ZIOPHARM ONCOLOGY INC
Form 10-Q
July 31, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

Commission File Number 001-33038

ZIOPHARM Oncology, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**84-1475642**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

One First Avenue, Parris Building 34, Navy Yard Plaza

Boston, Massachusetts 02129

(617) 259-1970

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

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

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

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the registrant s common stock, $0.001 par value, outstanding as of July 24, 2017, was 141,962,789 shares.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our current beliefs and expectations. These forward-looking statements may be accompanied by such words as anticipate, believe, estimate, expect, forecast, intend, may, plan, project, target, will and other words and terms of similar meaning. I made in particular to forward-looking statements regarding:

our ability to finance our operations and business initiatives;

the sufficiency of our cash and investments and our expected uses of cash;

the progress, timing and results of preclinical and clinical trials involving our product candidates;

the progress of our research and development programs;

the costs and timing of the development and commercialization of our products;

additional planned regulatory filings for the approval and commercialization of our immuno-oncology product candidates;

whether any of our other therapeutic discovery and development efforts will advance further in pre clinical research or in the clinical trial process and whether and when, if at all, our product candidates will receive final approval from the U.S. Food and Drug Administration or equivalent foreign regulatory agencies and for which indications;

whether any other therapeutic products we develop will be successfully marketed if approved;

the risk that final trial data may not support interim analysis of the viability of our product candidates;

our ability to achieve the results contemplated by our collaboration agreements and the benefits to be derived from relationships with collaborators;

competition from other pharmaceutical and biotechnology companies;

the development of, and our ability to take advantage of, the market for our product candidates;

the anticipated amount, timing and accounting of deferred revenues, milestones and other payments under licensing, collaboration or acquisition agreements, research and development costs and other expenses;

the strength and enforceability of our intellectual property rights;

our assessment of the potential impact on our future revenues of health care reform legislation in the United States;

the timing and impact of measures worldwide designed to reduce health care costs;

the uncertainty of economic conditions in certain countries in Europe and Asia such as related to the United Kingdom s referendum in June 2016 in which voters approved an exit from the European Union, commonly referred to as Brexit ; and general economic conditions.

These forward-looking statements involve risks and uncertainties, including those that are described in the *Risk Factors* section of this report and elsewhere within this report that could cause actual results to differ materially from those reflected in such statements. You should not place undue reliance on these statements. Forward-looking statements speak only as of the date of this report. We do not undertake any obligation to publicly update any forward-looking statements.

NOTE REGARDING COMPANY REFERENCES

Throughout this Quarterly Report on Form 10-Q, ZIOPHARM, the Company, we, us and our refer to ZIOPHAR Oncology, Inc.

NOTE REGARDING TRADEMARKS

All trademarks, trade names and service marks appearing in this Quarterly Report on Form 10-Q are the property of their respective owners.

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ZIOPHARM Oncology, Inc.

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Part I - Financial Information

Item 1. Financial Statements

ZIOPHARM Oncology, Inc.

BALANCE SHEETS

(unaudited)

(in thousands, except share and per share data)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 97,194	$ 81,053
Receivables	44	21
Prepaid expenses and other current assets	27,892	23,810
Total current assets	125,130	104,884
Property and equipment, net	1,062	843
Deposits	128	128
Other non-current assets	493	493
Total assets	$ 126,813	$ 106,348
LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 81	$ 156
Accrued expenses	9,354	9,109
Deferred revenue - current portion	6,389	6,389
Deferred rent - current portion	164	155
Total current liabilities	15,988	15,809
Deferred revenue, net of current portion	38,333	41,528
Deferred rent, net of current portion	52	126
Derivative liabilities	2,480	862
Total liabilities	56,853	58,325
Commitments and contingencies (Note 6)		
Preferred stock, $0.001 par value, 30,000,000 shares authorized		
Series 1 preferred stock, $1,200 stated value; 250,000 designated; 112,713 and 106,184 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively; liquidation value of $135.3 million and $127.4 million at June 30,	134,234	125,321

2017 and December 31, 2016, respectively		
Stockholders deficit:		
Common stock, $0.001 par value; 250,000,000 shares authorized; 141,962,789 and 132,376,670 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	142	132
Additional paid-in capital - common stock	622,052	580,567
Accumulated deficit	(686,468)	(657,997)
Total stockholders deficit	(64,274)	(77,298)
Total liabilities and stockholders deficit	$ 126,813	$ 106,348

The accompanying notes are an integral part of the unaudited interim financial statements.

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ZIOPHARM Oncology, Inc.

STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except share and per share data)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2017	2016	2017	2016
Collaboration revenue	$ 1,597	$ 1,697	$ 3,194	$ 3,666
Operating expenses:				
Research and development	10,831	129,228	22,798	139,427
General and administrative	3,780	3,711	7,375	7,521
Total operating expenses	14,611	132,939	30,173	146,948
Loss from operations	(13,014)	(131,242)	(26,979)	(143,282)
Other income (expense), net	86	42	124	63
Change in fair value of derivative liabilities	66		(1,494)	
Net loss	$ (12,862)	$ (131,200)	$ (28,349)	$ (143,219)
Preferred stock dividends	$ (4,865)	$	$ (9,036)	$
Net loss applicable to common stockholders	$ (17,727)	$ (131,200)	$ (37,385)	$ (143,219)
Basic and diluted net loss per share	$ (0.13)	$ (1.01)	$ (0.28)	$ (1.10)
Weighted average common shares outstanding used to compute basic and diluted net loss per share	135,630,210	130,385,077	133,176,934	130,271,806

The accompanying notes are an integral part of the unaudited interim financial statements.

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ZIOPHARM Oncology, Inc.

STATEMENT OF STOCKHOLDERS DEFICIT

For the Six Months Ended June 30, 2017

(unaudited)

(in thousands, except share and per share data)

	Series 1 Preferred Stock - Mezzanine		Common Stock		Additional Paid In Capital Common	Accumulated	Total Stockholders
	Shares	Amount	Shares	Amount	Stock	Deficit	Deficit
Balance at December 31, 2016	106,184	$ 125,321	132,376,670	$ 132	$ 580,567	$ (657,997)	$ (77,298)
Cumulative effect adjustment (Note 3)					122	(122)	
Exercise of employee stock options			26,047	1	98		99
Stock-based compensation					4,082		4,082
Restricted stock buy-back at vesting to cover taxes			(148,666)	(1)	(1,041)		(1,042)
Issuance of common stock net of commissions and expenses of $2.7 million			9,708,738	10	47,260		47,270
Preferred stock dividends	6,529	8,913			(9,036)		(9,036)
Net loss						(28,349)	(28,349)
Balance at June 30, 2017	112,713	$ 134,234	141,962,789	$ 142	$ 622,052	$ (686,468)	$ (64,274)

The accompanying notes are an integral part of the unaudited interim financial statements.

