ZIOPHARM ONCOLOGY INC
Form 10-Q
August 02, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)	
þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2012
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.)

1180 Avenue of the Americas, 20th Floor, New York, NY 10036

(646) 214-0700

(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 than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: þ 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: þ No: ¨

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

Large accelerated filer ¨ Accelerated filer þ 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: þ

The number of shares of the registrant’s common stock, $.001 par value, outstanding as of July 29, 2012, was 79,567,946 shares.

ZIOPHARM Oncology, Inc. (a development stage company)

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report 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. Reference is made in particu to forward-looking statements regarding:

- the anticipated amount, timing and accounting of deferred revenues, milestone and other payments under licensing, collaboration or acquisition agreements, tax positions and contingencies, research and development costs and other expenses, and amortization of intangible assets;
- our expectations regarding the application of certain accounting pronouncements and their effect on our disclosures;
- the protection afforded by our patent rights;
- our assessment of the potential impact on our future revenues of healthcare reform legislation in the United States;
- the timing and impact of measures worldwide designed to reduce healthcare costs;
- the impact of the deterioration of the credit and economic conditions in certain countries in Europe;
- our ability to finance our operations and business initiatives and obtain funding for such activities;
- the sufficiency of our cash, investments and cash flows from operations and our expected uses of cash;
- the costs and timing of the development and commercialization of our pipeline products and services;
- additional planned regulatory filings for and commercialization of Palifosfamide;
- contract manufacturing activity;

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 report, "ZIOPHARM," the "Company," "we," "us" and "our" refer to ZIOPHARM Oncology, Inc .

NOTE REGARDING TRADEMARKS

Our registered trademarks include Zymafos and Zinapar. Our trademarks include Zybulin. All other trademarks, trade names and service marks appearing in this Quarterly Report on Form 10-Q are the property of their respective owners.

ZIOPHARM Oncology, Inc. (a development stage company)

Table of Contents

3

Part I - Financial Information

Item 1. Consolidated Financial Statements

ZIOPHARM Oncology, Inc. (a development stage company)

BALANCE SHEETS

(unaudited)

(in thousands, except share and per share data)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$110,391	$ 104,713
Collaboration receivable	-	79
Prepaid expenses and other current assets	9,051	1,313
Total current assets	119,442	106,105
Property and equipment, net	1,982	1,141
Deposits	132	91
Other non-current assets	824	771
Total assets	$122,380	$ 108,108
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,470	$ 1,727
Accrued expenses	15,502	10,821
Deferred revenue - current portion	800	800
Deferred rent - current portion	4	15
Total current liabilities	17,776	13,363
Deferred revenue	3,133	3,533
Deferred rent	363	180

Warrant liabilities	25,472	19,425
Total liabilities	46,744	36,501
Commitments and contingencies (note 7)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 30,000,000 shares authorized and no shares issued and outstanding	-	-
Common stock, $0.001 par value; 250,000,000 shares authorized; 79,625,290 and 69,206,044 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	80	69
Additional paid-in capital - common stock	304,219	246,519
Additional paid-in capital - warrants issued	7,012	12,611
Deficit accumulated during the development stage	(235,675)	(187,592)
Total stockholders' equity	75,636	71,607
Total liabilities and stockholders' equity	$122,380	$ 108,108

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

ZIOPHARM Oncology, Inc. (a development stage company)

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,		Period from September 9, 2003 (date of inception) through
	2012	2011	2012	2011	June 30, 2012
Research contract revenue	$ 200	$ 200	$ 400	$ 267	$ 1,067
Operating expenses:					
Research and development, including costs of research contracts	18,264	9,125	32,249	33,766	161,148
General and administrative	4,902	3,923	9,750	7,275	78,545
Total operating expenses	23,166	13,048	41,999	41,041	239,693
Loss from operations	(22,966)	(12,848)	(41,599)	(40,774)	(238,626)
Other income, net	3	9	(23)	7	4,691
Change in fair value of warrants	(650)	2,115	(6,461)	(8,965)	(1,740)
Net income (loss)	$ (23,613)	$ (10,724)	$ (48,083)	$ (49,732)	$ (235,675)
Net income (loss) per share - basic	$ (0.30)	$ (0.16)	$ (0.62)	$ (0.78)	
Net income (loss) per share - diluted	$ (0.30)	$ (0.16)	$ (0.62)	$ (0.78)	
Weighted average common shares outstanding to compute net income (loss) per share - basic	78,514,718	67,229,098	77,067,424	63,839,723	
Weighted average common shares outstanding to compute net income (loss) per share -	78,514,718	67,229,098	77,067,424	63,839,723	

diluted

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

ZIOPHARM Oncology, Inc. (a development stage company)

STATEMENT OF STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2012

(unaudited)

(in thousands, except share and per share data)

	Stockholders' Equity						
	Preferred Stock		Common Stock		Additional Paid-in Capital Common Stock	Additional Paid-in Capital Warrants	Deficit Accumulated During the Development Stage	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2011	-	$ -	69,206,044	$ 69	$ 246,519	$ 12,611	$ (187,592)	$ 71,607
Stock-based compensation	-	-	-	-	2,290	-	-	2,290
Exercise of employee stock options	-	-	8,300	-	30	-	-	30
Exercise of warrants to purchase common stock	-	-	192,603	-	788	(166)	-	622
Issuance of restricted common stock	-	-	170,302	-	-	-	-	-
Forfeiture of unvested restricted common stock	-	-	(66,360)	-	-	-	-	-
Expired warrants	-	-	-	-	5,433	(5,433)	-	-
Issuance of common stock in a securities offering, net of commission and expenses of $3,426	-	-	10,114,401	11	49,159	-	-	49,170
Net loss	-	-	-	-	-	-	(48,083)	(48,083)
Balance at June 30, 2012	-	$ -	79,625,290	$ 80	$ 304,219	$ 7,012	$ (235,675)	$ 75,636

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

ZIOPHARM Oncology, Inc. (a development stage company)

STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	For the Six Months Ended June 30,		(date of inception) through
	2012	2011	June 30, 2012
Cash flows from operating activities:			
Net loss	$(48,083)	$(49,732)	$ (235,675)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	265	95	2,181
Stock-based compensation	2,290	1,314	17,591
Change in fair value of warrants	6,461	8,965	1,740
Loss on disposal of fixed assets	-	-	9
Common stock issued in exchange for in-process research and development	-	17,457	17,457
Change in operating assets and liabilities:			
(Increase) decrease in:			
Collaboration receivable	79	-	-
Prepaid expenses and other current assets	(7,738)	(592)	(9,051)
Other noncurrent assets	(53)	(519)	(824)
Deposits	(41)	(4)	(132)
Increase (decrease) in:			
Accounts payable	(258)	753	1,469
Accrued expenses	4,681	3,546	15,502
Deferred revenue	(400)	4,733	3,933
Deferred rent	172	(5)	367
Net cash used in operating activities	(42,625)	(13,989)	(185,433)
Cash flows from investing activities:			
Purchases of property and equipment	(1,107)	(392)	(4,174)
Proceeds from sale of property and equipment	-	-	1
Net cash used in investing activities	(1,107)	(392)	(4,173)
Cash flows from financing activities:			
Stockholders' capital contribution	-	-	500
Proceeds from exercise of stock options	30	849	1,373
Payments to employees for repurchase of common stock	-	(78)	(2,321)
Proceeds from exercise of warrants	210	12,293	12,959
Proceeds from issuance of common stock and warrants, net	49,170	71,207	270,726

Proceeds from issuance of preferred stock, net	-	-	16,760
Net cash provided by financing activities	49,410	84,271	299,997
Net increase (decrease) in cash and cash equivalents	5,678	69,890	110,391
Cash and cash equivalents, beginning of period	104,713	60,392	-
Cash and cash equivalents, end of period	$110,391	$130,282	$ 110,391
Supplementary disclosure of cash flow information:			
Cash paid for interest	$-	$-	$ -
Cash paid for income taxes	$-	$-	$ -
Supplementary disclosure of noncash investing and financing activities:			
Warrants issued to placement agents and investors	$-	$-	$ 47,276
Preferred stock conversion to common stock	$-	$-	$ 16,760
Exercise of equity-classified warrants to common shares	$166	$8,992	$ 9,490
Exercise of liability-classified warrants to common shares	$412	$265	$ 764

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

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS

(unaudited)

1. Business

Overview

ZIOPHARM Oncology, Inc. ("ZIOPHARM" or the "Company") is a biopharmaceutical company that seeks to acquire, develop and commercialize, on its own or with other commercial partners, products for the treatment of important unmet medical needs in cancer.

The Company's operations to date have consisted primarily of raising capital and conducting research and development. Accordingly, the Company is considered to be in the development stage at June 30, 2012. 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 losses will continue for the foreseeable future. At June 30, 2012, the Company's accumulated deficit was approximately $235.7 million. The Company currently believes that it has sufficient capital to fund development and commercialization activities into the second half of 2013. 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 now planned because of changes in the Company's focus and direction of its research and development programs, competitive and technical advances, patent developments, 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 development. 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.

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. 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, 2011 included in the Company's Form 10-K for such fiscal year.

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.

The results disclosed in the Statements of Operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full fiscal year.

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.

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

1. Business - (continued)

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

- Clinical trial expenses;
- Fair value measurements for stock based compensation and warrants; 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. Except as disclosed below, the Company did not have any other material subsequent events that impacted its financial statements or disclosures.

On July 16, 2012, the Company announced that it has restructured its management team and will also be closing its Germantown, MD office. As a result of this action, the Company expects to record a restructuring charge, consisting primarily of severance and health benefit continuation costs, of approximately $1.1 million in the third quarter of 2012.

2. Summary of Significant Accounting Policies

The Company's significant accounting policies were identified in the Company's Form 10-K for the fiscal year ended December 31, 2011.

3. Collaborations and Alliances

On March 7, 2011, the Company entered into a License and Collaboration Agreement with Solasia Pharma K.K. (“Solasia”).

Pursuant to the License and Collaboration Agreement (the “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 comprised of 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 upfront payment for research and development funding is earned over the period of effort. The Company currently estimates this period to be 75 months, which could be adjusted in the future.

Under the Agreement, the Company provides Solasia with drug product to conduct clinical trials. These transfers are accounted for as a reduction of research and development costs and an increase in collaboration receivables.

The Agreement provides that Solasia will be responsible for the development and commercialization of darinaparsin in the pan-Asian/Pacific territory.

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

4. Fair Value Measurements

The Company accounts for fair value measurements of its financial assets and liabilities and non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value on a recurring basis. The accounting standard 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 standard describes a fair value hierarchy 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 which are the following:

- 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, 2012 and December 31, 2011 are as follows:

($ in thousands)		Fair Value Measurements at Reporting Date Using		
Description	Balance as of June 30, 2012	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Cash equivalents	$ 109,455	$ 109,455	$ -	$ -
Warrant liability	$ 25,472	$ -	$ 25,472	$ -

ZIOPHARM Oncology, Inc. (a development stage company)

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, 2011	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 103,736	$ 103,736	$ -	$ -
Warrant liability	$ 19,425	$ -	$ 19,425	$ -

The cash equivalents represent deposits in a short term U.S. treasury money market mutual fund quoted in an active market and classified as a Level I asset. The Company’s Level II financial liabilities consist of long-term investor and placement agent warrants issued in connection with its December 2009 public offering. The warrants were valued using Binomial/Monte Carlo valuation models. See Note 8 for additional disclosures on the valuation methodology and significant assumptions.

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 potential dilutive shares, which include outstanding common stock options, unvested restricted stock and warrants, have not been included in the computation of diluted net loss per share for any of the periods presented as the result would be antidilutive. Such potential shares of common stock at June 30, 2012 and 2011 consist of the following:

	For the Six Months Ended June 30,	
	2012	2011
Stock options	5,397,154	4,790,552

Unvested restricted common stock	1,029,848	248,752
Warrants	11,268,678	13,252,346
	17,695,680	18,291,650

6. Related Party Transactions

On January 6, 2011, the Company entered into an Exclusive Channel Partner Agreement (the "Channel Agreement") with Intrexon Corporation (see Note 7 for additional disclosure relating to the Channel Agreement). During the six months ended June 30, 2012, the Company paid Intrexon approximately $10.7 million, of which $2.5 million was for services already incurred and the remaining $8.2 million expected to be incurred within a year. This amount has been included as part of prepaid expenses and other current assets on the accompanying balance sheet as of June 30, 2012. The Company does not owe any amounts to Intrexon that have not already been accrued for as of June 30, 2012.

On January 25, 2012, Intrexon purchased 1,923,075 shares of common stock in the Company's public offering (see Note 9).

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

7. Commitments and Contingencies

Patent and Technology License Agreement—The University of Texas M. D. 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 The Board of Regents of the University of Texas System, acting on behalf of The University of Texas M. D. Anderson Cancer Center and the Texas A&M University System (collectively, 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.

