms.

Our condensed consolidated financial statements as of June 30, 2012 and December 31, 2011 have been prepared under the assumption that we will continue as a going concern for the next twelve months. Our ability to continue as a going concern is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to generate revenue. The financial statements do not include any adjustments that might result from the negative outcome of this uncertainty.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk on the fair values of certain assets is related to credit risk associated with securities held in money market accounts, U.S. Treasury Bills and Notes, and the FDIC insurance limit on our bank balances. As of June 30, 2012, we held approximately $27 million in money market accounts and held approximately $20 million in US Treasury Bills and Notes. We maintained our cash, cash equivalents and available-for-sale securities at one or more financial institutions that are in excess of federally insured limits. We believe our cash, cash equivalents and available-for-sale securities do not contain excessive risk, however we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. Given the current instability of financial institutions, we cannot provide assurance that we will not experience losses on these deposits and investments.

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ITEM 4. CONTROLS AND PROCEDURES

Based on an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, as of June 30, 2012, our Chief Executive Officer and Principal Financial Officer have concluded that as of June 30, 2012, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitations, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As required by Rule 13a-15(d) of the Exchange Act, our management, including our principal executive officer and our principal financial officer, conducted an evaluation of the internal control over financial reporting to determine whether any changes occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our principal executive officer and principal financial officer concluded there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that could significantly affect internal controls over financial reporting during the quarter ended June 30, 2012.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes from the legal proceedings disclosed in our Form 10-K for the year ended December 31, 2011.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our Form 10-K for the year ended December 31, 2011.

ITEM 6. EXHIBITS

(a) Exhibits

10.1	Amended and Restated Executive Employment Agreement dated as of June 25, 2012 between Synergy Pharmaceuticals, Inc. and Kunwar Shailubhai*
31.1	Certification of Chief Executive Officer required under Rule 13a-14(a)/15d-14(a) under the Exchange Act.
31.2	Certification of Principal Financial Officer required under Rule 13a-14(a)/15d-14(a) under the Exchange Act.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statements from the quarterly report on Form 10-Q of Synergy for the quarter ended June 30, 2012, filed on August 9, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statement of Stockholders Equity (Deficit) (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements tagged as blocks of text.

* Indicates a management contract or compensatory plan or arrangement.

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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.

SYNERGY PHARMACEUTICALS INC.
(Registrant)

Date: August 9, 2012

By: /s/ GARY S. JACOB
Gary S. Jacob
President and Chief Executive Officer

Date: August 9, 2012

By: /s/ BERNARD F. DENOYER
Bernard F. Denoyer
Senior Vice President, Finance

Exhibit 10.1

AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") dated as of June 25, 2012 is made and entered into by and between Synergy Pharmaceuticals Inc., a company incorporated under the laws of the state of Delaware (the "Company"), and Kunwar Shailubhai, an individual (the "Executive").

WITNESSETH:

The Company desires to employ the Executive, and the Executive wishes to accept such employment with the Company, upon the terms and conditions set forth in this Agreement.

The Executive has previously entered into an employment agreement with the Company as of April 6, 2004 (the "Employment Agreement")

The parties wish to amend and restate the Employment Agreement between the Executive and the Company in its entirety, on the terms and conditions contained in this Agreement.

In consideration of the mutual promises and agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. Employment. The Company hereby agrees to employ Executive, and Executive hereby accepts such employment and agrees to perform Executive's duties and responsibilities in accordance with the terms and conditions hereinafter set forth.

1.1 Duties and Responsibilities. Executive shall serve as Chief Scientific Officer and Executive Vice President. During the Employment Term (as defined below), Executive shall perform all duties and accept all responsibilities incident to such position and other appropriate duties as may be assigned to Executive by the Company's Chief Executive Officer from time to time. The Company shall retain full direction and control of the manner, means and methods by which Executive performs the services for which he is employed hereunder and of the place or places at which such services shall be rendered.

