

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

- ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED: DECEMBER 31, 2014
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-35268

SYNERGY PHARMACEUTICALS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

33-0505269
(I.R.S. Employer
Identification No.)

420 Lexington Avenue, Suite 2012, 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)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Units, each consisting of two shares of Common Stock and one Warrant to purchase one share of Common Stock	The NASDAQ Capital Market
Common Stock, \$0.0001 par value	The NASDAQ Global Select Market
Warrants to purchase Common Stock	The NASDAQ Capital Market

Securities registered pursuant to section 12(g) of the Act:

Title of class: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (the "Exchange Act") 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$337,346,977 as of June 30, 2014, based upon the closing price on the NASDAQ Global Select market reported for such date.

The number of the registrant's shares of common stock outstanding was 96,609,764 as of March 16, 2015.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive proxy statement for our 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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SYNERGY PHARMACEUTICALS INC. FORM 10-K

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PART I

This Report on Form 10-K for Synergy Pharmaceuticals Inc. may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements are characterized by future or conditional verbs such as "may," "will," "expect," "intend," "anticipate," "believe," "estimate" and "continue" or similar words. 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. Such statements are only predictions and our actual results may differ materially from those anticipated in these forward-looking statements. 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. Factors that may cause such differences include, but are not limited to, those discussed under Item 1A. Risk Factors and elsewhere in this Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission, including the uncertainties associated with product development, the risk that products that appeared promising in early clinical trials do not demonstrate safety and efficacy in larger-scale clinical trials, the risk that we will not obtain approval to market our products, the risks associated with dependence upon key personnel and the need for additional financing. We do not assume any obligation to update forward-looking statements as circumstances change.

ITEM 1. BUSINESS.

Unless the context requires otherwise, the words “Synergy,” “the Company,” “we,” “us,” refer to Synergy Pharmaceuticals Inc. and Subsidiaries.

Business 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 phase 3 guanylate cyclase C, or GC-C, receptor agonist, designed to treat GI disorders, primarily chronic idiopathic constipation, or CIC, and constipation-predominant irritable bowel syndrome, or IBS-C. CIC and IBS-C are functional gastrointestinal disorders that afflict millions of individuals worldwide. CIC is primarily characterized by constipation symptoms with straining, bloating and abdominal discomfort reported by a majority of such patients. IBS-C is characterized by frequent and recurring abdominal pain and/or discomfort associated with chronic constipation. Plecanatide is currently completing two phase 3 registration trials in CIC patients, and has begun the first of two phase 3 registration trials in IBS-C patients. Our second drug in the clinic, SP-333 is a next-generation uroguanylin analog in development for the treatment of opioid induced constipation, or OIC, and mild-to-moderate ulcerative colitis. SP-333 is designed to be a highly potent and proteolytically stable analog of the naturally occurring GI peptide, uroguanylin, displaying significant resistance to proteolysis in gastric intestinal fluids. We completed phase 1 single- and multiple-ascending dose studies in healthy volunteers, as well as reporting positive data from a phase 2 clinical trial of SP-333 in OIC patients. We have also announced the start of a phase 1b proof-of-concept trial of SP-333 in patients with ulcerative colitis. We have additionally been developing a unique formulation of SP-333 for use in patients with ulcerative colitis.

Recent Developments

On January 8, 2015 and January 29, 2015 we announced that we had completed patient enrollment in the first and second of two pivotal phase 3 trials, respectively, which are evaluating the safety and efficacy of two plecanatide doses (3.0 and 6.0 mg) in patients with CIC. Each trial is a randomized, 12-week, double-blind, placebo-controlled phase 3 trial evaluating plecanatide, once-daily oral tablets, in approximately 1350 adult patients with CIC. We expect to release top-line data results from the first phase 3 CIC trial in second quarter of 2015, and top-line results from the second phase 3 CIC trial in the third quarter of 2015. In the fourth quarter of 2015, we plan to file our first new drug application (NDA) with FDA for plecanatide to treat CIC.

On December 18, 2014 we announced the initiation of the first of two planned pivotal phase 3 clinical trials evaluating the safety and efficacy of 3.0 and 6.0 mg plecanatide, once-daily oral tablets, for the treatment of irritable bowel syndrome with constipation (IBS-C).

On November 19, 2014 we announced positive top-line results from a phase 2 trial assessing safety, efficacy and dose-response of three different once-daily oral SP-333 tablets (1.0, 3.0 and 6.0 mg) compared with placebo in 289 patients with opioid-induced constipation (OIC). Preliminary analysis of the data indicates SP-333 met the study’s primary endpoint and demonstrated statistically significant improvement in mean change from baseline in the number of spontaneous bowel movements (SBMs) during Week 4 of the treatment period. SP-333 was safe and well tolerated at all doses.

On November 3, 2014 we announced the closing of a private offering of \$200 million aggregate principal amount of 7.50% Convertible Senior Notes due 2019 (including the full exercise of the over-allotment option granted to the initial purchasers to purchase an additional \$25 million aggregate principal amount of 7.50% Convertible Senior Notes due 2019). The notes are unsecured, senior obligations and bear interest at a rate of 7.50% per year, payable semiannually in arrears on May 1 and November 1 of each year, beginning on May 1, 2015. The

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notes will mature on November 1, 2019, unless earlier purchased or converted. The holders of the notes have the ability to require us to repurchase the notes in whole or in part for cash in the event of a fundamental change, as defined in the indenture agreement. In such case, the repurchase price would generally be 100% of the principal amount of the notes plus any accrued and unpaid interest. The notes are convertible, at any time, into shares of our common stock at an initial conversion rate of 321.5434 shares per \$1,000 principal amount of notes, which is equivalent to an initial conversion price of \$3.11 per share. The net proceeds from this offering were approximately \$187.3 million, after deducting estimated expenses and the initial purchasers’ discount.

Drug Development

Our patented GI drug candidates were discovered and developed in-house by our scientists.

Plecanatide

Plecanatide is a synthetic analog of uroguanylin, a natural human peptide that regulates ion and fluid transport in the intestine. Orally-administered, plecanatide binds to the same receptors on the inside of the gastrointestinal tract as uroguanylin, and we believe it is capable of restoring the normal balance of fluid, thus restoring the regular function of the intestine in patients suffering from GI disorders such as CIC and IBS-C.

Constipation can be the by-product of other disease states, as well as due to certain drug therapies (e.g., narcotics) or anatomic anomalies. CIC, in contrast, has no identifiable causes. Patients diagnosed with CIC have had symptoms for 6 months or more, and commonly have less than 3 bowel movements a week and often less than one. They suffer from very hard stool and abdominal symptoms such as bloating, discomfort, gas, and a feeling of incomplete evacuation. The prescription drugs available have significant side effects and are only effective in less than half of patients treated. Plecanatide offers hope for a more effective and tolerable treatment that can relieve the

significant burden CIC places on patients' lives.

On January 2, 2013, we announced positive results from our large phase 2 multicenter clinical trial of our lead investigational drug plecanatide in patients with CIC. On May 15, 2013, at Digestive Disease Week 2013, we presented a late-breaking abstract, the title of which is: "Plecanatide, a Novel Guanylate Cyclase C (GC-C) Receptor Agonist, is Efficacious and Safe in Patients with Chronic Idiopathic Constipation (CIC): Results from a 951-Patient, 12-Week, Multi-Center Trial."

Phase 3 Clinical Trial for CIC

On November 13, 2013, we announced the start of the first of two planned pivotal Phase 3 clinical trials to confirm the safety and efficacy of plecanatide in adult patients with CIC. The pivotal Phase 3 trial is a randomized, double-blind, clinical trial to compare a 12-week, dose-ranging regimen of plecanatide (3.0 and 6.0mg) against placebo in adult patients with CIC. The study is expected to be conducted at approximately 180 sites in the United States and Canada and is expected to enroll approximately 1,350 patients with CIC. The primary endpoint of the study is the proportion of patients who are overall responders for the 12-week treatment period.

On April 28, 2014, we initiated our second pivotal Phase 3 clinical trial for plecanatide in CIC patients. The primary objective of this trial is to confirm the safety and efficacy of plecanatide, a GC-C receptor agonist and once-daily oral treatment, in adult patients with CIC. This Phase 3 trial is a randomized, double-blind clinical trial to compare a 12-week, dose-ranging regimen of plecanatide (3.0 and 6.0mg) against placebo in adult patients with CIC. The study is expected to be conducted at approximately 180 sites in the United States and is expected to enroll approximately 1,350 patients with CIC. The primary endpoint of the study is the proportion of patients who are overall responders for the 12-week treatment period.

On January 8, 2015 and February 2, 2015 we announced that we had completed patient enrollment in the first and second of two pivotal phase 3 trials, respectively, which are evaluating the safety and efficacy of two plecanatide doses (3.0 and 6.0 mg) in patients with CIC. Each trial is a randomized, 12-week, double-blind, placebo-controlled phase 3 trial evaluating approximately 1350 adult patients with CIC. We expect to announce top-line data results from the first phase 3 CIC trial in 2Q 2015, and top-line results from the second phase 3 CIC trial in the third quarter of 2015. In the fourth quarter of this year, we plan to file our first NDA with FDA for plecanatide in the CIC indication.

Phase 2b Clinical Trial for IBS-C

In addition to CIC, plecanatide is also being developed to treat IBS-C. IBS is generally characterized by symptoms of abdominal pain or discomfort such as cramping, bloating, gas, and constipation or diarrhea or both. IBS-C is the subtype of IBS that plecanatide is being developed to treat. IBS is one of the most commonly diagnosed GI illnesses in the United States. As many as 14% of, or up to 42 million, adult Americans suffer from IBS. Depending on the criteria used to define bowel habit predominance, it is estimated that 16% to 30% of IBS patients (approximately 7 to 13 million) experience symptoms consistent with the IBS-C subtype.

IBS profoundly impacts patients' physical, social and working lives. A quarter of patients describe their abdominal pain as constant. IBS is one of the most common reasons for work or school absenteeism, second only to the common cold. Fewer than 1 in 10 patients say they are

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satisfied with available IBS treatments. Healthcare systems spend billions of dollars annually to diagnose and treat this disorder. In the U.S., the annual cost of IBS treatment is estimated to be as much as \$8 billion in direct medical costs, including doctor and hospital visits and diagnostic procedures.

On December 27, 2012, we commenced a Phase 2b dose-ranging trial of plecanatide to treat patients with IBS-C. This study was conducted at 70 sites in the U.S. To qualify for enrollment, patients had to meet the Rome III criteria for IBS-C as modified for this study. Abdominal pain is a major part of this syndrome and patients need to have pain scores of 3 or more (on a scale of 1 to 10) for 3 days in each of the two pre-treatment weeks. Qualified patients were randomized to receive 0.3, 1, 3 or 9 mg of plecanatide or placebo once daily for 12 weeks, and were seen at the clinical site once a month during the study.

On April 30, 2014, we announced positive top-line results from our Phase 2b dose-ranging trial assessing plecanatide's safety and efficacy in 424 patients with IBS-C. The primary objective of this trial was to determine an effective, safe and well tolerated dose for plecanatide Phase 3 trials with IBS-C patients.

On October 20, 2014, we presented additional positive results from our phase 2b dose-ranging study assessing plecanatide's safety and efficacy in patients with IBS-C. The data were presented at the American College of Gastroenterology's 2014 Annual Scientific Meeting in Philadelphia, Pennsylvania. Plecanatide 1.0, 3.0 and 9.0 mg doses demonstrated statistically significant improvement in complete spontaneous bowel movement (CSBM) frequency, the trial's primary endpoint, with the highest two doses showing the greatest response (increase from baseline of 2.12, 2.74, 2.44 and 1.27 for 1.0, 3.0, 9.0 mg and placebo dose groups, respectively). Increasing efficacy was also observed at the higher dose range in other key secondary endpoints including overall responder rate (the end point for FDA approval) and abdominal pain responder rate. All doses were safe and well tolerated with no treatment-related serious adverse events.

On December 18, 2014 we announced the initiation of the first of two planned pivotal phase 3 clinical trials evaluating the safety and efficacy of 3.0 and 6.0 mg plecanatide, once-daily oral tablets, for the treatment of irritable bowel syndrome with constipation (IBS-C), consistent with the ongoing CIC registration trials. IBS-C patients successfully completing either of the 12-week placebo-controlled registration trials will be offered enrollment into a long-term safety trial in order to support the ongoing long-term safety database for the CIC indication.

SP-333

We are developing a second-generation GC-C receptor analog, SP-333, for the treatment of opioid induced constipation, or OIC, and for inflammatory bowel disease, or IBD. SP-333 is a synthetic analog of uroguanylin, a natriuretic peptide that is normally produced in the body's intestinal tract. Deficiency of this peptide 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.

On September 7, 2012, we submitted an Investigational New Drug, or IND, application for clinical evaluation of SP-333 to treat IBD. On December 28, 2012, we successfully completed a Phase 1 placebo-controlled, dose escalating, single-dose study of 70 healthy adult volunteers. In January 2013, we commenced a multiple ascending oral dosing study of healthy volunteers in a Phase 1 trial of SP-333, which was completed during the quarter ended June 30, 2013.

On October 30, 2013 we announced the start of the Phase 2 clinical trial to evaluate the safety and efficacy of SP-333 in adult patients with OIC. The multi-center, randomized, double-blind clinical trial will compare a 4-week, dose-ranging regimen of SP-333 (1.0, 3.0 and 6.0mg) against placebo in adult patients taking opioid analgesics for chronic, non-cancer pain for at least three months.

On November 19, 2014 we announced positive top-line results from a phase 2 trial assessing safety, efficacy and dose-response of three different once-daily oral SP-333 tablets (1.0, 3.0 and 6.0 mg) compared with placebo in 289 patients with OIC. Preliminary analysis of the data indicates SP-333 met the study's primary endpoint and demonstrated statistically significant improvement in mean change from baseline in the number of spontaneous bowel movements (SBMs) during Week 4 of the treatment period. SP-333 was safe and well tolerated at all doses.

FV-100

On August 17, 2012, we entered into an Asset Purchase Agreement with Bristol-Myers Squibb Company and acquired certain assets related to FV-100, an orally available nucleoside analog, for the treatment of shingles, a severe, painful skin rash caused by reactivation of the varicella zoster virus — the virus that causes chickenpox. The terms of the agreement provide for an initial base payment of \$1 million, subsequent milestone payments covering (i) FDA approval and (ii) aggregate net sales equal to or greater than \$125 million, as well as a single digit royalty based on net sales.

On May 15, 2013, we formed ContraVir Pharmaceuticals, Inc. (ContraVir), a Delaware corporation, for the purpose of developing the FV-100 asset.

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Contribution Agreement

On June 10, 2013 we entered into a Contribution Agreement with ContraVir (the "Contribution Agreement"), transferring the FV-100 Product to ContraVir, in exchange for the issuance to us of 9,000,000 shares of ContraVir common stock, par value \$0.0001 per share, representing 100% of the outstanding shares of common stock as of immediately following such issuance. During the period August 17, 2012 through September 30, 2013, we made no expenditures related to the research and development of FV-100, thus, we determined that the contributed asset did not meet the definition of a business, as defined in ASC 805, "Business Combinations" and was accounted for under ASC 350, "Intangibles Goodwill and Other" as a contribution of assets. The contribution of this asset was accounted for at our net book value, which was zero.

Loan and Security Agreement

On June 5, 2013, ContraVir entered into a Loan and Security Agreement with us pursuant to which we agreed to lend ContraVir up to five hundred thousand dollars (\$500,000) for working capital purposes (the "Loan Agreement"). Also on June 5, 2013, August 29, 2013, October 18, 2013 and January 9, 2014, pursuant to the Loan Agreement, we made an advance to ContraVir of \$100,000, \$100,000, \$150,000 and \$100,000, respectively, under a Promissory Note (the "Note"). The Note bore interest at six percent (6%) per annum. In connection with the Loan Agreement ContraVir granted to us a security interest in all of its assets, including its intellectual property, until the Note is repaid in full. On November 18, 2013, ContraVir entered into an amendment to the Loan Agreement with us pursuant to which we agreed to increase the aggregate amount available to ContraVir under the Loan Agreement from five hundred thousand dollars (\$500,000) to one million dollars (\$1,000,000). On March 27, 2014, ContraVir paid \$461,236 to us in full repayment of the advance, including accrued but unpaid interest thereon.

Shared Services Agreement

On July 8, 2013, ContraVir entered into a Shared Services Agreement, as amended and restated August 5, 2013, with us, effective May 16, 2013. Under the Shared Services Agreement, we provided and/or made available to ContraVir various administrative, financial (accounting), insurance, facility, information technology, and other services. In consideration for such services, ContraVir paid fees to us sufficient to allow us to recover all of our direct and indirect costs incurred in providing those services. Effective April 1, 2014, we terminated the shared services agreement with ContraVir.

Spin-Off

On February 18, 2014, we completed the distribution of the ContraVir common stock (our previous wholly-owned subsidiary) to

our stockholders on a pro rata basis with a stock dividend of .0986 ContraVir shares for each share of our common stock held as of the record date of February 6, 2014.

We accounted for this distribution according to FASB ASC Topic 505-60, *Spinoffs and reverse spinoffs* by eliminating ContraVir's net assets of approximately \$1.7 million, with a corresponding decrease in additional paid in capital and the non-controlling interest of \$1.6 million. The spin-off of ContraVir's operation had an immaterial effect on our financial statements.

As a result of the ContraVir distribution, an adjustment was made to the exercise price of all our outstanding warrants in accordance with their terms. Accordingly the exercise price decreased approximately \$0.011 per share on the record date. As of December 31, 2014, there were 3,378,453 of our non-public warrants outstanding with a weighted average exercise price of \$5.34 per share pre-distribution and \$5.33 per share as adjusted.

Synergy - Callisto Merger

On July 20, 2012, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Callisto Pharmaceuticals, Inc., or Callisto, as amended on October 15, 2012. At the time, Callisto was our largest stockholder and a development stage biopharmaceutical company.

On January 17, 2013, we completed our acquisition of Callisto, pursuant to the Merger Agreement, as amended. Pursuant to the Merger Agreement, each outstanding share of Callisto common stock was converted into the right to receive 0.1799 (the "Exchange Ratio") of one share of our common stock and the 22,295,000 shares of our common stock held by Callisto were canceled. In addition, each stock option exercisable for shares of Callisto common stock that was outstanding on January 17, 2013 was assumed by us and converted into a stock option to purchase the number of shares of our common stock that the holder would have received if such holder had exercised such stock option for shares of Callisto common stock prior to the merger and exchanged such shares for shares of our common stock in accordance with the Exchange Ratio. In addition, each Callisto stock option exercisable for shares of our common stock outstanding on January 17, 2013 was assumed by us and each outstanding warrant or obligation to issue a warrant to purchase shares of Callisto common stock, whether or not vested, was cancelled. Upon consummation of the merger the related party balance due from Callisto, \$3,305,636 as of December 31, 2012, was eliminated. In connection with the consummation of the merger, we issued a total of approximately 28,605,354 shares of our common stock to former Callisto stockholders in exchange for their shares of Callisto common stock.

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As Callisto did not have the required inputs, process or outputs, it did not meet the definition of a business under ASC 805, thus the merger was not accounted for as a business combination. The merger was accounted for as a recapitalization of us, effected through exchange of Callisto shares for our shares, and the cancellation of our shares held by Callisto. The excess of our shares issued to Callisto shareholders over our shares held by Callisto was the result of a discount associated with the restricted nature of our shares received by Callisto shareholders. Therefore, considering this discount, the share exchange was determined to be equal from a fair value standpoint. On January 17, 2013, the effective date of the merger, we accounted for the merger by assuming Callisto's net liabilities, of approximately \$1.7 million, principally trade payables. In accordance with ASC 805, our financial statements were not restated retroactively to reflect the historical financial position or results of operations of Callisto.

Competition

The biopharmaceutical industry is characterized by rapidly evolving technology and intense competition. Our competitors include major pharmaceutical and biotechnology companies focusing on GI such as Ironwood Pharmaceuticals, Inc., Actavis plc, Takeda Pharmaceuticals America, Inc., Sucampo Pharmaceuticals, Inc., AstraZeneca, Salix Pharmaceuticals, Inc. and Shire Plc. Most of our competitors have financial, technical and marketing resources significantly greater than our resources. Academic institutions, governmental agencies and other public and private research organizations are also conducting research activities and seeking patent protection and may commercialize products on their own or through joint ventures. We are aware of certain development projects for products to prevent or treat certain diseases targeted by us. The existence of these potential products or other products or treatments of which we are not aware, or products or treatments that may be developed in the future, may adversely affect our ability to market the products we develop.

Research and Development Expenses

Research and development costs include expenditures in connection with operating 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, clinical trial insurance. Research and development expenses for the twelve months ended December 31, 2014 were approximately \$83 million, as compared to approximately \$51 million and \$29 million for the twelve months ended December 31, 2013 and 2012, respectively.

In accordance with FASB ASC Topic 730-10-55, Research and Development, we recorded prepaid research and development costs of approximately \$3.6 million as of December 31, 2014 and December 31, 2013, respectively, for nonrefundable pre-payments for production of drug substance, analytical testing services for our drug candidates, and upcoming clinical trials of plecetanide and SP-333. In accordance with this guidance, we expense deferred research and development costs when drug compound is delivered or services are performed.

Patents and Proprietary Rights

We are able to protect our technology from unauthorized use by third parties only to the extent that it is covered by valid and enforceable

patents or is effectively maintained as a trade secret or is protected by confidentiality agreements. Accordingly, patents or other proprietary rights are an essential element of our business.

As of March 6, 2015 we have 15 issued United States patents related to guanylate cyclase agonists. Two of these patents cover the composition-of-matter of plecanatide and were issued on May 9, 2006 and September 21, 2010; they will expire in 2023 and 2022, respectively. The patent that issued on May 9, 2006 has claims directed to the species of plecanatide, whereas the patent that issued on September 21, 2010 has claims directed to a genus of peptides that are identical in length to plecanatide and is inclusive of plecanatide. A third patent covers the composition-of-matter of SP-333 issued on February 1, 2011 and expires in 2028. A fourth patent granted October 11, 2011 covers the composition-of-matter of certain analogs related to plecanatide and SP-333 and will expire in 2029. A fifth patent granted February 14, 2012 covers certain methods of treating inflammatory bowel disease using plecanatide and will expire in 2022. A sixth patent granted January 28, 2014 covers methods of stimulating water transport in the gastrointestinal tract using plecanatide and will expire in 2022. A seventh patent granted June 26, 2012 covers an additional composition-of-matter related to certain analogs of plecanatide and SP-333 and will expire in 2029. An eighth patent granted on January 22, 2013 covers another composition-of-matter related to certain analogs of plecanatide and will expire in 2029. A ninth patent granted on July 30, 2013 covers another composition-of-matter related to certain analogs of plecanatide and will expire in 2029. Another three patents that also cover compositions-of-matter related to certain analogs of plecanatide were issued on February 5, 2013, October 29, 2013, and March 4, 2014 and will expire in 2029. A thirteenth patent granted May 6, 2014 covers certain methods of treating a variety of gastrointestinal and other disorders using SP-333 and will expire in 2029. A fourteenth patent granted December 2, 2014 and covers composition-of-matter of SP-333 and expires in 2028. A fifteenth patent granted on March 3, 2015 and covers methods of use of plecanatide and expires in 2031. In addition, we have four granted foreign patents which cover the composition-of-matter of plecanatide and expire in 2022. These foreign patents cover Austria, Belgium, Switzerland, Cyprus, Germany, Denmark, Spain, Finland, France, the United Kingdom, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, the Netherlands, Portugal, Sweden, Turkey, Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Canada and Japan. We also have six granted foreign patents that cover the composition-of-matter related to SP-333 that expire in 2028. These patents cover Switzerland, Germany, Denmark, Spain, France, the United Kingdom, Ireland, Italy, the Netherlands, Hong Kong, Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, the Russian Federation, Tajikistan, Turkmenistan, China, Australia, Japan and Mexico. We also have two foreign patents that cover composition-of-matter of certain analogs related to plecanatide and expire in 2029. This patent covers Australia, France, Germany, Italy, Spain and the United Kingdom.

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Additionally, as of the date of this report on Form 10-K, we have 13 pending United States utility patent applications; 2 pending U.S. provisional applications; and 66 pending foreign patent applications relating to plecanatide and SP-333, various derivatives and analogs of plecanatide and SP-333, and their uses and manufacture.

In April 2010, two parties filed an opposition to one of our granted European patents with the European Patent Office. An opposition hearing was held December 14, 2011, which resulted in the European Patent Office issuing the following statement: "Account being taken of the amendments made by the patent proprietor during the opposition proceedings, the patent and the invention to which it relates are found to meet the requirements of the European Patent Convention (Art.101(3)(a)EPC)." In particular, the composition-of-matter claim covering plecanatide was upheld.

On September 14, 2012 we entered into a binding letter of intent with Ironwood Pharmaceuticals, Inc. ("Ironwood"), pursuant to which we and Ironwood agreed to enter into a definitive license agreement giving us an exclusive worldwide license to Ironwood's method of use patents on plecanatide for the treatment of chronic constipation, or CC. The letter of intent contemplates a low single digit royalty on net sales of plecanatide and both parties agreed not to challenge each other's patents covering certain GC-C agonists, except that we retain the right to challenge Ironwood's method of use patents on plecanatide.

During 2013, we transferred ownership of all FV-100 intellectual property rights we acquired from BristolMeyersSquibb Company ("BMS"), in August 2012, to ContraVir, our former majority-owned subsidiary which we spun off to our shareholders on February 18, 2014. The FV-100 assets acquired by ContraVir from us were licensed from University College Cardiff Consultants Limited ("Cardiff") pursuant to the terms of that certain Patent and Technology License Agreement, dated as of February 2, 2005, between Cardiff and Contravir Research Incorporated, an entity with no prior relationship with the Company ("CRI"), as amended March 27, 2007, which ContraVir assumed from us (the "Cardiff Agreement"). Cardiff and Rega Foundation ("Rega") were originally the joint owners of the patent rights. Pursuant to the terms of an agreement, dated September 24, 1998, as amended December 23, 2004, Cardiff received from Rega an exclusive, irrevocable worldwide license to manufacture, use, sell, or otherwise deal in or with products utilizing the patent rights, including the right to grant sublicenses thereunder. We assumed the obligations under the Cardiff Agreement from BMS pursuant to the terms of the BMS Agreement. BMS assumed the obligations under the Cardiff Agreement from Inhibitex Inc. ("Inhibitex") upon its acquisition of Inhibitex in January 2012. Inhibitex assumed the obligations under the Cardiff Agreement upon its acquisition of FermaVir Pharmaceuticals, Inc. ("FermaVir") in September 2010. FermaVir was the successor to CRI in a merger consummated in August 2005.

Patents extend for varying periods according to the date of patent filing or grant and the legal term of patents in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends on the type of patent, the scope of its coverage and the availability of legal remedies in the country.

While trade secret protection is an essential element of our business and we have taken security measures to protect our proprietary information and trade secrets, we cannot give assurance that our unpatented proprietary technology will afford us significant commercial protection. We seek to protect our trade secrets by entering into confidentiality agreements with third parties, employees and consultants. Our employees and consultants also sign agreements requiring that they assign to us their interests in intellectual property arising from their work for us. All employees sign an agreement not to engage in any conflicting employment or activity during their employment with us and not to disclose or misuse our confidential information. However, it is possible that these agreements may be breached or invalidated, and if so, there

may not be an adequate corrective remedy available. Accordingly, we cannot ensure that employees, consultants or third parties will not breach the confidentiality provisions in our contracts, infringe or misappropriate our trade secrets and other proprietary rights or that measures we are taking to protect our proprietary rights will be adequate.