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ZIOPHARM Oncology, Inc.

STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$ (28,349)	$ (143,219)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	167	155
Stock-based compensation	4,082	4,075
Preferred stock issued in exchange for a license agreement		119,045
Change in fair value of derivative liabilities	1,494	
Issuance of common stock in a license agreement		87
Change in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(23)	431
Prepaid expenses and other current assets	(4,083)	(6,332)
Other noncurrent assets		1
Increase (decrease) in:		
Accounts payable	(75)	23
Accrued expenses	246	(1,513)
Deferred revenue	(3,194)	(3,666)
Deferred rent	(65)	(239)
Net cash used in operating activities	(29,800)	(31,152)
Cash flows from investing activities:		
Purchases of property and equipment	(385)	(257)
Net cash used in investing activities	(385)	(257)
Cash flows from financing activities:		
Proceeds from exercise of stock options	98	551
Repurchase of restricted common stock	(1,042)	(853)
Repurchase of common stock		(2)
Proceeds from issuance of common stock, net of commissions and expenses of $2.7 million	47,270	
Net cash provided by (used in) financing activities	46,326	(304)
Net decrease in cash and cash equivalents	16,141	(31,713)

Cash and cash equivalents, beginning of period	81,053	140,717
Cash and cash equivalents, end of period	$ 97,194	$ 109,004
Supplementary disclosure of cash flow information:		
Cash paid for interest	$	$
Cash paid for income taxes	$	$
Supplementary disclosure of noncash investing and financing activities:		
Series 1 preferred stock issued as consideration for a license agreement	$	$ 119,045
Payment of Series 1 preferred stock dividends in preferred stock	$ 9,036	$

The accompanying notes are an integral part of the unaudited interim financial statements.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS

(unaudited)

1. Business

Overview

ZIOPHARM Oncology, Inc., which is referred to herein as ZIOPHARM or the Company, is a biopharmaceutical company seeking to develop, acquire, and commercialize, on its own or with partners, a diverse portfolio of cancer therapies that address unmet medical needs.

The Company s operations to date have consisted primarily of raising capital and conducting research and development. The Company s fiscal year ends on December 31.

The Company has operated at a loss since its inception in 2003 and has minimal revenues. The Company anticipates that its losses will continue for the foreseeable future. As of June 30, 2017, the Company has approximately $97.2 million of cash and cash equivalents. Given its development plans, the Company s anticipates cash resources will be sufficient to fund its operations into the fourth quarter of 2018 and the Company has no committed sources of additional capital at this time. The Company s ability to continue operations after its current cash resources are exhausted depends on its ability to obtain additional financing or to achieve profitable operations, as to which no assurances can be given. Cash requirements may vary materially from those currently planned because of changes in the Company s business strategy and direction of its research and development efforts, competitive and technical advances, regulatory changes or other developments. Additional financing will be required to continue operations after the Company exhausts its current cash resources and to continue its long-term plans for clinical trials and new product candidate development.

The forecast of cash resources is forward-looking information that involves risks and uncertainties, and the actual amount of our expenses could vary materially and adversely as a result of a number of factors. The Company has based its estimates on assumptions that may prove to be wrong, and its expenses could prove to be significantly higher than it currently anticipates. Management does not know whether additional financing will be on terms favorable or acceptable to the Company when needed, if at all. There can be no assurance that any such financing can be realized by the Company, or if realized, what the terms thereof may be, or that any amount that the Company is able to raise will be adequate to support the Company s working capital requirements until it achieves profitable operations. If adequate additional funds are not available when required, or if the Company is unsuccessful in entering into partnership agreements for further development of its product candidates, management may need to curtail its current development efforts and cut operating costs.

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC. Certain information and note disclosures required by generally accepted accounting principles in the United States have been condensed or omitted pursuant to such rules and regulations.

It is management s opinion that the accompanying unaudited interim financial statements reflect all adjustments (which are normal and recurring) that are necessary for a fair statement of the results for the interim periods. The unaudited interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2016, included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on February 16, 2017, or the Form 10-K.

The year-end balance sheet data was derived from the audited financial statements but does not include all disclosures required by generally accepted accounting principles in the United States of America.

The results disclosed in the statements of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full fiscal year.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

1. Business (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company regularly assesses these estimates, actual results could differ from those estimates. Changes in estimates are recorded in the period in which they become known.

The Company s most significant estimates and judgments used in the preparation of its financial statements are:

Clinical trial expenses;

Collaboration agreements;

Fair value measurements of stock based compensation, warrants and Series 1 preferred stock; and

Income taxes

Subsequent Events

The Company evaluated all events and transactions that occurred after the balance sheet date through the date of this filing. During this period, the Company did not have any material subsequent events that impacted its financial statements or disclosures.

2. Financings

On May 11, 2017, the Company sold in an underwritten public offering an aggregate of 9,708,738 shares of its common stock. The price to the public in the offering was $5.15 per share, and the underwriters agreed to purchase the shares from the Company pursuant to the underwriting agreement at a purchase price of $4.893 per share. The offering was made pursuant to the Company s effective registration statement on Form S-3ASR (Registration Statement No. 333-201826) previously filed with the SEC, and a prospectus supplement thereunder. The net proceeds from the offering were approximately $47.3 million after deducting underwriting discounts and estimated offering expenses payable by the Company.

3. Summary of Significant Accounting Policies

The Company s significant accounting policies were identified in the Company s Form 10-K. There have been no material changes in those policies since the filing of its Form 10-K.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09), which clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and IFRS. This standard removes inconsistencies and weaknesses between U.S. GAAP and IFRS in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. This update is effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period and early application is not permitted. The Company is currently evaluating the method of adoption and the potential impact that Topic 606 may have on its financial position and results of operations.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

3. Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance leases or operating leases, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within each annual reporting period. The Company is currently evaluating the impact of the adoption of this ASU on the financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation Stock Compensation (Topic 718): *Improvements to Employee Share-Based Accounting* (ASU 2016-09) to require changes to several areas of employee share-based payment accounting in an effort to simplify share-based reporting. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within each annual reporting period. The Company adopted this standard on January 1, 2017. The update revises requirements in the following areas: minimum statutory withholding, accounting for income taxes, and forfeitures. Prior to adoption, the Company recognized share-based compensation, net of estimated forfeitures, over the vesting period of the grant. Upon adoption of ASU 2016-09, the Company elected to change its accounting policy to recognize forfeitures as they occur. The new forfeiture policy election was adopted using a modified retrospective approach with a cumulative effect adjustment recorded to retained earnings as of January 1, 2017. The update requires the Company to recognize the income tax effect of awards in the income statement when the awards vest or are settled. It also allows the Company to repurchase more of an employee s shares than it can today for tax withholding purposes without triggering a liability. The income tax related items had no effect on the current period presentation and the Company maintains a full valuation allowance against its deferred tax assets.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15) to address how certain cash receipts and cash payments are presented and classified in the statement of cash flows in an effort to reduce existing diversity in practice. The update includes eight specific cash flow issues and provides guidance on the appropriate cash flow presentation for each. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within each annual reporting period. The Company is currently evaluating the impact of the adoption of this ASU on the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash* (ASU 2016-18) to clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. Under this new update, entities are required to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows. This guidance will be applied retrospectively and is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within each annual reporting period. The Company is currently evaluating the impact of the adoption of this ASU on the financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation Stock Compensation (Topic 718): Scope of Modification Accounting* (ASU 2017-09) to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under this new guidance, modification accounting is required if the fair value, vesting conditions, or classification of the award changes as a result of the change in terms or conditions. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within each annual reporting period. The Company does not expect the adoption of this guidance to have a material impact on the financial statements.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

4. Fair Value Measurements

The Company accounts for its financial assets and liabilities using fair value measurements. The authoritative accounting guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 were as follows:

($ in thousands)		Fair Value Measurements at Reporting Date Using		
Description	Balance as of June 30, 2017	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 93,291	$ 93,291	$	$
Liabilities:				
Derivative liabilities	$ (2,480)	$	$	$ (2,480)

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

4. Fair Value Measurements (continued)

($ in thousands)		Fair Value Measurements at Reporting Date Using		
Description	Balance as of December 31, 2016	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 77,120	$ 77,120	$	$
Liabilities:				
Derivative liabilities	$ (862)	$	$	$ (862)

The cash equivalents represent deposits in a short term United States treasury money market mutual fund quoted in an active market and classified as a Level 1 asset.

As discussed further in Notes 6 and 9, the Company issued Intrexon Corporation, or Intrexon, 100,000 shares of the Company s Series 1 preferred stock, a new class of preferred stock authorized by the Company s board of directors, in consideration of the parties entering into a Third Amendment to Exclusive Channel Partner Agreement, or the 2016 ECP Amendment, amending their existing Exclusive Channel Partner Agreement, effective January 6, 2011 and as amended to date, which the Company refers to as the Channel Agreement, and an Amendment to Exclusive Channel Collaboration Agreement, or the 2016 GvHD Amendment, amending their existing Exclusive Channel Collaboration Agreement, effective September 28, 2015, which the Company refers to as the GvHD Agreement.

At June 30, 2016, the Company s Series 1 preferred stock was valued using a probability-weighted approach and a Monte Carlo simulation model. Additionally, the monthly dividends issued on the outstanding Series 1 preferred stock are valued using the same probability-weighted approach and a Monte Carlo simulation model. However, there is no adjustment or further revaluation after the initial valuation on the Series 1 preferred stock other than required periodic dividends.

The Company s Level 3 financial liabilities consist of a conversion option and a redemption feature associated with the Company s Series 1 preferred stock issued to Intrexon that has been bifurcated from the Series 1 preferred stock and are accounted for as derivative liabilities at fair value. The preferred stock derivative liabilities were valued using a probability-weighted approach and a Monte Carlo simulation model. The fair value of the embedded derivatives was estimated using the with and without method where the preferred stock was first valued with all of its features (with scenario) and then without derivatives subject to the valuation analysis (without scenario). The fair value of the derivatives was then estimated as the difference between the fair value of the preferred stock in the with scenario and the preferred stock in the without scenario. See Note 6 for additional disclosures on the 2016 ECP Amendment and 2016 GvHD Amendments and Note 9 for additional disclosure on the rights and preferences of the Series 1 preferred

stock and valuation methodology.

5. Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period. The Company s potentially dilutive shares, which include outstanding common stock options, unvested restricted stock and preferred stock, have not been included in the computation of diluted net loss per share for any of the periods presented as the result would be anti-dilutive. Such potentially dilutive shares of common stock at June 30, 2017 and 2016 consisted of the following:

	June 30,	
	2017	2016
Stock options	3,537,835	3,438,103
Unvested restricted stock	1,330,492	1,236,388
Preferred stock	23,289,258	
	28,157,585	4,674,491

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

5. Net Loss per Share (continued)

The Series 1 preferred stock automatically converts into shares of common stock upon the date the first approval in the United States of (i) a ZIOPHARM Product, as defined in and developed under the Exclusive Channel Partner Agreement dated as of January 6, 2011 and as amended from time to time, by and between the Company and Intrexon, or (ii) a Product, as defined in and developed under the Exclusive Channel Collaboration Agreement dated September 28, 2015 and as amended from time to time, by and between the Company and Intrexon, or (iii) a Product as defined in and developed under the License and Collaboration Agreement dated March 27, 2015 and as amended from time to time, by and among Intrexon, Ares Trading, S.A. and the Company, is publicly announced. Assuming a conversion event date of June 30, 2017, the Series 1 preferred stock would convert into 23,289,258 shares of common stock using the greater of (i) the volume weighted average closing price of the Company s Common Stock as reported by the Nasdaq Stock Market, LLC over the previous 20 trading days ending on the conversion event date or (ii) $1.00 per share. See Note 6 and Note 9 for additional disclosure regarding the 2016 ECP Amendment and 2016 GvHD Amendment, valuation methodology and significant assumptions.

6. Commitments and Contingencies

Operating Leases

Prior to December 31, 2012, the Company entered into an operating lease in New York, NY for office space. In accordance with this agreement, the Company entered into a letter of credit in the amount of $388 thousand, naming the Company s landlord as beneficiary. In January 2012, the Company amended the lease agreement, adding additional office space. The collateral for the letter of credit is restricted cash and recorded in other non-current assets on the balance sheet as of June 30, 2017 and December 31, 2016. The lease for office space in New York, NY expires in October 2018.

On October 17, 2013, the Company entered into a sublease agreement to lease all of its New York office space to a subtenant. The Company remains primarily liable to pay rent on the original lease. The Company recorded a loss on the sublease in the amount of $729 thousand for the year ended December 31, 2013, representing the remaining contractual obligation of $2.3 million, less $1.6 million in payments from its subtenant. The Company continues to maintain the $388 thousand letter of credit in respect of the New York office space and recorded in other non-current assets on the balance sheets.