1.2 Employment Term. The term of Executive's employment under this Agreement commenced as of April 6, 2004 (the "Effective Date") and shall continue until June 25, 2014, unless earlier terminated in accordance with Section 4 hereof. The term of Executive's employment shall be automatically renewed for successive one (1) year periods until the Executive or the Company delivers to the other party a written notice of their intent not to renew the "Employment Term," such written notice to be delivered at least sixty (60) days prior to the expiration of the then-effective "Employment Term" as that term is defined below. The period

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commencing as of the Effective Date and ending 12 months thereafter or such later date to which the term of Executive's employment under the Agreement shall have been extended by mutual written agreement is referred to herein as the "Employment Term."

1.3 Extent of Service. During the Employment Term, Executive agrees to use Executive's best efforts to carry out the duties and responsibilities under Section 1.1 hereof and, subject to Section 1.1, to devote substantially all Executive's business time, attention and energy thereto.

1.4 Base Salary. The Company shall pay Executive a base salary (the "Base Salary") at the annual rate of $250,000 (U.S.), payable at such times as the Company customarily pays its other senior level executives (but in any event no less often than monthly). The Base Salary shall be subject to all state, federal, and local payroll tax withholding and any other withholdings required by law.

1.5 Incentive Compensation. Executive shall be eligible to earn a cash bonus of up to 25% of his base salary for each twelve-month period during the Employment Term at the discretion of the Company's Compensation Committee (the "Committee"). Executive's bonus, if any, shall be subject to all applicable tax and payroll withholdings.

1.6 Other Benefits. During the Employment Term, Executive shall be entitled to participate in all employee benefit plans and programs made available to the Company's senior level executives as a group or to its employees generally, as such plans or programs may be in effect from time to time (the "Benefit Coverages"), including, without limitation, medical, dental, hospitalization, short-term and long-term disability and life insurance plans, accidental death and dismemberment protection and travel accident insurance. Executive shall be provided office space and staff assistance appropriate for Executive's position and adequate for the performance of his duties and responsibilities.

1.7 Reimbursement of Expenses; Vacation; Sick Days and Personal Days. Executive shall be provided with reimbursement of expenses related to Executive's employment by the Company on a basis no less favorable than that which may be authorized from time to time by the Board, in its sole discretion, for senior level executives as a group. Executive shall be entitled to vacation and holidays in accordance with the Company's normal personnel policies for senior level executives, but not less than three (3) weeks of vacation per calendar year, provided Executive shall not utilize more than ten (10) consecutive business days without the express consent of the Chief Executive Officer. Unused vacation time will be forfeited as of December 31 of each calendar year of the Employment Term. Executive shall be entitled to no more than an aggregate of ten (10) sick days and personal days per calendar year.

1.8 No Other Compensation. Except as expressly provided in Sections 1.4 through 1.7, Executive shall not be

entitled to any other compensation or benefits.

2. Confidential Information. Executive recognizes and acknowledges that by reason of Executive's employment by and service to the Company before, during and, if applicable, after the Employment Term, Executive will have access to certain confidential and proprietary

information relating to the Company's business, which may include, but is not limited to, trade secrets, trade "know-how," product development techniques and plans, formulas, customer lists and addresses, financing services, funding programs, cost and pricing information, marketing and sales techniques, strategy and programs, computer programs and software and financial information (collectively referred to herein as "Confidential Information"). Executive acknowledges that such Confidential Information is a valuable and unique asset of the Company and Executive covenants that he will not, unless expressly authorized in writing by the Company, at any time during the course of Executive's employment use any Confidential Information or divulge or disclose any Confidential Information to any person, firm or corporation except in connection with the performance of Executive's duties for and on behalf of the Company and in a manner consistent with the Company's policies regarding Confidential Information. Executive also covenants that at any time after the termination of such employment, directly or indirectly, he will not use any Confidential Information or divulge or disclose any Confidential Information to any person, firm or corporation, unless such information is in the public domain through no fault of Executive or except when required to do so by a court of law, by any governmental agency having supervisory authority over the business of the Company or by any administrative or legislative body (including a committee thereof) with apparent jurisdiction to order Executive to divulge, disclose or make accessible such information. All written Confidential Information (including, without limitation, in any computer or other electronic format) which comes into Executive's possession during the course of Executive's employment shall remain the property of the Company. Unless expressly authorized in writing by the Company, Executive shall not remove any written Confidential Information from the Company's premises, except in connection with the performance of Executive's duties for and on behalf of the Company and in a manner consistent with the Company's policies regarding Confidential Information. Upon termination of Executive's employment, the Executive agrees to immediately return to the Company all written Confidential Information (including, without limitation, in any computer or other electronic format) in Executive's possession. As a condition of Executive's continued employment with the Company and in order to protect the Company's interest in such proprietary information, the Company shall require Executive's execution of a Confidentiality Agreement and Inventions Agreement in the form attached hereto as Exhibit "A", and incorporated herein by this reference.