In the future, third parties may file claims asserting that our technologies or products infringe on their intellectual property. We cannot predict whether third parties will assert such claims against us or against the licensors of technology licensed to us, or whether those claims will harm our business. If we are forced to defend ourselves against such claims, whether they are with or without merit and whether they are resolved in favor of, or against, our licensors or us, we may face costly litigation and the diversion of management's attention and resources. As a result of such disputes, we may have to develop costly non-infringing technology or enter into licensing agreements. These agreements, if necessary, may be unavailable on terms acceptable to us, or at all.

Government Regulation

In the United States, pharmaceutical products are subject to extensive regulation by the FDA. The Federal Food and Drug Administration, and Cosmetic Act and other federal and state statutes and regulations, govern, among other things, the research, development, testing, manufacture, storage, recordkeeping, approval, labeling, promotion and marketing, distribution, post-approval monitoring and reporting, sampling, and import and export of pharmaceutical products. The FDA has very broad enforcement authority and failure to abide by applicable regulatory requirements can result in administrative or judicial sanctions being imposed on us, including warning letters, refusals of government contracts, clinical holds, civil penalties, injunctions, restitution, disgorgement of profits, recall or seizure of products, total or partial suspension of production or distribution, withdrawal of approval, refusal to approve pending applications, and criminal prosecution.

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FDA Approval Process

We believe that our product candidates will be regulated by the FDA as drugs. No manufacturer may market a new drug until it has submitted a New Drug Application, or NDA, to the FDA, and the FDA has approved it. The steps required before the FDA may approve an NDA generally include:

- preclinical laboratory tests and animal tests conducted in compliance with FDA's good laboratory practice requirements;
- development, manufacture and testing of active pharmaceutical product and dosage forms suitable for human use in compliance with current good manufacturing practices, or GMP;
- the submission to the FDA of an investigational new drug application, or IND, for human clinical testing, which must become effective before human clinical trials may begin;
- adequate and well-controlled human clinical trials to establish the safety and efficacy of the product for its specific intended use(s);
- the submission to the FDA of a New Drug Application, or NDA; and
- FDA review and approval of the NDA.

Preclinical tests include laboratory evaluation of the product candidate, as well as animal studies to assess the potential safety and efficacy of the product candidate. The conduct of the pre-clinical tests must comply with federal regulations and requirements including good laboratory practices. We must submit the results of the preclinical tests, together with manufacturing information, analytical data and a proposed clinical trial protocol to the FDA as part of an IND, which must become effective before we may commence human clinical trials. The IND will automatically become effective 30 days after its receipt by the FDA, unless the FDA raises concerns or questions before that time about the conduct of the proposed trials. In such a case, we must work with the FDA to resolve any outstanding concerns before clinical trials can proceed. We cannot be sure that submission of an IND will result in the FDA allowing clinical trials to begin, or that, once begun, issues will not arise that suspend or terminate such trials. The study protocol and informed consent information for patients in clinical trials must also be submitted to an institutional review board for approval. An institutional review board may also require the clinical trial at the site to be halted, either temporarily or permanently, for failure to comply with the institutional review board's requirements or may impose other conditions.

Clinical trials involve the administration of the product candidate to humans under the supervision of qualified investigators, generally physicians not employed by or under the trial sponsor's control. Clinical trials are typically conducted in three sequential phases, though the phases may overlap or be combined. In Phase 1, the initial introduction of the drug into healthy human subjects, the drug is usually tested for safety (adverse effects), dosage tolerance and pharmacologic action, as well as to understand how the drug is taken up by and distributed within the body. Phase 2 usually involves studies in a limited patient population (individuals with the disease under study) to:

- evaluate preliminarily the efficacy of the drug for specific, targeted conditions;
- determine dosage tolerance and appropriate dosage as well as other important information about how to design larger Phase 3 trials; and

- identify possible adverse effects and safety risks.

Phase 3 trials generally further evaluate clinical efficacy and test for safety within an expanded patient population. The conduct of the clinical trials is subject to extensive regulation, including compliance with good clinical practice regulations and guidance.

The FDA may order the temporary or permanent discontinuation of a clinical trial at any time or impose other sanctions if it believes that the clinical trial is not being conducted in accordance with FDA requirements or presents an unacceptable risk to the clinical trial patients. We may also suspend clinical trials at any time on various grounds.

The results of the preclinical and clinical studies, together with other detailed information, including the manufacture and composition of the product candidate, are submitted to the FDA in the form of an NDA requesting approval to market the drug. FDA approval of the NDA is required before marketing of the product may begin in the U.S. If the NDA contains all pertinent information and data, the FDA will “file” the application and begin review. The FDA may “refuse to file” the NDA if it does not contain all pertinent information and data. In that case, the applicant may resubmit the NDA when it contains the missing information and data. Once the submission is accepted for filing, the FDA begins an in-depth review. The FDA has agreed to certain performance goals in the review of new drug applications. Most such applications for non-priority drug products are reviewed within 10 months. The review process, however, may be extended by FDA requests for additional information, preclinical or clinical studies, clarification regarding information already provided in the submission, or submission of a risk evaluation and mitigation strategy. The FDA may refer an application to an advisory committee for review, evaluation and recommendation as to whether the application should be approved. The FDA is not bound by the recommendations of an advisory committee, but it considers such

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recommendations carefully when making decisions. Before approving an NDA, the FDA will typically inspect the facilities at which the product candidate is manufactured and will not approve the product candidate unless GMP compliance is satisfactory. FDA also typically inspects facilities responsible for performing animal testing, as well as clinical investigators who participate in clinical trials. The FDA may refuse to approve an NDA if applicable regulatory criteria are not satisfied, or may require additional testing or information. The FDA may also limit the indications for use and/or require post-marketing testing and surveillance to monitor the safety or efficacy of a product. Once granted, product approvals may be withdrawn if compliance with regulatory standards is not maintained or problems are identified following initial marketing.

The testing and approval process requires substantial time, effort and financial resources, and our product candidates may not be approved on a timely basis, if at all. The time and expense required to perform the clinical testing necessary to obtain FDA approval for regulated products can frequently exceed the time and expense of the research and development initially required to create the product. The results of preclinical studies and initial clinical trials of our product candidates are not necessarily predictive of the results from large-scale clinical trials, and clinical trials may be subject to additional costs, delays or modifications due to a number of factors, including difficulty in obtaining enough patients, investigators or product candidate supply. Failure by us to obtain, or any delay in obtaining, regulatory approvals or in complying with requirements could adversely affect the commercialization of product candidates and our ability to receive product or royalty revenues.

Other Regulatory Requirements

After approval, drug products are subject to extensive continuing regulation by the FDA, which include company obligations to manufacture products in accordance with Good Manufacturing Practice, or GMP, maintain and provide to the FDA updated safety and efficacy information, report adverse experiences with the product, keep certain records and submit periodic reports, obtain FDA approval of certain manufacturing or labeling changes, and comply with FDA promotion and advertising requirements and restrictions. Failure to meet these obligations can result in various adverse consequences, both voluntary and FDA-imposed, including product recalls, withdrawal of approval, restrictions on marketing, and the imposition of civil fines and criminal penalties against the NDA holder. In addition, later discovery of previously unknown safety or efficacy issues may result in restrictions on the product, manufacturer or NDA holder.

We and any manufacturers of our products are required to comply with applicable FDA manufacturing requirements contained in the FDA’s GMP regulations. GMP regulations require among other things, quality control and quality assurance as well as the corresponding maintenance of records and documentation. The manufacturing facilities for our products must meet GMP requirements to the satisfaction of the FDA pursuant to a pre-approval inspection before we can use them to manufacture our products. We and any third-party manufacturers are also subject to periodic inspections of facilities by the FDA and other authorities, including procedures and operations used in the testing and manufacture of our products to assess our compliance with applicable regulations.

With respect to post-market product advertising and promotion, the FDA imposes a number of complex regulations on entities that advertise and promote pharmaceuticals, which include, among others, standards for direct-to-consumer advertising, promoting drugs for uses or in patient populations that are not described in the drug’s approved labeling (known as “off-label use”), industry-sponsored scientific and educational activities, and promotional activities involving the internet. Failure to comply with FDA requirements can have negative consequences, including adverse publicity, enforcement letters from the FDA, mandated corrective advertising or communications with doctors, and civil or criminal penalties. Although physicians may prescribe legally available drugs for off-label uses, manufacturers may not market or promote such off-label uses.

Changes to some of the conditions established in an approved application, including changes in indications, labeling, or manufacturing processes or facilities, require submission and FDA approval of a new NDA or NDA supplement before the change can be implemented. An NDA supplement for a new indication typically requires clinical data similar to that in the original application, and the FDA uses the

same procedures and actions in reviewing NDA supplements as it does in reviewing NDAs.

Adverse event reporting and submission of periodic reports is required following FDA approval of an NDA. The FDA also may require post-marketing testing, known as Phase 4 testing, risk minimization action plans and surveillance to monitor the effects of an approved product or place conditions on an approval that could restrict the distribution or use of the product.

Outside the United States, our ability to market a product is contingent upon receiving marketing authorization from the appropriate regulatory authorities. The requirements governing marketing authorization, pricing and reimbursement vary widely from jurisdiction to jurisdiction. At present, foreign marketing authorizations are applied for at a national level, although within the European Union registration procedures are available to companies wishing to market a product in more than one European Union member state.

We are also subject to various environmental, health and safety regulations including those governing laboratory procedures and the handling, use, storage, treatment, and disposal of hazardous materials. From time to time, and in the future, our operations may involve the use of hazardous materials.

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Employees

As of March 16, 2015, we had 35 full-time employees. We believe our employee relations are satisfactory.

Our Website

Our website address is www.synergypharma.com. Information found on our website is not incorporated by reference into this report. We make available free of charge through our website our Securities and Exchange Commission, or SEC, filings furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS.

The risks described below are not the only ones we face. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained or incorporated by reference into this prospectus supplement and the accompanying prospectus, including our financial statements and related notes.

Risks Related to Our Business

We are at an early stage of development as a company and currently have no source of revenue and may never become profitable. We are a development stage biopharmaceutical company. Currently, we have no products approved for commercial sale and, to date, we have not generated any revenue. Our ability to generate revenue depends heavily on:

- our ability to raise additional capital on a timely basis to continue to fund our clinical trials;
- demonstration in current and future clinical trials that our product candidate, plecanatide for the treatment of CIC and IBS-C, is safe and effective;
- our ability to seek and obtain regulatory approvals, including with respect to the indications we are seeking;
- successful manufacture and commercialization of our product candidates; and
- market acceptance of our products.

All of our existing product candidates are in various stages of development and will require extensive additional preclinical and clinical evaluation, regulatory review and approval, significant marketing efforts and substantial investment before they could provide us with any revenue. As a result, even if we successfully develop, achieve regulatory approval and commercialize plecanatide, we will be unable to generate any revenue for many years, if at all. We do not anticipate that we will generate revenue for several years, at the earliest, or that we will achieve profitability for at least several years after generating material revenue, if at all. If we are unable to generate revenue, we will not become profitable, and we may be unable to continue our operations.

We will need to raise substantial additional capital to fund our operations, and our failure to obtain funding when needed may force us to delay, reduce or eliminate our lead product development programs or even discontinue or curtail our operations.

During the twelve months ended December 31, 2014 and December 31, 2013, our operating activities used net cash of approximately \$89 million and \$52.6 million, respectively. Our available-for-sale securities as of December 31, 2014 and December 31, 2013 were \$50 million and \$50 million, respectively, which consists of U.S. Treasury securities with maturities of less than one year. In addition, as of December 31, 2014 and 2013 the amount of our cash and cash equivalents was \$146.5 million and \$18.1 million, respectively, consisting of

checking accounts and short-term money market mutual funds.

We expect to continue to spend substantial amounts to:

- continue clinical development of plecanatide to treat GI disorders;
- continue development of other product candidates, including SP-333;
- finance our general and administrative expenses;
- prepare regulatory approval applications and seek approvals for plecanatide and other product candidates, including SP-333;
- license or acquire additional technologies;
- manufacture product for clinical trials;
- launch and commercialize our product candidates, if any such product candidates receive regulatory approval; and
- develop and implement sales, marketing and distribution capabilities.

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We will need to raise additional capital to fund our future operations and we cannot be certain that funding will be available on acceptable terms on a timely basis, 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 our business. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue the development and/or commercialization of our lead product candidates. We also may be required to:

- seek collaborators for our product candidates at an earlier stage than otherwise would be desirable and on terms that are less favorable than might otherwise be available; and/or
- relinquish license or otherwise dispose of rights to technologies, product candidates or products that we would otherwise seek to develop or commercialize ourselves on unfavorable terms.

We do not have any products that are approved for commercial sale and therefore do not expect to generate any revenues from product sales in the foreseeable future, if ever.

We currently do not have any products that are approved for commercial sale. To date, we have funded our operations primarily from sales of our equity and debt securities. We have not received, and do not expect to receive for at least the next several years, if at all, any revenues from the commercialization of our product candidates. To obtain revenues from sales of our product candidates, we must succeed, either alone or with third parties, in developing, obtaining regulatory approval for, manufacturing and marketing drugs with commercial potential. We may never succeed in these activities, and may not generate sufficient revenues to continue our business operations or achieve profitability.

We have incurred significant losses since inception and anticipate that we will incur continued losses for the foreseeable future.

As of December 31, 2014, we had an accumulated deficit of approximately \$267 million. We expect to incur significant and increasing operating losses for the next several years as we expand our research and development, continue our clinical trials of plecanatide for the treatment of GI disorders, acquire or license technologies, advance other product candidates into clinical development, including SP- 333, complete clinical trials, seek regulatory approval and, if we receive FDA approval, commercialize our products. Because of the numerous risks and uncertainties associated with product development efforts, we are unable to predict the extent of any future losses or when we will become profitable, if at all. If we are unable to achieve and then maintain profitability, the market value of our common stock will likely experience significant decline.

We are largely dependent on the success of our lead product candidate, plecanatide, and we cannot be certain that this product candidate will receive regulatory approval or be successfully commercialized.

We currently have no products for sale, and we cannot guarantee that we will ever have any drug products approved for sale. We and our product candidates are subject to extensive regulation by the FDA and comparable regulatory authorities in other countries governing, among other things, research, testing, clinical trials, manufacturing, labeling, promotion, selling, adverse event reporting and recordkeeping. We are not permitted to market any of our product candidates in or outside the United States until we receive approval of a new drug application, or NDA, for a product candidate from the FDA or the equivalent approval from a foreign regulatory authority. Obtaining FDA approval is a lengthy, expensive and uncertain process. We currently have one lead product candidate, plecanatide for the treatment of GI disorders, and the success of our business currently depends on our successful development, approval and commercialization. This product candidate has not completed the clinical development process; therefore, we have not yet submitted an NDA or foreign equivalent, or received marketing approval for this product candidate anywhere in the world.

The clinical development program for plecanatide may not lead to commercial products for a number of reasons, including if we fail to obtain necessary approvals from the FDA or foreign regulatory authorities because our clinical trials fail to demonstrate to their satisfaction that this product candidate is safe and effective. We may also fail to obtain the necessary approvals if we have inadequate financial or other resources to advance our product candidates through the clinical trial process. Any failure or delay in completing clinical trials or obtaining regulatory approval for plecanatide in a timely manner would have a material adverse impact on our business and our stock price.

We will need to obtain FDA approval of any proposed product brand names, and any failure or delay associated with such approval may adversely impact our business.

A pharmaceutical product cannot be marketed in the U.S. or other countries until it has completed a rigorous and extensive regulatory review processes, including approval of a brand name. Any brand names we intend to use for our product candidates will require approval from the FDA regardless of whether we have secured a formal trademark registration from the U.S. Patent and Trademark Office, or the PTO. The

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FDA typically conducts a review of proposed product brand names, including an evaluation of potential for confusion with other product names. The FDA may also object to a product brand name if we believe the name inappropriately implies medical claims. If the FDA objects to any of our proposed product brand names, we may be required to adopt an alternative brand name for our product candidates. If we adopt an alternative brand name, we would lose the benefit of our existing trademark applications for such product candidate and may be required to expend significant additional resources in an effort to identify a suitable product brand name that would qualify under applicable trademark laws, not infringe the existing rights of third parties and be acceptable to the FDA. We may be unable to build a successful brand identity for a new trademark in a timely manner or at all, which would limit our ability to commercialize our product candidates.

Clinical trials involve a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results.

Our product candidates may not prove to be safe and efficacious in clinical trials and may not meet all the applicable regulatory requirements needed to receive regulatory approval. In order to receive regulatory approval for the commercialization of our product candidates, we must conduct, at our own expense, extensive preclinical testing and clinical trials to demonstrate safety and efficacy of these product candidates for the intended indication of use. Clinical testing is expensive, can take many years to complete, if at all, and its outcome is uncertain. Failure can occur at any time during the clinical trial process.

The results of preclinical studies and early clinical trials of new drugs do not necessarily predict the results of later-stage clinical trials. The design of our clinical trials is based on many assumptions about the expected effects of our product candidates, and if those assumptions are incorrect may not produce statistically significant results. Preliminary results may not be confirmed on full analysis of the detailed results of an early clinical trial. Product candidates in later stages of clinical trials may fail to show safety and efficacy sufficient to support intended use claims despite having progressed through initial clinical testing. The data collected from clinical trials of our product candidates may not be sufficient to support the filing of an NDA or to obtain regulatory approval in the United States or elsewhere. Because of the uncertainties associated with drug development and regulatory approval, we cannot determine if or when we will have an approved product for commercialization or achieve sales or profits.

Delays in clinical testing could result in increased costs to us and delay our ability to generate revenue.

We may experience delays in clinical testing of our product candidates. We do not know whether planned clinical trials will begin on time, will need to be redesigned or will be completed on schedule, if at all. Clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a clinical trial, in securing clinical trial agreements with prospective sites with acceptable terms, in obtaining institutional review board approval to conduct a clinical trial at a prospective site, in recruiting patients to participate in a clinical trial or in obtaining sufficient supplies of clinical trial materials. Many factors affect patient enrollment, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the clinical trial, competing clinical trials and new drugs approved for the conditions we are investigating. Clinical investigators will need to decide whether to offer their patients enrollment in clinical trials of our product candidates versus treating these patients with commercially available drugs that have established safety and efficacy profiles. Any delays in completing our clinical trials will increase our costs, slow down our product development and timeliness and approval process and delay our ability to generate revenue.

The FDA's expectations for clinical trials may change over time, complicating the process of obtaining evidence to support approval of our product candidates.

In May 2012, the FDA's Center for Drugs Evaluation and Research, or CDER, released guidance entitled: "Irritable Bowel Syndrome—Clinical Evaluation of Products for Treatment" to assist the product sponsors developing new drugs for the treatment of IBS. In pertinent part, this document provides recommendations for IBS clinical trial design and endpoints, and describes the need for the future development of patient-reported outcome, or PRO, instruments for use in IBS clinical trials. The clinical trials we have planned for plecanatide are designed to follow the recommendations included in this guidance. The guidance document represents the FDA's thinking on the clinical evaluation of products for the treatment of IBS. FDA guidance documents, however, do not establish legally enforceable requirements, should be viewed only as recommendations, and may be changed at any time. Therefore, even insofar as we intend to follow the recommendations provided in the guidance document, we cannot be sure that the FDA will accept the results of our clinical research even if such research follows the recommendations in the guidance document.

We may be required to suspend or discontinue clinical trials due to unexpected side effects or other safety risks that could preclude

approval of our product candidates.

Our clinical trials may be suspended at any time for a number of reasons. For example, we may voluntarily suspend or terminate our clinical trials if at any time we believe that they present an unacceptable risk to the clinical trial patients. In addition, the FDA or other regulatory agencies may order the temporary or permanent discontinuation of our clinical trials at any time if they believe that the clinical trials are not being conducted in accordance with applicable regulatory requirements or that they present an unacceptable safety risk to the clinical trial patients.

Administering any product candidate to humans may produce undesirable side effects. These side effects could interrupt, delay or halt clinical trials of our product candidates and could result in the FDA or other regulatory authorities denying further development or approval of our product candidates for any or all targeted indications. Ultimately, some or all of our product candidates may prove to be unsafe for human use. Moreover, we could be subject to significant liability if any volunteer or patient suffers, or appears to suffer, adverse health effects as a result of participating in our clinical trials.

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If we fail to comply with healthcare regulations, we could face substantial enforcement actions, including civil and criminal penalties and our business, operations and financial condition could be adversely affected.

As a developer of pharmaceuticals, even though we do not intend to make referrals of healthcare services or bill directly to Medicare, Medicaid or other third-party payors, certain federal and state healthcare laws and regulations pertaining to fraud and abuse, false claims and patients' privacy rights are and will be applicable to our business. We could be subject to healthcare fraud and abuse laws and patient privacy laws of both the federal government and the states in which we conduct our business.

The laws include:

- the federal healthcare program anti-kickback law, which prohibits, among other things, persons from soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual, for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;
- federal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent, and which may apply to entities like us which provide coding and billing information to customers;
- the federal Health Insurance Portability and Accountability Act of 1996, which prohibits executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters and which also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information;
- the Federal Food, Drug, and Cosmetic Act, which among other things, strictly regulates drug manufacturing and product marketing, prohibits manufacturers from marketing drug products for off-label use and regulates the distribution of drug samples; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by federal laws, thus complicating compliance efforts.

If our operations are found to be in violation of any of the laws described above or any governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. Although compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, the risks cannot be entirely eliminated. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert management's attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security and fraud laws may prove costly.

If we are unable to satisfy regulatory requirements, we may not be able to commercialize our product candidates.

We need FDA approval prior to marketing our product candidates in the United States. If we fail to obtain FDA approval to market our product candidates, we will be unable to sell our product candidates in the United States and we will not generate any revenue.

The FDA's review and approval process, including among other things, evaluation of preclinical studies and clinical trials of a product candidate as well as the manufacturing process and facility, is lengthy, expensive and uncertain. To receive approval, we must, among other things, demonstrate with substantial evidence from well-designed and well-controlled pre-clinical testing and clinical trials that the product candidate is both safe and effective for each indication for which approval is sought. Satisfaction of these requirements typically takes several years and the time needed to satisfy them may vary substantially, based on the type, complexity and novelty of the pharmaceutical product. We cannot predict if or when we will submit an NDA for approval for any of our product candidates currently under development. Any approvals we may obtain may not cover all of the clinical indications for which we are seeking approval or may contain significant limitations on the conditions of use.

The FDA has substantial discretion in the NDA review process and may either refuse to file our NDA for substantive review or may decide that our data is insufficient to support approval of our product candidates for the claimed intended uses. Following any regulatory approval of our product candidates, we will be subject to continuing regulatory obligations such as safety reporting, required and additional post marketing obligations, and regulatory oversight of promotion and marketing. Even if we receive regulatory approvals, the FDA may subsequently seek to withdraw approval of our NDA if we determine that new data or a reevaluation of existing data show the product is unsafe for use under the conditions of use upon the basis of which the NDA was approved, or based on new evidence of adverse effects or adverse clinical experience, or upon other new information. If the FDA does not file or approve our NDA or withdraws approval of our NDA, the FDA may require that we

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conduct additional clinical trials, preclinical or manufacturing studies and submit that data before it will reconsider our application. Depending on the extent of these or any other requested studies, approval of any applications that we submit may be delayed by several years, may require us to expend more resources than we have available, or may never be obtained at all.

We will also be subject to a wide variety of foreign regulations governing the development, manufacture and marketing of our products. Whether or not FDA approval has been obtained, approval of a product by the comparable regulatory authorities of foreign countries must still be obtained prior to marketing the product in those countries. The approval process varies and the time needed to secure approval in any region such as the European Union or in a country with an independent review procedure may be longer or shorter than that required for FDA approval. We cannot assure you that clinical trials conducted in one country will be accepted by other countries or that an approval in one country or region will result in approval elsewhere.

If our product candidates are unable to compete effectively with marketed drugs targeting similar indications as our product candidates, our commercial opportunity will be reduced or eliminated.

We face competition generally from established pharmaceutical and biotechnology companies, as well as from academic institutions, government agencies and private and public research institutions. Many of our competitors have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Small or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies. Our commercial opportunity will be reduced or eliminated if our competitors develop and commercialize GI drugs that are safer, more effective, have fewer side effects or are less expensive than our product candidates. These potential competitors compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient enrollment for clinical trials, as well as in acquiring technologies and technology licenses complementary to our programs or advantageous to our business.

If approved and commercialized, plecanatide will compete with at least two currently approved prescription therapies for the treatment of CC and IBS-C, Amitiza and Linzess. In addition, over-the-counter products are also used to treat certain symptoms of CC and IBS-C. We believe other companies are developing products that will compete with plecanatide should they be approved by the FDA. To our knowledge, other potential competitors are in earlier stages of development. If potential competitors are successful in completing drug development for their product candidates and obtain approval from the FDA, they could limit the demand for plecanatide. We expect that our ability to compete effectively will depend upon our ability to:

- successfully and rapidly complete clinical trials and submit for and obtain all requisite regulatory approvals in a cost-effective manner;
- maintain a proprietary position for our products and manufacturing processes and other related product technology;
- attract and retain key personnel;
- develop relationships with physicians prescribing these products; and
- build an adequate sales and marketing infrastructure for our product candidates.

Because we will be competing against significantly larger companies with established track records, we will have to demonstrate that, based on experience, clinical data, side-effect profiles and other factors, our products, if approved, are competitive with other products. If we are unable to compete effectively in the GI drug market and differentiate our products from other marketed GI drugs, we may never generate meaningful revenue.

If we fail to attract and keep senior management and key scientific personnel, we may be unable to successfully develop our product candidates, conduct our clinical trials and commercialize our product candidates.

Our success depends in part on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel and on our ability to develop and maintain important relationships with leading academic institutions, clinicians and scientists. We are highly dependent upon our senior management and scientific staff, particularly Gary S. Jacob, Ph.D., our President and Chief Executive Officer and Kunwar Shailubhai, Ph.D., our Chief Scientific Officer. The loss of services of Dr. Jacob or one or more of our other members of senior management could delay or prevent the successful completion of our planned clinical trials or the commercialization of our product candidates.

The competition for qualified personnel in the biotechnology and pharmaceuticals field is intense. We will need to hire additional personnel as we expand our clinical development and commercial activities. We may not be able to attract and retain quality personnel on acceptable terms given the competition for such personnel among biotechnology, pharmaceutical and other companies.

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We will need to increase the size of our organization, and we may experience difficulties in managing growth.

We are a small company with 33 employees as of March 16, 2015. To continue our clinical trials and commercialize our product candidates, we will need to expand our employee base for managerial, operational, financial and other resources. Future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees. Over the next 12 months depending on the progress of our planned clinical trials, we plan to add additional employees to assist us with our clinical and commercial programs. Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively. To that end, we must be able to:

- manage development efforts effectively;
- manage our clinical trials effectively;
- integrate additional management, administrative, manufacturing and sales and marketing personnel;
- maintain sufficient administrative, accounting and management information systems and controls; and
- hire and train additional qualified personnel.