Prior to December 31, 2012, the Company entered into separate operating lease agreements for various spaces in a building in Boston, MA. In June 2012, the Company re-negotiated a master lease for the Company s Boston office space to incorporate all three lease agreements under the same master agreement, which was originally set to expire in August 2016. On December 21, 2015 and April 15, 2016, the Company renewed the sublease for the Company s corporate headquarters in Boston, MA through August 31, 2021. As of June 30, 2017, and December 31, 2016, a total security deposit of $128 thousand is included in deposits on the balance sheet.

Total rent expense was approximately $367 thousand and $122 thousand for the six months ended June 30, 2017 and 2016, respectively.

The Company records rent expense on a straight-line basis over the term of the lease. Accordingly, the Company has recorded a liability for deferred rent at June 30, 2017 and December 31, 2016 of $216 thousand ($164 thousand current and $52 thousand long-term) and $281 thousand ($155 thousand current and $126 thousand long-term), respectively, which is recorded in deferred rent on the balance sheets.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

6. Commitments and Contingencies (continued)

License Agreements

Exclusive Channel Partner Agreement with Intrexon Corporation for the Cancer Programs

On January 6, 2011, the Company entered into the Channel Agreement with Intrexon that governs a channel partnering arrangement in which the Company uses Intrexon s technology to research, develop and commercialize products in which DNA is administered to humans for expression of anti-cancer effectors for the purpose of treatment or prophylaxis of cancer, which the Company collectively refers to as the Cancer Program. This Channel Agreement establishes committees comprising representatives of the Company and Intrexon that govern activities related to the Cancer Program in the areas of project establishment, chemistry, manufacturing and controls, clinical and regulatory matters, commercialization efforts and intellectual property.

The Channel Agreement grants the Company a worldwide license to use patents and other intellectual property of Intrexon in connection with the research, development, use, importing, manufacture, sale, and offer for sale of products involving DNA administered to humans for expression of anti-cancer effectors for the purpose of treatment or prophylaxis of cancer, which are collectively referred to as the ZIOPHARM Products. Such license is exclusive with respect to any clinical development, selling, offering for sale or other commercialization of ZIOPHARM Products, and otherwise is non-exclusive. Subject to limited exceptions, the Company may not sublicense these rights without Intrexon s written consent.

Under the Channel Agreement, and subject to certain exceptions, the Company is responsible for, among other things, the performance of the Cancer Program, including the development, commercialization and certain aspects of manufacturing of ZIOPHARM Products. Intrexon is responsible for establishing manufacturing capabilities and facilities for the bulk manufacture of products developed under the Cancer Program, certain other aspects of manufacturing and costs of discovery-stage research with respect to platform improvements and costs of filing, prosecution and maintenance of Intrexon s patents.

Subsequent to the Third Amendment to the Exclusive Channel Partner Agreement, or the 2016 ECP Amendment, discussed below, and subject to certain expense allocations and other offsets provided in the Channel Agreement, the Company is obligated to pay Intrexon on a quarterly basis 20% of net profits derived in that quarter from the sale of ZIOPHARM Products, calculated on a ZIOPHARM Product-by-ZIOPHARM Product basis. The Company likewise agreed to pay Intrexon on a quarterly basis 50% of revenue obtained in that quarter from a sublicensor in the event of a sublicensing arrangement. In addition, in partial consideration for each party s execution and delivery of the Channel Agreement, the Company entered into a stock purchase agreement with Intrexon.

Upon termination of the Channel Agreement, the Company may continue to develop and commercialize any ZIOPHARM Product that, at the time of termination:

Is being commercialized by the Company;

Has received regulatory approval;

Is a subject of an application for regulatory approval that is pending before the applicable regulatory authority; or

Is the subject of at least an ongoing Phase 2 clinical trial (in the case of a termination by Intrexon due to an uncured breach or a voluntary termination by the Company), or an ongoing Phase 1 clinical trial in the field (in the case of a termination by the Company due to an uncured breach or a termination by Intrexon following an unconsented assignment by the Company or its election not to pursue development of a Superior Therapy (as defined in the Channel Agreement)).

The Company s obligation to pay 20% of net profits or revenue described above with respect to these retained products will survive termination of the Channel Agreement.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

6. Commitments and Contingencies (Continued)

Exclusive Channel Collaboration Agreement with Intrexon Corporation for Graft-Versus-Host Disease (GvHD)

On September 28, 2015, the Company entered into the GvHD Agreement with Intrexon, whereby the Company will use Intrexon s technology directed towards *in vivo* expression of effectors to research, develop and commercialize products for use in the treatment or prevention of graft-versus-host disease, or GvHD. GvHD may occur after a bone marrow or stem cell transplant in which someone receives bone marrow tissue or cells from a donor. The new, transplanted cells regard the recipient s body as foreign. When this happens, the newly transplanted cells attack the recipient s body.

The exclusive collaboration, or the GvHD Program, will focus on the pursuit of the following engineered cell therapy strategies, used either separately or in combination, for the targeted treatment of GvHD: (i) the infusion of regulatory T cells expressing membrane-bound and/or soluble interleukin-2 and (ii) the deployment of orally delivered, genetically modified *L. lactis* that express interleukin-2 to modulate immune function. The GvHD Agreement establishes committees comprising Company and Intrexon representatives that will govern activities related to the GvHD Program in the areas of project establishment, chemistry, manufacturing and controls, clinical and regulatory matters, commercialization activities and intellectual property.

The GvHD Agreement grants the Company a worldwide license to use specified patents and other intellectual property of Intrexon in connection with the research, development, use, importing, manufacture, sale, and offer for sale of products developed under the GvHD Program, or the Products. Such license is exclusive with respect to any clinical development, selling, offering for sale or other commercialization of the Products, and otherwise is non-exclusive. Subject to limited exceptions, the Company may not sublicense the rights described without Intrexon s written consent.

Under the GvHD Agreement, and subject to certain exceptions, the Company is responsible for, among other things, the performance of the GvHD Program, including development, commercialization and certain aspects of manufacturing of the Products. Among other things, Intrexon is responsible for the costs of establishing manufacturing capabilities and facilities for the bulk manufacture of the Products, certain other aspects of manufacturing, costs of discovery-stage research with respect to platform improvements and costs of filing, prosecution and maintenance of Intrexon s patents.

The Company paid Intrexon a technology access fee of $10.0 million in cash in October 2015 and will reimburse Intrexon for all research and development costs. Subject to certain expense allocations and other offsets provided in the GvHD Agreement, the GvHD Agreement also provides for equal sharing of the profits derived from the sale of the Products. The Company has determined that the rights acquired in the GvHD Agreement represent in-process research and development with no alternative future use. Accordingly, the Company recorded a charge of $10.0 million to research and development expense in September 2015.