As partial consideration for the license rights obtained, the Company made an upfront payment in 2004 of $125 thousand and granted the Licensors 250,487 shares of the Company's common stock. In addition, the Company issued options to purchase an additional 50,222 shares outside the 2003 Stock Option Plan for $0.002 per share following the successful completion of certain clinical milestones, which vested with respect to 12,555 shares upon the filing of an Investigation New Drug application ("IND") for darinaparsin in 2005 and vested with respect to another 25,111 shares upon the completion of dosing of the last patient for both Phase 1 clinical trials in 2007. The Company recorded $120 thousand of stock based compensation expense related to the vesting in 2007. The remaining 12,556 shares will vest 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 ("NDA"). In addition, the Licensors are entitled to receive certain milestone payments, including $100 thousand that was paid in 2005 upon the commencement of Phase 1 clinical trial and $250 thousand that was paid in 2006 upon the dosing of the first patient in the Company-sponsored Phase 2 clinical trial for darinaparsin. The Company may be required to make additional payments 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. In addition, the Company also paid the Licensors $100 thousand in 2006 and 2007 to conduct scientific research with the Company obtaining exclusive right to all resulting intellectual property rights. The sponsored research agreements governing this research and any related extensions expired in February 2008 with no payments being made subsequent to that date.

The license agreement also contains other provisions customary and common in similar agreements within the industry, such as the right to sublicense the Company rights under the agreement. However, if the Company sublicenses its rights prior to the commencement of a pivotal study, i.e. a human clinical trial intended to provide the substantial evidence of efficacy necessary to support the filing of an approvable NDA, the Licensors will be entitled to receive a share of the payments received by the Company in exchange for the sublicense (subject to certain exceptions). The term of the license agreement extends until the expiration of all claims under patents and patent applications associated with the licensed technology, subject to earlier termination in the event of defaults by the Company or the Licensors under the license agreement, or if the Company becomes bankrupt or insolvent. No milestones under the license agreement were reached or expensed during the years ended December 31, 2009, 2010, 2011 or for the six months ended June 30, 2012.

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

7. Commitments and Contingencies – (continued)

License Agreement with DEKK-Tec, Inc.

On October 15, 2004, the Company entered into a license agreement with DEKK-Tec, Inc., pursuant to which it was granted an exclusive, worldwide license for palifosfamide. As part of the signing of license agreement with DEKK-Tec, the Company expensed an upfront $50 thousand payment to DEKK-Tec in 2004.

In consideration for the license rights, DEKK-Tec is entitled to receive payments upon achieving certain milestones in varying amounts, which on a cumulative basis may total $4.0 million. Of the aggregate milestone payments, most will be creditable against future royalty payments as referenced below. The Company expensed a $100 thousand milestone payment upon achieving Phase 2 milestones during the year ended December 31, 2006. Additionally, in 2004 the Company issued DEKK-Tec an option to purchase 27,616 shares of the Company's common stock for $0.02 per share. Upon the execution of the license agreement, 6,904 shares vested and were subsequently exercised in 2005 and the remaining options will vest upon certain milestone events, culminating with final FDA approval of the first NDA submitted by the Company (or by its sublicensee) for palifosfamide. DEKK-Tec is entitled to receive single-digit percentage royalty payments on the sales of palifosfamide should it be approved for commercial sale. On March 16, 2010, the Company expensed a $100 thousand milestone payment upon receiving a United States Patent for palifosfamide. In December 2010, the Company expensed a $300 thousand milestone payment and vested 6,904 stock options upon achieving Phase 3 milestones. These options were subsequently exercised in 2011. The Company's obligation to pay royalties will terminate on a country-by-country basis upon the expiration of all valid claims of patents in such country covering licensed product, subject to earlier termination in the event of defaults by the parties under the license agreement. No milestones under the license agreement were reached or expensed during the years ended December 31, 2009, 2011 or for the six months ended June 30, 2012.

Option Agreement with Southern Research Institute ("SRI")

On December 22, 2004, the Company entered into an Option Agreement with SRI (the "Option Agreement"), pursuant to which the Company was granted an exclusive option to obtain an exclusive license to SRI's interest in certain intellectual property, including exclusive rights related to certain isophosphoramide mustard analogs.

Also on December 22, 2004, the Company entered into a Research Agreement with SRI pursuant to which the Company agreed to spend a sum not to exceed $200 thousand between the execution of the agreement and December 21, 2006, including a $25 thousand payment that was made simultaneously with the execution of the agreement, to fund research and development work by SRI in the field of isophosphoramide mustard analogs. The Option Agreement was exercised on February 13, 2007. Under the license agreement entered into upon exercise of the option, the Company is required to remit minimum annual royalty payments of $25 thousand until the first commercial sale of a licensed product. These payments were made for the years ended December 31, 2008, 2009, 2010 and 2011. The Company may be required to make payments upon achievement of certain milestones in varying amounts which on a cumulative basis could total up to $775,000. In addition, SRI will be entitled to receive single digit percentage royalty payments on the sales of a licensed product in any country until all licensed patents rights in that country which are utilized in the product have expired. No milestones under the license agreement were reached or expensed during the years ended December 31, 2009, 2010, 2011 or for the six months ended June 30, 2012.

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

7. Commitments and Contingencies – (continued)

License Agreement with Baxter Healthcare Corporation

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. The terms of the Asset Purchase Agreement included an upfront cash payment of approximately $1.1 million and an additional $100 thousand payment for existing inventory, both of which were expensed in 2006. In addition to the upfront costs, the Asset Purchase Agreement includes additional diligence and milestone payments that could amount to approximately $8 million in the aggregate and royalties on net sales of products covered by a valid claim of a patent for the life of the patent on a country-by-country basis. The Company expensed a $625 thousand milestone payment upon the successful U.S. IND application for indibulin in 2007. The License Agreement requires payment of a $15 thousand annual patent and license prosecution/maintenance fee through the expiration of the last of the licensed patents, which is expected to expire in 2025, and single-digit royalties on net sales of licensed products covered by a valid claim of a patent for the life of the patent on a country-by-country basis. The term of the license agreement extends until the expiration of the last to expire of the patents covering the licensed products, subject to earlier termination in the event of defaults by the parties under the license agreement.

In October 2009, the Baxter License Agreement was amended to allow the Company to manufacturer indibulin. No milestones under the license agreement were reached or expensed during the years ended December 31, 2009, 2010, 2011 or for the six months ended June 30, 2012.

Exclusive Channel Partner Agreement with Intrexon Corporation

On January 6, 2011, we entered into the Channel Agreement, with Intrexon that governs a “channel partnering” arrangement in which we use Intrexon’s technology directed towards *in vivo* expression of effectors in connection with the development of ZIN-CTI-001 and ZIN-ATI-001 and generally to research, develop and commercialize products, in each case in which DNA is administered to humans for expression of anti-cancer effectors for the purpose of treatment or prophylaxis of cancer, which we collectively refer to as the Cancer Program. The Channel Agreement

establishes committees comprised of representatives of us 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 us 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 (collectively 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, we may not sublicense the rights described without Intrexon's written consent.

Under the Channel Agreement, and subject to certain exceptions, we are responsible for, among other things, the performance of the Cancer Program, including development, commercialization and certain aspects of manufacturing of ZIOPHARM Products. Intrexon is responsible for the costs of 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.

Subject to certain expense allocations and other offsets provided in the Channel Agreement, we will pay Intrexon on a quarterly basis 50% of net profits derived in that quarter from the sale of ZIOPHARM Products, calculated on a ZIOPHARM Product-by- ZIOPHARM Product basis. We have 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, we entered into a Stock Purchase Agreement with Intrexon.

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

7. Commitments and Contingencies – (continued)

During the first 24 months of the agreement, either we or Intrexon may terminate the Channel Agreement in the event of a material breach by the other and Intrexon may terminate the Channel Agreement under certain circumstances if we assign our rights under the Channel Agreement without Intrexon's consent. Following the first 24 months of the agreement, Intrexon may also terminate the Channel Agreement if we fail to use diligent efforts to develop and commercialize ZIOPHARM Products or if we elect not to pursue the development of a Cancer Program identified by Intrexon that is a "Superior Therapy" as defined in the Channel Agreement. Also following the first 24 months of the agreement, we may voluntarily terminate the Channel Agreement upon 90 days written notice to Intrexon.

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

- is being commercialized by us;
- 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 us), or an ongoing Phase 1 clinical trial in the field (in the case of a termination by us due to an uncured breach or a termination by Intrexon following an unconsented assignment by us or our election not to pursue development of a Superior Therapy).

Our obligation to pay 50% of net profits or revenue described above with respect to these "retained" products will survive termination of the Channel Agreement.

Collaboration Agreement with Harmon Hill, LLC

On April 8, 2008, the Company signed a collaboration agreement for Harmon Hill, LLC ("Harmon Hill") to provide consulting and other services for the development and commercialization of oncology therapeutics by ZIOPHARM. Under the agreement the Company has agreed to pay Harmon Hill $20 thousand per month for the consulting services

and has further agreed to pay Harmon Hill (a) $500 thousand upon the first patient dosing of the Specified Drug in a pivotal trial, which trial uses a dosing regime introduced by Harmon Hill; and (b) provided that the Specified Drug receives regulatory approval from the FDA, the European Medicines Agency or another regulatory agency for the marketing of the Specified Drug, a 1% royalty of the Company's net sales will be awarded to Harmon Hill. If the Specified Drug is sublicensed to a third party, the agreement entitles Harmon Hill to 1% award of royalties or other payments received from a sublicense. The agreement expired on May 8, 2012 and is currently being renegotiated through November 8, 2012. The Company expensed $240 thousand during each of the years ended December 31, 2009, 2010 and 2011 and $120 thousand for the six months ended June 30, 2012 for consulting services per the aforementioned agreement. No milestones under the license agreement were reached or expensed during the years ended December 31, 2009, 2010, 2011 or for the six months ended June 30, 2012.

Collaboration Agreement with Solasia Pharma K.K.

On March 7, 2011, we entered into a License and Collaboration Agreement with Solasia Pharma K.K., ("Solasia").

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

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

7. Commitments and Contingencies – (continued)

As consideration for the license, we 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. We 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 upfront payment for research and development funding is earned over the period of effort. We currently estimate this period to be 75 months, which could be adjusted in the future.

Under the License and Collaboration Agreement, we provide Solasia with drug product to conduct clinical trials. These transfers are accounted for as a reduction of research and development costs and an increase in collaboration receivables.

The agreement provides that Solasia will be responsible for the development and commercialization of darinaparsin in the pan-Asian/Pacific territory.

CRO Services Agreement with PPD Development, L.P.

The Company and PPD Development, L.P. ("PPD") are parties to a master clinical research organization services agreement dated January 29, 2010, a related work order dated June 25, 2010 and a related work order dated April 8, 2011 under which PPD provides clinical research organization ("CRO") services in support of the Company's clinical trials. PPD is entitled to cumulative payments of up to $18.3 million under these arrangements, which is payable by the Company in varying amounts upon PPD achieving specified milestones. During the year ended December 31, 2010, the Company expensed $1.8 million upon contract execution and $1.1 million upon a clinical study commencement of enrollment in North America. During the year ended December 31, 2011, additional milestones related to commencing enrollment in Europe, Latin America and Asia, along with enrollment based milestones, were met and the Company recorded an aggregate $4.0 million expense. During the six months ended June 30, 2012, two

enrollment related milestones were met and the Company recorded an expense of $2.6 million.

CRO Services Agreement with Pharmaceutical Research Associates, Inc.

The Company and Pharmaceutical Research Associates, Inc. (“PRA”) are parties to a master clinical research organization services agreement dated December 13, 2011 under which PRA provides CRO services in support of the Company's clinical trials. PRA is entitled to cumulative payments of up to $19.7 million under these arrangements, which is payable by the Company in varying amounts upon PRA achieving specified milestones. During the year ended December 31, 2011, the Company expensed $0.5 million upon execution of a letter of intent. During the six months ended June 30, 2012, the Company expensed $0.4 million upon execution of extensions of the foregoing letter of intent, $0.7 million upon work order execution and $1.0 million upon initial clinical study enrollment in the United States.