3. Non-Competition; Non-Solicitation.

3.1 Non-Compete. The Executive hereby covenants and agrees that during the term of this Agreement and for a period of one year following the end of the Employment Term, the Executive will not, without the prior written consent of the Company, directly or indirectly, on his own behalf or in the service or on behalf of others, whether or not for compensation, engage in any business activity, or have any interest in any person, firm, corporation or business, through a subsidiary or parent entity or other entity (whether as a shareholder, agent, joint venturer, security holder, trustee, partner, Executive, creditor lending credit or money for the purpose of establishing or operating any such business, partner or otherwise) with any Competing Business in the Covered Area. For the purpose of this Section 3.1, (i) "Competing Business" means any biotechnology or pharmaceutical company, any contract manufacturer, any research laboratory or other company or entity (whether or not organized for profit) that has, or is seeking to develop, one or more products or therapies that is

related to azaspiranes and guanylyl cyclase receptor agonists and (ii) "Covered Area" means all geographical areas of the United States and other foreign jurisdictions where Company then has offices and/or sells its products directly or indirectly through distributors and/or other sales agents. Notwithstanding the foregoing, the Executive may own shares of companies whose securities are publicly traded, so long as ownership of such securities do not constitute more than one percent (1%) of the outstanding securities of any such company.

3.2 Non-Solicitation. The Executive further agrees that as long as the Agreement remains in effect and for a period of one (1) year from its termination, the Executive will not divert any business of the Company and/or its affiliates or any customers or suppliers of the Company and/or the Company's and/or its affiliates' business to any other person, entity or competitor, or induce or attempt to induce, directly or indirectly, any person to leave his or her employment with the Company and/or its affiliates.

3.3 Remedies. The Executive acknowledges and agrees that his obligations provided herein are necessary and reasonable in order to protect the Company and its affiliates and their respective business and the Executive expressly agrees that monetary damages would be inadequate to compensate the Company and/or its affiliates for any breach by the Executive of his covenants and agreements set forth herein. Accordingly, the Executive agrees and acknowledges that any such violation or threatened violation of this Section 3 will cause irreparable injury to the Company and that, in addition to any other remedies that may be available, in law, in equity or otherwise, the Company and its affiliates shall be entitled to obtain injunctive relief against the threatened breach of this Section 3 or the continuation of any such breach by the Executive without the necessity of proving actual damages.

4. **Termination:**

4.1 Termination Without Cause or for Good Reason.

(a) If this Agreement is terminated by the Company other than for Cause (as defined in Section 4.4 hereof) or as a result of Executive's death or Permanent Disability (as defined in Section 4.2 hereof), or if Executive terminates his

employment for Good Reason (as defined in Section 4.1 (b) hereof) prior to the Expiration Date, Executive shall receive or commence receiving as soon as practicable in accordance with the terms of this Agreement:

(i) a severance payment (the "Severance Payment"), which amount shall be paid in a cash lump sum within ten (10) days of the date of termination, in an amount equal to the higher of the aggregate amount of the Executive's Base Salary for the then remaining term of this Agreement or twelve times the average monthly Base Salary paid or accrued during the three full months immediately preceding such termination;

(ii) immediate vesting of all unvested stock options and the extension of the exercise period of such options to the later of the longest period permitted by the Company's stock option plans or ten years following the Termination Date;

(iii) payment in respect of compensation earned but not yet paid (the "Compensation Payment") which amount shall be paid in a cash lump sum within ten (10) days of the date of termination; and

(iv) payment of the cost of comprehensive medical insurance for Executive for a period of twelve months following the termination.