During the first 24 months after September 28, 2015, the GvHD Agreement may be terminated by (i) either party in the event of a material breach by the other, except for the failure of the other party to use diligent efforts or to comply with any diligence obligations set forth in the GvHD Agreement and (ii) Intrexon under certain circumstances if the Company assigns its rights under the GvHD Agreement without Intrexon s consent. Following such twenty-four-month period, Intrexon may also terminate the GvHD Agreement if the Company elects not to pursue the development of the GvHD Program identified by Intrexon that is a Superior Therapy, as such term is defined in the GvHD Agreement. Also following such period, the Company may voluntarily terminate the GvHD Agreement upon 90 days written notice to Intrexon.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

6. Commitments and Contingencies (Continued)

Upon termination of the GvHD Agreement, the Company may continue to develop and commercialize any Product that, at the time of termination:

- is being commercialized by the Company,
- has received regulatory approval,
- is a subject of an application for regulatory approval that is pending before the applicable regulatory authority, or
- is the subject of at least an ongoing Phase 2 clinical trial (in the case of a termination by Intrexon due to a Company uncured breach or a voluntary termination by the Company), or an ongoing Phase 1 clinical trial (in the case of a termination by the Company due to an Intrexon uncured breach or a termination by Intrexon following an unconsented assignment by the Company or the Company s election not to pursue development of a Superior Therapy).

The Company s obligation to pay 20% of net profits or revenue with respect to these retained products will survive termination of the GvHD Agreement.

Amendment of Collaborations with Intrexon

On March 27, 2015, the Company and Intrexon entered into an Exclusive Channel Partner Amendment, or ECP Amendment, amending the Channel Agreement. The ECP Amendment modifies the scope of the parties collaboration under the Channel Agreement in connection with the Ares Trading Agreement discussed below. Pursuant to the ECP Amendment, the chimeric antigen receptor T cell products to be developed and commercialized pursuant to the Ares Trading Agreement shall be included within the Intrexon/ZIOPHARM collaboration under the Channel Agreement. The ECP Amendment provides that Intrexon will pay to the Company fifty percent of all payments Intrexon receives for upfronts, milestones and royalties under the Ares Trading Agreement.

On June 29, 2016, the Company entered into (1) the 2016 ECP Amendment with Intrexon amending the Channel Agreement, and (2) the 2016 GvHD Amendment, amending the GvHD Agreement. The 2016 ECP Amendment reduced the royalty percentage that the Company will pay to Intrexon under the Channel Agreement on a quarterly basis from 50% to 20% of net profits derived in that quarter from the sale of ZIOPHARM Products, calculated on a ZIOPHARM Product-by-ZIOPHARM Product basis, subject to certain expense allocations and other offsets provided

in the Channel Agreement. The 2016 GvHD Amendment reduced the royalty percentage that the Company will pay to Intrexon under the GvHD Agreement on a quarterly basis from 50% to 20% of net profits derived in that quarter from the sale of Products (as defined in the GvHD Agreement), subject to certain expense allocations and other offsets provided in the GvHD Agreement. The reductions in the royalty percentages provided by the 2016 ECP Amendment and the 2016 GvHD Amendment do not apply to sublicensing revenue or royalties under the Channel Agreement and GvHD Agreement, nor do they apply to any royalties or other payments made with respect to sublicensing revenue from the Company s existing collaboration with Ares Trading S.A., or Ares Trading, a subsidiary of the biopharmaceutical business of Merck KGaA.

In consideration for the execution and delivery of the 2016 ECP Amendment and the 2016 GvHD Amendment, the Company agreed to issue to Intrexon 100,000 shares of its Series 1 preferred stock. Each share of the Company s Series 1 preferred stock has a stated value of $1,200, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other recapitalization, and certain other rights, preferences, privileges and obligations (Note 9).

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

6. Commitments and Contingencies (Continued)

License Agreement The University of Texas MD Anderson Cancer Center

On January 13, 2015, the Company, together with Intrexon, entered into a License Agreement, or the MD Anderson License, with The University of Texas MD Anderson Cancer Center, or MD Anderson. Pursuant to the MD Anderson License, the Company and Intrexon hold an exclusive, worldwide license to certain technologies owned and licensed by MD Anderson including technologies relating to novel chimeric antigen receptor, or CAR, T cell therapies, non-viral gene transfer systems, genetic modification and/or propagation of immune cells and other cellular therapy approaches, Natural Killer, or NK Cells and T-cell receptors, or TCRs, arising from the laboratory of Laurence Cooper, M.D., Ph.D., who became the Chief Executive Officer of the Company on May 7, 2015 and was formerly a tenured professor of pediatrics at MD Anderson and is now currently a visiting scientist under that institution s policies, as well as either co-exclusive or non-exclusive licenses under certain related technologies.

Pursuant to the terms of the MD Anderson License, MD Anderson received consideration consisting of $50.0 million in shares of the Company s common stock (or 10,124,561 shares), and $50.0 million in shares of Intrexon s common stock, in each case based on a trailing 20 day volume weighted average of the closing price of the Company s and Intrexon s common stock ending on the date prior to the announcement of the entry into the MD Anderson License, collectively referred to as the License Shares, pursuant to the terms of the License Shares Securities Issuance Agreement described below. The License Shares were issued to MD Anderson on March 11, 2015 pursuant to the terms of the MD Anderson License.

On January 9, 2015, in order to induce MD Anderson to enter into the MD Anderson License on an accelerated schedule, the Company and Intrexon entered into a letter agreement, or the Letter Agreement, pursuant to which MD Anderson received consideration of $7.5 million in shares of the Company s common stock (or 1,597,602 shares), and $7.5 million in shares of Intrexon s common stock, in each case based on a trailing 20-day volume-weighted average of the closing price of the Company s and Intrexon s common stock ending on the date prior to the execution of the Letter Agreement, collectively referred to as the Incentive Shares, in the event that the MD Anderson License was entered into on January 14, 2015. The Incentive Shares were issued to MD Anderson on March 11, 2015, pursuant to the terms of the Incentive Shares Securities Issuance Agreement described below.

On August 17, 2015, the Company, Intrexon and MD Anderson entered into a research and development agreement, or the Research and Development Agreement, to formalize the scope and process for the transfer by MD Anderson, pursuant to the terms of the MD Anderson License, of certain existing research programs and related technology rights, as well as the terms and conditions for future collaborative research and development of new and ongoing research programs.