We may not be able to accomplish these tasks, and our failure to accomplish any of them could harm our financial results and impact our ability to achieve development milestones.

We currently have no sales and marketing organization. If we are unable to establish a direct sales force in the United States to promote our products, the commercial opportunity for our products may be diminished.

We currently have no sales and marketing organization. If any of our product candidates are approved by the FDA, we may market that product through our own sales force. We will incur significant additional expenses and commit significant additional management resources to establish our own sales force. We may not be able to establish these capabilities despite these additional expenditures. We will also have to compete with other pharmaceutical and biotechnology companies to recruit, hire and train sales and marketing personnel. If we elect to rely on third parties to sell our product candidates in the United States, we may receive less revenue than if we sold our products directly. In addition, although we would intend to use due diligence in monitoring their activities, we may have little or no control over the sales efforts of those third parties. In the event we are unable to develop our own sales force or collaborate with a third party to sell our product candidates, we may not be able to commercialize our product candidates which would negatively impact our ability to generate revenue.

We may need to rely on third parties to market and commercialize our product candidates in international markets.

Currently, we do not have any plans to enter international markets. In the future, if appropriate regulatory approvals are obtained, we may commercialize our product candidates in international markets. However, we have not decided how to commercialize our product candidates in those markets. We may decide to build our own sales force or sell our products through third parties. If we decide to sell our product candidates in international markets through a third party, we may not be able to enter into any marketing arrangements on favorable terms or at all. In addition, these arrangements could result in lower levels of income to us than if we marketed our product candidates entirely on our own. If we are unable to enter into a marketing arrangement for our product candidates in international markets, we may not be able to develop an effective international sales force to successfully commercialize those products in international markets. If we fail to enter into marketing arrangements for our products and are unable to develop an effective international sales force, our ability to generate revenue would be limited.

If the manufacturers upon whom we rely fail to produce plecanatide and our other product candidates, including SP-333, in the volumes that we require on a timely basis, or fail to comply with stringent regulations applicable to pharmaceutical drug manufacturers, we may face delays in the development and commercialization of our product candidates.

We do not currently possess internal manufacturing capacity. We currently utilize the services of contract manufacturers to manufacture our clinical supplies. With respect to the manufacturing of plecanatide, we have executed supply agreements with two contract manufacturers sufficient to meet our foreseeable clinical trial requirements. Any curtailment in the availability of plecanatide, however, could result in production or other delays with consequent adverse effects on us. In addition, because regulatory authorities must generally approve raw material sources for pharmaceutical products, changes in raw material suppliers may result in production delays or higher raw material costs.

We continue to pursue additional active pharmaceutical ingredients, or API, and drug product supply agreements with other manufacturers. We may be required to agree to minimum volume requirements, exclusivity arrangements or other restrictions with the contract manufacturers. We may not be able to enter into long-term agreements on commercially reasonable terms, or at all. If we change or add manufacturers, the FDA and comparable foreign regulators may require approval of the changes. Approval of these changes could require new testing by the manufacturer and compliance inspections to ensure the manufacturer is conforming to all applicable laws and regulations, including good manufacturing practices, or GMP. In addition, the new manufacturers would have to be educated in or independently develop the processes necessary for the production of our product candidates. Peptide manufacturing is a highly specialized manufacturing business. While we believe we will have long term arrangements with a sufficient number of contract manufacturers, if we lose a manufacturer, it would take us a substantial amount of time to identify and develop a relationship, and seek regulatory approval, where

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The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products may encounter difficulties in production, particularly in scaling up production. These problems include difficulties with production costs and yields, quality control, including stability of the product and quality assurance testing, shortages of qualified personnel, as well as compliance with federal, state and foreign regulations. In addition, any delay or interruption in the supply of clinical trial supplies could delay the completion of our clinical trials, increase the costs associated with conducting our clinical trials and, depending upon the period of delay, require us to commence new clinical trials at significant additional expense or to terminate a clinical trial.

We are responsible for ensuring that each of our contract manufacturers comply with the GMP requirements of the FDA and other regulatory authorities from which we seek to obtain product approval. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. The approval process for NDAs includes a review of the manufacturer's compliance with GMP requirements. We are responsible for regularly assessing a contract manufacturer's compliance with GMP requirements through record reviews and periodic audits and for ensuring that the contract manufacturer takes responsibility and corrective action for any identified deviations. Manufacturers of plecanatide and other product candidates, including SP-333, may be unable to comply with these GMP requirements and with other FDA and foreign regulatory requirements, if any.

While we will oversee compliance by our contract manufacturers, ultimately we will not have control over our manufacturers' compliance with these regulations and standards. A failure to comply with these requirements may result in fines and civil penalties, suspension of production, suspension or delay in product approval, product seizure or recall, or withdrawal of product approval. If the safety of plecanatide or other product candidates is compromised due to a manufacturers' failure to adhere to applicable laws or for other reasons, we may not be able to obtain regulatory approval for or successfully commercialize plecanatide or other product candidates, and we may be held liable for any injuries sustained as a result. Any of these factors could cause a delay of clinical trials, regulatory submissions, approvals or commercialization of plecanatide or other product candidates, entail higher costs or result in us being unable to effectively commercialize plecanatide or other product candidates. Furthermore, if our manufacturers fail to deliver the required commercial quantities on a timely basis and at commercially reasonable prices, we may be unable to meet demand for any approved products and would lose potential revenues.

We may not be able to manufacture our product candidates in commercial quantities, which would prevent us from commercializing our product candidates.

To date, our product candidates have been manufactured in small quantities for preclinical studies and clinical trials. If any of our product candidates is approved by the FDA or comparable regulatory authorities in other countries for commercial sale, we will need to manufacture such product candidate in larger quantities. We may not be able to increase successfully the manufacturing capacity for any of our product candidates in a timely or economic manner, or at all. Significant scale-up of manufacturing may require additional validation studies, which the FDA must review and approve. If we are unable to increase successfully the manufacturing capacity for a product candidate, the clinical trials as well as the regulatory approval or commercial launch of that product candidate may be delayed or there may be a shortage in supply. Our product candidates require precise, high quality manufacturing. Our failure to achieve and maintain these high quality manufacturing standards in collaboration with our third-party manufacturers, including the incidence of manufacturing errors, could result in patient injury or death, product recalls or withdrawals, delays or failures in product testing or delivery, cost overruns or other problems that could harm our business, financial condition and results of operations.

Materials necessary to manufacture our product candidates may not be available on commercially reasonable terms, or at all, which may delay the development and commercialization of our product candidates.

We rely on the third-party manufacturers of our product candidates to purchase from third-party suppliers the materials necessary to produce the bulk APIs and product candidates for our clinical trials, and we will rely on such manufacturers to purchase such materials to produce the APIs and finished products for any commercial distribution of our products if we obtain marketing approval. Suppliers may not sell these materials to our manufacturers at the time they need them in order to meet our required delivery schedule or on commercially reasonable terms, if at all. We do not have any control over the process or timing of the acquisition of these materials by our manufacturers. Moreover, we currently do not have any agreements for the production of these materials. If our manufacturers are unable to obtain these materials for our clinical trials, testing of the affected product candidate would be delayed, which may significantly impact our ability to develop the product candidate. If we, or our manufacturers, are unable to purchase these materials after regulatory approval has been obtained for one of our products, the commercial launch of such product would be delayed or there would be a shortage in supply of such product, which would harm our ability to generate revenues from such product and achieve or sustain profitability.

Our product candidates, if approved for sale, may not gain acceptance among physicians, patients and the medical community, thereby limiting our potential to generate revenues.

If one of our product candidates is approved for commercial sale by the FDA or other regulatory authorities, the degree of market acceptance of any approved product by physicians, healthcare professionals and third-party payors and our profitability and growth will depend on a number of factors, including:

- demonstration of safety and efficacy;
- changes in the practice guidelines and the standard of care for the targeted indication;

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- relative convenience and ease of administration;
- the prevalence and severity of any adverse side effects;
- budget impact of adoption of our product on relevant drug formularies
- the availability, cost and potential advantages of alternative treatments, including less expensive generic drugs;
- pricing, reimbursement and cost effectiveness, which may be subject to regulatory control;
- effectiveness of our or any of our partners' sales and marketing strategies;
- the product labeling or product insert required by the FDA or regulatory authority in other countries; and
- the availability of adequate third-party insurance coverage or reimbursement.

If any product candidate that we develop does not provide a treatment regimen that is as beneficial as, or is perceived as being as beneficial as, the current standard of care or otherwise does not provide patient benefit, that product candidate, if approved for commercial sale by the FDA or other regulatory authorities, likely will not achieve market acceptance. Our ability to effectively promote and sell any approved products will also depend on pricing and cost-effectiveness, including our ability to produce a product at a competitive price and our ability to obtain sufficient third-party coverage or reimbursement. If any product candidate is approved but does not achieve an adequate level of acceptance by physicians, patients and third-party payors, our ability to generate revenues from that product would be substantially reduced. In addition, our efforts to educate the medical community and third-party payors on the benefits of our product candidates may require significant resources, may be constrained by FDA rules and policies on product promotion, and may never be successful.

Guidelines and recommendations published by various organizations can impact the use of our products candidates.

Government agencies promulgate regulations and guidelines directly applicable to us and to our product candidates. In addition, professional societies, practice management groups, private health and science foundations and organizations involved in various diseases from time to time may also publish guidelines or recommendations to the health care and patient communities. Recommendations of government agencies or these other groups or organizations may relate to such matters as usage, dosage, route of administration and use of concomitant therapies. Recommendations or guidelines suggesting the reduced use of our product candidates or the use of competitive or alternative products that are followed by patients and health care providers could result in decreased use of our proposed product candidates.

If product liability lawsuits are successfully brought against us, we may incur substantial liabilities and may be required to limit commercialization of our product candidates.

We face an inherent risk of product liability lawsuits related to the testing of our product candidates, and will face an even greater risk if we sell our product candidates commercially. Currently, we are not aware of any anticipated product liability claims with respect to our product candidates. In the future, an individual may bring a liability claim against us if one of our product candidates causes, or merely appears to have caused, an injury. If we cannot successfully defend ourselves against the product liability claim, we may incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for our product candidates;
- injury to our reputation;
- withdrawal of clinical trial participants;
- costs of related litigation;
- initiation of investigations by regulators;
- substantial monetary awards to patients or other claimants;
- distraction of management's attention from our primary business;
- product recalls;
- loss of revenue; and
- the inability to commercialize our product candidates.

We have clinical trial liability insurance with a \$5,000,000 aggregate limit. We intend to expand our insurance coverage to include the sale of commercial products if marketing approval is obtained for our product candidates. Our current insurance coverage may prove insufficient to cover any liability claims brought against us. In addition, because of the increasing costs of insurance coverage, we may not be able to maintain insurance coverage at a reasonable cost or obtain insurance coverage that will be adequate to satisfy liabilities that may arise.

Our failure to successfully discover, acquire, develop and market additional product candidates or approved products could impair our ability to grow.

As part of our growth strategy, we intend to develop and market additional products and product candidates. We are pursuing various therapeutic opportunities through our pipeline. We may spend several years completing our development of any particular current or future internal product candidate, and failure can occur at any stage. The product candidates to which we allocate our resources may not end up being successful. In addition, because our internal research capabilities are limited, we may be dependent upon pharmaceutical and biotechnology companies, academic scientists and other researchers to sell or license products or technology to us. The success of this strategy depends partly upon our ability to identify, select, discover and acquire promising pharmaceutical product candidates and products. Failure of this strategy would impair our ability to grow.

The process of proposing, negotiating and implementing a license or acquisition of a product candidate or approved product is lengthy and complex. Other companies, including some with substantially greater financial, marketing and sales resources, may compete with us for the license or acquisition of product candidates and approved products. We have limited resources to identify and execute the acquisition or in-licensing of third-party products, businesses and technologies and integrate them into our current infrastructure. Moreover, we may devote resources to potential acquisitions or in-licensing opportunities that are never completed, or we may fail to realize the anticipated benefits of such efforts. We may not be able to acquire the rights to additional product candidates on terms that we find acceptable, or at all. In addition, future acquisitions may entail numerous operational and financial risks, including:

- disruption of our business and diversion of our management's time and attention to develop acquired products or technologies;
- incurrence of substantial debt, dilutive issuances of securities or depletion of cash to pay for acquisitions;
- higher than expected acquisition and integration costs;
- difficulty in combining the operations and personnel of any acquired businesses with our operations and personnel;
- increased amortization expenses;
- assumption of known and unknown liabilities;
- impairment of relationships with key suppliers or customers of any acquired businesses due to changes in management and ownership; and
- inability to motivate key employees of any acquired businesses.

Further, any product candidate that we acquire may require additional development efforts prior to commercial sale, including extensive clinical testing and approval by the FDA and applicable foreign regulatory authorities. All product candidates are prone to risks of failure typical of pharmaceutical product development, including the possibility that a product candidate will not be shown to be sufficiently safe and effective for approval by regulatory authorities.

Even if our product candidates receive regulatory approval, they may still face future development and regulatory difficulties.

Even if U.S. regulatory approval is obtained, the FDA may still impose significant restrictions on a product's indicated uses or impose ongoing requirements for potentially costly post-approval studies. Plecanatide and our other product candidates, including SP-333, would also be subject to ongoing FDA requirements governing the labeling, packaging, storage, advertising, promotion, recordkeeping and submission of safety and other post-market information. In addition, manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with GMP, regulations. If we or a regulatory agency discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions on that product or the manufacturer, including requiring withdrawal of the product from the market or suspension of manufacturing. If we, our product candidates or the manufacturing facilities for our product candidates fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters;
- impose civil or criminal penalties;
- suspend regulatory approval;
- suspend any ongoing clinical trials;
- refuse to approve pending applications or supplements to applications filed by us;
- impose restrictions on operations, including costly new manufacturing requirements;
- seize or detain products or request us to initiate a product recall; or
- pursue and obtain an injunction.

Drugs approved to treat IBS have been subject to considerable post-market scrutiny, with consequences up to and including voluntary withdrawal of approved products from the market. This may heighten FDA scrutiny of our product candidates before or following market approval.

Products approved for the treatment of IBS have been subject to considerable post-market scrutiny. For example, in 2007, Novartis voluntarily discontinued marketing Zelnorm (tegaserod), a product approved for the treatment of women with IBS-C, after the FDA found an increased risk of serious cardiovascular events associated with the use of the drug. Earlier, in 2000, GlaxoWellcome withdrew Lotronex (alosetron), which was approved for women with severe diarrhea-prominent IBS, after the manufacturer received numerous reports of adverse events or AEs, including ischemic colitis, severely obstructed or ruptured bowel, or death. In 2002, the FDA approved the manufacturer's application to make Lotronex available again, on the condition that the drug only be made available through a restricted marketing program.

Although plecanatide is being investigated for IBS, plecanatide is from a different pharmacologic class than Zelnorm or Lotronex, and would not be expected to share the same clinical risk profile as those agents. Nevertheless, because these products are in the same or related therapeutic classes, it is possible that the FDA will have heightened scrutiny of plecanatide or any other agent under development for IBS. This could delay product approval, increase the cost of our clinical development program, or increase the cost of post-market study commitments for our IBS product candidates, including plecanatide.

Even if our product candidates receive regulatory approval in the United States, we may never receive approval to commercialize them outside of the United States.

In the future, we may seek to commercialize plecanatide and/or our other product candidates, including SP-333, in foreign countries outside of the United States. In order to market any products outside of the United States, we must establish and comply with numerous and varying regulatory requirements of other jurisdictions regarding safety and efficacy. Approvals procedures vary among jurisdictions and can involve product testing and administrative review periods different from, and greater than, those in the United States. The time required to obtain approval in other jurisdictions might differ from that required to obtain FDA approval. The regulatory approval process in other jurisdictions may include all of the risks detailed above regarding FDA approval in the United States as well as other risks. Regulatory approval in one jurisdiction does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one jurisdiction may have a negative effect on the regulatory processes in others. Failure to obtain regulatory approvals in other jurisdictions or any delay or setback in obtaining such approvals could have the same adverse effects detailed above regarding FDA approval in the United States. As described above, such effects include the risks that plecanatide or our other product candidates may not be approved for all indications for use included in proposed labeling or for any indications at all, which could limit the uses of plecanatide or other product candidates and have an adverse effect on our products' commercial potential or require costly post-marketing studies.

We rely on third parties to conduct our clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to seek or obtain regulatory approval for or commercialize our product candidates.

We have agreements with third-party contract research organizations, or CROs, under which we have delegated to the CROs the responsibility to coordinate and monitor the conduct of our clinical trials and to manage data for our clinical programs. We, our CROs and our clinical sites are required to comply with current Good Clinical Practices, or cGCPs, regulations and guidelines issued by the FDA and by similar governmental authorities in other countries where we are conducting clinical trials. We have an ongoing obligation to monitor the activities conducted by our CROs and at our clinical sites to confirm compliance with these requirements. In the future, if we, our CROs or our clinical sites fail to comply with applicable GCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA may require us to perform additional clinical trials before approving our marketing applications. In addition, our clinical trials must be conducted with product produced under cGMP regulations, and will require a large number of test subjects. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

If CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced, or if the quality or accuracy of the clinical data they obtain is compromised due to their failure to adhere to our clinical protocols, regulatory requirements or for other reasons, our clinical trials may be extended, delayed or terminated, and we may not be able to obtain regulatory approval for or successfully commercialize our product candidates. As a result, our financial results and the commercial prospects for our product candidates would be harmed, our costs could increase, and our ability to generate revenue could be delayed.

Reimbursement may not be available for our product candidates, which would impede sales.

Market acceptance and sales of our product candidates may depend on coverage and reimbursement policies and health care reform measures. Decisions about formulary coverage as well as levels at which government authorities and third-party payers, such as private health insurers and health maintenance organizations, reimburse patients for the price they pay for our products as well as levels at which these payors pay directly for our products, where applicable, could affect whether we are able to commercialize these products. We cannot be sure that reimbursement will be available for any of these products. Also, we cannot be sure that coverage or reimbursement amounts will not reduce the demand for, or the price of, our products. We have not commenced efforts to have our product candidates reimbursed by government or third party payors. If coverage and reimbursement are not available or are available only at limited levels, we may not be able to commercialize our products.

In recent years, officials have made numerous proposals to change the health care system in the United States. These proposals include measures that would limit or prohibit payments for certain medical treatments or subject the pricing of drugs to government control. In addition, in many foreign countries, particularly the countries of the European Union, the pricing of prescription drugs is subject to government control. If our products are or become subject to government regulation that limits or prohibits payment for our products, or that subjects the price of our products to governmental control, we may not be able to generate revenue, attain profitability or commercialize our products.

As a result of legislative proposals and the trend towards managed health care in the United States, third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement of new drugs. They may also impose strict prior authorization requirements and/or refuse to provide any coverage of uses of approved products for medical indications other than those for which the FDA has granted market approvals. As a result, significant uncertainty exists as to whether and how much third-party payors will reimburse patients for their use of newly-approved drugs, which in turn will put pressure on the pricing of drugs.

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Healthcare reform measures could hinder or prevent our product candidates' commercial success.

The U.S. government and other governments have shown significant interest in pursuing healthcare reform. Any government-adopted reform measures could adversely impact the pricing of healthcare products and services in the United States or internationally and the amount of reimbursement available from governmental agencies or other third party payors. The continuing efforts of the U.S. and foreign governments, insurance companies, managed care organizations and other payors of health care services to contain or reduce health care costs may adversely affect our ability to set prices for our products which we believe are fair, and our ability to generate revenues and

achieve and maintain profitability.

New laws, regulations and judicial decisions, or new interpretations of existing laws, regulations and decisions, that relate to healthcare availability, methods of delivery or payment for products and services, or sales, marketing or pricing, may limit our potential revenue, and we may need to revise our research and development programs. The pricing and reimbursement environment may change in the future and become more challenging due to several reasons, including policies advanced by the current executive administration in the United States, new healthcare legislation or fiscal challenges faced by government health administration authorities. Specifically, in both the United States and some foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the health care system in ways that could affect our ability to sell our products profitably.

For example, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or the PPACA has substantially changed the way healthcare is financed by both government health plans and private insurers, and significantly impacts the pharmaceutical industry. The PPACA contains a number of provisions that are expected to impact our business and operations in ways that may negatively affect our potential revenues in the future. For example, the PPACA imposes a non-deductible excise tax on pharmaceutical manufacturers or importers that sell branded prescription drugs to U.S. government programs which we believe will increase the cost of our products. In addition, as part of the PPACA's provisions closing a funding gap that currently exists in the Medicare Part D prescription drug program (commonly known as the "donut hole"), we will be required to provide a discount on branded prescription drugs equal to 50% of the government-negotiated price, for drugs provided to certain beneficiaries who fall within the donut hole. Similarly, PPACA increases the level of Medicaid rebates payable by manufacturers of brand-name drugs from 15.1% to 23.1% and requires collection of rebates for drugs paid by Medicaid managed care organizations. The PPACA also includes significant changes to the 340B drug discount program including expansion of the list of eligible covered entities that may purchase drugs under the program. At the same time, the expansion in eligibility for health insurance benefits created under PPACA is expected to increase the number of patients with insurance coverage who may receive our products. While it is too early to predict all the specific effects the PPACA or any future healthcare reform legislation will have on our business, they could have a material adverse effect on our business and financial condition.

Congress periodically adopts legislation like the PPACA and the Medicare Prescription Drug, Improvement and Modernization Act of 2003, that modifies Medicare reimbursement and coverage policies pertaining to prescription drugs. Implementation of these laws is subject to ongoing revision through regulatory and sub regulatory policies. Congress also may consider additional changes to Medicare policies, potentially including Medicare prescription drug policies, as part of ongoing budget negotiations. While the scope of any such legislation is uncertain at this time, there can be no assurances that future legislation or regulations will not decrease the coverage and price that we may receive for our proposed products. Other third-party payors are increasingly challenging the prices charged for medical products and services. It will be time consuming and expensive for us to go through the process of seeking coverage and reimbursement from Medicare and private payors. Our proposed products may not be considered cost-effective, and coverage and reimbursement may not be available or sufficient to allow us to sell our proposed products on a profitable basis. Further federal and state proposals and health care reforms are likely which could limit the prices that can be charged for the product candidates that we develop and may further limit our commercial opportunities. Our results of operations could be materially adversely affected by proposed healthcare reforms, by the Medicare prescription drug coverage legislation, by the possible effect of such current or future legislation on amounts that private insurers will pay and by other health care reforms that may be enacted or adopted in the future.

In September 2007, the Food and Drug Administration Amendments Act of 2007 was enacted, giving the FDA enhanced post-marketing authority, including the authority to require post-marketing studies and clinical trials, labeling changes based on new safety information, and compliance with risk evaluations and mitigation strategies approved by the FDA. The FDA's exercise of this authority could result in delays or increased costs during product development, clinical trials and regulatory review, increased costs to assure compliance with post-approval regulatory requirements, and potential restrictions on the sale and/or distribution of approved products.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our suppliers and business partners, as well as personally identifiable information of clinical trial participants and employees. Similarly, our business partners and third party providers possess certain of our sensitive data. The secure maintenance of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information, including our data being breached at our business partners or third-party providers, could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, disrupt our operations, and damage our reputation which could adversely affect our business.

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Our clinical activities involve the handling of hazardous materials, and we must comply with environmental laws and regulations, which can be expensive and restrict how we do business.

Our pre-clinical and clinical activities involve the controlled storage, use and disposal of hazardous materials. We are subject to federal, state, city and local environmental, health and safety laws and regulations governing, among other matters, the use, manufacture, storage, handling and disposal of these hazardous materials. We cannot eliminate the risk of accidental contamination or injury from these materials. In the event of an accident or if we fail to comply with such laws or regulations, local, city, state or federal authorities may curtail the use of these materials and interrupt our business operations or impose sanctions, such as fines, and we could be liable for any resulting damages or liabilities. We do not currently maintain hazardous materials insurance coverage.

Our ability to use our net operating loss carry forwards may be subject to limitation.

Generally, a change of more than 50% in the ownership of a company's stock, by value, over a three-year period constitutes an ownership change for U.S. federal income tax purposes. An ownership change may limit our ability to use our net operating loss carryforwards attributable to the period prior to the change. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset U.S. federal taxable income may become subject to limitations, which could potentially result in increased future tax liability for us. At December 31, 2014, we had net operating loss (NOL) carryforwards aggregating approximately \$284 million. We have determined that an ownership change occurred as of April 30, 2003 pursuant to Section 382 of the Internal Revenue Code of 1986, as amended, or the Code. In addition, the shares of our common stock that we issued from July 14, 2008 through July 8, 2010 have resulted in an additional ownership change. Finally the merger with Callisto Pharmaceuticals, Inc. concluded on January 17, 2013 was a 100% change of control with respect to Callisto NOL carryforwards. As a result of these events, our ability to utilize our operating loss carryforwards discussed above is significantly limited.

Risks Related to our Intellectual Property

It is difficult and costly to protect our proprietary rights, and we may not be able to ensure protection of such rights.

Our commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection of our product candidates, and the methods used to manufacture them, as well as successfully defending these patents against third-party challenges. We will only be able to protect our product candidates from unauthorized making, using, selling and offering to sell or importation by third parties to the extent that we have rights under valid and enforceable patents or trade secrets that cover these activities.

Patents and Proprietary Rights

As of March 6, 2015 we have 15 issued United States patents related to guanylate cyclase agonists. Two of these patents cover the composition-of-matter of plecanatide and were issued on May 9, 2006 and September 21, 2010; they will expire in 2023 and 2022, respectively. The patent that issued on May 9, 2006 has claims directed to the species of plecanatide, whereas the patent that issued on September 21, 2010 has claims directed to a genus of peptides that are identical in length to plecanatide and is inclusive of plecanatide. A third patent covers the composition-of-matter of SP-333 issued on February 1, 2011 and expires in 2028. A fourth patent granted October 11, 2011 covers the composition-of-matter of certain analogs related to plecanatide and SP-333 and will expire in 2029. A fifth patent granted February 14, 2012 covers certain methods of treating inflammatory bowel disease using plecanatide and will expire in 2022. A sixth patent granted January 28, 2014 covers methods of stimulating water transport in the gastrointestinal tract using plecanatide and will expire in 2022. A seventh patent granted June 26, 2012 covers an additional composition-of-matter related to certain analogs of plecanatide and SP-333 and will expire in 2029. An eighth patent granted on January 22, 2013 covers another composition-of-matter related to certain analogs of plecanatide and will expire in 2029. A ninth patent granted on July 30, 2013 covers another composition-of-matter related to certain analogs of plecanatide and will expire in 2029. Another three patents that also cover compositions-of-matter related to certain analogs of plecanatide were issued on February 5, 2013, October 29, 2013, and March 4, 2014 and will expire in 2029. A thirteenth patent granted May 6, 2014 covers certain methods of treating a variety of gastrointestinal and other disorders using SP-333 and will expire in 2029. A fourteenth patent granted December 2, 2014 and covers composition-of-matter of SP-333 and expires in 2028. A fifteenth patent granted on March 3, 2015 and covers methods of use of plecanatide and expires in 2031. In addition, we have four granted foreign patents which cover the composition-of-matter of plecanatide and expire in 2022. These foreign patents cover Austria, Belgium, Switzerland, Cyprus, Germany, Denmark, Spain, Finland, France, the United Kingdom, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, the Netherlands, Portugal, Sweden, Turkey, Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Canada and Japan. We also have six granted foreign patents that cover the composition-of-matter related to SP-333 that expire in 2028. These patents cover Switzerland, Germany, Denmark, Spain, France, the United Kingdom, Ireland, Italy, the Netherlands, Hong Kong, Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, the Russian Federation, Tajikistan, Turkmenistan, China, Australia, Japan and Mexico. We also have two foreign patents that cover composition-of-matter of certain analogs related to plecanatide and expire in 2029. This patent covers Australia, France, Germany, Italy, Spain and the United Kingdom.