8. Warrants

The Company has issued both warrants that are accounted for as liabilities and warrants that are accounted for as equity instruments. The number of warrants outstanding at June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012	December 31, 2011
Liability-classified warrants	8,050,709	8,424,905
Equity-classified warrants	3,217,969	4,692,359
Total warrants	11,268,678	13,117,264

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

8. Warrants – (continued)

Liability-Classified Warrants

In May 2005, the Company issued 419,786 warrants to placement agents for services performed in connection with a 2005 private placement (the "2005 Warrants") which were originally valued at $1.6 million. Subject to certain exceptions, the 2005 Warrants provide for anti-dilution protection should common stock or common stock equivalents be subsequently issued at a price less than the exercise price of the 2005 Warrants then in effect, which was initially $4.75 per share. This provision was triggered when the Company sold stock in a 2006 private placement at $4.63 per share. Accordingly, the 2005 Warrants were re-priced at $4.69. The provision was triggered a second time upon completion of a 2009 private placement in which the Company sold stock at $1.825 per share and issued common stock purchase warrants with an exercise price of $2.04, and the 2005 Warrants were re-priced at $4.25. The provision was triggered again when the Company sold stock in a December 2009 public offering at $3.10 per share and the 2005 Warrants were re-priced at $3.93. During the first six months of 2012, 373,617 warrants were exercised and 579 expired on May 31, 2012.

Also, in connection with its December 2009 public securities offering, the Company issued warrants to purchase an aggregate of 8,206,520 shares of common stock (including the investor warrants and 464,520 warrants issued to the underwriters for the offering) (the "2009 Warrants"). The 2009 Warrants issued to investors were exercisable immediately and the warrants issued to underwriters became exercisable six months after the date of issuance. The 2009 Warrants have an exercise price of $4.02 per share and have a five-year term. The fair value of the 2009 Warrants was estimated at $22.9 million using a Black-Scholes model with the following assumptions: expected volatility of 105%, risk free interest rate of 2.14%, expected life of five years and no dividends.

The Company assessed whether the 2005 Warrants and the 2009 Warrants require accounting as derivatives. The Company determined that these warrants were not indexed to the Company's own stock in accordance with accounting standards codification Topic 815, *Derivatives and Hedging*. As such, the Company has concluded these warrants did not meet the scope exception for determining whether the instruments require accounting as derivatives and were classified as liabilities.

In December 2011, the Company changed from using a Black-Scholes pricing model to estimate the value of the liability-classified warrants to a Binomial/Monte Carlo pricing model. The following assumptions were used in the Binomial/Monte Carlo valuation model at June 30, 2012 and the Black-Scholes valuation model at June 30, 2011:

	June 30, 2012		June 30, 2011	
Risk-free interest rate	0.37	%	0.18 - 1.01	%
Expected life in years	2.44		0.92 - 3.43	
Expected volatility	70	%	45 - 97	%
Expected dividend yield	0		0	
Steps per year	12		N/A	

The change in the fair value of the warrant liability resulted in losses of $0.6 million and $6.4 million for the three and six months ended June 30, 2012, respectively. The change in the fair value of the warrant liability resulted in a gain of $2.1 million for the three months ended June 30, 2011 and a loss of $9.0 million for the six months ended June 30, 2011. The change in the fair value of the warrant liability was charged to other income (expense) in the Statements of Operations.

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

8. Warrants – (continued)

During the first six months of 2012, warrant exercises were as follows:

(in thousands, except share data)	Equity Warrants	Liability Warrants	Common Stock Issued	Liability Reclassed to Equity	Cash Received
Cash exercises	102,744	-	102,744	$ -	$ 210
Cashless exercises	12,329	373,617	89,859	412	-
	115,073	373,617	192,603	$ 412	$ 210

During the first six months of 2011, warrant exercises were as follows:

(in thousands, except share data)	Equity Warrants	Liability Warrants	Common Stock Issued	Liability Reclassed to Equity	Cash Received
Cash exercises	2,259,770	-	2,259,770	$ -	$ 12,293
Cashless exercises	39,832	144,905	59,308	265	-
	2,299,602	144,905	2,319,078	$ 265	$ 12,293

During the six months ended June 30, 2012, 1,359,317 warrants issued on February 23, 2007, exercisable at $5.75, expired unexercised on February 23, 2012 and 579 warrants issued on May 31, 2005, exercisable at $3.93, expired unexercised on May 31, 2012.

9. Common Stock

On January 20, 2012, the Company entered into an underwriting agreement with J. P. Morgan Securities LLC, as representative of the several underwriters named therein, relating to the issuance and sale of 9,650,000 shares of our

common stock. The price to the public in the offering was $5.20 per share, and the underwriters agreed to purchase the shares from the Company pursuant to the underwriting agreement at a purchase price of $4.888 per share. Under the terms of the underwriting agreement, the Company also granted the underwriters an option, exercisable for 30 days, to purchase up to an additional 1,447,500 shares of common stock at a purchase price of $4.888 per share. The offering was made pursuant to the Company's effective registration statement on Form S-3 (Registration Statement No. 333-177793) previously filed with the SEC, and a prospectus supplement thereunder. The underwriters purchased the 9,650,000 shares on January 25, 2012 and purchased an additional 464,401 shares on January 31, 2012 pursuant to the partial exercise of their option to purchase additional shares, resulting in our issuing a total of 10,114,401 shares. The net proceeds from the offering were approximately $49.2 million after deducting underwriting discounts and offering expenses payable by the Company.

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

10. Stock-Based Compensation

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

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2012	2011	2012	2011
Research and development	$ 426	$ 166	$ 942	$ 276
General and administrative	652	446	1,348	1,038
Stock-based employee compensation expense	$ 1,078	$ 612	$ 2,290	$ 1,314

The Company granted 361,900 and 425,400 stock options during the three and six months ended June 30, 2012 that had a weighted-average grant date fair value of $3.51 and $3.48 per share, respectively. The Company granted 516,000 and 1,063,900 stock options during the three and six months ended June 30, 2011 that had a weighted-average grant date fair value of $4.69 and $4.33 per share, respectively.

At June 30, 2012, total unrecognized compensation costs related to unvested stock options outstanding amounted to $10.3 million. The cost is expected to be recognized over a weighted-average period of 1.59 years.

ZIOPHARM Oncology, Inc. (a development stage company)

NOTES TO FINANCIAL STATEMENTS (unaudited)

10. Stock-Based Compensation – (continued)

For the three months ended June 30, 2012 and 2011, the fair value of stock options was estimated on the date of grant using a Black-Scholes option valuation model with the following assumptions:

	For the three months ended June 30,			
	2012		2011	
Risk-free interest rate	0.93 - 1.10	%	1.83 - 2.61	%
Expected life in years	6		5.77 - 6	
Expected volatility	83.36 - 83.52	%	84.4 - 87.4	%
Expected dividend yield	0		0	

Stock option activity under the Company's stock option plan for the six months ended June 30, 2012 is as follows:

(in thousands, except share and per share data)	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, December 31, 2011	5,138,486	$ 4.08		
Granted	425,400	4.96		
Exercised	(8,300)	3.61		
Cancelled	(158,432)	5.90		
Outstanding, June 30, 2012	5,397,154	$ 4.10	7.19	$ 10,320
Vested and unvested expected to vest at June 30, 2012	5,340,550	$ 4.10	7.19	$ 10,212
Options exercisable, June 30, 2012	3,124,387	$ 3.40	5.28	$ 8,137
Options exercisable, December 31, 2011	2,911,186	$ 3.21	5.52	$ 4,232

Options available for future grant	3,678,000

A summary of the status of unvested restricted stock for the six months ended June 30, 2012 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested, December 31, 2011	950,906	$ 4.34
Granted	170,302	4.51
Vested	(25,000)	5.21
Cancelled	(66,360)	4.41
Non-vested, June 30, 2012	1,029,848	$ 4.34

At June 30, 2012, total unrecognized compensation costs related to unvested restricted stock outstanding amounted to $6.4 million. The cost is expected to be recognized over a weighted-average period of 1.76 years.

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

Forward Looking Statements

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In particular, statements contained in this Form 10-Q, including but not limited to, statements regarding our future results of operations and financial position, business strategy and plan prospects, projected revenue or costs and objectives of management for future research, development or operations, are forward-looking statements. These statements relate to our future plans, objectives, expectations and intentions and may be identified by words such as "may," "will," "should," "expects," "plans," "anticipates," "intends," "targets," "projects," "contemplates," "believes," "seeks," "goals," "estimates," "p and "continue" or similar words. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below, under Part II, Item 1A. "Risk Factors" and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

Business Overview

ZIOPHARM Oncology, Inc. is a biopharmaceutical company that seeks to develop and commercialize a diverse portfolio of cancer drugs that can address unmet medical needs through the licensing and development of proprietary small molecule drug candidates and novel DNA-based biotherapeutics. Our small molecule drug candidates are related to cancer therapeutics already on the market or in development and that can be administered by intravenous, or IV, and/or oral dosing. Our small molecule clinical programs include palifosfamide (ZIO-201), indibulin (ZIO-301) and darinaparsin (ZIO-101). We are also pursuing the development of novel DNA-based biotherapeutics in the field of cancer, using a synthetic biology platform, pursuant to a partnering arrangement with Intrexon Corporation, or Intrexon. Under the arrangement, we obtained rights to Intrexon's effector platform for use in the field of oncology, which includes two existing clinical stage product candidates, ZIN-CTI-001 (or DC-RTS-IL-12 + AL) and ZIN-ATI-001 (or Ad-RTS-IL-12 + AL). We plan to leverage Intrexon's synthetic biology platform to develop products to stimulate key pathways used by the body's immune system to inhibit the growth and metastasis of cancers, adding significantly to our small molecule drug development portfolio and utilizing our capabilities to translate science to the patient setting. More detailed descriptions of palifosfamide, indibulin, darinaparsin, ZIN-CTI-001 and ZIN-ATI-001, and our clinical development plans for each, are set forth below. More detailed descriptions of these product candidates and our clinical development plans for each are also set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and in other reports that we file from time to time with the Securities and Exchange Commission.

Product Candidates

Palifosfamide, ZIO-201

General. Palifosfamide is a novel bi-functional DNA alkylating agent which is not metabolized by ALDH, nor a substrate for mutli-drug resistance pathways. Therefore, it is likely to have activity, and be effective, in multiple drug tumors using typical resistance pathways. Also in preclinical cancer models, palifosfamide was shown to be orally active and synergistic results have been obtained with palifosfamide in combination with doxorubicin, an agent approved to treat sarcoma.

Further preclinical studies have shown that, in animal and laboratory models, palifosfamide evidences activity against leukemia and solid tumors. These studies also indicate that palifosfamide may have a better safety profile than other in-class agents, in part because it does not appear to produce certain toxic metabolites. One such agent that is commonly used, ifosfamide, produces the toxic metabolites acrolein and chloroacetaldehyde. Acrolein, which is toxic to the kidneys and bladder, can mandate the administration of a protective agent called mesna, which is inconvenient and expensive. Chloroacetaldehyde is toxic to the central nervous system, causing “fuzzy brain” syndrome for which there is currently no protective measure. Because of its distinct pharmaceutical composition, activity and tolerability profile, we believe palifosfamide may be a new, more effective and well tolerated agent to treat cancer.

Lead Indications for palifosfamide: Soft Tissue Sarcoma. Sarcomas are cancers of the bone, cartilage, fat, muscle, blood vessels, or other connective or supportive tissue. There are more than 50 histological or tissue types of soft tissue sarcomas, or STS, but with considerable homogeneity when the disease is metastatic. The prognosis for patients with soft tissue sarcoma depends on several factors, including the patient’s age, size of the primary tumor, histological grade, and stage of the tumor. Factors associated with a poorer prognosis include being older than 60 years of age, having tumors larger than five centimeters, and having tumors of high-grade histology. While small, low-grade tumors are usually curable by surgery alone, the higher-grade or larger sarcomas are associated with higher local treatment failure rates and increased metastatic potential.

Intravenous palifosfamide may be a useful agent that, either alone or in combination with other agents and doxorubicin, in particular, may deliver enhanced therapeutic activity with fewer side effects of the type that have been associated with agents such as ifosfamide. In the United States, ifosfamide is often included in combination regimens for the treatment of sarcomas, testicular cancers, head and neck cancer, certain types of non-Hodgkin’s lymphomas, and other solid tumors including small-cell lung cancer, or SCLC, although ifosfamide is formally approved by FDA only for the treatment of testicular cancer. Doxorubicin, approved decades ago, is the only FDA-approved treatment for sarcoma. We believe that palifosfamide in combination with doxorubicin may be more effective than doxorubicin alone or in combination with minimal impact on the safety profile and better Quality of Life (QoL).

Small-Cell Lung Cancer. SCLC is almost exclusively associated with smoking. Similar to sarcoma, standard of care for SCLC, which is etoposide and platinum therapy, has changed little in decades. Published studies of ifosfamide in combination with standard of care have evidenced enhanced efficacy but also with enhanced side effects, providing for an unfavorable benefit to risk association. We believe that combining palifosfamide with standard of care could offer enhanced efficacy with an appropriate balance of benefit to toxicity.

Other Indications. Palifosfamide may be useful to treat many other solid tumors, such as breast cancer, and for the treatment of pediatric cancer and hematological malignancies. With an investigational new drug application, or IND, for the oral form of palifosfamide now approved by FDA and clinical study under development, oral palifosfamide could also offer not only a significant advancement to current therapies but also greater patient access and convenience.