Pursuant to the Research and Development Agreement, the Company, Intrexon and MD Anderson have agreed to form a joint steering committee that will oversee and manage the new and ongoing research programs. As provided under the MD Anderson License, the Company will provide funding for research and development activities in

support of the research programs under the Research and Development Agreement for a period of three years and in an amount of no less than $15.0 million and no greater than $20.0 million per year. During the six months ended June 30, 2017, the Company made payments in the aggregate amount of $6.2 million to MD Anderson compared to $7.5 million during the six months ended June 30, 2016. The decrease in cash paid to MD Anderson during 2017 is a result of approved expenditures incurred by the Company being deducted from the April 2017 payment. As of June 30, 2017, MD Anderson had used $5.2 million to offset costs incurred pursuant to the MD Anderson License and the Research and Development Agreement. The net balance of $27.3 million is included in other current assets at June 30, 2017.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

6. Commitments and Contingencies (Continued)

The term of the MD Anderson License expires on the last to occur of (a) the expiration of all patents licensed thereunder, or (b) the twentieth anniversary of the date of the License; provided, however, that following the expiration of the term of the MD Anderson License, the Company and Intrexon shall then have a fully-paid up, royalty free, perpetual, irrevocable and sublicensable license to use the licensed intellectual property thereunder. After ten years from the date of the MD Anderson License and subject to a 90-day cure period, MD Anderson will have the right to convert the MD Anderson License into a non-exclusive license if the Company and Intrexon are not using commercially reasonable efforts to commercialize the licensed intellectual property on a case-by-case basis. After five years from the date of the MD Anderson License and subject to a 180-day cure period, MD Anderson will have the right to terminate the MD Anderson License with respect to specific technology(ies) funded by the government or subject to a third party contract if the Company and Intrexon are not meeting the diligence requirements in such funding agreement or contract, as applicable. MD Anderson may also terminate the agreement with written notice upon material breach by the Company and Intrexon, if such breach has not been cured within 60 days of receiving such notice. In addition, the MD Anderson License will terminate upon the occurrence of certain insolvency events for both the Company and Intrexon and may be terminated by the mutual written agreement of the Company, Intrexon and MD Anderson.

In connection with the License and the issuance of the License Shares and the Incentive Shares, on January 13, 2015, the Company and MD Anderson entered into a Registration Rights Agreement, or the Registration Rights Agreement, pursuant to which the Company agreed to file a resale registration statement, or the Registration Statement, registering the resale of the License Shares, the Incentive Shares and any other shares of the Company s common stock held by MD Anderson on the date that the Registration Statement is filed. Under the terms of the Registration Rights Agreement, the Company is obligated to maintain the effectiveness of the Registration Statement until all securities therein are sold or are otherwise can be sold pursuant to Rule 144, without any restrictions. A prospectus supplement under the Company s already effective registration statement on Form S-3 (File No. 333-201826) was filed on April 1, 2015 in satisfaction of the Company s obligations under the Registration Rights Agreement.

The Company determined that the rights acquired in the MD Anderson License represented in process research and development with no alternative future use. Accordingly, the Company recorded a charge of $67.3 million to research and development expense in 2015, representing the fair value of the 11,722,163 shares of its common stock on the date the MD Anderson License was executed.

Ares Trading License and Collaboration Agreement

On March 27, 2015, the Company and Intrexon signed a worldwide License and Collaboration Agreement, or the Ares Trading Agreement, with Ares Trading S.A., or Ares Trading, a subsidiary of the biopharmaceutical business of Merck KGaA, Darmstadt, Germany, through which the parties established a collaboration for the research and development and commercialization of certain products for the prophylactic, therapeutic, palliative or diagnostic use for cancer in humans.

Under the collaboration, Ares Trading has elected two CAR+ T targets for which the Company will perform certain research activities that will, in part, be funded by Ares Trading. Once these candidates reach investigational new drug, or IND, stage, the programs will be transferred to Ares Trading for clinical development and commercialization. The Company expects to perform multiple preclinical development programs, each consisting of the development of one product candidate, pursuant to the agreement. The Company and Intrexon will also independently conduct research and development on other CAR+ T candidates, with Ares Trading having the opportunity during clinical development to opt-in to these candidates for additional payments to the Company and Intrexon.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

6. Commitments and Contingencies (Continued)

Intrexon is entitled to receive $5.0 million payable in equal quarterly installments over two years for each identified product candidate, which will be used to fund discovery work. The Company is responsible for costs exceeding the quarterly installments and all other costs of the preclinical research and development. For the three and six months ended June 30, 2017, the Company has expensed $276 thousand under the Ares Trading Agreement.

Ares Trading paid a non-refundable upfront fee of $115.0 million to Intrexon as consideration for entry into the Ares Trading Agreement. Pursuant to the ECP Amendment, the Company was entitled to receive 50% of the upfront fee, or $57.5 million, which the Company received from Intrexon in July 2015.

The Ares Trading Agreement provides for up to $60.0 million in development milestone payments, up to $148.0 million in regulatory milestone payments and up to $205.0 million in commercial milestone payments for each product candidate. Development milestone payments are triggered upon initiation of a defined phase of clinical research for a product candidate. Regulatory milestone payments are triggered upon approval to market a product candidate by the U.S. Food and Drug Administration, or the FDA, or other global regulatory authorities. Commercial milestone payments are triggered when an approved pharmaceutical product reaches certain defined levels of net sales by the licensee. The Ares Trading Agreement also provides for up to $50.0 million of one-time payments upon the achievement of certain technical milestones evidenced by the initiation of a defined phase of clinical research. All development, regulatory and technical milestones are considered substantive on the basis of the contingent nature of the milestone, specifically reviewing factors such as the scientific, clinical, regulatory, commercial and other risks that must be overcome to achieve the milestone as well as the level of effort and investment required. Accordingly, such amounts will be recognized as revenue in full in the period in which the associated milestone is achieved, assuming all other revenue recognition criteria are met. All commercial milestones will be accounted for in the same manner as royalties and recorded as revenue upon achievement of the milestone, assuming all other revenue recognition criteria are met. The next potential milestone payment that Intrexon could be entitled to receive under the Ares Trading Agreement is a $15.0 million substantive milestone for the initiation of a Phase 1 clinical trial. In addition, to the extent any of the product candidates licensed by Ares Trading are commercialized, Intrexon would be entitled to receive royalties ranging from the lower-single digits to the low-teens of net sales derived from the sale of products developed under agreement. Intrexon will pay 50% of all milestone and royalty payments that it receives under the Ares Trading Agreement to the Company pursuant to the ECP Amendment.

The term of the Ares Trading Agreement commenced in May 2015 and may be terminated by either party in the event of a material breach as defined in the agreement and may be terminated voluntarily by Ares Trading upon 90 days written notice to the Company.