(b) For purposes of this Agreement, "Good Reason" shall mean any of the following (without Executive's express prior written consent):

(i) Any material breach by Company of any provision of this Agreement, including any material reduction by Company of Executive's duties or responsibilities (except in connection with the termination of Executive's employment for Cause, as a result of Permanent Disability, as a result of Executive's death or by Executive other than for Good Reason);

(ii) A reduction by the Company in Executive's Base Salary or any failure of the Company to reimburse Executive for material expenses described in Section 1.7 of this Agreement;

(iii) The failure by the Company to obtain the specific assumption of this Agreement by any successor or assign of Company as provided for in Section 5.6 hereof;

(iv) Moving the principal offices of Company to a location outside of the Metropolitan New York Area; or

(v) Upon a Change of Control of Company (as such term is hereinafter defined).

(c) The following provisions shall apply in the event compensation provided in Section 4.1 (a) becomes payable to the Executive:

(i) In the event the severance compensation provided for in subsection 4.1(a) above cannot be finally determined on or before the tenth day following such termination, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Company of the minimum amount of such compensation and shall pay the remainder of such compensation (together with

interest at the Federal short-term rate provided in Section 1274(d)(7)(C)(1) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination. In the event the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive payable on the fifth day after demand by the Company (together with interest at the Federal short-term rate provided in Section 1274(d)(7)(C)(1) of the Code).

(ii) If the payment of the Total Payments (as defined below) will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code, the Company shall pay the Executive on or before the tenth day following the Date of Termination, an additional amount (the "Gross-Up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on Total Payments and any federal and state and local income tax and Excise Tax upon the payment provided for by this paragraph, shall be equal to the Total Payments. For purposes of determining whether any of the payments will be subject to the Excise Tax and the amount of such Excise Tax, (A) any payments or benefits received or to be received by the Executive in connection with a Change in Control of the Company or the Executive's termination of employment, whether payable pursuant to the terms of Section 4 of this Agreement or any other plan, arrangement or agreement with the Company, its successors, any person whose actions result in a Change in Control of the Company or any corporation affiliated (or which, as a result of the completion of transaction causing such a Change in control, will become affiliated) with the Company within the meaning of Section 1504 of Code (the "Total Payments") shall be treated as "parachute

payments" within the meaning of Section 28OG(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 28OG(b)(1) shall be treated as subject to the Excise Tax, unless, in the opinion of tax counsel selected by the Company's independent auditors and acceptable to the Executive, the Total Payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 28OG(b)(4) of the Code either in their entirety or in excess of the base amount within the meaning of Section 28OG(b)(3) of the Code, or are otherwise not subject to the Excise Tax, (B) the amount of the Total Payments that shall be treated as subject to the Excise Tax shall be equal to the lesser of (I) the total amount of the Total Payments or (II) the amount of excess parachute payments or benefit shall be determined by the Company's independent auditors in accordance with the principles of Section 28OG(d)(3)

and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence an the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. In the event the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of the Executive's employment, the Executive shall repay to the Company at the time the amount of such reduction in Excise Tax is finally determined the portion of the Gross-Up Payment that can be repaid such that the Executive remains whole on an after-tax basis following such repayment (taking into account any reduction in income or excise taxes to the Executive from such repayment) plus interest on the amount of such repayment at the Federal short-term rate provided in Section 1274(d)(1)(C)(i) of the Code. In the event the Excise Tax is determined to exceed the amount taken into account hereunder at the time of the termination of the Executive's employment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional gross-up payment in respect of such excess (plus any interest payable with respect to such excess) at the time that the amount of such excess is finally determined.

4.2 Permanent Disability. If Executive becomes totally and permanently disabled (as defined in the Company's disability benefit plan applicable to senior executive officers as in effect on the date thereof) ("Permanent Disability"), Company or Executive may terminate this Agreement on written notice thereof, and Executive shall receive or commence receiving, as soon as practicable:

(i) amounts payable pursuant to the terms of the disability insurance policy or similar arrangement which Company maintains for the Executive, if any, during the term hereof;

(ii) the Compensation Payment which shall be paid to Executive as a cash lump sum within 30 days of such termination; and

(iii) immediate vesting of all unvested stock options.