Additionally, as of the date of this report on Form 10-K, we have 13 pending United States utility patent applications; 2 pending U.S. provisional applications; and 66 pending foreign patent applications relating to plecanatide and SP-333, various derivatives and analogs of plecanatide and SP-333, and their uses and manufacture.

In April 2010, two parties filed an opposition to one of our granted European patents with the European Patent Office. An opposition hearing was held December 14, 2011, which resulted in the European Patent Office issuing the following statement: "Account being taken of the amendments made by the patent proprietor during the opposition proceedings, the patent and the invention to which it relates are found to meet the requirements of the European Patent Convention (Art.101(3)(a)EPC)." In particular, the composition-of-matter claim covering plecanatide was upheld.

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On September 14, 2012 we entered into a binding letter of intent with Ironwood Pharmaceuticals, Inc. ("Ironwood"), pursuant to which we and Ironwood agreed to enter into a definitive license agreement giving us an exclusive worldwide license to Ironwood's method of use patents on plecanatide for the treatment of chronic constipation, or CC. The letter of intent contemplates a low single digit royalty on net sales of plecanatide and both parties agreed not to challenge each other's patents covering certain GC-C agonists, except that we retain the right to challenge Ironwood's method of use patents on plecanatide.

During 2013, we transferred ownership of all FV-100 intellectual property rights we acquired from BristolMeyersSquib Company

("BMS"), in August 2012, to ContraVir, our former majority-owned subsidiary which we spun off to our shareholders on February 18, 2014. The FV-100 assets acquired by ContraVir from us are licensed from University College Cardiff Consultants Limited ("Cardiff") pursuant to the terms of that certain Patent and Technology License Agreement, dated as of February 2, 2005, between Cardiff and Contravir Research Incorporated, an entity with no prior relationship with the Company ("CRI"), as amended March 27, 2007, which ContraVir assumed from us (the "Cardiff Agreement"). Cardiff and Rega Foundation ("Rega") were originally the joint owners of the patent rights. Pursuant to the terms of an agreement, dated September 24, 1998, as amended December 23, 2004, Cardiff received from Rega an exclusive, irrevocable worldwide license to manufacture, use, sell, or otherwise deal in or with products utilizing the patent rights, including the right to grant sublicenses thereunder. We assumed the obligations under the Cardiff Agreement from BMS pursuant to the terms of the BMS Agreement. BMS assumed the obligations under the Cardiff Agreement from Inhibitex Inc. ("Inhibitex") upon its acquisition of Inhibitex in January 2012. Inhibitex assumed the obligations under the Cardiff Agreement upon its acquisition of FermaVir Pharmaceuticals, Inc. ("FermaVir") in September 2010. FermaVir was the successor to CRI in a merger consummated in August 2005.

For example:

- others may be able to make compounds that are competitive with our products but that are not covered by the claims of our patents;
- we may not have been the first to make the inventions covered by our pending patent applications;
- we may not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative technologies or duplicate any of our technologies;
- it is possible that our pending patent applications will not result in issued patents
- it is possible that our issued patents could be narrowed in scope, invalidated, held to be unenforceable, or circumvented;
- we may not develop additional proprietary technologies that are patentable; or
- the patents of others may have an adverse effect on our business.

We also may rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. While we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third party illegally obtained and is using our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights and we may be unable to protect our rights to, or use, our technology.

If we choose to go to court to stop someone else from using the inventions claimed in our patents, that individual or company has the right to ask the court to rule that these patents are invalid and/or should not be enforced against that third party. These lawsuits are expensive and would consume time and other resources even if we were successful in stopping the infringement of these patents. In addition, there is a risk that the court will decide that these patents are not valid and that we do not have the right to stop the other party from using the inventions. There is also the risk that, even if the validity of these patents is upheld, the court will refuse to stop the other party on the ground that such other party's activities do not infringe our rights to these patents.

Furthermore, a third party may claim that we are using inventions covered by the third party's patent rights and may go to court to stop us from engaging in our normal operations and activities, including making or selling our product candidates. These lawsuits are costly and could affect our results of operations and divert the attention of managerial and technical personnel. There is a risk that a court would decide that we are infringing the third party's patents and would order us to stop the activities covered by the patents. In addition, there is a risk that a court

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will order us to pay the other party damages for having violated the other party's patents. The biotechnology industry has produced a proliferation of patents, and it is not always clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that our products or methods of use either do not infringe the patent claims of the relevant patent and/or that the patent claims are invalid, and we may not be able to do this. Proving invalidity, in particular, is difficult since it requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents.

Because some patent applications in the United States may be maintained in secrecy until the patents are issued, patent applications in the United States and many foreign jurisdictions are typically not published until eighteen months after filing, and publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our issued patents or our pending applications or that we were the first to invent the technology. Our competitors have filed, and may in the future file, patent applications covering technology similar to ours. Any such patent application may have priority over our patent applications and could further require us to obtain rights to issued patents covering such technologies. If another party has filed a United States patent application on inventions similar to ours, we may have to participate in an interference proceeding declared by the PTO, to determine priority of invention in the United States. The costs of these proceedings could be substantial, and it is possible that such efforts would be unsuccessful, resulting in a loss of our United States patent position with respect to such inventions.

Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submissions, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

The PTO and various foreign governmental patent agencies require compliance with a number of procedural, documentaries, fee payment and other provisions during the patent process. There are situations in which noncompliance can result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, competitors might be able to enter the market earlier than would otherwise have been the case.

We have not yet registered trademarks for plecanatide in our potential markets, and failure to secure those registrations could adversely affect our ability to market our product candidate and our business.

We have not yet registered trademarks for plecanatide in any jurisdiction. Our trademark applications in the United States, when filed, and any other jurisdictions where we may file may not be allowed for registration, and our registered trademarks may not be maintained or enforced. During trademark registration proceedings, we may receive rejections. Although we are given an opportunity to respond to those rejections, we may be unable to overcome such rejections. In addition, in the PTO and in comparable agencies in many foreign jurisdictions, third parties are given an opportunity to oppose pending trademark applications and to seek to cancel registered trademarks. Opposition or cancellation proceedings may be filed against our trademarks, and our trademarks may not survive such proceedings. Failure to secure such trademark registrations in the United States and in foreign jurisdictions could adversely affect our ability to market our product candidates and our business.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information and may not adequately protect our intellectual property, which could limit our ability to compete.

Because we operate in the highly technical field of research and development of small molecule drugs, we rely in part on trade secret protection in order to protect our proprietary trade secrets and unpatented know-how. However, trade secrets are difficult to protect, and we cannot be certain that others will not develop the same or similar technologies on their own. We have taken steps, including entering into confidentiality agreements with our employees, consultants, outside scientific collaborators, sponsored researchers and other advisors, to protect our trade secrets and unpatented know-how. These agreements generally require that the other party keep confidential and not disclose to third parties all confidential information developed by the party or made known to the party by us during the course of the party's relationship with us. We also typically obtain agreements from these parties that provide that inventions conceived by the party in the course of rendering services to us will be our exclusive property. However, these agreements may not be honored and may not effectively assign intellectual property rights to us. Enforcing a claim that a party illegally obtained and is using our trade secrets or know-how is difficult, expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets or know-how. The failure to obtain or maintain trade secret protection could adversely affect our competitive position.

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We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

As is common in the biotechnology and pharmaceutical industry, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Risks Related to the Notes

The indenture contains covenants limiting our financial and operating flexibility.

The indenture contains covenants that will restrict our ability and the ability of certain of our subsidiaries to:

- incur or guarantee additional indebtedness, other than subordinated debt;
- declare or pay any dividends on our or our subsidiaries' capital stock;
- redeem or repurchase capital stock or prepay or repurchase subordinated debt; or
- sell or license rights in North America to or otherwise encumber any of the intellectual property related to plecanatide.

These restrictive covenants could limit our ability to pursue our growth plans, restrict our flexibility in planning for, or reacting to, changes in our business and industry and increase our vulnerability to general adverse economic and industry conditions. We may enter into additional financing arrangements in the future, which could further restrict our flexibility.

Any defaults of covenants contained in the Notes may lead to an event of default under the Notes and the indenture. We may not be able to pay any amounts due to holders of the Notes in the event of such default, and such default may significantly impair our ability to satisfy our obligations under the Notes.

We will not make any adjustment to the conversion rate for Notes converted in connection with a fundamental change, and noteholders will not be compensated for any lost value of their Notes as a result of such transaction.

We will not increase or make any other adjustment to the conversion rate upon a conversion of Notes in connection with a fundamental change or similar event. Therefore, noteholders will not be compensated for any lost value of their Notes as a result of such transaction.

The Notes are effectively subordinated to any of our future secured debt and any liabilities of our subsidiaries.

The Notes will rank senior in right of payment to our future indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to our trade payables and other future unsecured indebtedness that is not so subordinated; effectively junior to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all future indebtedness (including trade payables) incurred by our subsidiaries. In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure debt ranking senior or equal in right of payment to the Notes will be available to pay obligations on the Notes only after the secured debt has been repaid in full. There may not be sufficient assets remaining to pay amounts due on any or all of the Notes then outstanding.

Servicing our debt will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

Recent regulatory actions may adversely affect the trading price and liquidity of the Notes.

We expect that investors in, and potential purchasers of, the Notes may employ, or seek to employ, an arbitrage strategy with respect to the Notes. Investors that employ an arbitrage strategy with respect to the Notes typically implement that strategy by selling short the common stock underlying the Notes and dynamically adjusting their short position while they hold the Notes. Investors may also implement this hedging strategy by entering into swaps on our common stock in lieu of or in addition to short selling the common stock.

The Securities and Exchange Commission (“SEC”) and other regulatory and self-regulatory authorities have implemented various rules and may adopt additional rules in the future that may impact those engaging in short selling activity involving equity securities (including our common stock), including Rule 201 of SEC regulation SHO, the Financial Industry Regulatory Authority, Inc.’s “Limit Up-Limit Down” program, market-wide circuit breaker systems that halt trading of stock for certain periods following specific market declines, and rules

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stemming from the enactment and implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Past regulatory actions, including emergency actions or regulations, have had a significant impact on the trading prices and liquidity of equity-linked instruments. Any governmental action that similarly restricts the ability of investors in, or potential purchasers of, the Notes to effect short sales of our common stock could similarly adversely affect the trading price and the liquidity of the Notes.

Volatility in the market price and trading volume of our common stock could adversely impact the trading price of the Notes.

The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The market price of our common stock could fluctuate significantly for many reasons, including in response to the risks described in this section, elsewhere in this Annual Report on Form 10-K or the documents we have incorporated by reference in this Annual Report on Form 10-K or for reasons unrelated to our operations, such as reports by industry analysts, investor perceptions or negative announcements by our customers, competitors or suppliers regarding their own performance, as well as industry conditions and general financial, economic and political instability. A decrease in the market price of our common stock would likely adversely impact the trading price of the Notes. The market price of our common stock could also be affected by possible sales of our common stock by investors who view the Notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving our common stock. This trading activity could, in turn, affect the trading prices of the Notes. This may result in greater volatility in the trading price of the Notes than would be expected for non-convertible debt securities.

Subject to certain limitations, we continue to have the ability to incur debt; if we incur substantial additional debt, these higher levels of debt may affect our ability to pay the principal of and interest on the Notes.

Subject to certain limitations, we and our subsidiaries may be able to incur substantial additional debt in the future, some of which may be secured debt. The indenture governing the Notes does not restrict our ability to incur additional subordinated indebtedness or require us to maintain financial ratios or specified levels of net worth or liquidity. If we incur substantial additional indebtedness in the future, these higher levels of indebtedness may affect our ability to pay the principal of and interest on the Notes, or any fundamental change purchase price, and our creditworthiness generally.

We may not have the ability to raise the funds necessary to purchase the Notes as required upon a fundamental change, and our

future debt may contain limitations on our ability to purchase of the Notes.

Following a fundamental change as defined, holders of Notes will have the right to require us to purchase their Notes for cash. A fundamental change may also constitute an event of default or prepayment under, and result in the acceleration of the maturity of, our then-existing indebtedness. We cannot assure noteholders that we will have sufficient financial resources, or will be able to arrange financing, to pay the fundamental change purchase price in cash with respect to any Notes surrendered by holders for purchase upon a fundamental change. In addition, restrictions in our then existing credit facilities or other indebtedness, if any, may not allow us to purchase the Notes upon a fundamental change. Our failure to purchase the Notes upon a fundamental change when required would result in an event of default with respect to the Notes which could, in turn, constitute a default under the terms of our other indebtedness, if any. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and purchase the Notes.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to purchase the Notes.

Upon the occurrence of a fundamental change as defined, noteholders have the right to require us to purchase their Notes. However, the fundamental change provisions will not afford protection to holders of Notes in the event of certain transactions that could adversely affect the Notes. For example, transactions such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated by us would not constitute a fundamental change requiring us to repurchase the Notes. In addition, holders will not be entitled to require us to purchase their Notes upon a significant change in the composition of our board. In the event of any such transaction, holders of the Notes would not have the right to require us to purchase their Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting holders of the Notes.

Future sales of our common stock in the public market could lower the market price for our common stock and adversely impact the trading price of the Notes.

In the future, we may sell additional shares of our common stock to raise capital. In addition, a substantial number of shares of our common stock are reserved for issuance upon the exercise of stock options and warrants and upon conversion of the Notes. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock, or the perception that such issuances and sales may occur, could adversely affect the trading price of the Notes and the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

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The Notes may not have an active market, and the price may be volatile, so noteholders may be unable to sell their Notes at the price they desire or at all.

The Notes are a new issue of securities for which there is currently no active trading market. We cannot be certain that a liquid market will develop for the Notes, that noteholders will be able to sell any of the Notes at a particular time (if at all) or that the prices they receive if or when noteholders sell the Notes will be above their initial offering price. In addition, we do not intend to apply to list the Notes on any securities exchange or for inclusion of the Notes on any automated dealer quotation system. The initial purchasers have advised us that they intend to make a market in the Notes, but they are not obligated to do so and may discontinue any market-making in the Notes at any time in their sole discretion and without notice. Future trading prices of the Notes on any market that may develop will depend on many factors, including our operating performance and financial condition, prevailing interest rates, the market for similar securities and general economic conditions.

Moreover, even if noteholders are able to sell their Notes, they may not receive a favorable price for their Notes. Future trading prices of the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results, the price of our common stock and the market for similar securities. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the Notes will be subject to disruptions that may have a negative effect on the holders of the Notes, regardless of our prospects or financial performance.

Any adverse rating of the Notes may negatively affect the trading price and liquidity of the Notes and the price of our common stock.

We do not intend to seek a rating on the Notes. However, if a rating service were to rate the Notes and if such rating service were to assign the Notes a rating lower than the rating expected by investors or were to lower its rating on the Notes below the rating initially assigned to the Notes or otherwise announce its intention to put the Notes on credit watch, the trading price or liquidity of the Notes and the price of our common stock could decline.

The conversion rate of the Notes may not be adjusted for all dilutive events.

The conversion rate of the Notes is subject to adjustment for certain events, including, but not limited to, the issuance to all or substantially all holders of our common stock of stock dividends, certain rights, options or warrants, capital stock, indebtedness, assets or cash, and subdivisions and combinations of our common stock, and certain issuer tender or exchange offers as defined. However, the conversion rate will not be adjusted for other events, such as a third-party tender or exchange offer or an issuance of common stock for cash, that may adversely affect the trading price of the Notes or the common stock. An event that adversely affects the value of the Notes may occur, and that event may not result in an adjustment to the conversion rate.

The Notes are protected by restrictive covenants only to a limited extent.

The indenture governing the Notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture does not contain covenants or other provisions to afford protection to holders of the Notes in the event of a fundamental change except as defined. We could engage in many types of transactions, such as acquisitions, refinancings or recapitalizations that could substantially affect our capital structure and the value of the Notes and shares of our common stock but may not constitute a fundamental change that permits holders to require us to purchase their Notes. For these reasons, noteholders should not consider the covenants in the indenture or the fundamental change purchase feature of the Notes as significant factors in evaluating whether to invest in the Notes.

The issuance of shares of common stock upon conversions of the Notes will dilute the ownership interest of our existing stockholders, including holders who had previously converted their Notes.

The issuance of shares of common stock upon the conversion of some or all of the Notes will dilute the ownership interests of our existing stockholders. Any sales in the public market of such shares of our common stock could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could depress the price of our common stock.

Noteholders are not entitled to any rights with respect to our common stock, but are subject to all changes made with respect to our common stock to the extent noteholders convert their Notes and receive shares of our common stock.

Holders who convert their Notes will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock) until the conversion date relating to such Notes, but holders of Notes will be subject to all changes affecting our common stock. For example, if an amendment is proposed to our certificate of incorporation or by-laws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to the conversion date with respect to any Notes surrendered for conversion, then the holder surrendering such Notes will not be entitled to vote on the amendment, although such holder will nevertheless be subject to any changes affecting our common stock.

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Upon conversion of the Notes, holders may receive less valuable consideration than expected because the value of our common stock may decline after they exercise their conversion right but before we settle our conversion obligation.

Under the Notes, a converting holder will be exposed to fluctuations in the value of our common stock during the period from the date such holder surrenders Notes for conversion until the date we settle our conversion obligation.

Upon conversion of the Notes, we will be required to deliver the shares of our common stock, together with cash for any fractional share, on the third business day following the relevant conversion date. Accordingly, if the price of our common stock decreases during this period, the value of the shares that you receive will be adversely affected and would be less than the conversion value of the Notes on the conversion date.

The fundamental change purchase feature of the Notes may delay or prevent an otherwise beneficial attempt to take over our company.

The terms of the Notes require us to offer to purchase the Notes for cash in the event of a fundamental change, as defined. A non-stock takeover of our company may trigger the requirement that we purchase the Notes. This feature may have the effect of delaying or preventing a takeover of our company that would otherwise be beneficial to investors.

Risks Related to Our Common Stock

The market price of our common stock may be volatile and adversely affected by several factors.

The market price of our common stock could fluctuate significantly in response to various factors and events, including:

- our ability to integrate operations, technology, products and services;
- our ability to execute our business plan;
- operating results below expectations;
- announcements concerning product development results, including clinical trial results, or intellectual property rights of others;
- litigation or public concern about the safety of our potential products;
- our issuance of additional securities, including debt or equity or a combination thereof, necessary to fund our operating expenses;
- announcements of technological innovations or new products by us or our competitors;
- loss of any strategic relationship;
- industry developments, including, without limitation, changes in healthcare policies or practices or third-party reimbursement policies;
- economic and other external factors;
- period-to-period fluctuations in our financial results; and

- whether an active trading market in our common stock develops and is maintained.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

We have not paid cash dividends in the past and do not expect to pay cash dividends in the foreseeable future. Any return on investment in shares of common stock may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our capital stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on any investment in shares of our common stock will only occur if the common stock price appreciates.

A sale of a substantial number of shares of the common stock may cause the price of our common stock to decline.

If our stockholders sell, or the market perceives that our stockholders intend to sell for various reasons, substantial amounts of our common stock in the public market it may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

The stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for the common stock of biotechnology and biopharmaceutical companies. These broad market fluctuations may cause the market price of our common stock to decline. In the past, securities class action litigation has often been brought against a company following a decline in the market price of our securities. This risk is especially relevant for us because biotechnology and biopharmaceutical companies have experienced significant stock price volatility in recent years. We may become involved in this type of litigation in the future. Litigation often is expensive and diverts management's attention and resources, which could adversely affect our business.

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Our quarterly operating results may fluctuate significantly.

We expect our operating results to be subject to quarterly fluctuations. Our net loss and other operating results will be affected by numerous factors, including:

- variations in the level of expenses related to our development programs;
- initiation or completion of clinical trials;
- any intellectual property infringement lawsuit in which we may become involved;
- regulatory developments affecting our product candidates;
- our execution of any collaborative, licensing or similar arrangements, and the timing of payments under these arrangements; and
- if plecanatide receives regulatory approval, the level of underlying demand for that product and wholesalers' buying patterns.

If our quarterly operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Furthermore, any quarterly fluctuations in our operating results may, in turn, cause the price of our common stock to fluctuate substantially.

If we fail to comply with the rules under the Sarbanes-Oxley Act of 2002 related to accounting controls and procedures, or if we discover material weaknesses and deficiencies in our internal control and accounting procedures, our stock price could decline significantly and raising capital could be more difficult.

If we fail to comply with the rules under the Sarbanes-Oxley Act of 2002 related to disclosure controls and procedures, or, if we discover material weaknesses and other deficiencies in our internal control and accounting procedures, our stock price could decline significantly and raising capital could be more difficult. Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent auditors addressing these assessments. If material weaknesses or significant deficiencies are discovered or if we otherwise fail to achieve and maintain the adequacy of our internal control, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our common stock could drop significantly.

Our certificate of incorporation and bylaws and Delaware law may have anti-takeover effects that could discourage, delay or prevent a change in control, which may cause our stock price, and the value of the Notes, to decline.

Our certificate of incorporation and bylaws and Delaware law could make it more difficult for a third party to acquire us, even if closing such a transaction would be beneficial to our stockholders or holders of the Notes. We are authorized to issue up to 20,000,000 shares of preferred stock. This preferred stock may be issued in one or more series, the terms of which may be determined at the time of

issuance by our board of directors without further action by stockholders. The terms of any series of preferred stock may include voting rights (including the right to vote as a series on particular matters), preferences as to dividend, liquidation, conversion and redemption rights and sinking fund provisions. No preferred stock is currently outstanding. The issuance of any preferred stock could materially adversely affect the rights of the holders of our common stock, and therefore, reduce the value of our common stock and the Notes. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell our assets to, a third party and thereby preserve control by the present management.

Provisions of our second amended and restated certificate of incorporation and bylaws and Delaware law also could have the effect of discouraging potential acquisition proposals or making a tender offer or delaying or preventing a change in control, including changes a stockholder or holder of the Notes might consider favorable. Such provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. In particular, the certificate of incorporation and bylaws and Delaware law, as applicable, among other things:

- provide the board of directors with the ability to alter the bylaws without stockholder approval;
- place limitations on the removal of directors; and
- provide that vacancies on the board of directors may be filled by a majority of directors in office, although less than a quorum.

We are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits “business combinations” between a publicly-held Delaware corporation and an “interested stockholder,” which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation’s voting stock for a three-year period following the date that such stockholder became an interested stockholder. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to first negotiate with our board. These provisions may delay or prevent someone from acquiring or merging with us, which may cause the market price of our common stock and the value of the Notes to decline.

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

None

ITEM 2. PROPERTIES.

Our corporate headquarters is located at 420 Lexington Avenue, New York, NY 10170. On June 30, 2014, we entered into a Lease Amendment of our New York office, (a) adding approximately 1,800 square feet of contiguous office to our existing lease of approximately 6,700 square feet and (b) extending our existing lease for additional three years to March 2022, to be coterminous with our new space. This lease amendment results in total monthly rent of approximately \$51,000 on straight line basis, prospectively.

We also maintain a research and development laboratory and several offices in the Bucks County Biotechnology Center in Doylestown, Pennsylvania under a lease through December 31, 2015, at a monthly rate of approximately \$3,600.

Rent expense for the twelve months ended December 31, 2014, 2013 and 2012 totaled approximately \$651,000, \$575,000 and \$300,000, respectively.

ITEM 3. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm business.

There are currently no pending legal proceedings to which we or any of our subsidiaries is a party or of which any of its property is the subject that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results. As far as we are aware, no governmental authority is contemplating any such proceeding.

ITEM 4. Mine Safety Disclosures

Not Applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Prices

From August 11, 2008 until February 18, 2011, our common stock was quoted on the Over the Counter Bulletin Board under the symbol "SGYP.OB." From February 22, 2011 until November 30, 2011 our common stock was traded on the OTC QB under the symbol "SGYP." Since December 1, 2011 our common stock has been traded on The NASDAQ Capital Market under the symbol "SGYP". On February 21, 2013 our common stock began trading on The NASDAQ Global Market under the symbol "SGYP". On January 2, 2014 our common stock began trading on the NASDAQ Global Select Market under the symbol "SGYP".

The following table shows the reported high and low closing prices per share for our common stock as reported on The NASDAQ Global Market, and NASDAQ Global Select Market during the periods indicated.

	<u>High</u>	<u>Low</u>
Year ended December 31, 2013		
First quarter	\$ 6.61	\$ 5.30
Second quarter	\$ 7.20	\$ 4.32
Third quarter	\$ 4.90	\$ 3.93
Fourth quarter	\$ 5.64	\$ 3.84
Year ended December 31, 2014		
First quarter	\$ 6.51	\$ 4.78
Second quarter	\$ 5.28	\$ 3.58
Third quarter	\$ 4.24	\$ 2.79
Fourth quarter	\$ 3.58	\$ 2.57

Holders of Common Stock

As of March 16, 2015, we had 455 holders of record of our common stock.

Dividends

Historically, we have not declared or paid any cash dividends to the holders of our common stock and we do not expect to pay any such dividends in the foreseeable future as we expect to retain our future earnings for use in the operation and expansion of our business.

On January 28, 2014, our Board of Directors declared a stock dividend of .0986 ContraVir shares for each share of our common stock held as of the record date of February 6, 2014, which was distributed on February 18, 2014.