Lead Indications for palifosfamide: STS and SCLC, Significant Unmet Medical Need. Both first-line metastatic STS and SCLC represent significant unmet medical needs with standard of care considerably dated. We believe approximately 100,000 patients worldwide are initially diagnosed with STS every year. For patients diagnosed with STS, primary care is surgery, sometimes with radiation therapy. Many patients enter a period of remission that is unpredictable and can even represent a "cure." Metastatic STS arises when the disease is either first diagnosed in the advanced setting or has and spread re-occurred and surgery is no longer an option. Chemotherapy is the standard of care for first-line metastatic STS and doxorubicin is the only first-line therapy approved in the United States for its treatment. We believe the annual projection in the United States for first-line metastatic STS treatment is approximately 9,000 patients. While data sources for Europe are limited, we estimate, based on epidemiology, an annual projection in Europe for first-line metastatic STS treatment of approximately 14,000 patients, for a combined U.S. and European estimate of 23,000 patients annually. Orphan Drug Designation for palifosfamide has been obtained in both the United States and the European Union for the treatment of STS. For SCLC, the estimated U.S. annual incidence is 30,000 – 35,000 patients and 200,000 patients worldwide. Approximately 80% - 90% of patients have extensive disease, the population for the planned pivotal trial. Platinum and etoposide are standard of care in the first-line setting. A formal retrospective mortality study also suggests that the SCLC population in China is substantial and projected from the study to be greater than 150,000 patients and growing.

Clinical Development Plan for Palifosfamide. Following Phase 1 study with IV administration, we completed Phase 2 testing of palifosfamide as a single agent to treat advanced sarcoma. In both Phase 1 and Phase 2 testing, palifosfamide has been administered without the "uroprotectant" mesna, as is required with ifosfamide, and the toxicities associated with other ifosfamide metabolites, acrolein and chloroacetaldehyde, have not been observed. We reported clinical activity of palifosfamide when used alone in the Phase 2 study addressing advanced sarcoma. Following review of preclinical combination studies, we initiated a Phase 1 dose escalation study of palifosfamide in combination with doxorubicin, primarily in patients with STS. We reported favorable results and safety profile from this study at the 2009 annual meeting of the American Society of Clinical Oncology, or ASCO.

In light of reported favorable Phase 2 single agent clinical activity data and with the combination being well tolerated in the Phase 1 trial, we initiated a Phase 2 randomized controlled trial in the second half of 2008, which we refer to as PICASSO, to compare doxorubicin plus palifosfamide to doxorubicin alone in patients with front- and second-line metastatic or unresectable STS. The study generated positive top-line interim data in 2009. Upon successfully reaching a pre-specified efficacy milestone and following safety and efficacy data review by our Data Committee, sarcoma experts, and our Medical Advisory Board, we elected to suspend enrollment in the trial in October 2009. We subsequently presented further positive interim data from the trial at the 15th Annual Connective Tissue Oncology Society meeting held in November 2009 and again at the 2010 ASCO annual meeting in June 2010, where the presentation was selected for "Best of ASCO." As presented at ASCO in February 2012, the Phase 2 PICASSO trial randomized a total of 67 patients with 66 treated and 62 eligible for evaluation. The study was designed to show a difference in progression free survival ("PFS") between doxorubicin in combination with palifosfamide versus doxorubicin alone. An analysis of the evaluable data reported a hazard ratio of 0.43 (p=0.019). Safety data were similar between the two groups in the study. The most common grade 3-4 events were neutropenia and elevated creatinine, both observed with similar frequency between treatment groups. Subsequently in February 2012, we announced the preliminary overall survival data from the PICASSO trial; the hazard ratio for overall survival was 0.78 favoring the palifosfamide group (with a 2-year survival rate of 40% compared to 30%).

In July 2010, we announced the initiation of a worldwide registration trial on a protocol design developed through a FDA End-of-Phase 2 meeting and the Special Protocol Assessment, or SPA, process. Although we did engage in the SPA process, we, with guidance from the FDA, elected to initiate the trial without having obtained SPA agreement from the FDA. The Phase 3 trial is in first-line metastatic STS, entitled PICASSO 3, and is an international, randomized, double-blinded, placebo-controlled trial with a targeted enrollment of 424 patients. The study completed enrollment in June 2012 and we now expect data from this trial to be reported in the fourth quarter of 2012.

The study is designed to evaluate the safety and efficacy of palifosfamide administered with doxorubicin compared with doxorubicin administered with placebo, with no cross-over between the arms. Progression-free survival is the primary endpoint for accelerated approval, with overall survival as the primary endpoint for full approval. PICASSO 3 has no interim efficacy analysis, while the trial is monitored by an Independent Data Monitoring Committee, or IDMC, of outside, independent experts for safety and futility. The IDMC has met on four occasions to review all available study data and in all instances has recommended trial continuation. Orphan Drug Designation for palifosfamide has been obtained in both the United States and the European Union for the treatment of STS.

A Phase 1 trial has completed accrual with palifosfamide in combination with etoposide and carboplatin and data to date have determined appropriate dosing for initiating a potentially pivotal, adaptive Phase 3 trial in first-line, extensive SCLC. In June 2012, the Company initiated an international, multi-center, open-label, adaptive, randomized study of palifosfamide in combination with carboplatin and etoposide (PaCE) chemotherapy versus carboplatin and etoposide (CE) alone in chemotherapy naïve patients with extensive-stage small cell lung cancer (MATISSE). The MATISSE study is designed to enroll up to 548 patients. The trial's primary endpoint is overall survival. Secondary endpoints include progression-free survival, objective response rate and quality of life. MATISSE will be conducted at centers in North America, Europe, Australia and Asia.

The study’s adaptive design includes a prospectively planned opportunity for modification of the study protocol by adjusting one or more specified components of the design in order to maintain adequate power. Evaluation of the study’s powering will be conducted by an IDMC at a single, pre-planned interim analysis, scheduled to occur following 125 events. At the interim analysis, the IDMC will review all efficacy and safety data and decide whether to: 1) halt the study for efficacy or futility, 2) continue the study to its planned enrollment of 548 patients, 3) decrease sample size, or 4) increase event size.

Additionally, an oral capsule form of palifosfamide has been the subject of preclinical studies necessary for an Investigational New Drug, or IND, application to support commencing Phase 1 study, presently under development.

DNA-based biotherapeutics (synthetic biology) ZIN-CTI-001 (or DC-RTS-IL-12 + AL) and ZIN-ATI-001 (or Ad-RTS-IL-12 + AL)

General. On January 6, 2011, we entered into an Exclusive Channel Partner Agreement with Intrexon pursuant to which we plan to supplement our small molecule drug development efforts by pursuing the development and commercialization of novel DNA-based biotherapeutics in the field of cancer treatment using Intrexon’s RheoSwitch® and UltraVector® synthetic biology technologies. The channel partnering arrangement contemplates our using Intrexon’s technology directed towards *in vivo* expression of effectors in connection with the development of ZIN-CTI-001 and ZIN-ATI-001 and generally to research, develop and commercialize products, in each case in which DNA is administered to humans for expression of anti-cancer effectors for the purpose of treatment or prophylaxis of cancer. ZIN-CTI-001 (or DC-RTS-IL-12) and ZIN-ATI-001 (or Ad-RTS-IL-12) are the two existing clinical-stage products currently in development under this channel partnering arrangement. Under the arrangement, Intrexon assigned to us all regulatory filings and approvals relating to the two product candidates and we assumed sponsorship of the ongoing clinical trials of ZIN-CTI-001.

Clinical Development Plan for DNA-based biotherapeutics. The Company completed enrollment in a Phase 1b dose escalation study of ZIN-CTI-001 in Q2 2012 in the United States. ZIN-CTI-001 employs intratumoral injection of modified dendritic cells from each patient and oral dosing of an activator ligand to turn on *in vivo* expression of interleukin-12, or IL-12. ZIN-CTI-001, through the RheoSwitch Therapeutic System®, or RTS®, controls the timing

and level of transgene expression. The RTS® technology functions as a “gene switch” for the regulated expression of human IL-12 in the patients’ dendritic cells which are transduced with a replication deficient adenoviral vector carrying the IL-12 gene under the control of the RTS®, and in Phase 1 study, injected intratumorally for the treatment of patients with stage III or IV melanoma. The binding of the small molecule activator to the fusion proteins of RTS® is intended to regulate the timing and level of IL-12 expression. In the absence of the activator ligand, the level of IL-12 is below detectable levels.

The activator ligand has been the subject of a number of preclinical, safety and pharmacology studies under FDA and International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use guidelines. Preclinical studies in the B16 mouse melanoma model consistently induced regression of established melanoma lesions, both in those directly injected and those elsewhere in the animal. Preclinical studies have shown DC-RTS-IL-12, in combination with an activator ligand, to have strong activity against a broad array of cancers, including brain, colon, renal and pancreatic cancers and melanoma.

A Phase 1a clinical study of the activator ligand was conducted in 65 healthy volunteers, with the two most common side-effects being dysgeusia (impairment of taste) and throat irritation. A subsequent Phase 1b trial, which is ongoing in patients with advanced melanoma, has been amended to study efficacy and immunological and biological effects in addition to safety with cohort-based dose escalation of the activator ligand during repeated treatment cycles. Initial positive clinical results from the Phase 1b trial were presented at the June 2011 ASCO annual meeting. The trial enrolled ten patients (median age 61) with unresectable stage III or IV melanoma. Among eight evaluable patients, partial or complete regression of injected and some uninjected lesions was observed by computed axial tomography, or CT, scans in three patients, with one patient having a RECIST PR of >11 months and three patients demonstrating stable disease by RECIST, for an overall disease control rate of 50%. Treatment was generally well tolerated, adverse events were mild to moderate, with one to two patients each experiencing nausea, vomiting, anorexia, arthralgia, fever or chills. One severe adverse event was reported 18 hours after treatment onset with 60 mg AL + ZIN-CTI-001, and included diarrhea, followed by hypotension and reversible acute renal failure, which completely resolved.

Clinical study of ZIN-ATI-001, essentially ZIN-CTI-001 without dendritic cells, is in an ongoing Phase 1b study for metastatic melanoma. The Phase 1b study is evaluating safety in addition to immunological and biological effects and efficacy of the therapeutic candidate in patients with melanoma. Enrollment in the Phase 1b study is ongoing and is expected to complete in 2012.

We expect to advance ZIN-ATI-001 into a Phase 2 study for melanoma in 2012. The Company will also continue to focus on additional disease indications where there are significant unmet medical needs.

Furthermore, we are evaluating additional potential preclinical candidates and continuing discovery efforts aimed at identifying other potential product candidates under our Channel Agreement with Intrexon.

Indibulin, ZIO-301

General. Indibulin is a novel, orally available small molecular-weight inhibitor of tubulin polymerization that we acquired from Baxter Healthcare in 2006, and is the subject of numerous patents worldwide, including those in the United States, the European Union and Japan. The microtubule component, tubulin, is one of the more well-established drug targets in cancer. Microtubule inhibitors interfere with the dynamics of tubulin polymerization, resulting in inhibition of chromosome segregation during mitosis and consequently inhibition of cell division. A number of marketed IV anti-cancer drugs target tubulin, such as the taxane family members, paclitaxel (Taxol®), docetaxel (Taxotere®), the vinca alkaloid family members, vincristine and vinorelbine, and new classes of tubulin inhibitors including the epothilones. This broad class of agents is typically the mainstay of therapy in a wide variety of indications. In spite of their effectiveness, the use of these drugs is associated with significant toxicities, notably peripheral neurotoxicity.

Preclinical studies with indibulin demonstrate significant and broad antitumor activity, including activity against taxane-refractory cell lines. The cytotoxic activity of indibulin was demonstrated in several rodent and human tumor cell lines derived from prostate, brain, breast, pancreas, lung, ovary, and cervical tumor tissues and in rodent tumor and human tumor xenograft models. In addition, indibulin was effective against multidrug resistant tumor cell lines (breast, lung, and leukemia) both *in vitro* and *in vivo*. Indibulin is potentially safer than other tubulin inhibitors as no neurotoxicity has been observed at therapeutic doses in rodents and in the Phase 1 trials. Indibulin has also demonstrated synergy with approved anti-cancer agents in preclinical studies. The availability of an oral formulation with the expected convenience of once daily dosing we believe is a significant commercial opportunity.

Indibulin has a different pharmacological profile from other tubulin inhibitors currently on the market as it binds to a unique site on tubulin and is active in multi-drug-resistant (MDR-1, MRP-1) and taxane-resistant tumors. Indibulin binding causes destabilization of microtubules *in vitro*, an effect similar to that of the vinca alkaloid family or colchicine, but opposite to that of paclitaxel and related drugs and different from the epothilones.