4.3 Death. In the event of Executive's death during the term of his employment hereunder, Executive's estate or designated beneficiaries shall receive or commence receiving, as soon as practicable in accordance with the terms of this Agreement:

(i) compensation equal to one year's Base Salary (calculated by multiplying the average monthly Base Salary paid or accrued for the three full calendar months immediately prior to such event) which shall be paid within 30 days of such termination;

(ii) any death benefits provided under the Executive benefit programs, plans and practices in which the Executive has an interest, in accordance with their respective terms;

(iii) the Compensation Payment which shall be paid to Executive's estate as a cash lump sum within 30 days of such termination; and

(iv) such other payments under applicable plans or programs to which Executive's estate or designated beneficiaries are entitled pursuant to the terms of such plans or programs.

4.4 Voluntary Termination by Executive: Discharge for Cause. The Company shall have the right to terminate this Agreement for Cause (as hereinafter defined). In the event that Executive's employment is terminated by Company for Cause, as hereinafter defined, or by Executive other than for Good Reason or other than as a result of the Executive's Permanent Disability or death, prior to the Termination Date, Executive shall be entitled only to receive, as a cash lump sum within 30 days of such termination, the Compensation Payment. As used herein, the term "Cause" shall be limited to (i) willful malfeasance or willful misconduct by Executive in connection with

the services to the Company in a matter of material importance to the conduct of the Company's affairs which has a material adverse affect on the business of the Company, or (ii) the conviction of Executive for commission of a felony. For purposes of this subsection, no act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Termination of this Agreement pursuant to this Section 4.4 shall be made by delivery to Executive of a copy of a resolution duly adopted by the affirmative vote of all of the members of the Board of Directors called and held for such purpose (after 30 days prior written notice to Executive and reasonable opportunity for Executive to be heard before the Board of Directors prior to such vote), finding that in the good faith business judgment of such Board of Directors, Executive was guilty of conduct set forth in any of clauses (i) through (ii) above and specifying the particulars thereof.

4.5 Change of Control Definition. For purposes of this Agreement, a "Change in Control" shall be deemed to have occurred if (i) there shall be consummated (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company, or (ii) the

stockholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company, or (iii) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")), other than the Company or any Executive benefit plan sponsored by the Company, or such person on the Effective Date hereof is a 20% or more beneficial owner, shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, or (iv) at any time during a period of two consecutive years, individuals who at the beginning of such period, constituted the Board of Directors of the Company shall cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's stockholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office, who were directors at the beginning of such two-year period.

4.6 Rights and Obligations. If a Change in Control of the Company shall have occurred while the Executive is Officer of the Company, the Executive shall be entitled to the compensation provided in Section 4.1 of this Agreement upon the subsequent termination of this Agreement by either the Company, or the Executive within two years of the date upon which the Change in Control shall have occurred, unless such termination is a result of (i) the Executive's death; (ii) the Executive's Disability; (iii) the Executive's Retirement; or (iv) the Executive's termination for Cause.

5. Indemnification. Executive, as such, shall be indemnified by the Company against all liability incurred by the Executive in connection with any proceeding, including, but not necessarily limited to, the amount of any judgment obtained against Executive, the amount of any settlement entered into by the Executive and any claimant with the approval of the Company, attorneys' fees, actually and necessarily incurred by him in connection with the defense of any action, suit, investigation or proceeding or similar legal activity, regardless of whether criminal, civil, administrative or investigative in nature ("Claim"), to which he is made a party or is otherwise subject to, by reason of his being or having been a director, officer, agent or employee of the Company, to the full extent permitted by applicable law and the Certificate of Incorporation of the Company.. Such right of indemnification will not be deemed exclusive of any other rights to which Executive may be entitled under Company's Certificate of Incorporation or By-laws, as in effect from time to time, any agreement or otherwise.