The Company considered FASB Accounting Standards Codification 605-25, *Multiple-Element Arrangements*, in evaluating the appropriate accounting for the Ares Trading Agreement. In accordance with this guidance, the Company identified the license and research and development services as the Company s deliverables in the arrangement. The Company concluded that the license does not have standalone value independent from the research

and development services. Accordingly, the Ares Trading Agreement is accounted for by the Company as a single unit of accounting. The $57.5 million upfront payment received by the Company was recorded as deferred revenue and is being recognized over the estimated period of performance of the research and development services which are currently estimated to be 9 years, beginning with the commencement of the research and development services. During the three and six months ended June 30, 2017 and 2016, the Company recognized $1.6 million, each quarter, of revenue related to the Ares Trading Agreement. As of June 30, 2017, the remaining balance of deferred revenue associated with the upfront payment is $44.7 million, of which $6.4 million is current and $38.3 million is classified as long-term. As of December 31, 2016, the remaining balance of deferred revenue associated with the upfront payment was $47.9 million, of which $6.4 million was current and $41.5 million was classified as long term.

Patent and Technology License Agreement The University of Texas MD Anderson Cancer Center and the Texas A&M University System.

On August 24, 2004, the Company entered into a patent and technology license agreement with MD Anderson and the Texas A&M University System, which the Company refers to, collectively, as the Licensors. Under this agreement, the Company was granted an exclusive, worldwide license to rights (including rights to U.S. and foreign patent and patent applications and related improvements and know-how) for the manufacture and commercialization of two classes of organic arsenicals (water- and lipid-based) for human and animal use. The class of water-based organic arsenicals includes darinaparsin.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

6. Commitments and Contingencies (Continued)

The Company issued options to purchase 50,222 shares outside of the Company s stock option plans following the successful completion of certain clinical milestones, of which 37,666 shares have vested. The remaining 12,556 shares vested upon enrollment of the first patient in a multi-center pivotal clinical trial i.e. a human clinical trial intended to provide the substantial evidence of efficacy necessary to support the filing of an approvable New Drug Application, or NDA. An expense of $87 thousand was charged to research and development expense for the vesting event which occurred in March 2016. This trial was initiated by Solasia Pharma K.K., or Solasia, on March 28, 2016 and triggered a $1.0 million milestone payment to the Company from Solasia which was received in May 2016. An equivalent of $1.0 million milestone payment was subsequently made to MD Anderson, and reported net. In addition, the Licensors are entitled to receive certain milestone payments. In addition, the Company may be required to make additional payments to the Licensors (as defined in the MD Anderson License) upon achievement of certain other milestones in varying amounts which, on a cumulative basis could total up to an additional $4.5 million. In addition, the Licensors are entitled to receive single digit percentage royalty payments on sales from a licensed product and will also be entitled to receive a portion of any fees that the Company may receive from a possible sublicense under certain circumstances.

Collaboration Agreement with Solasia Pharma K.K.

On March 7, 2011, the Company entered into a License and Collaboration Agreement with Solasia. Pursuant to the License and Collaboration Agreement, the Company granted Solasia an exclusive license to develop and commercialize darinaparsin in both intravenous and oral forms and related organic arsenic molecules, in all indications for human use in a pan-Asian/Pacific territory comprising Japan, China, Hong Kong, Macau, Republic of Korea, Taiwan, Singapore, Australia, New Zealand, Malaysia, Indonesia, Philippines and Thailand.

As consideration for the license, the Company received an upfront payment of $5.0 million to be used exclusively for further clinical development of darinaparsin outside of the pan-Asian/Pacific territory, and will be entitled to receive additional payments of up to $32.5 million in development-based milestones and up to $53.5 million in sales-based milestones. The Company will also be entitled to receive double digit royalty payments from Solasia based upon net sales of licensed products in the applicable territories, once commercialized, and a percentage of sublicense revenues generated by Solasia. The $5.0 million upfront payment received in March 2011 was amortized over the period of the Company s research and development effort, which was completed in March 2016.

On July 31, 2014, the Company entered into an amendment and restatement of the License and Collaboration Agreement granting Solasia an exclusive worldwide license to develop and commercialize darinaparsin, and related organoarsenic molecules, in both intravenous and oral forms in all indications for human use. In exchange, the Company will be eligible to receive from Solasia development-and sales-based milestones, a royalty on net sales of darinaparsin, once commercialized, and a percentage of any sublicense revenues generated by Solasia.

Solasia will be responsible for all costs related to the development, manufacturing and commercialization of darinaparsin. The Company s Licensors, as defined in the agreement, will receive a portion of all milestone and royalty payments made by Solasia to the Company in accordance with the terms of the Company s license agreement with the Licensors.

On March 28, 2016, Solasia initiated a multi-center pivotal clinical trial intended to provide substantial evidence of efficacy necessary to support the filing of an application for an NDA for darinaparsin in certain of the territories assigned to Solasia. The initiation of the trial on March 28, 2016 triggered a $1.0 million milestone payment from Solasia to the Company which was received in May 2016. The Company subsequently made an equivalent payment to MD Anderson as the ultimate licensor of darinaparsin (see above).

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

6. Commitments and Contingencies (Continued)

License Agreement with Baxter Healthcare S.A.

On November 3, 2006, the Company entered into a definitive Asset Purchase Agreement for indibulin and a License Agreement to proprietary nanosuspension technology with affiliates of Baxter Healthcare S.A. The purchase included the entire indibulin intellectual property portfolio as well as existing drug substance and capsule inventories. One remaining royalty payment of $250 thousand is due in November 2017. The terms of the Asset Purchase Agreement included an upfront cash payment and an additional payment for existing inventory. No payments were made during the six months ended June 30, 2017 and 2016.

Cooperative Research and Development Agreement (CRADA) with the National Cancer Institute

On January 10, 2017, the Company announced the signing of a Cooperative Research and Development Agreement, or CRADA, with the National Cancer Institute, or NCI, for the development of adoptive cell transfer, or ACT,-based immunotherapies genetically modified using the *Sleeping Beauty,* or SB, transposon/transposase system to express TCRs for the treatment of solid tumors. The principal goal of the CRADA is to develop and evaluate ACT for patients with advanced cancers using autologous peripheral blood lymphocytes, or PBL, genetically modified using the non-viral SB system to express TCRs that recognize specific immunogenic mutations, or neoantigens, expressed within a patient s cancer. Clinical evaluations of the ability of these SB-engineered PBL to express TCRs reactive against cancer mutations to mediate cancer regression in patients with metastatic disease will be performed. Research conducted under the CRADA will be at the direction of Steven A. Rosenberg, M.D., Ph.D., Chief of the Surgery Branch at the NCI, in collaboration with researchers at the Company and Intrexon. The Company s obligation for this CRADA is $7.5 million over the next three years, payable in $625 thousand payments on a quarterly basis. During the six months ended June 30, 2017, the Company made and expensed two payments totaling $1.3 million.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

7. Related Party Transactions

Collaborations with Intrexon

On January 6, 2011, the Company entered into the Channel Agreement with Intrexon (Note 6). A director of the Company, Randal J. Kirk, is the CEO, a director, and the largest stockholder of Intrexon.