Testing of indibulin for *in vitro* growth inhibitory activity against a panel of human and rodent tumor-derived cell lines revealed that the drug candidate is active in a broad spectrum of cell lines derived from different organs. *In vivo*, indibulin is active in a number of xenograft and rodent tumor models. Its unique pharmacodynamic properties demonstrated in preclinical studies, as well as an excellent safety profile observed to date in ongoing Phase 1 studies, warranted further evaluation in the clinic.

Clinical Development Plan for Indibulin. Phase 1 study as a single agent in patients with a variety of advanced solid tumors has been completed. We have reported clinical activity at well-tolerated doses using a continuous dosing scheme without the development of clinically relevant peripheral neuropathy. Following encouraging preclinical results obtained with indibulin in combination with other chemotherapies, two Phase 1 combination studies were initiated with Tarceva™ and Xeloda™, respectively. The favorable activity and safety profile of oral indibulin with oral Xeloda™ was reported at ASCO's annual meeting in May 2009. In all studies, a maximum tolerated dose, or MTD, has not been established.

Preclinical work established a dosing schedule to maximize activity while managing toxicity and that regimen, five days on drug and nine days off, is now in Phase 1 study in late stage metastatic breast cancer. In light of not establishing an MTD and the need to administer many capsules several times a day, we have recently modified the dosage form to achieve once a day dosing which continues in the Phase 1 trial with the 5 and 9 schedule.

Darinaparsin, ZIO-101

General. Darinaparsin is an anti-mitochondrial (organic arsenic) compound covered by issued patents and pending patent applications in the United States and in foreign countries. A form of commercially available inorganic arsenic (arsenic trioxide [Trisenox®], or ATO) has been approved in the United States, the European Union and Japan for the treatment of acute promyelocytic leukemia, a precancerous condition. In the United States, ATO is on the compendia listing for the therapy of multiple myeloma, and has been studied for the treatment of various other cancers. Nevertheless, ATO has been shown to be toxic to the heart, liver, and brain, which limits its use as an anti-cancer agent. ATO carries a "black box" warning for electrocardiogram abnormalities since arsenic trioxide has been shown to cause QT interval prolongation and complete atrioventricular block. QT prolongation can lead to a *torsade de pointes*-type ventricular arrhythmia, which can be fatal. Inorganic arsenic has also been shown to cause cancer of the skin and lung in humans. The toxicity of arsenic is generally correlated to its accumulation in organs and tissues. Our preclinical and clinical studies to date have demonstrated that darinaparsin is considerably less toxic than ATO, particularly with regard to cardiac toxicity.

In vitro testing of darinaparsin using the National Cancer Institute's human cancer cell panel demonstrated activity against a series of tumor cell lines including lung, colon, brain, melanoma, ovarian, and kidney cancer. Moderate activity was shown against breast and prostate cancer tumor cell lines. In addition to solid tumors, *in vitro* testing in both the National Cancer Institute's cancer cell panel and *in vivo* testing in a leukemia animal model demonstrated substantial activity against hematological cancers (cancers of the blood and blood-forming tissues) such as leukemia, lymphoma, myelodysplastic syndromes, and multiple myeloma. Results indicate significant activity against the HuT 78 cutaneous T-cell lymphoma, the NK-G2MI natural killer-cell NHL, KARPAS-299 T-cell NHL, SU-DHL-8 B-cell NHL, SU-DHL-10 B-cell NHL and SU-DHL-16 B-cell NHL cell lines. Preclinical studies have also established anti-angiogenic properties of darinaparsin, providing support for the development of an oral form of the drug, and established synergy of darinaparsin in combination with other approved anti-cancer agents.

Potential Lead Indication: Lymphoma. Three Phase 2 IV studies of darinaparsin evaluating hematological malignancies, myeloma and liver cancer, have been completed and data from these trials has been reported, the most promising being in lymphomas and particularly in peripheral T-cell lymphoma.

Clinical Development Plan for darinaparsin: Phase 1 testing of the IV form of darinaparsin in solid tumors and hematological cancers was completed and we reported clinical activity and a safety profile from these studies as predicted by preclinical results. We subsequently completed Phase 2 studies in advanced myeloma, primary liver cancer and in certain other hematological cancers. At the May 2009 annual meeting of ASCO, we reported favorable results from the IV trial in lymphoma, particularly peripheral T-cell lymphoma, or PTCL. A Phase 1 trial in solid tumors with an oral form of darinaparsin has completed enrollment. We have obtained Orphan Drug Designation for darinaparsin in the United States and Europe for the treatment of PTCL and have entered into a licensing agreement with Solasia for the Asia/Pacific territory with the present IV darinaparsin clinical priority a focus on advancing PTCL study in that region. Further clinical studies are currently ongoing with Solasia.

Development Plans

We are currently pursuing several clinical programs for our small molecule and DNA-based biotherapeutic candidates, which include:

- palifosfamide (ZIO-201) — completing our Phase 3 pivotal trial in first-line metastatic STS, entitled PICASSO 3, and continuing enrollment in our Phase 3 trial in SCLC, entitled MATISSE.
- ZIN-CTI-001 — completing a Phase 1b trial in patients with metastatic melanoma.
- ZIN-ATI-001 — completing a Phase 1b trial in patients with late-stage melanoma and advancing into a Phase 2 trial.
- indibulin (ZIO-301) — completing a Phase 1 trial in patients with metastatic breast cancer.
- darinaparsin (ZIO-101) — completing an ongoing Phase 1 study and determining future study with the oral form and working with Solasia with IV administration in PTCL in the licensed territory.

We are also evaluating additional potential preclinical candidates and continuing discovery efforts aimed at identifying other potential product candidates under our channel partnership with Intrexon.

Our current plans involve using our principal internal financial resources to develop palifosfamide and to extend the DNA-based biotherapeutic program, with the intention of ultimately partnering or otherwise raising additional resources to support further development activities for all of our product candidates. Based on these plans, we expect to incur the following expenses during the next twelve months: approximately $82.9 million on research and development expenses and approximately $24.0 million on general corporate and administrative expenses. This forecast of expenses is forward-looking information that involves risks and uncertainties, and the actual amount of our expenses over the next twelve months could vary materially and adversely as a result of a number of factors, including the factors discussed in the ‘‘Risk Factors’’ section of this report and the uncertainties applicable to our forecast for the overall sufficiency of our capital resources, which are discussed under *“—Liquidity and Capital Resources”* below. We have based our estimates on assumptions that may prove to be wrong, and our expenses could prove to be significantly higher than we currently anticipate.

Furthermore, the successful development of our product candidates is highly uncertain. Product development costs and timelines can vary significantly for each product candidate, are difficult to accurately predict, and will require us to obtain additional funding, either alone or in connection with partnering arrangements. Various statutes and

regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of each product. The lengthy process of seeking approval and the subsequent compliance with applicable statutes and regulations require the expenditure of substantial resources. Any failure by us to obtain, or any delay in obtaining, regulatory approvals could materially, adversely affect our business. To date, we have not received approval for the sale of any product candidates in any market and, therefore, have not generated any revenues from our product candidates.

Financial Overview

Overview of Results of Operations

Three and six months ended June 30, 2012 compared to three and six months ended June 30, 2011

Revenue. Revenue during the three and six months ended June 30, 2012 and 2011 were as follows:

($ in thousands)	Three months ended June 30, 2012	2011	Change		Six months ended June 30, 2012	2011	Change	
Collaboration revenue	$ 200	$ 200	$ -	0%	$ 400	$ 267	$133	50%

Revenue for the three months ended June 30, 2012 was the same as the three months ended June 30, 2011.

Revenue for the six months ended June 30, 2012 increased by $133 thousand from the six months ended June 30, 2011. The increase is due to our entry into the collaboration agreement on March 7, 2011, resulting in a partial period under the agreement during the first six months of 2011. We are recognizing the research and development funding revenue over the estimated period of performance (75 months).

Research and development expenses. Research and development expenses during the three and six months ended June 30, 2012 and 2011 were as follows:

($ in thousands)	Three months ended June 30, 2012	2011	Change		Six months ended June 30, 2012	2011	Change	
Research and development	$18,264	$9,125	$9,139	100%	$32,249	$33,766	$(1,517)	-4%

Research and development expenses for the three months ended June 30, 2012 increased by $9.1 million from the three months ended June 30, 2011. The increase was due primarily to increased trial costs of $4.0 million related primarily to the Phase 3 palifosfamide study in STS and the Phase 3 palifosfamide study in SCLC, increased preclinical trials of $2.1 million, increased manufacturing activity of $1.2 million, increased salary and employee-related costs of $1.1 million, and other costs of $0.7 million.

Research and development expenses for the six months ended June 30, 2012 decreased by $1.5 million from the six months ended June 30, 2011. The decrease was primarily due to the payment in the first six months of 2011 of a one-time $17.5 million non-cash expense related to our Channel Agreement, including our associated license of Intrexon technology, partially offset by increases in trial costs of $7.0 million related primarily to the Phase 3 palifosfamide study in STS and the Phase 3 palifosfamide study in SCLC, preclinical trial costs of $3.1 million, salary and employee-related costs of $2.7 million, manufacturing activity costs of $1.5 million, other costs of $0.6 million, and a one-time expense of $0.7 million relating to a new safety database.

We expect our research and development expenses to increase, as compared to prior periods, as we continue our Phase 3 palifosfamide trials and other studies for palifosfamide, DNA therapeutics, indibulin and darinaparsin.

Our research and development expense consists primarily of salaries and related expenses for personnel, costs of contract manufacturing services, costs of facilities and equipment, fees paid to professional service providers in conjunction with our clinical trials, fees paid to research organizations in conjunction with preclinical animal studies, costs of materials used in research and development, consulting, license and milestone payments and sponsored research fees paid to third parties.

We have not accumulated and tracked our internal historical research and development costs or our personnel and personnel-related costs on a program-by-program basis. Our employee and infrastructure resources are allocated across several projects, and many of our costs are directed to broadly applicable research endeavors. As a result, we cannot state the costs incurred for each of our oncology programs on a program-by-program basis.

In 2012, our clinical projects have consisted primarily of two Phase 3 projects for our lead product candidate palifosfamide. The expenses for our Phase 3 palifosfamide study in STS incurred by us to third parties were $9.9 million for the six months ended June 30, 2012 and $30.2 million from the project inception in July 2010 through June 30, 2012. The expenses for our Phase 3 palifosfamide study in SCLC incurred by us to third parties were $3.9 million for the six months ended June 30, 2012 and $3.9 million from the project inception in December 2011 through June 30, 2012.

Our future research and development expenses in support of our current and future programs will be subject to numerous uncertainties in timing and cost to completion. We test potential products in numerous preclinical studies for safety, toxicology and efficacy. We may conduct multiple clinical trials for each product. As we obtain results from trials, we may elect to discontinue or delay clinical trials for certain products in order to focus our resources on more promising products or indications. Completion of clinical trials may take several years or more, and the length of time generally varies substantially according to the type, complexity, novelty and intended use of a product. It is not unusual for preclinical and clinical development of each of these types of products to require the expenditure of substantial resources.

We estimate that clinical trials of the type generally needed to secure new drug approval are typically completed over the following timelines:

Clinical Phase	Estimated Completion Period
Phase 1	1 - 2 years
Phase 2	2 - 3 years
Phase 3	2 - 4 years

The duration and the cost of clinical trials may vary significantly over the life of a project as a result of differences arising during clinical development, including, among others, the following:

·the number of clinical sites included in the trials;

·the length of time required to enroll suitable patents;

·the number of patients that ultimately participate in the trials;

·the duration of patient follow-up to ensure the absence of long-term product-related adverse events; and

·the efficacy and safety profile of the product.

As a result of the uncertainties discussed above, we are unable to determine the duration and completion costs of our programs or when and to what extent we will receive cash inflows from the commercialization and sale of a product. Our inability to complete our programs in a timely manner or our failure to enter into appropriate collaborative agreements could significantly increase our capital requirements and could adversely impact our liquidity. These uncertainties could force us to seek additional, external sources of financing from time-to-time in order to continue with our product development strategy. Our inability to raise additional capital, or to do so on terms reasonably acceptable to us, would jeopardize the future success of our business.

General and administrative expenses. General and administrative expenses during the three and six months ended June 30, 2012 and 2011 were as follows:

($ in thousands)	Three months ended June 30, 2012	2011	Change		Six months ended June 30, 2012	2011	Change	
General and administrative	$ 4,902	$ 3,923	$979	25%	$ 9,750	$ 7,275	$2,475	34%

General and administrative expenses for the three months ended June 30, 2012 increased by $1.0 million from the three months ended June 30, 2011. The increase was primarily due to increases in salary and employee-related costs of $0.6 million, non-employee contracted costs of $0.1 million and other costs of $0.3 million.

General and administrative expenses for the six months ended June 30, 2012 increased by $2.5 million from the six months ended June 30, 2011. The increase was primarily due to increases in salary and employee-related costs of $1.2 million, non-employee contracted costs of $0.9 million and other costs of $0.4 million.