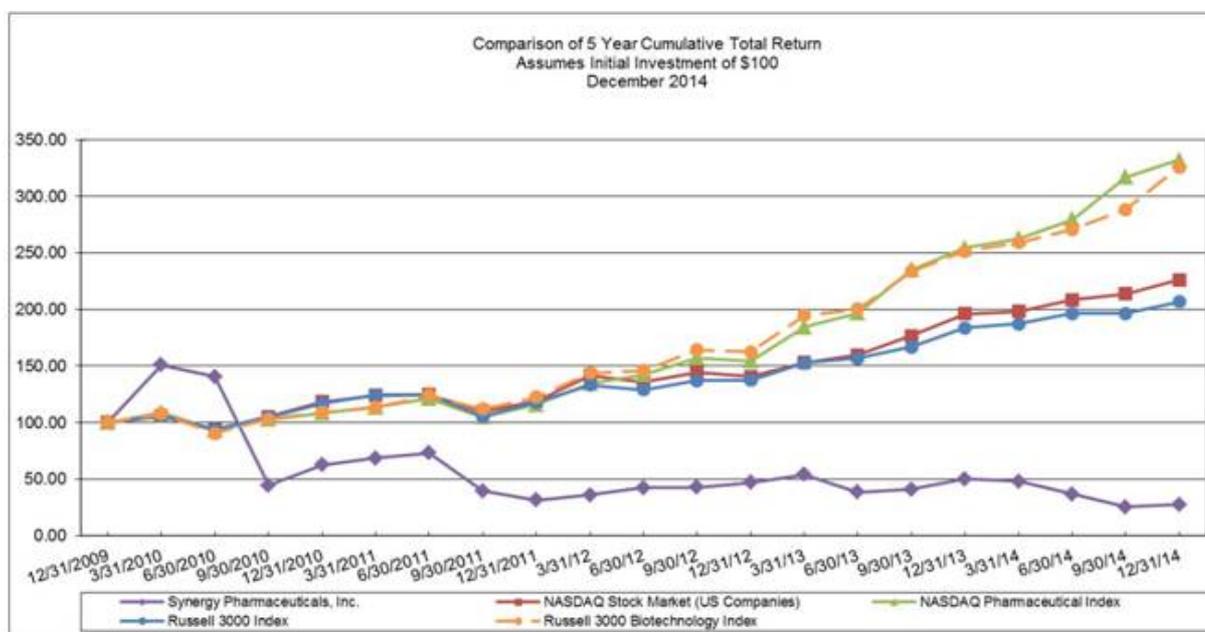
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Corporate Performance Graph

The following performance graph and related information shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the performance of our common stock to the NASDAQ Stock Market (U.S.), the NASDAQ Pharmaceutical Index, the Russell 3000 index and the Russell 3000 Biotechnology Index from August 11, 2008 (the first date that shares of our common stock were publicly traded) through December 31, 2014. The comparison assumes \$100 was invested after the market closed on August 11, 2008 in our common stock and in each of the foregoing indices, and it assumes reinvestment of dividends, if any.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among the NASDAQ Stock Market (U.S.),
the NASDAQ Pharmaceutical Index, the Russell 3000 Index, Russell 3000 Biotechnology Index,
and Synergy Pharmaceuticals, Inc.



Equity Compensation Information

The following table summarizes information about our equity compensation plans as of December 31, 2014.

Plan Category	(a) Number of Shares of Common Stock to be Issued upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Options Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity Compensation Plans Approved by Stockholders	14,806,916	\$ 3.51	693,084
Equity Compensation Plans Not Approved by Stockholders (1)	1,760,104	\$ 0.50	—
Total	16,567,020		693,084

On January 17, 2013, our stockholders approved an increase in the number of our common stock shares reserved for issuance under the Plan from 7,500,000 to 15,000,000.

As of December 31, 2014, there were 14,483,416 stock options outstanding under the 2008 Equity Compensation Incentive Plan, or Plan, and 323,500 options outstanding under the 2009 Directors Option Plan, or Directors Plan, with 516,584 stock options available for future issuance under the Plan and 176,500 stock options available under the Directors Plan.

(1) Consists of options issued in conjunction with sales of our common stock as well as for consulting and professional services.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial data and has been derived from our audited consolidated financial statements. Consolidated balance sheets as of December 31, 2014 and 2013, as well as consolidated statements of operations for the years ended December 31, 2014, 2013 and 2012, and the reports thereon are included elsewhere in this Annual Report on Form 10-K. The information below should be read in conjunction with our audited consolidated financial statements and the notes to such statements, included below in Item 8, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included below in Item 7. Historical results are not necessarily indicative of the results to be expected in the future.

	Year ended December 31,				
	2014	2013	2012	2011	2010
Revenues	\$ —	\$ —	\$ —	\$ —	\$ —
Costs and Expenses:					
Research and development	83,274	50,630	29,294	13,419	9,559
Purchased in-process research and development	—	—	1,000	—	—

General and administrative	11,004	11,681	7,941	6,745	6,562
Loss from Operations	(94,278)	(62,311)	(38,235)	(20,164)	(16,121)
Other Income /(Loss)					
Amortization of deferred financing costs	(411)	—	—	—	—
Interest and investment income/(expense), net (includes interest expense of \$2,500 on Senior Convertible Debentures for year 2014)	(2,464)	38	218	78	109
Tax Credits	83	—	506	362	494
Change in Fair Value of derivative instruments — warrants	1,362	149	(1,933)	5,257	297
Total Other Income/(Loss)	(1,430)	187	(1,209)	5,697	900
Net Loss	<u>\$ (95,708)</u>	<u>\$ (62,124)</u>	<u>\$ (39,444)</u>	<u>\$ (14,467)</u>	<u>\$ (15,221)</u>
<i>Weighted Average Common Shares Outstanding</i>					
Basic and Diluted	<u>94,276,178</u>	<u>85,220,458</u>	<u>61,702,277</u>	<u>47,598,240</u>	<u>44,875,356</u>
<i>Net Loss per common Share, Basic and Diluted</i>					
Net Loss per Common Share, Basic and Diluted	<u>\$ (1.02)</u>	<u>\$ (0.73)</u>	<u>\$ (0.64)</u>	<u>\$ (0.30)(*)</u>	<u>\$ (0.34)(*)</u>

(*) Weighted average shares outstanding reflects a one for two (1:2) reverse stock split effective on November 30, 2011.

	December 31,				
	2014	2013	2012	2011	2010
(dollars in thousands)					
Consolidated Balance Sheet Data:					
Cash and cash equivalents and available-for-sale securities	\$ 196,367	\$ 68,157	\$ 32,502	\$ 13,245	\$ 1,708
Working capital	181,872	56,199	26,734	11,561	(2,307)
Total assets	213,344	72,558	37,405	15,870	4,401
Total stockholders' equity/(deficit)	\$ (5,159)	\$ 55,348	\$ 24,832	\$ 9,797	\$ (4,099)

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion together with the Financial Statements, related Notes and other financial information included elsewhere in this Report on Form 10-K. The following discussion contains assumptions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed under "Risk Factors," and elsewhere in this Form 10-K. To the extent that this Report contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of our Company, please be advised that our actual financial condition, operating results and business performance may differ materially from that projected or estimated by us in forward-looking statements and thus you should not unduly rely on these statements.

HISTORY

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. and its wholly-owned subsidiary, Synergy Advanced Pharmaceuticals, Inc. (collectively "Synergy-DE"), a Delaware corporation incorporated on September 11, 1992, under the terms of an Exchange Transaction among Pawfect, Callisto Pharmaceuticals, Inc. ("Callisto"), Synergy-DE, and certain other holders of Synergy-DE common stock ("Exchange Transaction"). For a more detailed discussion of this exchange transaction, see Item 8. Financial Statements—Note 3 *Acquisitions and Stockholders' Equity (Deficit)*.

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.

Immediately following the Exchange Transaction we discontinued our pet food business and are now exclusively focused on the development of drugs to treat GI disorders and diseases. We acquired the GI drugs and related technology in connection with the Exchange Transaction.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2014 AND DECEMBER 31, 2013

We had no revenues during the twelve months ended December 31, 2014 and 2013 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 twelve months ended December 31, 2014 (“Current Year”) increased approximately \$32.7 million or 64%, to approximately \$83.3 million from approximately \$50.6 million for the twelve months ended December 31, 2013 (“Prior Year”). This increase in research and development expenses was largely attributable to ongoing development of our plecanatide product candidates. The following table sets forth our research and development expenses directly related to our product candidates for the twelve months ended December 31, 2014 and 2013. These direct expenses were external costs associated with chemistry, manufacturing and controls including costs of drug substance and product formulation, as well as preclinical studies and clinical trial costs, as follows:

Drug candidates	(\$ in thousands)	
	Year Ended December 31,	
	2014	2013
Plecanatide	\$ 64,871	\$ 32,422
SP-333	10,944	12,013
Total direct cost	\$ 75,815	\$ 44,435
Total indirect cost	7,459	6,195
Total Research and Development	\$ 83,274	\$ 50,630

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Indirect research and development costs related to in-house staff compensation, facilities, depreciation, stock-based compensation and research and development support services are not directly allocated to specific drug candidates. Indirect costs were approximately \$7.5 million in the Current Year, as compared to approximately \$6.2 million during the Prior Year primarily due to higher stock based compensation expenses.

General and administrative expenses decreased approximately \$0.7 million or 5.8 %, to approximately \$11 million for the Current Year from approximately \$11.7 million for the Prior Year. These decreased expenses were primarily the result of lower corporate legal of approximately \$1.1 million for the Current Year, as compared to \$2.0 million for the Prior Year, partially offset by higher facility expenses of \$2.2 million Current Year, as compared to \$1.9 million for the Prior Year.

Net loss for the Current Year was approximately \$95.7 million as compared to a net loss of approximately \$62.1 million incurred for the Prior Year. This increase in our net loss of approximately \$33.6 million or 54% was a result of the increases in operating expenses discussed above, plus loss from changes in fair value of derivative instruments-warrants of \$1.4 million during the Current Year, as compared to a loss on derivative instruments-warrants of approximately \$0.2 million during the Prior Year.

YEARS ENDED DECEMBER 31, 2013 AND DECEMBER 31, 2012

We had no revenues during the twelve months ended December 31, 2013 and 2012 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 twelve months ended December 31, 2013 increased approximately \$21.3 million or 73%, to approximately \$50.6 million from approximately \$29.3 million for the twelve months ended December 31, 2012. This increase in research and development expenses was largely attributable to ongoing 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 twelve months ended December 31, 2013 and 2012. These direct expenses were external costs associated with chemistry, manufacturing and controls including costs of drug substance and product formulation, as well as preclinical studies and clinical trial costs, as follows:

Drug candidates	(\$ in thousands)	
	Year Ended December 31,	
	2013	2012
Plecanatide	\$ 32,422	\$ 22,360
SP-333	12,013	3,298
Total direct cost	\$ 44,435	\$ 25,658
Total indirect cost	6,195	3,636
Total Research and Development	\$ 50,630	\$ 29,294

Indirect research and development costs related to in-house staff compensation, facilities, depreciation, stock-based compensation and research and development support services are not directly allocated to specific drug candidates. Indirect costs were approximately \$6.2 million during the twelve months ended December 31, 2013, as compared to approximately \$3.6 million during the twelve months ended December 31, 2012, primarily due to higher stock based compensation and scientific advisory costs.

General and administrative expenses increased approximately \$3.8 million or 48%, to approximately \$11.7 million for the twelve months ended December 31, 2013, from approximately \$7.9 million for the twelve months ended December 31, 2012. These increased expenses were primarily the result of (i) higher compensation and related employee benefits of approximately \$5.1 million, as compared to \$2.8 million during the twelve months ended December 31, 2012, which were primarily due to higher stock based compensation expense, (ii) higher

facilities cost of approximately \$1.9 million in the twelve months ended December 31, 2013, as compared to approximately \$1.3 million during the twelve months ended December 31, 2012, reflecting our recent move into our larger New York City headquarters and (iii) higher corporate legal, accounting and tax services of approximately \$2.6 million for the twelve months ended December 31, 2013, as compared to \$1.7 million for the twelve months ended December 31, 2012, primarily as a result of corporate financing activity and ongoing class action litigation in connection with the Callisto merger.

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Net loss for the twelve months ended December 31, 2013 was approximately \$62.1 million as compared to a net loss of approximately \$39.4 million incurred for the twelve months ended December 31, 2012. This increase in our net loss of approximately \$22.7 million or 58% was a result of the increases in operating expenses discussed above, offset by a gain resulting from the change in fair value of derivative instruments-warrants of approximately \$0.2 million during the twelve months ended December 31, 2013, as compared to a loss of approximately \$1.9 million during the twelve months ended December 31, 2012. The change in the fair value of common stock warrant liability resulted in a gain of \$0.2 million during the year ended December 31, 2013 which was a result of the decrease in the price of the stock during the beginning of the year on 2,265,160 warrants outstanding, offset by an increase in the price of the stock toward the end of the year on only 858,469 warrants outstanding. The change in fair value of derivative instruments-warrants resulted in a loss of \$1.9 million during the year ended December 31, 2012 which was primarily a result of the increase in the price of the common stock from \$3.46 per share at December 31, 2011 to \$5.19 per share at December 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2014, we had approximately \$147 million of cash and cash equivalents and approximately \$50 million in available-for-sale-securities. Net cash used in operating activities was approximately \$89 million for the twelve months ended December 31, 2014, as compared to approximately \$52.6 million during the twelve months ended December 31, 2013 and \$31.1 million during the twelve months ended December 31, 2012. Net cash provided by financing activities for the twelve months ended December 31, 2014 was approximately \$217 million, as compared to approximately \$89.2 million and \$52.1 million provided during the twelve months ended December 31, 2013 and 2012, respectively.

As of December 31, 2014 we had working capital of approximately \$181.9 million as compared to working capital of approximately \$56.2 million on December 31, 2013.

On November 3, 2014 we announced the closing of a private offering of \$200 million aggregate principal amount of 7.50% Convertible Senior Notes due 2019 (including the full exercise of the over-allotment option granted to the initial purchasers to purchase an additional \$25 million aggregate principal amount of 7.50% Convertible Senior Notes due 2019). The notes are unsecured, senior obligations and bear interest at a rate of 7.50% per year, payable semiannually in arrears on May 1 and November 1 of each year, beginning on May 1, 2015. The notes will mature on November 1, 2019, unless earlier purchased or converted. The holders of the notes have the ability to require us to repurchase the notes in whole or in part for cash in the event of a fundamental change, as defined in debenture agreement. In such case, the repurchase price would generally be 100% of the principal amount of the notes plus any accrued and unpaid interest. The notes are convertible, at any time, into shares of our common stock at an initial conversion rate of 321.5434 shares per \$1,000 principal amount of notes, which is equivalent to an initial conversion price of \$3.11 per share. The net proceeds from this offering were approximately \$187.3 million, after deducting estimated expenses and the initial purchasers' discount.

On March 5, 2014, we entered into Amendment No. 1 (the "Amendment") to our Controlled Equity Offering Sales Agreement, dated June 21, 2012 (as amended, the "Agreement"), with Cantor Fitzgerald & Co., as sales agent ("Cantor"), pursuant to which we may offer and sell, from time to time, through Cantor shares of our common stock, par value \$0.0001 per share (the "Shares"), up to an additional aggregate offering price of \$50.0 million. We intend to use the net proceeds from these sales to fund our research and development activities, including further clinical development of plecanatide and SP-333, and for working capital and other general corporate purposes, and possible acquisitions of other companies, products or technologies, though no such acquisitions are currently contemplated.

Under the Agreement, Cantor may sell the Shares by methods deemed to be an "at-the-market" offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), including sales made directly on The NASDAQ Global Select Market, on any other existing trading market for the Shares or to or through a market maker. In addition, under the Agreement, Cantor may sell the Shares by any other method permitted by law, including in privately negotiated transactions. Subject to the terms and conditions of the Agreement, Cantor will use commercially reasonable efforts, consistent with its normal trading and sales practices and applicable state and federal law, rules and regulations and the rules of The NASDAQ Global Select Market, to sell the Shares from time to time, based upon our instructions (including any price, time or size limits or other customary parameters or conditions we may impose).

We are not obligated to make any sales of the Shares under the Agreement. The offering of Shares pursuant to the Agreement will terminate upon the earlier of (1) the sale of all of the Shares subject to the Agreement or (2) the termination of the Agreement by Cantor or us. We will pay Cantor a commission of up to 3.0% of the gross sales price per share sold and has agreed to provide Cantor with customary indemnification and contribution rights.

Pursuant to the original Agreement, we sold 3,644,143 shares of common stock, from January 1, 2014 through March 4, 2014, yielding gross proceeds of approximately \$21.2 million, at an average selling price of \$5.82 per share. This completed the \$30 million of proposed sales of common stock pursuant to the original Agreement. Under the Amendment, we sold an additional 2,773,507 shares of common stock, from March 5, 2014 through December 31, 2014, yielding gross proceeds of \$9.5 million, at an average selling price of \$3.42 per share. Selling agent fees related to above financings from January 1, 2014 through December 31, 2014 were \$846,238.

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Proceeds from exercise of stock options were \$36,000 from January 1, 2014 through December 31, 2014.

On April 16, 2013, we closed an underwritten public offering of 16,375,000 shares of our common stock at a price of \$5.50 per share. The gross proceeds to us from this sale were approximately \$90 million, before deducting underwriting discounts and commissions and other offering expenses of approximately \$5.5 million.

From January 1, 2013 through December 31, 2013, we sold 758,093 shares of common stock with gross proceeds of approximately \$4.7 million, at an average selling price of \$6.16 per share, pursuant to our Agreement with Cantor. Selling expenses totaled approximately \$0.1 million.

Our working capital requirements will depend upon numerous factors including but not limited to the nature, cost and timing of pharmaceutical research and development programs. We will be required to raise additional capital within the next twelve months to complete the development and commercialization of current product candidates and to continue to fund operations at our current cash expenditure levels. To date, our sources of cash have been primarily limited to the sale of equity securities. 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 of 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.

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CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table is a summary of contractual obligations for the periods indicated that existed as of December 31, 2014, and is based on information appearing in the notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

<u>(\$ in thousands)</u>	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-2 Years</u>	<u>3-5 Years</u>	<u>More than 5 years</u>
Long Term debt Obligations (1)	\$ 275,000	\$ 15,000	\$ 30,000	\$ 230,000	\$ —
Operating leases	4,640	570	1,100	1,317	1,653
Purchase obligations—principally employment and consulting services(2)	5,263	2,193	3,070	—	—
Purchase Obligations—Major Vendors(3)	81,750	64,487	17,263	—	—
Total obligations	<u>\$ 366,653</u>	<u>\$ 82,250</u>	<u>51,433</u>	<u>\$ 231,317</u>	<u>\$ 1,653</u>

(1) Represents Senior Convertible Notes, including interest. See Note 4 to our Consolidated Financial Statements.

(2) Represents salary, bonus, and benefits for remaining term of employment agreements with Gary S. Jacob, CEO, Bernard F Denoyer, Senior Vice President, Finance, Kunwar Shailubhai, Chief Scientific Officer and consulting fees, bonus and benefits for remaining term of consulting agreement with Gabriele M. Cerrone. See Note 7 to our Consolidated Financial Statements.

(3) Represents amounts that will become due upon future delivery of supplies, drug substance and test results from various suppliers, under open purchase orders as of December 31, 2014.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as of December 31, 2014.

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—Note 3 *Summary of Significant Accounting Policies and New Accounting Pronouncements*. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. We believe that the following discussion represents our critical accounting policies.

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. Our marketable securities consist solely of investments in US Treasury Notes and have been classified and accounted for as available-for-sale. Management determines the appropriate classification of our investments at the time of purchase and reevaluates the available-for-sale designations as of each balance sheet date. Cash equivalents and marketable securities are carried at amounts that approximate fair value due to their short-term maturities. We consider the declines in market value of our 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, we 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 our intent to sell, or whether it is more likely than not we will be required to sell, the investment before recovery of the investment's amortized cost basis. For the year ended December 31, 2014 and 2013, we did not consider any of our investments to be other-than-temporarily impaired.

Research and Development

Research and development costs include expenditures in connection with operating 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, clinical trial insurance.

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We do not currently have any commercial biopharmaceutical products and therefore our research and development costs are expensed as incurred. These 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, and clinical trial insurance. While certain of our research and development costs may have future benefits, our policy of expensing all research and development expenditures is predicated on the fact that we have no history of successful commercialization of biopharmaceutical products to base any estimate of the number of future periods that would be benefited.

In June 2007, the EITF of the FASB reached a consensus on ASC Topic 730, *Research and Development* ("ASC Topic 730"). This guidance requires that non-refundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. As the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided, the deferred amounts are recognized as an expense. We adopted ASC Topic 730 on January 1, 2008 and the adoption did not have a material effect on our consolidated financial position, results of operations or cash flows. As of December 31, 2014 and 2013 we had \$3.6 million respectively, of such deferred amounts, which are included in prepaid and other current assets on the our consolidated balance sheets.

Share-Based Compensation

We rely heavily on incentive compensation in the form of stock options to recruit, retain and motivate directors, executive officers, employees and consultants. Incentive compensation in the form of stock options and restricted stock units is designed to provide long-term incentives, develop and maintain an ownership stake and conserve cash during our development stage.

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. We did not issue stock options until the year ended December 31, 2008.

Share-based compensation is recognized as an expense in the financial statements based on the grant date fair value. Upon adoption of ASC Topic 718 "*Compensation—Stock Compensation*", we selected the Black-Scholes option pricing model as the most appropriate model for determining the estimated fair value for stock-based awards. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility is based on the historical volatility of our stock. Option term is based on the term used by similar public entities. The risk-free interest rate is based on observed interest rate appropriate for the expected term of our employee stock options. Forfeiture rates are estimated based on our historical experience plus management's judgment, at the time of grant.

Fair value of financial instruments

In accordance with Accounting Standards Codification ("ASC") Subtopic 820-10, we measure certain assets and liabilities at fair value on a recurring basis using the three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical assets in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring management to develop its own assumptions based on best estimates of what market participants would use in pricing an asset or liability at the reporting date.

Financial instruments consist of cash and cash equivalents, marketable securities, accounts payable and derivative instruments. These

financial instruments are stated at their respective historical carrying amounts, which approximate fair value due to their short term nature, except for derivative instruments which are marked to market at the end of each reporting period.

Fair value of convertible debt is stated at their carrying values which approximates fair value at December 31, 2014.

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Warrants

We have issued common stock warrants in connection with the execution of certain equity financings. The fair value of certain warrants, deemed to be derivative instruments, is recorded as a derivative liability under the provisions of FASB ASC 815 *Derivatives and Hedging* (“ASC 815”) upon issuance. Subsequently the liability is adjusted to fair value as of each reporting period and the changes in fair value of derivative liabilities are recorded in the consolidated statement of operations under the caption “Change in fair value of derivative liabilities.”

The fair value of warrants deemed to be derivative instruments is determined using the Black-Scholes or Binomial option-pricing models using varying assumptions regarding volatility of our common share price, remaining life of the warrant, and risk-free interest rates at each period end. We thus use model-derived valuations where significant value drivers are unobservable to third parties to determine the fair value and accordingly classify such warrants in Level 3 per ASC 820. At December 31, 2014 and 2013 the fair value of such warrants was approximately \$172,000 and \$1.53 million, respectively, which we classified as a long term derivative liability on our balance sheets.

As of December 31, 2014 and 2013 our available-for-sale securities are classified as Level 1 per ASC 820.

RECENT ACCOUNTING PRONOUNCEMENTS

On June 13, 2014, the FASB issued ASU 2014-101 (“Elimination of Certain Financial Reporting Requirements, including an Amendment to Variable Interest Entities Guidance in ASC Topic 810, Consolidation”) to eliminate the concept of a development stage entity (“DSE”) from U.S. GAAP. This change rescinds certain financial reporting requirements that have historically applied to DSEs and is intended to result in cost-savings for affected entities, such as certain start-up or research and development entities. In addition, ASU 2014-10 introduces new disclosure requirements about the reporting entity’s risks and uncertainties. ASU 2014-101 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014, with an option for early adoption. Synergy elected early adoption as of June 30, 2014. The adoption of the standard did not have a material impact on our financial position, or results of operations. Certain financial statement disclosures were dropped as a result of this standard.

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, which defines management’s responsibility to assess an entity’s ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement is effective for annual reporting periods ending after December 15, 2016 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

Our cash, cash equivalents and available for sale securities primarily consist of securities issued by the U.S. government, deposits, and money market mutual funds. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk.

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of interest rates, particularly because our investments are in short-term money marketable funds and US treasury securities. Due to the short-term maturities of our investment portfolio and the relatively low risk profile of our investments, we do not believe a sudden change in interest rates would have a material effect on the fair market value of our portfolio, nor our operating results or cash flows.

Recently, there has been concern in the credit markets regarding the value of a variety of mortgage-backed and auction rate securities and the resulting effect on various securities markets. We do not hold any auction rate securities. We do not believe our cash, cash equivalents investments, and available for sale securities have significant risk of default or illiquidity, however, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits. Given the current instability of financial institutions, we cannot provide assurance that we will not experience losses on these deposits.

Foreign Currency Risk

We have no operations outside the U.S. and do not hold any foreign currency denominated financial instruments.

We do not believe that inflation and changing prices during the years ended December 31, 2014, 2013 and 2012 had a significant impact on our results of operations.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The full text of our audited consolidated financial statements as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 begins on page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

N/A

ITEM 9A. CONTROLS AND PROCEDURES.

a) Disclosure Controls and Procedures

Our chief executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the company’s management, including our principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective, at the reasonable assurance level, 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 SEC’s rules and forms.

b) Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of, a company’s principal executive and principal financial officer and effected by the our board of directors, management and other personnel, 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 and includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made in accordance with authorizations of management and directors of the company; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

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 enhancements to controls and procedures.

We conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our principal executive officer and principal financial officer conclude that, at December 31, 2014, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting at December 31, 2014 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which appears herein.

[Table of Contents](#)**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 quarter ended December 31, 2014 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 such changes during the quarter ended December 31, 2014.

[Table of Contents](#)**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders
Synergy Pharmaceuticals Inc.
New York, New York

We have audited Synergy Pharmaceuticals Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Synergy Pharmaceuticals Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Synergy Pharmaceuticals Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Synergy Pharmaceuticals Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, cash flows and changes in stockholders' equity (deficit) for each of the three years in the period ended December 31, 2014 and our report dated March 16, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York
March 16, 2015

[Table of Contents](#)**ITEM 9B. OTHER INFORMATION.**

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

We have adopted a formal Code of Business Conduct and Ethics applicable to all Board members, executive officers and employees. A copy of that code is available on our corporate website at <http://www.synergypharma.com>. A copy of our Code of Business Conduct and Ethics will also be provided free of charge upon request to: Secretary, Synergy Pharmaceuticals Inc. 420 Lexington Avenue, Suite 2012, New York, NY 10170. The content on our website is not incorporated by reference into this Annual Report on Form 10-K.

Information required by this item is incorporated by reference from our proxy statement for our 2015 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from our proxy statement for our 2015 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is incorporated by reference from our proxy statement for our 2015 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference from our proxy statement for our 2015 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this item is incorporated by reference from our proxy statement for our 2015 Annual Meeting of Stockholders.

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ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) *List of Documents Filed as a Part of This Report:*

Index to Consolidated Financial Statements	F-1
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Consolidated Balance Sheets as of December 31, 2014, 2013 and 2012	F-3
Consolidated Statements of Operations for each of the three years ended December 31, 2014	F-4
Consolidated Statements of Changes in Stockholders' Equity/(Deficit) for each of the three years ended December 31, 2014	F-5
Consolidated Statements of Cash Flows for each of the three years ended December 31, 2014	F-6
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(b) *Index to Financial Statement Schedules:*

All schedules have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or is not applicable or required.

(c) *Index to Exhibits*

The Exhibits listed below are identified by numbers corresponding to the Exhibit Table of Item 601 of Regulation S-K. The Exhibits designated by an asterisk (*) are management contracts or compensatory plans or arrangements required to be filed pursuant to Item 15.

Exhibit No.	Description
1.2	Controlled Equity Offering Sales Agreement dated June 21, 2012 between Synergy Pharmaceuticals Inc. and Cantor Fitzgerald & Co. (incorporated by reference to Exhibit 1.2 to Form S-3 filed June 21, 2012).
1.3	Amendment No. 1 to Controlled Equity Offering SM Sales Agreement dated June 21, 2012 with Cantor Fitzgerald & Co., as sales agent (incorporated by reference to Exhibit 10.1 to Form 8-K filed March 6, 2014).
3.1	Second Amended and Restated Certificate of Incorporation of Synergy Pharmaceuticals Inc. (incorporated by reference to Exhibit 3.1 to Form 10-K filed March 15, 2012).