6. General Provisions.

6.1 Modification; No Waiver. No modification, amendment or discharge of this Agreement shall be valid unless the same is in writing and signed by all parties hereto. Failure of any party at any time to enforce any provisions of this Agreement or any rights or to exercise any elections shall in no way be considered to be a waiver of such provisions, rights or elections and shall in no way affect the validity of this Agreement. The exercise by any party of any of its rights or any of its elections under this Agreement shall not preclude or prejudice such party from exercising the same or any other right it may have under this Agreement irrespective of any previous action taken.

6.2 Notices. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered or mailed by registered or certified mail as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to: Synergy Pharmaceuticals Inc.
420 Lexington Avenue, Suite 1609
New York, NY 10170

If to Executive, to: Kunwar Shailubhai

Or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

6.3 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

6.4 Further Assurances. Each party to this Agreement shall execute all instruments and documents and take all actions as may be reasonably required to effectuate this Agreement.

6.5 Severability. Should any one or more of the provisions of this Agreement or of any agreement entered into pursuant to this Agreement be determined to be illegal or unenforceable, then such illegal or unenforceable provision shall be modified by the proper court or arbitrator to the extent necessary and possible to make such provision enforceable, and such modified provision and all other provisions of this Agreement and of each other agreement entered into pursuant to this Agreement shall be given effect separately from the provisions or portion thereof determined to be illegal or unenforceable and shall not be affected thereby.

6.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the heirs and representatives of Executive and the assigns and successors of Company, but neither this Agreement nor any rights or obligations hereunder shall be assignable or otherwise subject to hypothecation by Executive (except by will or by operation of the laws of intestate succession or by Executive notifying the Company that cash payment be made to an affiliated investment partnership in which Executive is a control person) or by Company, except that Company may assign this Agreement to any successor (whether by merger, purchase or otherwise) to all or substantially all of the stock, assets or businesses of Company, if such successor expressly agrees to assume the obligations of Company hereunder.

6.7 Entire Agreement. This Agreement supersedes all prior agreements and understandings between the parties, oral or written. No modification, termination or attempted waiver shall be valid unless in writing, signed by the party against whom such modification, termination or waiver is sought to be enforced.

6.8 Counterparts; Facsimile. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original, and all of which taken together shall constitute one and the same instrument. This Agreement may be executed by facsimile with original signatures to follow.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first written above.

SYNERGY PHARMACEUTICALS INC.

By: /s/ Gary S. Jacob
Gary S. Jacob
President and CEO

/s/ Kunwar Shailubhai
Kunwar Shailubhai
Executive

Exhibit A

Confidentiality Agreement and Inventions Agreement

Exhibit B

Release

EXHIBIT 31.1

CERTIFICATIONS

I, Gary S. Jacob, certify that:

1) I have reviewed this report on Form 10-Q of Synergy Pharmaceuticals Inc.

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

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

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

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

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

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

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

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

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

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

Date: August 9, 2012

/s/ GARY S. JACOB
Gary S. Jacob
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Bernard F. Denoyer, certify that:

1) I have reviewed this report on Form 10-Q of Synergy Pharmaceuticals Inc.

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

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

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

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

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

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

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

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

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

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

Date: August 9, 2012

/s/ BERNARD F. DENOYER
Bernard F. Denoyer
Senior Vice President, Finance

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
SYNERGY PHARMACEUTICALS INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2012
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I am the Chief Executive Officer of Synergy Pharmaceuticals Inc., a Delaware corporation (the "Company"). I am delivering this certificate in connection with the Form 10-Q of the Company for the quarter ended June 30, 2012 and filed with the Securities and Exchange Commission ("Form 10-Q").

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I hereby certify that, to the best of my knowledge, the Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2012

/s/ GARY S. JACOB
Gary S. Jacob
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF SENIOR VICE PRESIDENT, FINANCE
SYNERGY PHARMACEUTICALS INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2012
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I am the Senior Vice President, Finance of Synergy Pharmaceuticals Inc., a Delaware corporation (the "Company"). I am delivering this certificate in connection with the Form 10-Q of the Company for the quarter ended June 30, 2012 and filed with the Securities and Exchange Commission ("Form 10-Q").

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I hereby certify that, to the best of my knowledge, the Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2012

/s/ BERNARD F. DENOYER
Bernard F. Denoyer
Senior Vice President, Finance