We expect our general and administrative expenses to increase moderately to support increased activity in clinical studies.

Other income (expense). Other income (expense) for the three and six months ended June 30, 2012 and 2011 were as follows:

($ in thousands)	Three months ended June 30, 2012	2011	Change		Six months ended June 30, 2012	2011	Change	
Other income, net	$ 3	$ 9	$(6)	-67%	$(23)	$7	$(30)	-429%
Change in fair value of warrants	(650)	2,115	(2,765)	-131%	(6,461)	(8,965)	2,504	-28%
Total	$ (647)	$ 2,124	$(2,771)		$(6,484)	$(8,958)	$2,474	

The increase in total other income (expense) of $2.8 million from the three months ended June 30, 2012 compared to the three months ended June 30, 2011 was due primarily to decreased non-cash expense recorded from the change in

the fair value of liability-classified warrants.

The decrease in total other income (expense) of $2.5 million from the six months ended June 30, 2012 compared to the six months ended June 30, 2011 was due primarily to decreased non-cash expense recorded from the change in the fair value of liability-classified warrants. Additional changes are attributable to increased state tax payments.

Liquidity and Capital Resources

As of June 30, 2012, we had approximately $110.4 million in cash and cash equivalents, compared to $104.7 million in cash and cash equivalents as of December 31, 2011. We anticipate that our cash resources will be sufficient to fund our operations into the second half of 2013. However, changes may occur that would consume our existing capital prior to that time, including the scope and progress of our research and development efforts and changes in governmental regulation. Actual costs may ultimately vary from our current expectations, which could materially impact our use of capital and our forecast of the period of time through which our financial resources will be adequate to support our operations. We have estimated the sufficiency of our cash resources based in part on the trial design for our PICASSO 3 pivotal trial for first-line metastatic STS and our adaptive Phase 3 trial for first-line SCLC for IV palifosfamide and our current timing expectations for enrollment of the studies, which may change based on the progression of enrollment. We also assumed responsibility for the advancement of two product candidates in the clinic under our exclusive channel partnership with Intrexon, and we expect that the costs associated with these and additional product candidates will increase the level of our overall research and development expenses significantly going forward.

Although all human clinical trials are expensive and difficult to design and implement, we believe that due to complexity, costs associated with clinical trials for DNA-based biotherapeutic products are greater than the corresponding costs associated with clinical trials for small molecule candidates. In addition to increased research and development costs, we have added, and will continue to add, headcount to support our exclusive channel partnership endeavors, which will add to our general and administrative expenses going forward.

In addition to these factors, our actual cash requirements may vary materially from our current expectations for a number of other factors that may include, but are not limited to, changes in the focus and direction of our development programs, competitive and technical advances, costs associated with the development of our product candidates, our ability to secure partnering arrangements, and costs of filing, prosecuting, defending and enforcing our intellectual property rights. If we exhaust our capital reserves more quickly than anticipated, regardless of the reason, and we are unable to obtain additional financing on terms acceptable to us or at all, we will be unable to proceed with development of some or all of our product candidates on expected timelines and will be forced to prioritize among them.

We expect that we will need additional financing to support our long-term plans for clinical trials and new product development. We expect to finance our cash needs through the sale of equity securities, strategic collaborations and/or debt financings, or through other sources that may be dilutive to existing stockholders. There can be no assurance that we will be able to obtain funding from any of these sources or, if obtained, what the terms of such funding(s) may be, or that any amount that we are able to obtain will be adequate to support our working capital requirements until we achieve profitable operations. We have no current committed sources of additional capital. Recently, capital markets have experienced a period of instability that may severely hinder our ability to raise capital within the time periods needed or on terms we consider acceptable, if at all. If we are unable to raise additional funds when needed, we may not be able to continue development and regulatory approval of our products, or we could be required to delay, scale back or eliminate some or all our research and development programs.

The following table summarizes our net increase (decrease) in cash and cash equivalents for the six months ended June 30, 2012 and 2011:

	Six months ended June 30,	
	2012	2011
($ in thousands)		
Net cash provided by (used in):		
Operating activities	$(42,625)	$(13,989)
Investing activities	(1,107)	(392)
Financing activities	49,410	84,271
Net increase in cash and cash equivalents	$5,678	$69,890

Net cash used in operating activities was $42.6 million for the six months ended June 30, 2012 compared to $14.0 million for the six months ended June 30, 2011. The $28.6 million increase was due to an increase in prepaid expenses and other current assets attributable to a related party prepayment (see Note 6), as well as an increase in the net loss from operations, caused by increased research and development activities, excluding non-cash expenses of the change in fair value of warrants, stock-based compensation, and in process research and development.

Net cash used in investing activities was $1.1 million for the six months ended June 30, 2012 compared to $0.4 million for the six months ended June 30, 2011. The increase was due to build out of additional space in the Boston office including leasehold improvements and furniture and fixtures along with software additions.

Net cash provided by financing activities was $49.4 million for the six months ended June 30, 2012 compared to $84.3 million for the six months ended June 30, 2011. The change is primarily attributable to a $49.2 million financing that occurred during the first six months of 2012 versus a $71.2 million financing and warrant exercises of $12.3 million that occurred during the first six months of 2011.

32

Operating capital and capital expenditure requirements

We anticipate that losses will continue for the foreseeable future. At June 30, 2012, our accumulated deficit was approximately $235.7 million. Our actual cash requirements may vary materially from those planned because of a number of factors including:

- Changes in the focus, direction and pace of our development programs;
- Competitive and technical advances;
- Internal costs associated with the development of palifosfamide and indibulin and our ability to secure further financing for darinaparsin development from a partner;
- Costs of filing, prosecuting, defending and enforcing any patent claims and any other intellectual property rights, or other developments; and
- Other matters identified under Part II – Item 1A. “Risk Factors” below.

Working capital as of June 30, 2012 was $101.6 million, consisting of $119.4 million in current assets and $17.8 million in current liabilities. Working capital as of December 31, 2011 was $92.7 million, consisting of $106.1 million in current assets and $13.4 million in current liabilities.

Contractual obligations

The following table summarizes our outstanding obligations as of June 30, 2012 and the effect those obligations are expected to have on our liquidity and cash flows in future periods:

($ in thousands)	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
Operating leases	$6,073	$ 1,096	$ 2,432	$ 1,866	$ 679
Royalty and license fees	1,650	275	550	550	275
Contract milestone payments	25,579	15,454	10,125	-	-

Total	$33,302	$ 16,825	$ 13,107	$ 2,416	$ 954

Our commitments for operating leases relate to the lease for our corporate headquarters in New York, New York, our operations center in Boston, Massachusetts and office space in Germantown, Maryland. Our commitments for royalty and license fees relate to our patent agreement with Baxter Healthcare Corporation and our royalty agreements with Southern Research Institute and Baxter Healthcare Corporation requiring minimum royalty payments. The contract milestone payments relate to our CRO agreements with PPD Development, L.P and Pharmaceutical Research Associates, Inc. The timing of the remaining contract milestone payments are dependent upon factors that are beyond our control, including our ability to recruit patients, the outcome of future clinical trials and any requirements imposed on our clinical trials by regulatory agencies. However, for the purpose of the above table, we have assumed that the payment of the milestones will occur within five years of June 30, 2012. On July 16, 2012, we decided to close our Germanton, Maryland office (see Subsequent Events). Our operating lease commitment for the Germantown, Maryland office included in the above table is $50 thousand – less than 1 year and $39 thousand – 2-3 years.

Off-balance sheet arrangements

During the three and six months ended June 30, 2012 and 2011, we did not engage in any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

In our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, our most critical accounting policies and estimates upon which our financial status depends were identified as those relating to stock-based compensation; net operating losses and tax credit carryforwards; and impairment of long-lived assets. We reviewed our policies and determined that those policies remain our most critical accounting policies for the six months ended June 30, 2012.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risk is limited to our cash. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash. We also seek to maximize income from our investments without assuming significant risk. To achieve our goals, we maintain our cash in interest-bearing bank accounts in global banks, U.S. treasuries and other government-backed investments, which are subject to minimal interest rate risk.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, on a timely basis, and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) occurred during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

In the ordinary course of business, we may periodically become subject to legal proceedings and claims arising in connection with ongoing business activities. The results of litigation and claims cannot be predicted with certainty, and unfavorable resolutions are possible and could materially affect our results of operations, cash flows or financial position. In addition, regardless of the outcome, litigation could have an adverse impact on us because of defense costs, diversion of management resources and other factors.

While the outcome of these proceedings and claims cannot be predicted with certainty, there are no matters, as of June 30, 2012, that, in the opinion of management, might have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

The following important factors could cause our actual business and financial results to differ materially from those contained in forward-looking statements made in this Quarterly Report on Form 10-Q or elsewhere by management from time to time. The risk factors in this report have been revised to incorporate changes to our risk factors from those included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. The risk factors set forth below with an asterisk (*) next to the title are new risk factors or risk factors containing changes, which may be material, from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed with the Securities and Exchange Commission.

RISKS RELATED TO OUR BUSINESS

We will require additional financial resources in order to continue ongoing development of our product candidates; if we are unable to obtain these additional resources, we may be forced to delay or discontinue clinical testing of our product candidates.

We have not generated significant revenue and have incurred significant net losses in each year since our inception. For the six months ended June 30, 2012, we had a net loss of $48.1 million, and, as of June 30, 2012, we have

incurred approximately $235.7 million of cumulative net losses since our inception in 2003. We expect to continue to incur significant operating expenditures. Further development of our product candidates, including product candidates that we may develop under our channel partnering arrangement with Intrexon, will likely require substantial increases in our expenses as we:

- Continue to undertake clinical trials for product candidates;
- Scale-up the formulation and manufacturing of our product candidates;
- Seek regulatory approvals for product candidates;
- Implement additional internal systems and infrastructure; and
- Hire additional personnel.

We continue to seek additional financial resources to fund the further development of our product candidates. If we are unable to obtain sufficient additional capital, one or more of these programs could be placed on hold. Because we are currently devoting a significant portion of our resources to the development of palifosfamide and to synthetic biology, further progress with the development of our other candidates may be significantly delayed and may depend on the success of our ongoing clinical trial involving palifosfamide.

We have no current committed sources of additional capital. We do not know whether additional financing will be available on terms favorable or acceptable to us when needed, if at all. Our business is highly cash-intensive and our ability to continue operations after our current cash resources are exhausted depends on our ability to obtain additional financing and achieve profitable operations, as to which no assurances can be given. If adequate additional funds are not available when required, or if we are unsuccessful in entering into partnership agreements for the further development of our products, we will be required to delay, reduce or eliminate planned preclinical and clinical trials and may be forced to terminate the approval process for our product candidates from the FDA or other regulatory authorities. In addition, we could be forced to discontinue product development, forego attractive business opportunities or pursue merger or divestiture strategies. In the event we are unable to obtain additional financing, we may be forced to cease operations altogether.

We need to raise additional capital to fund our operations. The manner in which we raise any additional funds may affect the value of your investment in our common stock.

As of June 30, 2012, we had incurred approximately $235.7 million of cumulative net losses and had approximately $110.4 million of cash and cash equivalents. We anticipate that our cash resources will be sufficient to fund our operations into the second half of 2013. However, changes may occur that would consume our existing capital prior to that time, including expansion of the scope, and/or slower than expected progress of, our research and development efforts and changes in governmental regulation. Actual costs may ultimately vary from our current expectations, which could materially impact our use of capital and our forecast of the period of time through which our financial resources will be adequate to support our operations. We have estimated the sufficiency of our cash resources based in part on the trial design for our PICASSO 3 pivotal trial and our adaptive Phase 3 trial in first-line SCLC for IV palifosfamide and our current timing expectations for enrollment of the studies, which may change based on the progression of enrollment. We have also assumed responsibility for the advancement of two product candidates in the clinic under our exclusive channel partnership with Intrexon and we expect that the costs associated with these and additional product candidates will increase the level of our overall research and development expenses significantly going forward. Although our forecasts for expenses and the sufficiency of our capital resources takes into account our plans to develop the Intrexon products, we assumed development responsibility for these products on January 6, 2011 and the actual costs associated therewith may be significantly in excess of forecasted amounts.

In addition to above factors, our actual cash requirements may vary materially from our current expectations for a number of other factors that may include, but are not limited to, changes in the focus and direction of our development programs, competitive and technical advances, costs associated with the development of our product candidates, our ability to secure partnering arrangements, and costs of filing, prosecuting, defending and enforcing our intellectual property rights. If we exhaust our capital reserves more quickly than anticipated, regardless of the reason, and we are unable to obtain additional financing on terms acceptable to us or at all, we will be unable to proceed with development of some or all of our product candidates on expected timelines and will be forced to prioritize among them.