- 3.2 Amendment to the Second Amended and Restated Certificate of Incorporation of Synergy Pharmaceuticals Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed January 17, 2013).
- 3.3 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 10-K filed March 15, 2012).
- 4.1 2008 Equity Compensation Incentive Plan (incorporated by reference to Exhibit 4.1 to Form 8-K filed July 18, 2008)*
- 4.2 2009 Directors Stock Option Plan (incorporated by reference to Exhibit 4.2 to Form 10-K filed March 15, 2010)*
- 4.3 Form of Stock Certificate of the Registrant (incorporated by reference to Exhibit 4.6 to Form S-3 filed November 24, 2009).
- 4.4 Form of Warrant in connection with June 30, 2010 financing (incorporated by reference to Exhibit 4.1 to Form 8-K filed July 7, 2010).
- 4.5 Form of Warrant in connection with October 1, 2010 financing (incorporated by reference to Exhibit 4.1 to Form 8-K filed October 5, 2010).
- 4.6 Form of Warrant in connection with March 4, 2011 financing (incorporated by reference to Exhibit 4.1 to Form 8-K filed March 10, 2011).
- 4.7 Form of Warrant in connection with October 4, 2011 financing (incorporated by reference to Exhibit 4.1 to Form 8-K filed October 6, 2011).
- 4.8 Form of Warrant in connection with October 14, 2011 financing (incorporated by reference to Exhibit 4.1 to Form 8-K filed October 14, 2011).
- 4.9 Form of Warrant in connection with November 17, 2011 financing (incorporated by reference to Exhibit 4.1 to Form 8-K filed November 15, 2011).

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- 4.10 Amended and Restated Synergy Pharmaceuticals, Inc. Warrant Agency Agreement dated as of December 15, 2011 (incorporated by reference to Exhibit 4.1 to Form 8-K filed December 16, 2011).
- 4.11 Amended and Restated Synergy Pharmaceuticals, Inc. Unit Agency Agreement dated as of December 15, 2011 (incorporated by reference to Exhibit 4.2 to Form 8-K filed December 16, 2011).
- 4.12 Indenture related to the 7.50% Convertible Senior Notes due 2019, dated as of November 3, 2014, by and between Synergy Pharmaceuticals Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to Form 8-K filed November 3, 2014).
- 4.13 Form of 7.50% Convertible Senior Note due 2019 (incorporated by reference to Exhibit 4.2 to Form 8-K filed November 3, 2014).
- 10.1 Form of Executive Non-statutory Stock Option Agreement (incorporated by reference to Exhibit 10.4 to Form 8-K filed July 18, 2008)*
- 10.2 Form of Non-Executive Non-statutory Stock Option Agreement (incorporated by reference to Exhibit 10.5 to Form 8-K filed July 18, 2008)*
- 10.3 Fourth Amended and Restated Executive Employment Agreement dated as of January 7, 2015 between Synergy Pharmaceuticals, Inc. and Gary S. Jacob *
- 10.4 Third Amended and Restated Executive Employment Agreement dated as of January 7, 2015 between Synergy Pharmaceuticals, Inc. and Kunwar Shailubhai *
- 10.5 Master Services Agreement dated July 20, 2010 (incorporated by reference to Exhibit 10.1 to Form 10-Q filed November 9, 2010)**
- 10.6 Master Services Agreement dated August 5, 2010 (incorporated by reference to Exhibit 10.2 to Form 10-Q filed November 9, 2010)**
- 10.7 Asset Purchase Agreement dated August 17, 2012 between Synergy Pharmaceuticals Inc. and Bristol-Myers Squibb Company (incorporated by reference to Exhibit 10.7 to Form 10-K filed March 18, 2013)**
- 10.8 Executive Employment Agreement dated as of January 20, 2011 between Synergy Pharmaceuticals, Inc. and Bernard F. Denoyer (incorporated by reference to Exhibit 10.8 to Form 10-K filed March 15, 2012)*

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

SYNERGY PHARMACEUTICALS, INC.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Synergy Pharmaceuticals Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of Synergy Pharmaceuticals Inc. and Subsidiaries (the "Company") as of December 31, 2014 and 2013 and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Synergy Pharmaceuticals Inc. and Subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Synergy Pharmaceuticals Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York

March 16, 2015

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SYNERGY PHARMACEUTICALS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except Share Data)

ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 146,470	\$ 18,130
Available-for-sale securities	49,897	50,027
Prepaid expenses and other current assets	3,836	3,718
Total Current Assets	200,203	71,875
Property and equipment, net	642	589
Security deposits	163	94
Deferred financing costs, net	12,336	—
Total Assets	\$ 213,344	\$ 72,558
LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)		
Current Liabilities:		
Accounts payable	\$ 13,869	\$ 13,542
Accrued expenses	1,962	2,134
Interest payable on Senior Convertible Debentures	2,500	—
Total Current Liabilities	18,331	15,676
Senior Convertible Debentures	200,000	—
Derivative financial instruments, at estimated fair value-warrants	172	1,534
Total Liabilities	218,503	17,210
Commitments and contingencies (Note 7)	—	—
Stockholders' Equity/(Deficit):		
Preferred stock, Authorized 20,000,000 shares and none outstanding, at December 31, 2014 and December 31, 2013	—	—
Common stock, par value of \$.0001 authorized 200,000,000 shares at December 31, 2014 and 2013. Issued and outstanding 96,609,764 and 90,182,115 shares at December 31, 2014 and 2013, respectively	11	10
Additional paid-in capital	261,715	226,515
Accumulated deficit	(266,885)	(171,177)
Total Stockholders' Equity /(Deficit)	(5,159)	55,348
Total Liabilities and Stockholders' Equity /(Deficit)	\$ 213,344	\$ 72,558

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

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SYNERGY PHARMACEUTICALS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except Share and Per Share Data)

	Year Ended December 31,		
	2014	2013	2012
Revenues	\$ —	\$ —	\$ —
Costs and Expenses:			
Research and development	83,274	50,630	29,294
Purchased in-process research and development	—	—	1,000
General and administrative	11,004	11,681	7,941
Loss from Operations	(94,278)	(62,311)	(38,235)
Other Income /(Loss)	—	—	—
Amortization of deferred financing costs	(411)	—	—
Interest and investment income/(expense), net (includes interest expense of \$2,500 on Senior Convertible Debentures for year 2014)	(2,464)	38	218
Tax credits	83	—	506
Change in fair value of derivative instruments—warrants	1,362	149	(1,933)
Total Other (Loss)/ Income	(1,430)	187	(1,209)
Net loss	\$ (95,708)	\$ (62,124)	\$ (39,444)
<i>Weighted Average Common Shares Outstanding</i>			
Basic and Diluted	94,276,178	85,220,458	61,702,277

Net Loss per Common Share, Basic and Diluted

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

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SYNERGY PHARMACEUTICALS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

(\$ in thousands, except share amount)

	Common Shares	Common Stock, Par Value	Additional Paid in Capital	Deficit Accumulated	Non- Controlling Interest	Total Stockholders' Equity (Deficit)
Balance, December 31, 2011	54,279,906	\$ 6	\$ 79,401	\$ (69,609)	—	\$ 9,798
Common stock issued via underwritten public offering	12,315,654	1	55,861	—	—	55,862
Fees and expenses related to financing transactions — paid in cash	—	—	(3,774)	—	—	(3,774)
Common stock issued for services rendered	26,272	—	93	—	—	93
Stock based compensation expense	—	—	2,297	—	—	2,297
Net loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(39,444)</u>	<u>—</u>	<u>(39,444)</u>
Balance, December 31, 2012	66,621,832	7	133,878	(109,053)	—	24,832
Common stock issued via registered direct offering	17,133,093	2	94,732	—	—	94,734
Fees and expenses related to financing transactions	—	—	(5,623)	—	—	(5,623)
Cancellation of unregistered shares owned by former controlling shareholder (Callisto)	(22,294,976)	(2)	2	—	—	—
Common stock issued to former Callisto shareholders	28,605,379	3	(3)	—	—	—
Fair value of warrants reclassified to additional paid in capital	—	—	3,575	—	—	3,575
Recapitalization of Synergy	—	—	(4,904)	—	—	(4,904)
Common stock issued for services rendered	55,000	—	250	—	—	250
Exercise of stock options	61,787	—	119	—	—	119
Stock based compensation expense	—	—	4,489	—	—	4,489
Net loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(62,124)</u>	<u>—</u>	<u>(62,124)</u>
Balance, December 31, 2013	90,182,115	10	226,515	(171,177)	—	55,348
Common stock issued pursuant to a controlled equity "at-the-market" sales agreement	6,417,650	1	30,699	—	—	30,700
Fees and expenses related to controlled equity sales	—	—	(846)	—	—	(846)
Stock based compensation expense	—	—	4,722	—	—	4,722
Exercise of stock options	9,999	—	36	—	—	36
Private placement of ContraVir common stock	—	—	3,224	—	—	3,224
Fees and expenses associated with ContraVir Private Placement	—	—	(15)	—	—	(15)
Fair value of ContraVir warrants issued in connection with private placement	—	—	(880)	—	—	(880)
Noncontrolling interest of ContraVir	—	—	—	—	(1,622)	(1,622)
Distribution of ContraVir common stock to Synergy shareholders	—	—	(1,740)	—	—	(1,740)
Elimination of noncontrolling interest of ContraVir upon distribution	—	—	—	—	1,622	1,622

Net loss for the period	—	—	—	(95,708)	—	(95,708)
Balance, December 31, 2014	96,609,764	\$ 11	\$ 261,715	\$ (266,885)	\$ —	\$ (5,159)

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

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**SYNERGY PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Year Ended December 31,		
	2014	2013	2012
Cash Flows From Operating Activities:			
Net loss	\$ (95,708)	\$ (62,124)	\$ (39,444)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	120	56	2
Amortization of deferred financing costs	411	—	—
Loss on disposal of property and equipment	—	—	2
Stock-based compensation expense	4,722	4,614	2,515
Accretion of discount/premium on available for sale securities	130	59	(86)
Change in fair value of derivative instruments—warrants	(1,362)	(149)	1,933
Changes in operating assets and liabilities:			
Security deposit	(69)	—	(5)
Accounts payable and accrued expenses	316	7,084	4,442
Prepaid expenses and other current assets	(124)	(2,171)	(484)
Accrued interest expense on Senior Convertible Debentures	2,500	—	—
Total Adjustments	6,644	9,493	8,319
Net Cash used in Operating Activities	(89,064)	(52,631)	(31,125)
Cash Flows From Investing Activities:			
Loans to related parties	—	(270)	(1,764)
Net purchases of available-for-sale securities	—	(30,000)	(20,000)
Additions to property and equipment	(173)	(615)	(28)
Repayment on ContraVir loan receivable	455	—	—
Net Cash provided by / (used in) Investing Activities	282	(30,885)	(21,792)
Cash Flows From Financing Activities:			
Proceeds of sale of common stock	30,700	94,734	55,862
Proceeds of sale of common stock — ContraVir	3,224	—	—
Issuance of Senior Convertible Debentures	200,000	—	—
Payment for debt financing costs	(12,747)	—	—
Fees and expenses related to sale of common stock	(861)	(5,623)	(3,774)
Proceeds from exercise of stock options	36	119	—
Distribution associated with ContraVir Spinoff	(3,230)	—	—
Net Cash provided by Financing Activities	217,122	89,230	52,088
Net increase/(decrease) in cash and cash equivalents	128,340	5,714	(829)
Cash and cash equivalents at beginning of period	18,130	12,416	13,245
Cash and cash equivalents at end of period	\$ 146,470	\$ 18,130	\$ 12,416
Supplementary disclosure of cash flow information:			
Cash paid for taxes	\$ 55	\$ 81	\$ 50
Supplementary disclosure of non-cash investing and financing activities:			
Distribution of net assets of ContraVir	\$ 84	\$ —	\$ —

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

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**SYNERGY PHARMACEUTICALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Business Overview

Synergy Pharmaceuticals Inc. (the “Company” or “Synergy”) is a biopharmaceutical company focused on the development of novel therapies to treat gastrointestinal (GI) diseases and disorders. The Company’s proprietary platform technology is based on the naturally occurring human GI peptide — uroguanylin - a key regulator of normal GI physiology. Synergy has created two unique analogs of uroguanylin - plecanatide and SP-333 — both designed to mimic uroguanylin’s natural activity and target a variety of GI conditions. Plecanatide is currently in phase 3 clinical development for chronic idiopathic constipation and irritable bowel syndrome with constipation. SP-333 has successfully completed a phase 2 study in patients with opioid-induced constipation and is presently being evaluated for the treatment of ulcerative colitis.

2. Basis of Presentation and Accounting Policies

These consolidated financial statements include Synergy Pharmaceuticals Inc., a Delaware corporation, and subsidiaries: (1) Synergy Advanced Pharmaceuticals, Inc. (2) IgX, Ltd (Ireland—inactive) (henceforth “Synergy”), and (3) ContraVir Pharmaceuticals, Inc. (“ContraVir”) through February 18, 2014. All intercompany balances and transactions have been eliminated.

On February 18, 2014, Synergy completed the distribution of ContraVir common stock to the Company’s stockholders on a pro rata basis with a stock dividend of .0986 ContraVir shares for each Synergy common stock share held as of the record date of February 6, 2014. Synergy accounted for this distribution according to FASB ASC Topic 505-60, *Spinoffs and reverse spinoffs* by eliminating ContraVir’s net assets of approximately \$1.7 million, with a corresponding decrease in additional paid in capital and eliminating the non-controlling interest of \$1.6 million. The spin-off of ContraVir’s operation had an immaterial effect on Synergy’s financial statements (see note 3).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in estimates and assumptions are reflected in reported results in the period in which they become known. Actual results could differ from those estimates.

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. As of December 31, 2014, the amount of cash and cash equivalents was approximately \$147 million and consists of checking accounts and short-term money market mutual funds. As of December 31, 2013, the amount of cash and cash equivalents was approximately \$18.1 million and consisted of checking accounts and short-term money market funds with U.S. commercial banks. At any point in time, the Company’s balance of cash and cash equivalents may exceed federally insured limits.

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The Company’s marketable securities as of December 31, 2014 and 2013 consist of approximately \$50 million in U.S. Treasury securities with maturities of less than one year, respectively, 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. As of December 31, 2014 and 2013, gross unrealized losses were not material. The Company recognized no net realized gains or losses for the year ended December 31, 2014 and 2013. 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 year ended December 31, 2014 and 2013, the Company did not recognize any impairment charges.

Derivative Instruments

The Company’s derivative liabilities are related to warrants issued in connection with financing transactions and are therefore not designated as hedging instruments. All derivatives are recorded on the Company’s balance sheet at fair value in accordance with current accounting guidelines for such complex financial instruments. Changes in fair value are recorded in the Company’s statement of operations.

Fair Value of Financial Instruments

In accordance with Accounting Standards Codification (“ASC”) Subtopic 820-10, the Company measures certain assets and liabilities at fair value on a recurring basis using the three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical assets in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring management to develop its own assumptions based on best estimates of what market participants would use in pricing an asset or liability at the reporting date.

Financial instruments consist of cash and cash equivalents, marketable securities, accounts payable and derivative instruments. These financial instruments are stated at their respective historical carrying amounts, which approximate fair value due to their short term nature, except for derivative instruments which are marked to market at the end of each reporting period.

Fair value of convertible debt is stated at their carrying values which approximates fair value at December 31, 2014.

Property, equipment and depreciation

Expenditures for additions, renewals and improvements are capitalized at cost. Depreciation is generally computed on a straight-line method based on the estimated useful lives of the related assets. The estimated useful lives of the major classes of depreciable assets are 2 to 5 years for equipment and furniture and fixtures. Leasehold improvements are depreciated over the remaining useful life of the lease. Expenditures for repairs and maintenance are charged to operations as incurred. Synergy periodically evaluates whether current events or circumstances indicate that the carrying value of its depreciable assets may not be recoverable.

Income Taxes

Income taxes have been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. Deferred taxes result from differences between the financial statement and tax bases of Synergy's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The assessment of whether or not a valuation allowance is required often requires significant judgment.

Contingencies

In the normal course of business, Synergy is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, shareholder lawsuits, product and environmental liability, and tax matters. In accordance with FASB ASC Topic 450, *Accounting for Contingencies* ("ASC Topic 450"), Synergy records accruals for such loss contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. Synergy, in accordance with this guidance, does not recognize gain contingencies until realized. For a discussion of contingencies, see Note 7, *Commitments and Contingencies* below.

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Research and Development

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, and clinical trial insurance.

In accordance with FASB ASC Topic 730-10-55, *Research and Development*, Synergy recorded prepaid research and development costs of approximately \$3.6 million as of December 31, 2014 and December 31, 2013, respectively, of pre-payments for production of drug substance, analytical testing services and clinical trial monitoring for its drug candidates. In accordance with this guidance, Synergy expenses these costs when drug substance is delivered and/or services are performed.

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 this guidance, 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 years ended December 31, 2014, 2013 and 2012, the effect of 16,567,020, 11,324,049 and 9,734,268, respectively, outstanding stock options and 5,647,203, 5,647,203 and 5,647,203, respectively, outstanding warrants were excluded from the calculation of diluted loss per share because the effect was antidilutive.

Recent Accounting Pronouncements

On June 13, 2014, the FASB issued ASU 2014-101 ("Elimination of Certain Financial Reporting Requirements, including an Amendment to Variable Interest Entities Guidance in ASC Topic 810, Consolidation") to eliminate the concept of a development stage entity ("DSE") from U.S. GAAP. This change rescinds certain financial reporting requirements that have historically applied to DSEs and is intended to result in cost-savings for affected entities, such as certain start-up or research and development entities. In addition, ASU 2014-10 introduces new disclosure requirements about the reporting entity's risks and uncertainties. ASU 2014-101 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014, with an option for early adoption. Synergy elected early adoption as of June 30, 2014. The adoption of the standard did not have a material impact on our financial position or results of operations. Certain financial statement disclosures were dropped as a result of this standard.

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-15,

Presentation of Financial Statements-Going Concern (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement is effective for annual reporting periods ending after December 15, 2016 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

3. Acquisition and Stockholders' Equity (Deficit)

On February 14, 2012, Synergy 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 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.

On June 21, 2012, Synergy entered into a controlled equity sales agreement with a placement agent ("Agent") and agreed that Synergy may issue and sell through the Agent, up to \$30,000,000 of common stock of the Company. From October 8, 2012 through December 31, 2012, Synergy sold 815,654 shares of common stock with gross proceeds of \$4,111,802, at an average selling price of \$5.04 per share. Selling agent fees totaled \$123,385 on these sales. Synergy incurred \$10,000 to attorneys' fee in connection with this transaction.

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Synergy - Callisto Merger

On July 20, 2012, Synergy entered into an Agreement and Plan of Merger (the "Merger Agreement") with Callisto. Pursuant to the Merger Agreement, Synergy and Callisto will merge (the "Merger"), whereupon Callisto's separate corporate existence will cease and Synergy will continue as the surviving corporation of the Merger. Callisto was Synergy's largest shareholder and a development stage biopharmaceutical company.

On October 15, 2012, Synergy entered into Amendment No. 1 to the above Agreement and Plan of Merger, dated July 20, 2012 with Callisto. Pursuant to the Amendment, the parties agreed to, among other things, (i) increase the exchange ratio from .17 to .1799 and (ii) change the lock-up provision such that each share of our 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) twenty-four (24) months after such date, (ii) a Change in Control (as defined in the Merger Agreement), or (iii) our written consent, at our sole discretion, provided our consent shall apply to all shares of our common stock issued pursuant to the Merger.

On January 17, 2013, Synergy completed its acquisition of Callisto Pharmaceuticals, pursuant to the Merger Agreement. As a result of the Merger, Synergy issued a total of 28,605,379 shares of its common stock to former Callisto stockholders in exchange for their shares of Callisto common stock, in which each outstanding share of Callisto common stock was converted into the right to receive 0.1799 of one share of Synergy common stock (the Exchange Ratio). The 22,294,976 shares of Synergy common stock held by Callisto were canceled. The 28,605,379 new shares of Synergy common stock issued to Callisto shareholders were locked-up for 24 months until January 17, 2015.

In addition, each stock option exercisable for shares of Callisto common stock that was outstanding on January 17, 2013 was assumed by Synergy and converted into a stock option to purchase the number of shares of Synergy's common stock that the holder would have received if such holder had exercised such stock option for shares of Callisto common stock prior to the Merger and exchanged such shares for shares of the Company's common stock in accordance with the Exchange Ratio. Synergy issued 1,221,316 stock options in connection with this exchange. In addition, each outstanding warrant or obligation to issue a warrant to purchase shares of Callisto common stock, whether or not vested, was cancelled.

As Callisto does not meet the input, process and output definition of a business under ASC 805, the merger was not accounted for as a business combination. The merger was accounted for as a recapitalization of Synergy, affected through exchange of Callisto shares for Synergy shares, and the cancellation of its shares held by Callisto. The excess of Synergy shares issued to Callisto shareholders over Synergy shares held by Callisto is the result of a discount associated with the restricted nature of the new Synergy shares received by Callisto shareholders. Therefore, considering this discount, the share exchange has been determined to be equal from a fair value standpoint. Upon the effective date of the Merger, Synergy accounted for the merger by assuming Callisto's net liabilities, of approximately \$1.3 million, with a corresponding decrease in additional paid in capital. Synergy's financial statements will not be restated retroactively to reflect the historical financial position or results of operations of Callisto.

In addition, as of January 17, 2013, Synergy had advanced Callisto approximately \$3.6 million, which was Callisto's share of Synergy

payments for common operating costs since July 2008. This balance was eliminated upon the recapitalization date, with a corresponding decrease in additional paid in capital.

Net liabilities of Callisto assumed and advances to Callisto eliminated in connection with this recapitalization were as follows:

(\$ in thousands)	Balance January 17, 2013
Assets	
Cash	\$ —
Security deposits	74
Total assets acquired	74
Liabilities	
Accounts payable and other liabilities	(1,400)
Net assumed liabilities	(1,326)
Elimination of amounts due from Callisto	(3,578)
Recapitalization of Synergy	\$ (4,904)

On October 18, 2012 Synergy entered into a Stock Purchase Agreement with a clinical trial contract research organization (or CRO) whereby the CRO would be compensated for services performed by issuance of shares of Synergy common stock. The agreed fair value of the work performed was \$250,000, based on 55,000 shares at a price of \$4.55 per share. The closing stock price for Synergy common stock on October 17, 2012 was \$4.57 per share. Approximately 50% of the services were completed as of December 31, 2012 and Synergy accrued stock based compensation expense of \$125,000 during the quarter ended December 31, 2012. The remaining balance of \$125,000 was recorded as stock based compensation expense upon completion of the contract in January 2013 and Synergy issued 55,000 shares to the CRO during the quarter ended March 31, 2013.

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On January 15, 2013, the number of authorized shares of common stock increased from 100,000,000 to 200,000,000.

On April 16, 2013, Synergy closed an underwritten public offering of 16,375,000 shares of its common stock at a price of \$5.50 per share. The gross proceeds to the Company from this sale was approximately \$90 million, before deducting underwriting discounts and commissions and other offering expenses of approximately \$5.5 million paid by the Company.

From January 1, 2013 through December 31, 2013, Synergy sold 758,093 shares of common stock with gross proceeds of approximately \$4.7 million, at an average selling price of \$6.16 per share, pursuant to a controlled equity sales agreement with a placement agent. Selling expenses totaled approximately \$0.1 million.

On January 28, 2014, our board of directors approved the distribution of 9,000,000 shares of the issued and outstanding shares of common stock of ContraVir Pharmaceuticals, Inc., our subsidiary (“ContraVir”), on the basis of 0.0986 shares of ContraVir common stock for each share of our common stock held on the record date, February 6, 2014 (the “Distribution”). (See below.)

As a result of the Distribution, an adjustment was made to the exercise price of all outstanding warrants in accordance with their terms and accordingly the exercise price decreased approximately \$0.011 per share on the record date. As of December 31, 2014 there were 5,647,203 warrants outstanding with a weighted average exercise price of \$5.395 per share pre-Distribution and \$5.383 per share as adjusted.

On March 5, 2014, Synergy entered into Amendment No. 1 (the “Amendment”) to its Controlled Equity Offering Sales Agreement, dated June 21, 2012 (as amended, the “Agreement”), with Cantor Fitzgerald & Co., as sales agent (“Cantor”), pursuant to which the Company may offer and sell, from time to time, through Cantor shares of the Company’s common stock, par value \$0.0001 per share (the “Shares”), up to an additional aggregate offering price of \$50.0 million.

Under the Agreement, Cantor may sell the Shares by methods deemed to be an “at-the-market” offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended (the “Securities Act”), including sales made directly on The NASDAQ Global Select Market, on any other existing trading market for the Shares or to or through a market maker. In addition, under the Agreement, Cantor may sell the Shares by any other method permitted by law, including in privately negotiated transactions. Subject to the terms and conditions of the Agreement, Cantor will use commercially reasonable efforts, consistent with its normal trading and sales practices and applicable state and federal law, rules and regulations and the rules of The NASDAQ Global Select Market, to sell the Shares from time to time, based upon the Company’s instructions (including any price, time or size limits or other customary parameters or conditions the Company may impose).

Synergy is not obligated to make any sales of the Shares under the Agreement. The offering of Shares pursuant to the Agreement will terminate upon the earlier of (1) the sale of all of the Shares subject to the Agreement or (2) the termination of the Agreement by Cantor or the Company. The Company will pay Cantor a commission of up to approximately 3.0% of the gross sales price per share sold and has agreed to provide Cantor with customary indemnification and contribution rights.

Pursuant to the original Agreement, Synergy sold 3,644,143 shares of common stock, from January 1, 2014 through March 4, 2014, yielding gross proceeds of approximately \$21.2 million, at an average selling price of \$5.82 per share. This completed the \$30 million of proposed sales of common stock pursuant to the original Agreement. Under the Amendment, Synergy sold an additional 2,773,507 shares of common stock, from March 5, 2014 through December 31, 2014, yielding gross proceeds of \$9.5 million, at an average selling price of \$3.42 per share. Selling agent fees related to above financings from January 1, 2014 through December 31, 2014 were \$846,238.

From January 1, 2014 through December 31, 2014, Synergy sold 6,417,650 shares of common stock, yielding gross proceeds of approximately \$30.7 million.

Proceeds from exercise of stock options were \$36,000 from January 1, 2014 through December 31, 2014.

ContraVir

FV-100

On August 17, 2012, Synergy signed an Asset Purchase Agreement with Bristol-Myers Squibb Company (“BMS”) and acquired certain assets covering FV-100, an orally available nucleoside analog, currently being developed for the treatment of shingles, a severe, painful skin rash caused by reactivation of the varicella zoster virus — the virus that causes chickenpox. The terms of the Agreement provide for an initial base payment of \$1 million, subsequent milestone payments covering (i) marketing (FDA) approval and (ii) on achieving the milestone of aggregate net sales equal to or greater than \$125 million, as well as a single digit royalty based on net sales.