On February 3, 2015, Intrexon purchased 1,440,000 shares of common stock in the Company s public offering upon the same terms as others that participated in the offering.

On March 27, 2015, the Company and Intrexon entered into a Second Amendment to the Exclusive Channel Partner Agreement amending the Channel Agreement, which is referred to as the ECP Amendment. The ECP Amendment modified the scope of the parties collaboration under the Channel Agreement in connection with the worldwide License and Collaboration Agreement, or the Ares Trading Agreement, which the Company and Intrexon entered into with Ares Trading S.A., or Ares Trading, on March 27, 2015. The ECP Amendment provided that Intrexon will pay to the Company 50% of all payments that Intrexon receives for upfronts, milestones and royalties under the Ares Trading Agreement (Note 6). The Amendment also reduces Intrexon s aggregate commitment under a Stock Purchase Agreement that the parties executed in connection with the initial Channel Agreement to purchase the Company s common stock from $50.0 million to $43.5 million, which has been satisfied.

On June 29, 2015, the Company re-purchased 3,711 shares of common stock from Intrexon, at a discount of 5% to the closing price of the Company s common stock on the date of purchase, which represented fractional shares that resulted from Intrexon s special stock dividend of the Company s shares to Intrexon s shareholders, for $34 thousand. On January 8, 2016, the Company re-purchased an additional 168 shares of common stock from Intrexon for $2 thousand at the same terms as the previous share purchase.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

7. Related Party Transactions (continued)

On September 28, 2015, the Company entered into the GvHD Agreement with Intrexon, whereby the Company will use Intrexon s technology directed towards *in vivo* expression of biologics to research, develop and commercialize products for use in the treatment or prevention of graft-versus-host disease, or GvHD (Note 6). The Company paid Intrexon a technology access fee of $10.0 million in cash in October 2015 and will reimburse Intrexon for all research and development costs. Subject to certain expense allocations and other offsets provided in the ECC Agreement, the ECC Agreement also provides for equal sharing of the profits derived from the sale of the Products.

On June 29, 2016, the Company entered into a Third Amendment to Exclusive Channel Partner Agreement, or the 2016 ECP Amendment, with Intrexon, amending the Channel Agreement, and an Amendment to Exclusive Channel Collaboration Agreement, or the 2016 GvHD Amendment, amending their existing Exclusive Channel Collaboration Agreement, effective September 28, 2015, which the Company refers to as the GvHD Agreement. The 2016 ECP Amendment reduced the royalty percentage that the Company will pay to Intrexon under the Channel Agreement on a quarterly basis from 50% to 20% of net profits derived in that quarter from the sale of ZIOPHARM Products (as defined in the Channel Agreement), calculated on a ZIOPHARM Product-by-ZIOPHARM Product basis, subject to certain expense allocations and other offsets provided in the Channel Agreement. The 2016 GvHD Amendment reduced the royalty percentage that the Company will pay to Intrexon under the GvHD Agreement on a quarterly basis from 50% to 20% of net profits derived in that quarter from the sale of Products (as defined in the GvHD Agreement), subject to certain expense allocations and other offsets provided in the GvHD Agreement. The reductions in the royalty percentages provided by the 2016 ECP Amendment and the 2016 GvHD Amendment do not apply to sublicensing revenue or royalties under the Channel Agreement and GvHD Agreement, nor do they apply to any royalties or other payments made with respect to sublicensing revenue from the Company s existing collaboration with Merck Serono, the biopharmaceutical business of Merck KGaA.

In consideration for the execution and delivery of the 2016 ECP Amendment and the 2016 GvHD Amendment, the Company issued Intrexon 100,000 shares of its Series 1 preferred stock. Each share of the Company s Series 1 preferred stock has a stated value of $1,200, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other recapitalization, and certain other rights, preferences, privileges and obligations (Note 9). The holders of the shares of Series 1 preferred stock are entitled to receive a monthly dividend, payable in additional shares of Series 1 preferred stock, equal to $12.00 per preferred share held by such holder per month divided by the stated value of the preferred shares, rounded down to the nearest whole share.

During the three months ended June 30, 2017, the Company issued an aggregate of 3,313 shares of Series 1 preferred stock to Intrexon, the holder of all of the outstanding shares of the Company s Series 1 preferred stock, as monthly dividend payments. The Company recorded such shares of Series 1 preferred stock at a fair value of $4.9 million, which is a component of temporary equity and recorded a gain on the change of the derivative liabilities in the amount of $66 thousand. See Notes 4 and 9 for additional discussion regarding the accounting for and valuation of these derivative financial instruments.

During the six months ended June 30, 2017 and 2016, the Company expensed $11.2 million and $12.1 million, respectively, for services performed by Intrexon. As of June 30, 2017 and December 31, 2016 the Company recorded $3.7 million and $3.4 million, respectively, in current liabilities on its balance sheet for amounts due to Intrexon.

Collaboration with Intrexon and MD Anderson

On January 13, 2015, the Company, together with Intrexon, entered into a license agreement with MD Anderson, which is referred to as the MD Anderson License. Pursuant to the MD Anderson License, the Company and Intrexon hold an exclusive, worldwide license to certain technologies owned and licensed by MD Anderson, including technologies relating to novel CAR+ T cell therapies arising from the laboratory of Laurence Cooper, M.D., Ph.D., who is now the Company s Chief Executive Officer and was formerly a professor of pediatrics at MD Anderson and now currently a visiting scientist under that institution s policies, as well as either co-exclusive or non-exclusive licenses under certain related technologies. In partial consideration for entering into the MD Anderson License, the Company issued MD Anderson an aggregate of 11,722,163 shares of common stock for which the Company incurred a $67.3 million charge recorded in 2015. The Company has determined that the rights acquired in the MD Anderson License represent in-process research and development with no alternative future use. During the six months ending June 30, 2017, the Company made two quarterly payments totaling $6.2 million, bringing the total aggregate payments to $32.5 million under this arrangement.

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ZIOPHARM Oncology, Inc.

NOTES TO FINANCIAL STATEMENTS (unaudited)

8. Stock-Based Compensation

The Company recognized stock-based compensation expense on all employee and non-employee awards as follows:

(in thousands)	For the three months ended June 30, 2017	2016	For the six months ended June 30, 2017	2016
Research and development	$ 596	$ 476	$ 1,156	$ 893
General and administrative	1,462	1,590	2,926	3,182
Stock-based compensation expense	$ 2,058			