Recently, capital markets have experienced a period of unprecedented instability that may severely hinder our ability to raise capital within the time periods needed or on terms we consider acceptable, if at all. Moreover, if we fail to advance one or more of our current product candidates to later-stage clinical trials, successfully commercialize one or more of our product candidates, or acquire new product candidates for development, we may have difficulty attracting investors that might otherwise be a source of additional financing.

In the current economic environment, our need for additional capital and limited capital resources may force us to accept financing terms that could be significantly more dilutive to existing stockholders than if we were raising capital when the capital markets were more stable. To the extent that we raise additional capital by issuing equity securities, our stockholders may experience dilution. In addition, we may grant future investors rights superior to those of our existing stockholders. If we raise additional funds through collaborations and licensing arrangements, it may be necessary to relinquish some rights to our technologies, product candidates or products, or grant licenses on terms that

are not favorable to us. If we raise additional funds by incurring debt, we could incur significant interest expense and become subject to covenants in the related transaction documentation that could affect the manner in which we conduct our business.

Clinical trials are very expensive, time-consuming, and difficult to design and implement.

Human clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. The clinical trial process itself is also time-consuming. We estimate that clinical trials of our product candidates will take at least several years to complete. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials. The commencement and completion of clinical trials may be delayed by several factors, including:

- Unforeseen safety issues;
- Determination of dosing issues;
- Lack of effectiveness during clinical trials;
- Slower than expected rates of patient recruitment and enrollment;
- Inability to monitor patients adequately during or after treatment;
- Inability or unwillingness of medical investigators to follow our clinical protocols; and
- Regulatory determinations to temporarily or permanently cease enrollment for other reasons not related to patient safety.

We commenced the PICASSO 3 pivotal trial for IV palifosfamide early in the third quarter of 2010 in a small number of sites in the United States as we pursued site review board clearance for trial conduct in the anticipated 150 or more sites expected worldwide. Site opening is a complex and time-consuming process, often requiring six months to complete outside of the United States. PICASSO 3 has a targeted enrollment of 424 patients. We experienced slower than anticipated enrollment in the trial at start-up due in part to the timing of site openings and regulatory approvals. While enrollment is complicated by a number of factors outside of our control, we completed full enrollment in June 2012. The outcome in progression-free survival, the study's primary endpoint for accelerated approval, is anticipated in the fourth quarter of 2012. As an orphan designated indication, the patient population available for participation in the PICASSO 3 trial is generally limited. If we cannot meet our forecasted enrollment, or the trial is delayed for other reasons, the delay will postpone our receipt of results from the trial and, consequently, our ability to submit a corresponding NDA with FDA for regulatory approval in accordance with our plans. See also "Risk Factors—*Our product candidates are in various stages of clinical trials, which are very expensive and time-consuming. We cannot be certain when we will be able to file an NDA or BLA with the FDA and any failure or delay in completing clinical trials for our product candidates could harm our business*."

We have received "Orphan Drug" status for palifosfamide for treatment of soft tissue sarcomas and darinaparsin for treatment of peripheral T-cell lymphoma in both the United States and Europe, and we may be able to receive additional Orphan Drug status from the FDA, Europe and certain other countries for other product candidates. Orphan Drug status promotes the development of products that demonstrate the promise for the diagnosis and treatment of one disease or condition affecting fewer than 200,000 patients in the United States and affords certain financial and market protection benefits to successful applicants. There is no guarantee that any of our other product candidates will be granted Orphan Drug status by the FDA or that, even if such product candidate is granted such status, the product candidate's clinical development and regulatory approval process will not be delayed or will be successful.

In addition, we or the FDA may suspend our clinical trials at any time if it appears that we are exposing participants to unacceptable health risks or if the FDA finds deficiencies in our IND submission or in the conduct of these trials.

We may not be able to commercialize any products, generate significant revenues, or attain profitability.

To date, none of our product candidates have been approved for commercial sale in any country. The process to develop, obtain regulatory approval for, and commercialize potential drug candidates is long, complex, and costly. Unless and until we receive approval from the FDA and/or other regulatory authorities for our product candidates, we cannot sell our drugs and will not have product revenues. Even if we obtain regulatory approval for one or more of our product candidates, if we are unable to successfully commercialize our products, we may not be able to generate sufficient revenues to achieve or maintain profitability, or to continue our business without raising significant additional capital, which may not be available. Our failure to achieve or maintain profitability could negatively impact the trading price of our common stock.

The technology on which our Channel Agreement with Intrexon Corporation is based in part on early stage technology in the field of human oncologic therapeutics.

Our Channel Agreement with Intrexon contemplates our using Intrexon's advanced transgene engineering platform for the controlled and precise cellular production of anti-cancer effectors. The *in vivo* effector platform in which we have acquired rights represents early-stage technology in the field of human oncologic biotherapeutics, with ZIN-CTI-001 which has completed a Phase 1b study and ZIN-ATI-001 currently in a Phase 1b study, both in melanoma. Although we plan to leverage Intrexon's synthetic biology platform for additional products targeting key pathways used by cancers to grow and metastasize, we may not be successful in developing and commercializing these products for a variety of reasons. The risk factors set forth herein that apply to our small molecule drug candidates, which are in various stages of development, also apply to product candidates that we seek to develop under our Channel Agreement with Intrexon.

We will incur additional expenses in connection with our Channel Agreement with Intrexon Corporation.

The *in vivo* effector platform, in which we have acquired rights for cancer from Intrexon, includes two existing product candidates, with DC-RTS-IL-12 and Ad-RTS-IL-12. Upon entry into the Channel Agreement with Intrexon, we assumed responsibility for the clinical development of these product candidates, which we expect will increase the level of our overall research and development expenses significantly going forward. Although all human clinical trials are expensive and difficult to design and implement, we believe that due to complexity, costs associated with clinical trials for synthetic biology products are greater than the corresponding costs associated with clinical trials for small molecule candidates. In addition to increased research and development costs, we have added, and continue to add, headcount in part to support our Channel Agreement endeavors, which will add to our general and administrative expenses going forward.

Although our forecasts for expenses and the sufficiency of our capital resources takes into account our plans to develop the Intrexon products, we assumed development responsibility for these products on January 6, 2011 and the actual costs associated therewith may be significantly in excess of forecasted amounts. In addition to the amount and timing of expenses related to the clinical trials, our actual cash requirements may vary materially from our current expectations for a number of other factors that may include, but are not limited to, changes in the focus and direction of our development programs, competitive and technical advances, costs associated with the development of our product candidates and costs of filing, prosecuting, defending and enforcing our intellectual property rights. If we exhaust our capital reserves more quickly than anticipated, regardless of the reason, and we are unable to obtain additional financing on terms acceptable to us or at all, we will be unable to proceed with development of some or all of our product candidates on expected timelines and will be forced to prioritize among them.

We have a limited operating history upon which to base an investment decision.

We are a development-stage company that was incorporated in September 2003. To date, we have not demonstrated an ability to perform the functions necessary for the successful commercialization of any product candidates. The successful commercialization of any product candidates will require us to perform a variety of functions, including:

- Continuing to undertake preclinical development and clinical trials;
- Participating in regulatory approval process;
- Formulating and manufacturing products; and
- Conducting sales and marketing activities.

Our operations have been limited to organizing and staffing our company, acquiring, developing and securing our proprietary product candidates, and undertaking preclinical and clinical trials of our product candidates. These operations provide a limited basis for you to assess our ability to commercialize our product candidates and the

advisability of investing in our securities.

Because we currently neither have nor intend to establish internal research capabilities, we are dependent upon pharmaceutical and biotechnology companies and academic and other researchers to sell or license us their product candidates and technology.

Proposing, negotiating, and implementing an economically viable product acquisition or license is a lengthy and complex process. We compete for partnering arrangements and license agreements with pharmaceutical, biopharmaceutical, and biotechnology companies, many of which have significantly more experience than we do, and have significantly more financial resources. Our competitors may have stronger relationships with certain third parties including academic research institutions, with whom we are interested in collaborating and may have, therefore, a competitive advantage in entering into partnering arrangements with those third parties. We may not be able to acquire rights to additional product candidates on terms that we find acceptable, or at all.

We expect that any product candidate to which we acquire rights will require significant additional development and other efforts prior to commercial sale, including extensive clinical testing and approval by the FDA and applicable foreign regulatory authorities. All drug product candidates are subject to the risks of failure inherent in pharmaceutical product development, including the possibility that the product candidate will not be shown to be sufficiently safe or effective for approval by regulatory authorities. Even if our product candidates are approved, they may not be economically manufactured or produced, or be successfully commercialized.

We actively evaluate additional product candidates to acquire for development. Such additional product candidates, if any, could significantly increase our capital requirements and place further strain on the time of our existing personnel, which may delay or otherwise adversely affect the development of our existing product candidates. We must manage our development efforts and clinical trials effectively, and hire, train and integrate additional management, administrative, and sales and marketing personnel. We may not be able to accomplish these tasks, and our failure to accomplish any of them could prevent us from successfully growing.

We may not be able to successfully manage our growth.

In the future, if we are able to advance our product candidates to the point of, and thereafter through, clinical trials, we will need to expand our development, regulatory, manufacturing, marketing and sales capabilities or contract with third parties to provide for these capabilities. Any future growth will place a significant strain on our management and on our administrative, operational, and financial resources. Therefore, 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 manage this growth, we must expand our facilities, augment our operational, financial and management systems, and hire and train additional qualified personnel. If we are unable to manage our growth effectively, our business may be harmed.

Our business will subject us to the risk of liability claims associated with the use of hazardous materials and chemicals.

Our contract research and development activities may involve the controlled use of hazardous materials and chemicals. Although we believe that our safety procedures for using, storing, handling and disposing of these materials comply with federal, state and local laws and regulations, we cannot completely eliminate the risk of accidental injury or contamination from these materials. In the event of such an accident, we could be held liable for any resulting damages and any liability could have a materially adverse effect on our business, financial condition, and results of operations. In addition, the federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of hazardous or radioactive materials and waste products may require our contractors to incur substantial compliance costs that could materially adversely affect our business, financial condition, and results of operations.

****We rely on key executive officers and scientific and medical advisors, and their knowledge of our business and technical expertise would be difficult to replace.***

We are highly dependent on Dr. Jonathan Lewis, our Chief Executive Officer, Dr. Hagop Youssoufian, our President of Research & Development and Chief Medical Officer, Caesar J. Belbel, our Executive Vice President and Chief

Legal Officer, Jason A. Amello, our Executive Vice President and Chief Financial Officer and our principal scientific, regulatory, and medical advisors. Dr. Lewis', Dr. Youssoufian's, Mr. Belbel's and Mr. Amello's employment are governed by written employment agreements. The employment agreement with Dr. Lewis provides for terms that expire in January 2013. Drs. Lewis and Youssoufian, and Messrs. Belbel and Amello may terminate their employment with us at any time, subject, however, to certain non-compete and non-solicitation covenants. The loss of the technical knowledge and management and industry expertise of Drs. Lewis and Youssoufian and Messrs. Belbel and Amello, or any of our other key personnel, could result in delays in product development, loss of customers and sales, and diversion of management resources, which could adversely affect our operating results. We do not carry "key person" life insurance policies on any of our officers or key employees.

If we are unable to hire additional qualified personnel, our ability to grow our business may be harmed.

We will need to hire additional qualified personnel with expertise in preclinical and clinical research and testing, government regulation, formulation and manufacturing, and eventually, sales and marketing. We compete for qualified individuals with numerous biopharmaceutical companies, universities, and other research institutions. Competition for such individuals is intense and we cannot be certain that our search for such personnel will be successful. Attracting and retaining qualified personnel will be critical to our success. If we are unable to hire additional qualified personnel, our ability to grow our business may be harmed.

We may incur substantial liabilities and may be required to limit commercialization of our products in response to product liability lawsuits.

The testing and marketing of medical products entail an inherent risk of product liability. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products, if approved. Even a successful defense would require significant financial and management resources. Regardless of the merit or eventual outcome, liability claims may result in:

- Decreased demand for our product candidates;
- Injury to our reputation;
- Withdrawal of clinical trial participants;
- Withdrawal of prior governmental approvals;
- Costs of related litigation;
- Substantial monetary awards to patients;
- Product recalls;
- Loss of revenue; and
- The inability to commercialize our product candidates.

We currently carry clinical trial insurance and product liability insurance. However, an inability to renew our policies or to obtain sufficient insurance at an acceptable cost could prevent or inhibit the commercialization of pharmaceutical products that we develop, alone or with collaborators.

RISKS RELATED TO THE CLINICAL TESTING, REGULATORY APPROVAL AND MANUFACTURING OF OUR PRODUCT CANDIDATES

If we are unable to obtain the necessary U.S. or worldwide regulatory approvals to commercialize any product candidate, our business will suffer.