The FV-100 assets acquired from BMS include: (i) an exclusive license to the patent portfolio and (ii) all historical research and clinical study protocols, data and results. Both of these intangible assets enable Synergy to continue the clinical development in future trials and ultimately have the freedom to operate (“FTO”) should FDA approval be achieved. Synergy believes the intangible assets purchased from BMS are limited exclusively to the future development of FV-100 for the treatment of shingles. ASC Topic 350-30-25-2(c) requires that the costs of intangibles that are purchased from others for a particular research and development project and that have no alternative future uses (in other research and development projects or otherwise) and therefore no separate economic values are research and development costs at the time the costs are incurred. Accordingly, Synergy charged the \$1,000,000 base payment to “purchased in-process research and development expense” during the twelve months ended December 31, 2012.

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Private Placement

On February 4, 2014, Synergy’s wholly owned subsidiary, ContraVir Pharmaceuticals, Inc. (ContraVir) entered into a securities purchase agreement with accredited investors to sell securities and raise gross proceeds of approximately \$3.2 million in a private placement and incurred expenses of \$15,000 related to this placement. ContraVir sold 9,485,294 units to the investors with each unit consisting of one share of ContraVir’s common stock and one warrant to purchase an additional one half share of ContraVir’s common stock. The purchase price paid by the investors was \$0.34 for each unit. The 4.7 million warrants expire after six years and are exercisable at \$0.37 per share. Based upon the ContraVir’s analysis of the criteria contained in ASC Topic 815-40, “Derivatives and Hedging—Contracts in Entity’s Own Equity” ContraVir recorded approximately \$0.88 million of derivative liability on the warrants issued in connection with this transaction.

Spin-off

On February 18, 2014, Synergy completed the distribution of the ContraVir common stock (its previous wholly-owned subsidiary) to Synergy’s stockholders on a pro rata basis with a stock dividend of .0986 ContraVir shares for each Synergy common stock share held as of the record date of February 6, 2014.

Synergy accounted for this distribution according to FASB ASC Topic 505-60, *Spinoffs and reverse spinoffs* by eliminating ContraVir’s net assets of approximately \$1.7 million, with a corresponding decrease in additional paid in capital and the non-controlling interest of \$1.6 million.

Net assets of ContraVir eliminated in connection with this spin-off was as follows:

(\$ in thousands)	Balance February 18, 2014
Assets	
Cash	\$ 3,230
Prepaid expense	6
Total assets	3,236
Accounts payable and other liabilities	(107)
Note Payable to Synergy	(455)
Due to Synergy	(54)
Derivative financial instruments, at estimated fair value-warrants	(880)
Total Liabilities	(1,496)
Net assets	\$ 1,740

As a result of the ContraVir distribution, an adjustment was made to the exercise price of all our outstanding warrants in accordance with their terms. Accordingly the exercise price decreased approximately \$0.011 per share on the record date. As of December 31, 2014, there were 3,378,453 of our non-public warrants outstanding with a weighted average exercise price of \$5.34 per share pre-distribution and \$5.33 per share as adjusted.

Loan and Security Agreement

On June 5, 2013, ContraVir entered into a Loan and Security Agreement with Synergy pursuant to which Synergy agreed to lend ContraVir up to five hundred thousand dollars (\$500,000) for working capital purposes (the “Loan Agreement”). Also on June 5, 2013, August 29, 2013, October 18, 2013 and January 9, 2014, pursuant to the Loan Agreement, Synergy made an advance to ContraVir of \$100,000, \$100,000, \$150,000 and \$100,000, respectively, under a promissory note (the “Note”). The Note bore interest at six percent (6%) per annum. In connection with the Loan Agreement ContraVir granted Synergy a security interest in all of its assets, including its intellectual property, until the Note is repaid in full. On November 18, 2013, ContraVir entered into an amendment to the Loan Agreement with Synergy pursuant to which Synergy agreed to increase the aggregate amount available to ContraVir under the Loan Agreement from five hundred thousand dollars (\$500,000) to one million dollars (\$1,000,000). On March 27, 2014, ContraVir paid \$461,236 to Synergy in full repayment of the advance, including accrued but unpaid interest thereon.

Shared Services Agreement

On July 8, 2013, ContraVir entered into a Shared Services Agreement, as amended and restated August 5, 2013, with Synergy, effective May 16, 2013. Under the Shared Services Agreement, Synergy provided and/or made available to ContraVir various administrative, financial (accounting), insurance, facility, information technology, and other services. In consideration for such services, ContraVir paid fees to Synergy sufficient to allow Synergy to recover all of its direct and indirect costs incurred in providing those services. Effective April 1, 2014, Synergy terminated the shared services agreement with ContraVir.

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4. Convertible Senior Notes

On November 3, 2014, Synergy closed a private offering of \$200 million aggregate principal amount of 7.50% Convertible Senior Notes due 2019 (including the full exercise of the over-allotment option granted to the initial purchasers to purchase an additional \$25 million aggregate principal amount of 7.50% Convertible Senior Notes due 2019, the “Note”). The net proceeds from the offering were \$187.3 million after deducting the initial purchasers’ discounts and offering expenses.

The Notes are unsecured, senior obligations of Synergy and bear interest at a rate of 7.50% per year, payable semiannually in arrears on May 1 and November 1 of each year, beginning on May 1, 2015. Accrued interest as of December 31, 2014 was \$2.5 million. The Notes will mature on November 1, 2019, unless earlier purchased or converted. The holders of the Notes have the ability to require the Company to repurchase the Notes in whole or in part for cash in the event of a fundamental change, as defined in the indenture agreement. In such case, the repurchase price would generally be 100% of the principal amount of the Notes plus any accrued and unpaid interest.

The Notes are convertible, at any time, into shares of Synergy’s common stock at an initial conversion rate of 321.5434 shares per \$1,000 principal amount of notes, which is equivalent to an initial conversion price of \$3.11 per share. The conversion rate may be subject to adjustment upon the occurrence of certain specified events as provided in the Indenture (the “Indenture”) governing the Convertible Senior Notes, dated November 3, 2014 between Synergy and Wells Fargo Bank, National Association, as trustee. Adjustments to the conversion rate include stock dividends and distributions, splits and reverse splits, as well as the issuance of stock options, rights and warrants. Other adjustments to the conversion rate also include asset distributions and spin offs, and cash dividend and tender offers. Upon conversion of a Senior Convertible Note, the Company will settle the conversion obligation in unregistered shares of the Company’s common stock. Synergy does not have the option to redeem the Notes prior to the Maturity Date.

Without the consent of Holders of 66 2/3% of the aggregate principal amount of Notes outstanding, Synergy shall not permit any of its subsidiaries to incur or repay any debt other than debt permitted by terms of the Indenture, nor declare or pay any dividend and make any equity distributions. The Indenture also provides for customary events of default, including, but not limited to, failure to pay the principal or interest on any Note, pay the fundamental change purchase price or deliver shares of common stock.

In accounting for the Convertible Senior Notes, Synergy concluded that, in accordance with ASC Topic 470, Debt, Subtopic 470-20, specifically Convertible Debt Instruments, as well as ASC Topic 815, Derivatives and Hedging, the embedded conversion option contained within the Notes should not be accounted for separately because the conversion option is indexed to Synergy’s common stock and would be classified within stockholders’ equity, if issued on a standalone basis. Accordingly, Synergy accounted for the Convertible Senior Notes as conventional convertible debt. The Company did not elect the Fair Value option. The Company also determined that there was no beneficial conversion feature.

Transaction costs associated with this financing are \$12.7 million. Amortization expense for year ended December 31, 2014 are approximately \$0.4 million, which is calculated using the effective interest rate method and recognized over the expected term of the Convertible Senior Notes. A summary of the amortization schedule during the year ended December 31, 2014 is presented below:

(\$ in thousands)	December 31, 2014
Deferred financing costs at issuance	\$ 12,747
Less: Accumulated amortization	(411)
Deferred financing costs, Balance at December 31, 2014	<u>\$ 12,336</u>

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. Synergy accounts 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.

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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. Synergy did not issue stock options prior to the quarter ended September 30, 2008.

On March 1, 2010, a majority of our shareholders acting by written consent approved an amendment to the Plan increasing the number of shares reserved under the Plan to 7,500,000 shares, after a retroactive change of a one for two (1:2) reverse stock split effective on November 30, 2011.

On January 17, 2013, Synergy amended its 2008 Equity Compensation Incentive Plan and increased the number of shares of its common stock reserved for issuance under the Plan from 7,500,000 to 15,000,000.

Stock-based compensation expense related to Synergy options and restricted stock units have been recognized in operating results as follows:

	Years Ended December 31,		
	2014	2013	2012
	(In thousands)		
Included in research and development expense	\$ 1,914	\$ 1,465	\$ 1,103
Included in general and administrative	2,808	3,149	1,412
Total stock-based compensation expense	<u>\$ 4,722</u>	<u>\$ 4,614</u>	<u>\$ 2,515</u>

The unrecognized compensation cost related to non-vested stock options outstanding at December 31, 2014, net of expected forfeitures, was approximately \$9.1 million to be recognized over a weighted-average remaining vesting period of approximately 2 years. This unrecognized compensation cost does not include amounts related to 4,364,000 shares of 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 periods indicated.

	Years Ended December 31,		
	2014	2013	2012
Risk-free interest rate	1.78%-2.30%	0.66%-2.75%	0.85%-1.5%
Dividend yield	—	—	—
Expected volatility	52%-60%	60%	60%
Expected term (in years)	6.0 years	6.0 years	6.0 years

Risk-free interest rate —Based on the daily yield curve rates for U.S. Treasury obligations with maturities which correspond to the expected term of the Company's stock options.

Dividend yield —Synergy has not paid any dividends on common stock since its inception and does not anticipate paying dividends on its common stock in the foreseeable future.

Expected volatility —Based on the historical volatility of Synergy stock.

Expected term —Synergy has had minimal stock options exercised since inception. The expected option term represents the period that stock-based awards are expected to be outstanding based on the simplified method provided in Staff Accounting Bulletin ("SAB") No. 107, *Share-Based Payment*, ("SAB No. 107"), which averages an award's weighted-average vesting period and expected term for "plain vanilla" share options. Under SAB No. 107, options are considered to be "plain vanilla" if they have the following basic characteristics: (i) granted "at-the-money"; (ii) exercisability is conditioned upon service through the vesting date; (iii) termination of service prior to vesting results in forfeiture; (iv) limited exercise period following termination of service; and (v) options are non-transferable and non-hedgeable.

In December 2007, the SEC issued SAB No. 110, *Share-Based Payment*, ("SAB No. 110"). SAB No. 110 was effective January 1, 2008 and expresses the views of the Staff of the SEC with respect to extending the use of the simplified method, as discussed in SAB No. 107, in developing an estimate of the expected term of "plain vanilla" share options in accordance with ASC Topic 718. The Company will continue to use the simplified method until it has the historical data necessary to provide a reasonable estimate of expected life in accordance with SAB No. 107, as amended by SAB No. 110. For the expected term, the Company has "plain-vanilla" stock options, and

therefore used a simple average of the vesting period and the contractual term for options granted subsequent to January 1, 2006 as permitted by SAB No. 107.

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Forfeitures —ASC Topic 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Synergy estimated future unvested option forfeitures based on its historical experience.

The weighted-average fair value per share of all options granted for the years ended December 31, 2014, 2013 and 2012 estimated as of the grant date using the Black-Scholes option valuation model was \$1.98, \$2.68 and \$2.38 per share respectively.

A summary of stock option activity and of changes in stock options outstanding under Synergy’s plans is presented below:

	Number of Options	Exercise Price Per Share	Weighted Average Exercise Price Per Share	Intrinsic Value (\$ in thousands)
Balance outstanding, December 31, 2011	5,964,039	\$ 0.50-4.30	\$ 1.77	\$ 6,027
Granted	3,875,229	\$ 3.40-5.20	\$ 4.29	
Exercised	—	—	—	
Forfeited	(105,000)	\$ 3.40-4.38	\$ 4.10	
Balance outstanding, December 31, 2012	9,734,268	\$ 0.50-5.20	\$ 2.75	\$ 24,482
Granted	2,545,965	\$ 0.44 -20.01	\$ 6.41	
Exercised	(61,787)	\$ 0.50-4.28	\$ 1.91	\$ 221
Forfeited	(894,397)	\$ 4.42-13.90	\$ 6.05	
Balance outstanding, December 31, 2013	11,324,049	\$ 0.44-20.01	\$ 3.31	\$ 37,521
Granted	5,528,000	\$ 2.83-4.24	\$ 3.47	
Exercised	(9,999)	\$ 3.40-3.95	\$ 3.58	—
Forfeited	(275,030)	\$ 4.24-20.01	\$ 13.42	
Balance outstanding, December 31, 2014 (1)	16,567,020	\$ 0.44-17.79	\$ 3.20	\$ 8,949
Exercisable at December 31, 2014	7,028,499	\$ 0.44-17.79	\$ 3.13	\$ 5,071

(1) Number of options represented above include contingent vesting options upon change of control granted on 11/20/2009. The Fair Value at the date of grant was approximately \$28,918,822 determined using the Black-Scholes option valuation model assumptions discussed above. No stock based compensation expense associated with these options was recognized since the grant date.

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.

6. Income Taxes

At December 31, 2014, Synergy has net operating loss carry forwards (“NOLs”) aggregating approximately \$284 million, which, if not used, expire beginning in 2018 through 2033. The utilization of these NOLs is subject to limitations based on past and future changes in ownership of Synergy pursuant to Internal Revenue Code Section 382. The Company has determined that ownership changes have occurred for Internal Revenue Code Section 382 purposes and therefore, the ability of the Company to utilize its NOLs is limited. The Company has no other material deferred tax items. Synergy records a valuation allowance against deferred tax assets to the extent that it is more likely than not that some portion, or all of, the deferred tax assets will not be realized. As a result of this valuation allowance there are no income tax benefits reflected in the accompanying consolidated statements of operations to offset pre-tax losses.

The provisions of FASB ASC Topic 740-10-30-7, *Accounting for Income Taxes* were adopted by Synergy on January 1, 2007 and had no effect on Synergy’s financial position, cash flows or results of operations upon adoption, as Synergy did not have any unrecognized tax benefits. Synergy’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense and none have been incurred to date.

Synergy has no uncertain tax positions subject to examination by the relevant tax authorities as of December 31, 2014. Synergy files U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2011 through 2014 tax years generally remain subject to examination by federal and most state tax authorities. Callisto, which was merged into Synergy in January 2013, is currently under examination by the Internal Revenue Service. It is too early to determine the outcome of the audit.

Synergy periodically files for and receives certain state and local research and development tax credits. As of December 31, 2014 the Company had no outstanding refundable tax credits due. During the twelve months ended December 31, 2014 and 2012 Synergy reported \$83,000 and \$506,000, respectively, as other income in the Company’s statement of operations.

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7. Commitments and Contingencies

Employment and Consulting Agreements

Gary S. Jacob, Ph.D.

On January 7, 2015, Dr. Gary Jacob, Chief Executive Officer and President entered into an amended and restated employment agreement with Synergy. This agreement is substantially similar to the previous employment agreement that was entered into on May 2, 2011, except, among other things, the base salary for Dr. Jacob is \$500,000. The term of the agreement ends on December 31, 2016, however, the agreement is automatically renewed for successive one year period unless either party notifies the other of its intention not to renew the agreement. Effective October 1, 2013, Dr. Jacob was elected Chairman of the Board of Directors.

Dr. Jacob is eligible to receive a cash bonus of up to 50% of his base salary per year based on meeting certain performance objectives and bonus criteria. Dr. Jacob is also eligible to receive a realization bonus in the event that Synergy enters into an out-license agreement for its technology or enter into a joint venture in which Synergy contributes such rights to the joint venture where the enterprise value equals or exceeds a minimum of \$250 million in the term of the agreement or the license fees Synergy contracts to receive equals or exceeds \$50 million. The realization bonus will be equal to the enterprise value in the case of a joint venture or the sum of the license fees actually received in the case of an out license, multiplied by 0.5%. In addition, in the event we engage in a merger transaction or a sale of substantially all of our assets where (i) the Company's enterprise value at the time of the merger or sale equals or exceed \$400 million and Synergy stockholders prior to consummation of the merger or sale beneficially own less than 20% of the stock of the surviving entity after consummation of the merger, (ii) the Company's enterprise value at the time of the merger or sale or 12 months after the merger or sale equals or exceed \$250 million and our stockholders prior to consummation of the merger or sale beneficially own 20% or more of the stock of the surviving entity after consummation of the merge, Dr. Jacob shall receive a bonus in an amount determined by multiplying the enterprise value by 2.5% or (iii) the Company's enterprise value at the time of the merger or sale equals or exceed \$1 billion and its stockholders prior to consummation of the merger or sale beneficially own less than 20% of the stock of the surviving entity after consummation of the merger, Dr. Jacob shall receive a bonus in an amount determined by multiplying the enterprise value by 3.5%.

If the employment agreement is terminated by us other than for cause or as a result of Dr. Jacob's death or permanent disability or if Dr. Jacob terminates his employment for good reason which includes a change of control, Dr. Jacob shall receive (i) a severance payment equal average monthly base salary paid or accrued during the three full calendar months preceding the termination, (ii) expense compensation in an amount equal to twelve times the sum of his average base salary during the three full months preceding the termination, (iii) 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 our stock option plans or ten years following the termination date, (iv) payment in respect of compensation earned but not yet paid and (v) payment of the cost of medical insurance for a period of twelve months following termination. In the event Dr. Jacob's employment was terminated upon a change of control as of December 31, 2014, he would have been entitled to receive a lump sum payment of \$2,286,000, less applicable withholding.

Gabriele M. Cerrone

On January 7, 2015, Gabriele Cerrone, our former Chairman, entered into an amended and restated consulting agreement with us. This agreement is substantially similar to the previous consulting agreement that was entered on May 2, 2011, except, among other things, the base consulting fee for Mr. Cerrone is \$425,000. The term of the agreement ends on December 31, 2016, however, the agreement is automatically renewed for successive one year period unless either party notifies the other of its intention not to renew the agreement.

Pursuant to the agreement, Mr. Cerrone is eligible to receive a cash bonus of up to 50% of his base consulting fee per year based on meeting certain performance objectives and bonus criteria. Mr. Cerrone is also eligible to receive a realization bonus in the event that Synergy enters into an out-license agreement for its technology or enter into a joint venture in which Synergy contributes such rights to the joint venture where the enterprise value equals or exceeds a minimum of \$250 million during the term of the agreement or the license fees Synergy contracts to receive equals or exceeds \$50 million. The realization bonus will be equal to the enterprise value in the case of a joint venture or financing or the sum of the license fees actually received multiplied by 0.5%. In addition, in the event Synergy engages in a merger transaction or a sale of substantially all of our assets where (i) the Company's enterprise value at the time of the merger or sale equals or exceed \$400 million and Synergy stockholders prior to consummation of the merger or sale beneficially own less than 20% of the stock of the surviving entity after consummation of the merger, (ii) the Company's enterprise value at the time of the merger or sale or 12 months after the merger or sale equals or exceed \$250 million and Synergy stockholders prior to consummation of the merger or sale beneficially own 20% or more of the stock of the surviving entity after consummation of the merge, Mr. Cerrone shall receive a bonus in an amount determined by multiplying the enterprise value by 2.5% or (iii) the Company's enterprise value at the time of the merger or sale equals or exceed \$1 billion and its stockholders prior to consummation of the merger or sale beneficially own less than 20% of the stock of the surviving entity after consummation of the merger, Mr. Cerrone shall receive a bonus in an amount determined by multiplying the enterprise value by 3.5%.

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If the consulting agreement is terminated by us other than for cause or as a result of Mr. Cerrone's death or permanent disability or if

Mr. Cerrone terminates the agreement for good reason which includes a change of control, Mr. Cerrone shall receive (i) a severance payment equal to the higher of the aggregate amount of his base consulting fee for the then remaining term of the agreement or twelve times the average monthly base consulting fee paid or accrued during the three full calendar months preceding the termination, (ii) expense compensation in an amount equal to twelve times the sum of his average base consulting fee during the three full months preceding the termination, (iii) 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 our stock option plans or ten years following the termination date, (iv) payment in respect of consulting fee and bonus earned but not yet paid and (v) payment of the cost of medical insurance for a period of twelve months following termination. In the event Mr. Cerrone's employment was terminated upon a change of control as of December 31, 2014, he would have been entitled to receive a lump sum payment of approximately \$1,942,500 less applicable withholding.

Bernard F. Denoyer

On January 20, 2011, Bernard F. Denoyer entered into an executive employment agreement with us in which he agreed to serve as Senior Vice President, Finance. The term of the agreement was effective as of January 20, 2011, continues until January 20, 2012 and is automatically renewed for successive one year periods at the end of each term. Mr. Denoyer's base salary is \$240,000 effective January 1, 2015.

Pursuant to this agreement Mr. Denoyer is eligible to receive a cash bonus of up to 25% of his base salary per year at the discretion of the Compensation Committee of the Board of Directors. If the employment agreement is terminated by Synergy other than for cause or as a result of Mr. Denoyer's death or permanent disability or if Mr. Denoyer terminates his employment for good reason which includes a change of control, Mr. Denoyer shall receive (i) a severance payment equal to the higher of the aggregate amount of his base salary for the then remaining term of the agreement or twelve times the average monthly base salary paid or accrued during the three full calendar months preceding the 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 our stock option plans or ten years following the termination date, (iii) payment in respect of compensation earned but not yet paid and (iv) payment of the cost of medical insurance for a period of twelve months following termination. In the event Mr. Denoyer's employment was terminated upon a change of control as of December 31, 2014, he would have been entitled to receive a lump sum payment of approximately \$341,000, less applicable withholding.

Kunwar Shailubhai

On January 7, 2015, Dr. Kunwar Shailubhai entered into an amended and restated employment agreement with the Company, which amended his previous agreement dated April 6, 2004. In his new agreement, Mr. Shailubhai agreed to serve as Chief Scientific Officer and Executive Vice President. The term of the agreement continues until June 25, 2016 and is automatically renewed for successive one year periods at the end of each term. Dr. Shailubhai's base salary is \$330,000 effective January 1, 2015.

Pursuant to this agreement Dr. Shailubhai is eligible to receive a cash bonus of up to 30% of his base salary per year at the discretion of the Compensation Committee of the Board of Directors. Dr. Shailubhai is also eligible to receive a realization bonus in the event that Synergy enters into an out-license agreement for its technology or enter into a joint venture in which Synergy contributes such rights to the joint venture where the enterprise value equals or exceeds a minimum of \$250 million in the term of the agreement or the license fees Synergy contracts to receive equals or exceeds \$50 million. The realization bonus will be equal to the enterprise value in the case of a joint venture or the sum of the license fees actually received in the case of an out license, multiplied by 0.2%. In addition, in the event we engage in a merger transaction or a sale of substantially all of our assets where (i) the Company's enterprise value at the time of the merger or sale equals or exceed \$400 million and Synergy stockholders prior to consummation of the merger or sale beneficially own less than 20% of the stock of the surviving entity after consummation of the merger, (ii) the Company's enterprise value at the time of the merger or sale or 12 months after the merger or sale equals or exceed \$250 million and our stockholders prior to consummation of the merger or sale beneficially own 20% or more of the stock of the surviving entity after consummation of the merge, Dr. Shailubhai shall receive a bonus in an amount determined by multiplying the enterprise value by 1% or (iii) the Company's enterprise value at the time of the merger or sale equals or exceed \$1 billion and its stockholders prior to consummation of the merger or sale beneficially own less than 20% of the stock of the surviving entity after consummation of the merger, Dr. Jacob shall receive a bonus in an amount determined by multiplying the enterprise value by 1.17%.

If the employment agreement is terminated by Synergy other than for cause or as a result of Dr.. Shailubhai's death or permanent disability or if Mr. Shailubhai terminates his employment for good reason which includes a change of control, Mr. Shailubhai shall receive (i) a severance payment equal to the higher of the aggregate amount of his base salary for the then remaining term of the agreement or twelve times the average monthly base salary paid or accrued during the three full calendar months preceding the 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 our stock option plans or ten years following the termination date, (iii) payment in respect of compensation earned but not yet paid and (iv) payment of the cost of medical insurance for a period of twelve months following termination. In the event Dr. Shailubhai's employment was terminated upon a change of control as of December 31, 2014, he would have been entitled to receive a lump sum payment of approximately \$692,000, less applicable withholdings.

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Lease agreements

On June 30, 2014, we entered into a Lease Amendment of our New York office, (a) adding office space to our existing lease and (b) extending our existing lease for additional three years to March 2022, to be coterminous with our new space. This lease amendment results in total monthly rent of approximately \$51,000 on straight line basis, prospectively.

Synergy also maintain a research and development laboratory and several offices in the Bucks County Biotechnology Center in Doylestown, Pennsylvania under a lease through December 31, 2015, at a monthly rate of approximately \$3,600.

Rent expense was \$651,000, \$575,000 and \$300,000 for the years ended December 31, 2014, 2013 and 2012 respectively.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table is a summary of contractual obligations for the periods indicated that existed as of December 31, 2014.

(\$ in thousands)	Total	Less than 1 Year	1-2 Years	3-5 Years	More than 5 years
Long Term debt Obligations (1)	\$ 275,000	\$ 15,000	\$ 30,000	\$ 230,000	\$ —
Operating leases	4,640	570	1,100	1,317	1,653
Purchase obligations—principally employment and consulting services(2)	5,263	2,193	3,070	—	—
Purchase Obligations—Major Vendors(3)	81,750	64,487	17,263	—	—
Total obligations	\$ 366,653	\$ 82,250	\$ 51,433	\$ 231,317	\$ 1,653

(1) Represents Senior Convertible Notes, including interest. See Note 4 to our Consolidated Financial Statements.

(2) Represents salary, bonus, and benefits for remaining term of employment agreements with Gary S. Jacob, CEO, Bernard F Denoyer, Senior Vice President, Finance, Kunwar Shailubhai, Chief Scientific Officer and consulting fees, bonus and benefits for remaining term of consulting agreement with Gabriele M. Cerrone. See Note 7 to our Consolidated Financial Statements.

(3) Represents amounts that will become due upon future delivery of supplies, drug substance and test results from various suppliers, under open purchase orders.

Litigation

There are currently no pending legal proceedings to which Synergy or any of our subsidiaries is a party, or of which any of its property is the subject, that the Company believes will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results. As far as the Company is aware, no governmental authority is contemplating any such proceeding.

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 and clinical trial insurance.

In accordance with FASB ASC Topic 730-10-55, Research and Development, Synergy recorded prepaid research and development costs of approximately \$3.6 million as of December 31, 2014 and December 31, 2013 respectively, for nonrefundable pre-payments for production of drug substance, analytical testing services for its drug candidates, and clinical trials. In accordance with this guidance, Synergy expenses deferred research and development costs when drug compound is delivered and /or 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.

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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, these warrants are also being re-measured at each balance sheet date based on estimated fair value, 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 was:

	Year ended December 31, 2014	Year ended December 31, 2013
Fair value of Synergy common stock	\$3.05	\$5.55
Expected warrant term	0.49-3.9 years	1.8-4.4 years
Risk-free interest rate	0.08%-1.32%	0.26%-1.76%

Expected volatility	52%-60%	60%
Dividend yield	0%	0%

The 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 a management estimate of future volatility, over the expected warrant term, 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 at the date of grant or quarterly revaluation.

As of December 31, 2014 and 2013, Synergy did not have any outstanding warrants which contained terms that require the use of a binomial model to determine fair value. The range of assumptions in the binomial model used to determine the fair value of certain warrants at the dates indicated was as follows:

	Year ended
	December 31, 2012
Estimated fair value of Synergy common stock	\$3.28-\$4.53
Expected warrant term	4.13-4.63 years
Risk-free interest rate	0.62%-1.04%
Expected volatility	60%
Dividend yield	0%

Fair value of stock is the closing market price of the Company's common stock on the date of warrant issuance and end of each reporting period the derivative instruments are marked to market. Expected volatility is based in part on the 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 at the date of grant or quarterly revaluation.

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

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Date	Description	Warrants	Derivative Instrument Liability (in thousands)
12/31/2011	Balance of derivative financial instruments liability	2,265,160	\$ 3,325
3/31/2012	Fair value of new warrants issued during the quarter	—	—
3/31/2012	Change in fair value of warrants during the quarter	—	(8)
6/30/2012	Warrants classified to derivative liability during quarter	112,500	169
6/30/2012	Change in fair value of warrants during the quarter	—	1,317
9/30/2012	Fair value of new warrants issued during the quarter	—	—
9/30/2012	Change in fair value of warrants during the quarter	—	(140)
12/31/2012	Fair value of new warrants issued during the quarter	—	—
12/31/2012	Change in fair value of warrants during the quarter	—	764
12/31/2012	Reclassification of derivative liability to equity during the quarter	(112,500)	(169)
12/31/2012	Balance of derivative financial instruments liability	2,265,160	5,258
3/31/2013	Change in fair value of warrants during the quarter	—	1,093
3/31/2013	Balance of derivative financial instruments liability	2,265,160	6,351
6/30/2013	Fair value of new warrants issued during the quarter	—	—
6/30/2013	Reclassification of derivative liability to equity during the quarter	(1,406,691)	(3,575)
6/30/2013	Change in fair value of warrants during the quarter	—	(1,803)
9/30/2013	Fair value of new warrants issued during the quarter	—	—
9/30/2013	Change in fair value of warrants during the quarter	—	77
12/31/2013	Fair value of new warrants issued during the quarter	—	—
12/31/2013	Change in fair value of warrants during the quarter	—	484
12/31/2013	Balance of derivative financial instruments liability	858,469	1,534
3/31/2014	Fair value of new warrants issued during the quarter	—	—
3/31/2014	Change in fair value of warrants during the quarter	—	(223)
6/30/2014	Fair value of new warrants issued during the quarter	—	—
6/30/2014	Change in fair value of warrants during the quarter	—	(756)
9/30/2014	Fair value of new warrants issued during the quarter	—	—

9/30/2014	Change in fair value of warrants during the quarter	—	(425)
12/30/2014	Fair value of new warrants issued during the quarter	—	—
12/30/2014	Change in fair value of warrants during the quarter	—	42
12/30/2014	Balance of derivative financial instruments liability	858,469	\$ 172

10. 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, 2013 and December 31, 2014:

(\$ in thousands) Description	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)			Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)			Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2014
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Significant Other Observable Inputs (Level 2)			Significant Unobservable Inputs (Level 3)					
Derivative liabilities related to Warrants	\$ —	\$ —	\$ 1,534	\$ 1,534	\$ —	\$ —	\$ 172	\$ 172			

The following table sets forth a summary of changes in the fair value of the Company's Level 3 liabilities for the twelve months ended December 31, 2014 and December 31, 2013.

(\$ in thousands) Description	Balance at December 31, 2012	Fair value of warrants exercised and reclassified to additional paid in capital	Fair Value of warrants upon issuance	(Gain) or loss recognized in earning from Change in Fair Value	Balance as of December 31, 2013	Fair Value of warrants upon issuance	(Gain) or loss recognized in earning from Change in Fair Value	Balance as of December 31, 2014

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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.

As of December 31, 2014 and 2013, our available-for-sale securities are classified as Level 1 per ASC 820. Our Senior Convertible Debt is stated at principal amount.

11. Property and Equipment

Property and equipment consists of leasehold improvements, which are recorded at cost. The Company depreciates the costs when the property placed into service, using the straight-line method over the shorter of the life of asset and the remaining term of the underlying lease.

Furniture and equipment includes laboratory, testing and computer equipment and furniture and fixtures. All are stated at cost, with useful lives ranging from 2 - 5 years, depreciated on a straight line basis. Leasehold improvements are primarily related to Synergy's corporate headquarters in New York City and are being amortized over the life of the lease. Depreciation and amortization expense for the years ended December 31, 2014, 2013 and 2012 were approximately \$120,000, \$56,000 and \$2,000, respectively.

(\$ in thousands)	December 31, 2014	December 31, 2013
Furniture and equipment	\$ 645	\$ 585
Leasehold improvement	220	107
Less accumulated depreciation	(223)	(103)
Property and equipment, net	\$ 642	\$ 589

12. Quarterly Consolidated Financial Data (Unaudited)

	Quarter Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	(dollars in thousands, except share and per share data)			
Revenues	\$ —	\$ —	\$ —	\$ —
Costs and expenses:				
Research and Development	13,299	24,479	20,946	24,550
Purchased in-process research and development	—	—	—	—
General and administrative	3,178	2,279	2,506	3,041
Loss from operations	(16,477)	(26,758)	(23,452)	(27,591)
Other income				
Amortization of deferred financing costs	—	—	—	(411)

Interest and investment income/(expense), net(includes interest expense of \$2,500 on Senior Convertible Debentures for year 2014)	29	(1)	19	(2,511)
Tax credits	—	83	—	—
Change in fair value of derivative instruments—warrants	223	756	425	(42)
Total other income/(loss)	252	838	444	(2,964)
Net Loss	\$ (16,225)	\$ (25,920)	\$ (23,008)	\$ (30,555)
Weighted average common shares outstanding—basic and diluted (a)	92,056,124	94,069,703	94,738,048	96,190,332
Net loss per Common Share, basic and diluted(a):	\$ (0.18)	\$ (0.28)	\$ (0.24)	\$ (0.32)

(a) Basic and diluted EPS are computed independently for each of the periods presented. Accordingly, the sum of the quarterly EPS amounts may not agree to the total for the year.

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	Quarter Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
	(dollars in thousands, except per share data)			
Revenues	\$ —	\$ —	\$ —	\$ —
Costs and expenses:				
Research and Development	14,344	9,055	10,782	16,449
General and administrative	3,278	2,803	2,692	2,908
Loss from operations	(17,622)	(11,858)	(13,474)	(19,357)
Other income				
Interest and investment income	17	16	14	11
Interest expense	—	—	—	(21)
Change in fair value of derivative instruments—warrants	(1,093)	1,803	(77)	(484)
Total other (loss)/income	(1,076)	1,819	(63)	(494)
Net Loss	\$ (18,698)	\$ (10,039)	\$ (13,537)	\$ (19,851)
Weighted average common shares outstanding—basic and diluted	72,789,006	87,482,939	90,182,115	90,182,115
Net loss per common share—basic and diluted(a):	\$ (0.26)	\$ (0.11)	\$ (0.15)	\$ (0.22)

(a) Basic and diluted EPS are computed independently for each of the periods presented. Accordingly, the sum of the quarterly EPS amounts may not agree to the total for the year.

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FOURTH AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT

This FOURTH AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") dated January 7, 2015 by and between Synergy Pharmaceuticals Inc., a company incorporated under the laws of Delaware (the "Company"), and Gary S. Jacob, Ph.D., an individual (the "Executive") with reference to the following facts:

WHEREAS, Executive serves as the President and Chief Executive Officer of the Company which is engaged in the business of developing and marketing drug products;

WHEREAS, the Executive has previously entered into an employment agreement with the Company as of March 11, 2009, as amended by the Amended and Restated Employment Agreement with the Company as of February 10, 2010, the Second Amended and Restated Employment Agreement with the Company as of May 2, 2011 and the Third Amended and Restated Employment Agreement with the Company as of December 28, 2012 (collectively, the "Prior Employment Agreement"); and

WHEREAS, the parties wish to enter into a new Agreement between the Executive and the Company in its entirety, on the terms and conditions contained in this Agreement, which will supersede the Prior Employment Agreement and all prior agreements and understandings between the parties, oral or written.

NOW THEREFORE, in consideration of the foregoing facts and mutual agreements set forth below, the parties, 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 Executive Officer and President. During the Employment Term, Executive shall perform all duties and accept all responsibilities incident to such positions and other appropriate duties as may be assigned to Executive by the Company's Board of Directors (the "Board") from time to time. Executive shall also serve as a director of the Company if requested by the Board, and as an officer of one or more of the Company's subsidiaries without any additional compensation. 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. The Executive also agrees that in the absence of a Chief Accounting Officer, he will sign various federal and state securities filings as the Company's principal accounting officer.
 - 1.2 **Employment Term.** The term of Executive's employment under this Agreement commences as of January 1, 2013 (the "Effective Date") and shall continue until December 31, 2016, 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 commencing as of the Effective Date and ending December 31, 2016 or such later date to which the term of Executive's employment under the Agreement shall have been extended is referred to herein as the "Employment Term" and the end of the Employment Term is referred to herein as the "Expiration Date."
 - 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 to devote substantially all Executive's business time, attention and energy thereto. Executive further agrees not to work either on a part-time or independent contracting basis for any other business or enterprise during the Employment Term without the prior written consent of the Board, which consent shall not be unreasonably withheld.
 - 1.4 **Base Salary.** The Company shall pay Executive a base salary (the "Base Salary") at the annual rate of \$500,000 (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. The Executive's Base Salary may be increased, but not decreased by the Board or the Compensation Committee of the Board (the "Compensation Committee") Once increased, such increased amount shall constitute the Executive's Base Salary and shall not be decreased.
 - 1.5 **Incentive Compensation.**
 - (a) **Bonus.** Executive shall be eligible to earn a cash bonus of up to 50% of his Base Salary per full calendar year during the Employment Term based on meeting performance objectives and bonus criteria to be mutually identified by Executive and the Compensation Committee. Bonuses, if any, shall be subject to all applicable tax and payroll withholdings. The bonus shall be determined on or before March 1 of each year of the Employment Term commencing January 1, 2013 and paid on or before April 14 of each year.
 - (b) **Realization Bonus.**

(i) In the event during the Term of this Agreement the Company enters into either a out-license agreement for any of its technology that grants exclusive marketing rights to a third party (and the license fees the Company contracts to receive (disregarding any contingencies to such payment) equals or exceeds \$50 million) or enters into a joint venture in which the Company contributes such rights to the joint venture, in each case where the Enterprise Value (defined below) equals or exceeds the minimum value of \$250 million, the Company shall accrue a bonus determined by

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multiplying the Enterprise Value (defined below) in the case of a joint venture or the sum of the license fees actually received in the case of an out license, as the case may be, by 0.5% (one half percent).

(ii) In the event during the Term of this Agreement the Company

- (A) engages in (i) a merger transaction as a result of which the stockholders of the Company existing immediately before the consummation of such merger beneficially own less than 20% of the stock of the ultimate parent of the surviving entity immediately after the consummation of the merger, where the Enterprise Value equals or exceeds a minimum value of \$400 million or (ii) a sale of substantially all of the assets of the Company, where the Enterprise Value equals or exceeds a minimum value of \$400 million, the Executive shall accrue a bonus in an amount determined by multiplying the Enterprise Value by 2.5% (a "Sale Transaction"); or
- (B) engages in (i) a merger transaction as a result of which the stockholders of the Company existing immediately before the consummation of such merger beneficially own less than 20% of the stock of the ultimate parent of the surviving entity immediately after the consummation of the merger, where the Enterprise Value equals or exceeds a minimum value of \$1 billion or (ii) a Sale Transaction where the Enterprise Value equals or exceeds a minimum value of \$1 billion, the Executive shall accrue a bonus in an amount determined by multiplying the Enterprise Value by 3.5% ; or
- (C) engages in (i) a merger transaction, as a result of which the stockholders of the Company existing immediately before the consummation of such merger beneficially own 20% or more of the stock of the ultimate parent of the surviving entity immediately after the consummation of the merger, where the Enterprise Value of the Company (either at the effective date of the transaction or 12 months after the effective date of the transaction) equals or exceeds a minimum value of \$250 million or (ii) a sale of substantially all of the assets of the Company, where the Enterprise Value equals or exceeds a minimum value of \$250 million, the Executive shall accrue a bonus in an amount determined by multiplying the Enterprise Value by 2.5% (a "Combination Transaction").

(iii) The accrued bonuses shall be payable to Executive (a) in the same form of the consideration received by the Company's stockholders in full contemporaneously at the closing of any joint venture, Sale Transaction or Combination Transaction; or (b) in cash 5 business days after the Company's receipt of license fees at the rate of 0.5% of license fees actually received. The expiration or termination of this Agreement shall not terminate or diminish the Executive's right to receive bonus payments with respect to out license fees collected or the consummation of any joint venture, Sale Transaction or Combination Transaction after the termination or expiration

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of this Agreement provided the Company has entered into an agreement for such a transaction any time during the Employment Term or 90 days thereafter.

(iv) The "Enterprise Value" in the case of a Change in Control in which consideration is payable to the Company in respect of its assets or business, shall mean the total cash and non-cash (including, without limitation, the assumption of debt) consideration received by the Company or in the case of a Change in Control in which consideration is payable to the Company's stockholders, the total cash and non-cash (including, without limitation, the assumption of debt) consideration payable to the Company's stockholders. "Enterprise Value" shall also include, if applicable, any cash or non-cash consideration payable to the Company or to the Company's stockholders on a contingent, earnout or deferred basis. To the extent that any consideration in a transaction is not received in cash upon the consummation of the Change in Control, the value of such non-cash consideration for purposes of calculating the Enterprise Value will be determined by the independent Board of Directors of the Company prior to the Change in Control in good faith in consultation with an independent investment bank or financial advisor retained by Board of Directors in connection with the Change in Control transaction. In the event that less than 100% of the stock or assets of the Company is purchased in the Change in Control transaction, the Enterprise Value shall be extrapolated from the percentage of the Company's capital stock or assets impacted in such Change in Control transaction to determine if the applicable threshold was exceeded, but the Transaction Fee shall be calculated based on the actual consideration received by the Company or shareholders, as the case may be. Section 1.5(b), however, shall not apply to any event resulting in a Change in Control in which neither the Company nor its stockholders receives consideration either upon, or in connection with, the occurrence or consummation of the event resulting in a Change in Control.

(v) For purposes of Section 1.5(b)(ii)(C), Enterprise Value at any time subsequent to the effective date of a transaction shall be computed by reference to the market capitalization of the combined entity (based on an average closing price of the combined entities common stock for a period of 20 consecutive trading days) multiplied by the quotient of the number of combined entities shares of common stock and common stock equivalents issued to the Company's stockholders in the

transaction divided by the total number of shares of the common stock and common stock equivalents outstanding on the effective date of the transaction, on a fully diluted basis.

(c) Options. The Compensation Committee will consider grants of options to the Executive no less frequently than annually commencing January 1, 2013.

(d) Executive Benefits. The Executive shall be entitled to participate in all executive benefit or incentive compensation plans now maintained or hereafter established by the Company for the purpose of providing compensation and/or benefits to executives of the Company and any supplemental retirement, salary continuation, stock option, deferred compensation, supplemental medical or life insurance or other bonus or incentive compensation plans. Unless otherwise provided herein, the Executive's participation in such plans shall be on the same basis and terms as other similarly situated executives of the Company. No additional compensation provided under any of such

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plans shall be deemed to modify or otherwise affect the terms of this Agreement or any of the Executive's entitlements hereunder.

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.

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 Board of Directors. 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 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 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

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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. Except as required in the performance of Executive's duties for the Company, or 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 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 return immediately 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 "B", 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 guanylyl cyclase receptor agonists and (ii) "Covered Area" means all geographical areas of the United States and foreign jurisdictions where the 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 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,

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directly or indirectly, any person to leave his or her employment with the Company.

- 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 0 hereof), or if Executive terminates his employment for Good Reason (as defined in Section 0 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 calendar months immediately preceding such termination;
 - (ii) expense compensation, which shall be paid in a lump sum payment within ten (10) days of the date of termination, in an amount equal to the higher of the aggregate amount of the sum of average monthly cost during the three full months immediately preceding such termination of Consultant's reimbursed expenses set forth in Section 1.7 for the then remaining term of this Agreement or twelve times the sum of average monthly cost during the three full months immediately preceding such termination of Consultant's reimbursed expenses set forth in Section 1.7;
 - (iii) 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;
 - (iv) 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
 - (v) payment of the cost of comprehensive medical insurance for Executive for the greater of the then remaining term of this Agreement or 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):

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- (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;
 - (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 8.6 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 0 becomes payable to the Executive:
- (i) if the severance compensation provided for in subsection 0 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 10 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 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(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 280G(b)(4) of the Code either in their entirety or in excess of the base amount within the meaning of Section 280G(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 280G(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 on 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:
- (a) 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;
 - (a) the Compensation Payment which shall be paid to Executive as a cash lump sum within 30 days of such termination; and
 - (b) 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:

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- (a) compensation equal to one year's Base Salary (calculate by multiplying the average monthly Base Salary paid or accrued for the three full calendar months immediately such event, which shall be paid within 30 days of such termination;
 - (b) 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;
 - (c) the Compensation Payment which shall be paid to Executive's estate as a cash lump sum within 30 days of such termination; and
 - (c) 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 (a) 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 (b) 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 for Cause pursuant to this Section 0 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 (a) through (b) above and specifying the particulars thereof.
5. Change In Control.
- 5.1 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

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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.

5.2 Rights and Obligations. If a Change in Control of the Company shall have occurred while the Executive is director of the Company, the Executive shall be entitled to the compensation provided in Section 0 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.

6. Assignment. 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.

7. Indemnification.

Executive, as such and as a Director of the Company, shall be indemnified by the Company against all liability incurred by the Executive in connection with any proceeding,

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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.

8. General Provisions.

8.1 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 this 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.

8.2 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 2012
New York, NY 10070

If to Executive, to:
Gary S. Jacob, Ph.D.
171 East 84th Street, #16J
New York, NY 10028

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.

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

- 8.4 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.
- 8.5 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.
- 8.6 Successors and Assigns. Executive may not assign this Agreement without the prior written consent of the Company. The Company may assign its rights without the written consent of the executive, so long as the Company or its assignee complies with the other material terms of this Agreement. The rights and obligations of the Company under this Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company, and the Executive's rights under this Agreement shall inure to the benefit of and be binding upon his heirs and executors. The Company's subsidiaries and controlled affiliates shall be express third party beneficiaries of this Agreement.
- 8.7 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.
- 8.8 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.

EXECUTIVE:

SYNERGY PHARMACEUTICALS INC.

/s/ Gary S. Jacob

Gary S. Jacob, Ph.D.

/s/ Bernard Denoyer

Bernard Denoyer, Senior Vice President, Finance

THIRD AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT

This THIRD AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") dated as of January 7, 2015 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, as amended by the Amended and Restated Employment Agreement dated as of June 25, 2012 and the Seconded Amended and Restated Executive Employment Agreement dated as of March 31, 2014 (collectively, 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, 2016, 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 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 \$330,000 (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.

(a) Executive shall be eligible to earn a cash bonus of up to 30% 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.

(b) Realization Bonus.

(i) In the event during the Term of this Agreement the Company enters into either a out-license agreement for any of its technology that grants exclusive marketing rights to a third party (and the license fees the Company contracts to receive (disregarding any contingencies to such payment) equals or exceeds \$50 million) or enters into a joint venture in which the Company contributes such rights to the joint venture, in each case where the Enterprise Value (defined below) equals or exceeds the minimum value of \$250 million, the Company shall accrue a bonus determined by multiplying the Enterprise Value (defined below) in the case of a joint venture or the sum of the license fees actually received in the case of an out license, as the case may be, by 0.2% (one fifth of one percent).

(ii) In the event during the Term of this Agreement the Company

(A) engages in (i) a merger transaction as a result of which the stockholders of the Company existing immediately before the consummation of such merger beneficially own less than 20% of the stock of the ultimate parent of the surviving entity

immediately after the consummation of the merger, where the Enterprise Value equals or exceeds a minimum value of \$400 million or (ii) a sale of substantially all of the assets of the Company, where the Enterprise Value equals or exceeds a minimum value of \$400 million, the Executive shall accrue a bonus in an amount determined by multiplying the Enterprise Value by 1.0% (a "Sale Transaction"); or

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- (B) engages in (i) a merger transaction as a result of which the stockholders of the Company existing immediately before the consummation of such merger beneficially own less than 20% of the stock of the ultimate parent of the surviving entity immediately after the consummation of the merger, where the Enterprise Value equals or exceeds a minimum value of \$1 billion or (ii) a Sale Transaction, where the Enterprise Value equals or exceeds a minimum value of \$1 billion, the Executive shall accrue a bonus in an amount determined by multiplying the Enterprise Value by 1.17%; or
- (C) engages in (i) a merger transaction, as a result of which the stockholders of the Company existing immediately before the consummation of such merger beneficially own 20% or more of the stock of the ultimate parent of the surviving entity immediately after the consummation of the merger, where the Enterprise Value of the Company (either at the effective date of the transaction or 12 months after the effective date of the transaction) equals or exceeds a minimum value of \$250 million or (ii) a sale of substantially all of the assets of the Company, where the Enterprise Value equals or exceeds a minimum value of \$250 million, the Executive shall accrue a bonus in an amount determined by multiplying the Enterprise Value by 1.0% (a "Combination Transaction").

(iii) The accrued bonuses shall be payable to Executive (a) in the same form of the consideration received by the Company's stockholders in full contemporaneously at the closing of any joint venture, Sale Transaction or Combination Transaction; or (b) in cash 5 business days after the Company's receipt of license fees at the rate of 0.5% of license fees actually received. The expiration or termination of this Agreement shall not terminate or diminish the Executive's right to receive bonus payments with respect to out license fees collected or the consummation of any joint venture, Sale Transaction or Combination Transaction after the termination or expiration of this Agreement provided the Company has entered into an agreement for such a transaction any time during the Employment Term or 90 days thereafter.

(iv) The "Enterprise Value" in the case of a Change in Control in which consideration is payable to the Company in respect of its assets or business, shall mean the total cash and non-cash (including, without limitation, the assumption of debt) consideration received by the Company or in the case of a Change in Control in which consideration is payable to the Company's stockholders, the total cash and non-cash (including, without limitation, the assumption of debt) consideration payable to the Company's stockholders. "Enterprise Value" shall also include, if applicable, any cash or non-cash consideration payable to the Company or to the Company's stockholders on a contingent, earnout or deferred basis. To the extent that any consideration in a transaction is not received in cash upon the consummation of the Change in Control, the value of such non-cash consideration for purposes of calculating the Enterprise Value will be determined by the independent Board of Directors of the Company prior to the Change in Control in good faith in consultation with an independent investment bank or financial advisor retained by Board of Directors in connection with the Change in Control transaction. In the event that less than 100% of the stock or assets of the Company is

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purchased in the Change in Control transaction, the Enterprise Value shall be extrapolated from the percentage of the Company's capital stock or assets impacted in such Change in Control transaction to determine if the applicable threshold was exceeded, but the Transaction Fee shall be calculated based on the actual consideration received by the Company or shareholders, as the case may be. Section 1.5(b), however, shall not apply to any event resulting in a Change in Control in which neither the Company nor its stockholders receives consideration either upon, or in connection with, the occurrence or consummation of the event resulting in a Change in Control.

(v) For purposes of Section 1.5(b)(ii)(C), Enterprise Value at any time subsequent to the effective date of a transaction shall be computed by reference to the market capitalization of the combined entity (based on an average closing price of the combined entities common stock for a period of 20 consecutive trading days) multiplied by the quotient of the number of combined entities shares of common stock and common stock equivalents issued to the Company's stockholders in the transaction divided by the total number of shares of the common stock and common stock equivalents outstanding on the effective date of the transaction, on a fully diluted basis.

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

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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 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

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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

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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

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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 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(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 280G(b)(4) of the Code either in their entirety or in excess of the base amount within the meaning of Section 280G(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 280G(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

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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 on 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:

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- (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

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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.

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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 2012
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.

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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.

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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

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Exhibit A

Confidentiality Agreement and Inventions Agreement

Exhibit B

Release

AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") dated as of July 12, 2013 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 Patrick H. Griffin, M.D., FACP, 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 May 10, 2013 (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 Medical Officer. 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 shall commence as of May 20, 2013 (the "Effective Date") and shall continue for 12 months, 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 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. Executive may not serve as a Director on other company Boards without prior written consent of the Company's Board of Directors (the "Board"), which consent shall not be unreasonably withheld.

1.4 Base Salary. The Company shall pay Executive a base salary (the "Base Salary") at the annual rate of \$325,000 (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 30% of his base salary for each twelve-month period during the Employment Term at the discretion of the Company's Board of Directors, or if the Board organizes a compensation committee, such 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

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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 she 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, she 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 her 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, consultant, 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 guanylyl cyclase receptor agonists and (ii) "Covered Area" means all geographical

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areas of the United States and 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

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- 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

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- 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 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(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 280G(b)(4) of the Code either in their entirety or in excess of the base amount within the meaning of Section 280G(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 280G(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

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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 on 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:

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- (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

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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. General Provisions.

5.1 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.

5.2 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: Patrick H. Griffin, M.D., FACP
143 Bennett Avenue, Apt. 5J
New York, NY 10040

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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.

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

5.4 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.

5.5 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.

5.6 Successors and Assigns. Executive may not assign this Agreement without the prior written consent of the Company. The Company may assign its rights without the written consent of Executive, so long as the Company or its assignee complies with the other material terms of this Agreement. The rights and obligations of the Company under this Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company, and the Executive's rights under this Agreement shall inure to the benefit of and be binding upon his heirs and executors. The Company's subsidiaries and controlled affiliates shall be express third party beneficiaries of this Agreement.

5.7 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.

5.8 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.

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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, Ph.D.
President and CEO

/s/ Patrick H. Griffin

Patrick H. Griffin, M.D., FACP
Executive

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Synergy Advanced Pharmaceuticals, Inc., a Delaware corporation

Consent of Independent Registered Public Accounting Firm

Synergy Pharmaceuticals Inc.
New York, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-163316, 333-177730 and 333-182271) and Form S-8 (File No. 333-193349) of Synergy Pharmaceuticals Inc. and Subsidiaries (the "Company") of our reports dated March 16, 2015, relating to the consolidated financial statements and the effectiveness of the Company's internal control over financial reporting which appear in this annual report on Form 10-K.

/s/ BDO USA, LLP

New York, New York

March 16, 2015

CERTIFICATION

I, Gary S. Jacob, certify that:

1. I have reviewed this annual report on Form 10-K of Synergy Pharmaceuticals Inc. (the "Registrant");
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 annual 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 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 annual 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; 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.

March 16, 2015

/s/ GARY S. JACOB

Gary S. Jacob
President and Chief Executive Officer

CERTIFICATION

I, Bernard Denoyer, certify that:

1. I have reviewed this annual report on Form 10-K of Synergy Pharmaceuticals Inc. (the "Registrant");
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 annual 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 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 annual 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.

March 16, 2015

/s/ BERNARD DENOYER

Bernard Denoyer
Senior Vice President, Finance

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

In connection with the Annual Report of Synergy Pharmaceuticals Inc. (the "Company") on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bernard Denoyer, Senior Vice President, Finance of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

March 16, 2015

/s/ BERNARD DENOYER

Bernard Denoyer
Senior Vice President, Finance