We may not be able to obtain the approvals necessary to commercialize our product candidates, or any product candidate that we may acquire or develop in the future for commercial sale. We will need FDA approval to commercialize our product candidates in the United States and approvals from regulatory authorities in foreign jurisdictions equivalent to the FDA to commercialize our product candidates in those jurisdictions. In order to obtain FDA approval of any product candidate, we must submit to the FDA an NDA or biologic license application, or BLA, demonstrating that the product candidate is safe for humans and effective for its intended use. This demonstration requires significant research and animal tests, which are referred to as preclinical studies, as well as human tests, which are referred to as clinical trials. Satisfaction of the FDA's regulatory requirements typically takes many years, depending upon the type, complexity, and novelty of the product candidate, and will require substantial resources for research, development, and testing. We cannot predict whether our research, development, and clinical approaches will result in drugs that the FDA will consider safe for humans and effective for their intended uses. The FDA has substantial discretion in the drug approval process and may require us to conduct additional preclinical and clinical testing or to perform post-marketing studies. The approval process may also be delayed by changes in government regulation, future legislation, or administrative action or changes in FDA policy that occur prior to or during our regulatory review. Delays in obtaining regulatory approvals may:

- Delay commercialization of, and our ability to derive product revenues from, our product candidates;
- Impose costly procedures on us; and
- Diminish any competitive advantages that we may otherwise enjoy.

Even if we comply with all FDA requests, the FDA may ultimately reject one or more of our NDAs or BLAs. We cannot be sure that we will ever obtain regulatory clearance for any of our product candidates. Failure to obtain FDA approval for our product candidates will severely undermine our business by leaving us without a saleable product, and therefore without any potential revenue source, until another product candidate can be developed. There is no guarantee that we will ever be able to develop or acquire another product candidate or that we will obtain FDA approval if we are able to do so.

In foreign jurisdictions, we similarly must receive approval from applicable regulatory authorities before we can commercialize any drugs. Foreign regulatory approval processes generally include all of the risks associated with the FDA approval procedures described above.

Our product candidates are in various stages of clinical trials, which are very expensive and time-consuming. We cannot be certain when we will be able to file an NDA or BLA with the FDA and any failure or delay in completing clinical trials for our product candidates could harm our business.

Our product candidates are in various stages of development and require extensive clinical testing. Notwithstanding our current clinical trial plans for each of our existing product candidates, we may not be able to commence additional trials or see results from these trials within our anticipated timelines. As such, we cannot predict with any certainty if or when we might submit an NDA or BLA for regulatory approval of our product candidates or whether such an NDA or BLA will be accepted. Because we do not anticipate generating revenues unless and until we submit one or more NDAs or BLAs and thereafter obtain requisite FDA approvals, the timing of our NDA or BLA submissions and FDA determinations regarding approval thereof, will directly affect if and when we are able to generate revenues.

The results of our clinical trials may not support our product candidate claims.

Even if our clinical trials are completed as planned, we cannot be certain that their results will support approval of our product candidates. The FDA normally expects two randomized, well-controlled Phase 3 pivotal studies in support of approval of an NDA or BLA. Our PICASSO 3 trial, even if successful, may not be sufficient to support approval and we may be required to conduct additional pivotal trials of palifosfamide in metastatic soft tissue sarcoma in order to obtain NDA approval. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be certain that the results of later clinical trials will replicate the results of prior clinical trials and preclinical testing. The clinical trial process may fail to demonstrate that our product candidates are safe for humans and effective for the indicated uses. This failure would cause us to abandon a product candidate and may delay development of other product candidates. Any delay in, or termination of, our clinical trials will delay the submission of our NDAs or BLAs with the FDA and, ultimately, our ability to commercialize our product candidates and generate product revenues. In addition, our clinical trials involve small patient populations. Because of the small sample size, the results of these clinical trials may not be indicative of future results.

Because we are dependent upon clinical research institutions and other contractors for clinical testing and for research and development activities, the results of our clinical trials and such research activities are, to a certain extent, beyond our control.

We materially rely upon independent investigators and collaborators, such as universities and medical institutions, to conduct our preclinical and clinical trials under agreements with us. These collaborators are not our employees and we cannot control the amount or timing of resources that they devote to our programs. These investigators may not assign as great a priority to our programs or pursue them as diligently as we would if we were undertaking such programs ourselves. If outside collaborators fail to devote sufficient time and resources to our drug development programs, or if their performance is substandard, the approval of our FDA applications, if any, and our introduction of new products, if any, will be delayed. These collaborators may also have relationships with other commercial entities, some of whom may compete with us. If our collaborators assist our competitors to our detriment, our competitive position would be harmed.

Our reliance on third parties to formulate and manufacture our product candidates exposes us to a number of risks that may delay the development, regulatory approval and commercialization of our products or result in higher product costs.

We do not have experience in drug formulation or manufacturing of drugs or biologics and do not intend to establish our own manufacturing facilities. Although we will work closely with and rely upon Intrexon on the manufacturing and scale-up of Intrexon product candidates, we lack the resources and expertise to formulate or manufacture our own product candidates. We currently are contracting for the manufacture of our product candidates. We intend to contract with one or more manufacturers to manufacture, supply, store, and distribute drug supplies for our clinical trials. If a product candidate we develop or acquire in the future receives FDA approval, we will rely on one or more third-party contractors or Intrexon to manufacture our products. Our anticipated future reliance on a limited number of third-party manufacturers exposes us to the following risks:

- We may be unable to identify manufacturers on acceptable terms or at all because the number of potential manufacturers is limited and the FDA must approve any replacement contractor. This approval would require new testing and compliance inspections. In addition, a new manufacturer would have to be educated in, or develop substantially equivalent processes for, production of our products after receipt of FDA approval, if any.

- Our third-party manufacturers might be unable to formulate and manufacture our products in the volume and of the quality required to meet our clinical needs and commercial needs, if any.

- Our future contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to supply our clinical trials or to successfully produce, store, and distribute our products.

- Drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the Drug Enforcement Administration and corresponding state agencies to ensure strict compliance with good manufacturing practices and other government regulations and corresponding foreign standards. We do not have control over third-party manufacturers' compliance with these regulations and standards.

- If any third-party manufacturer makes improvements in the manufacturing process for our products, we may not own, or may have to share, the intellectual property rights to the innovation.

Each of these risks could delay our clinical trials, the approval, if any, of our product candidates by the FDA or the commercialization of our product candidates or result in higher costs or deprive us of potential product revenues.

RISKS RELATED TO OUR ABILITY TO COMMERCIALIZE OUR PRODUCT CANDIDATES

If we are unable either to create sales, marketing and distribution capabilities or enter into agreements with third parties to perform these functions, we will be unable to commercialize our product candidates successfully.

We currently have no marketing, sales, or distribution capabilities. If and when we become reasonably certain that we will be able to commercialize our current or future products, we anticipate allocating resources to the marketing, sales and distribution of our proposed products in North America and in certain other countries; however, we cannot assure that we will be able to market, sell, and distribute our products successfully. Our future success also may depend, in part, on our ability to enter into and maintain collaborative relationships for such capabilities and to encourage the collaborator's strategic interest in the products under development, and such collaborator's ability to successfully market and sell any such products. Although we intend to pursue certain collaborative arrangements regarding the sale and marketing of certain of our products, there are no assurances that we will be able to establish or maintain collaborative arrangements or, if we are able to do so, whether we would be able to conduct our own sales efforts. There can also be no assurance that we will be able to establish or maintain relationships with third-party collaborators or develop in-house sales and distribution capabilities. To the extent that we depend on third parties for marketing and distribution, any revenues we receive will depend upon the efforts of such third parties, and there can be no assurance that such efforts will be successful. In addition, there can also be no assurance that we will be able to market and sell our products in the United States or overseas.

If we are not able to partner with a third party and are not successful in recruiting sales and marketing personnel or in building a sales and marketing infrastructure, we will have difficulty commercializing our product candidates, which would harm our business. If we rely on pharmaceutical or biotechnology companies with established distribution systems to market our products, we will need to establish and maintain partnership arrangements, and we may not be able to enter into these arrangements on acceptable terms or at all. To the extent that we enter into co-promotion or other arrangements, any revenues we receive will depend upon the efforts of third parties that may not be successful and that will be only partially in our control.

If we cannot compete successfully for market share against other drug companies, we may not achieve sufficient product revenues and our business will suffer.

The market for our product candidates is characterized by intense competition and rapid technological advances. If a product candidate receives FDA approval, it will compete with a number of existing and future drugs and therapies developed, manufactured and marketed by others. Existing or future competing products may provide greater therapeutic convenience or clinical or other benefits for a specific indication than our products, or may offer comparable performance at a lower cost. If our products fail to capture and maintain market share, we may not achieve sufficient product revenues and our business will suffer.

We will compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many of these competitors have products already approved or in development. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs or have substantially greater financial resources than we do, as well as significantly greater experience in:

- Developing drugs and biopharmaceuticals;
- Undertaking preclinical testing and human clinical trials;
- Obtaining FDA and other regulatory approvals of drugs and biopharmaceuticals;
- Formulating and manufacturing drugs and biopharmaceuticals; and
- Launching, marketing, and selling drugs and biopharmaceuticals.

If physicians and patients do not accept and use our product candidates, our ability to generate revenue from sales of our products will be materially impaired.

Even if the FDA approves our product candidates, physicians and patients may not accept and use them. Acceptance and use of our products will depend upon a number of factors including:

- Perceptions by members of the health care community, including physicians, about the safety and effectiveness of our drugs;
- Pharmacological benefit and cost-effectiveness of our products relative to competing products;
- Availability of reimbursement for our products from government or other healthcare payors;
- Effectiveness of marketing and distribution efforts by us and our licensees and distributors, if any; and
- The price at which we sell our products.

Because we expect sales of our current product candidates, if approved, to generate substantially all of our product revenues for the foreseeable future, the failure of a drug to find market acceptance would harm our business and could require us to seek additional financing in order to fund the development of future product candidates.

Our ability to generate product revenues will be diminished if our drugs sell for inadequate prices or patients are unable to obtain adequate levels of reimbursement.

Our ability to commercialize our drugs, alone or with collaborators, will depend in part on the extent to which reimbursement will be available from:

- Government and health administration authorities;
- Private health maintenance organizations and health insurers; and

- Other healthcare payers.

Government and other healthcare payers increasingly attempt to contain healthcare costs by limiting both coverage and the level of reimbursement for drugs. As a result, we cannot provide any assurances that third-party payors will provide adequate coverage of and reimbursement for any of our product candidates. If we are unable to obtain adequate coverage of and payment levels for our product candidates from third-party payors, physicians may limit how much or under what circumstances they will prescribe or administer them and patients may decline to purchase them. This in turn could affect our ability to successfully commercialize our products and impact our profitability and future success.

In both the United States and certain foreign jurisdictions, there have been a number of legislative and regulatory proposals in recent years to change the healthcare system in ways that could impact our ability to sell our products profitably.

We cannot predict the impact on our business of any legislation or regulations that may be adopted in the future. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our products.

In addition, in many foreign countries, particularly the countries of the European Union, the pricing of prescription drugs is subject to government control. We may face competition for our product candidates from lower-priced products in foreign countries that have placed price controls on pharmaceutical products. In addition, there may be importation of foreign products that compete with our own products, which could negatively impact our profitability.

Our ability to use net operating loss carryforwards to reduce future tax payments may be limited or restricted.

We have generated significant net operating loss carryforwards, or NOLs, as a result of our incurrence of losses since inception. We generally are able to carry NOLs forward to reduce taxable income in future years. However, our ability to utilize the NOLs is subject to the rules of Section 382 of the Internal Revenue Code. Section 382 generally restricts the use of NOLs after an "ownership change." An ownership change occurs if, among other things, the stockholders (or specified groups of stockholders) who own or have owned, directly or indirectly, 5% or more of a corporation's common stock or are otherwise treated as 5% stockholders under Section 382 and the U.S. Treasury Department regulations promulgated thereunder increase their aggregate percentage ownership of that corporation's stock by more than 50 percentage points over the lowest percentage of the stock owned by these stockholders over a three-year rolling period. In the event of an ownership change, Section 382 imposes an annual limitation on the amount of taxable income a corporation may offset with NOL carry forwards. This annual limitation is generally equal to the product of the value of the corporation's stock on the date of the ownership change, multiplied by the long-term tax-exempt rate published monthly by the Internal Revenue Service. Any unused annual limitation may be carried over to later years until the applicable expiration date for the respective NOL carry forwards. We may have experienced an "ownership change" within the meaning of Section 382 in the past. As a result, our NOLs may be subject to limitations and we may be required to pay taxes earlier and in larger amounts than would be the case if our NOLs were freely usable.

RISKS RELATED TO OUR INTELLECTUAL PROPERTY

If we fail to adequately protect or enforce our intellectual property rights or secure rights to patents of others, the value of our intellectual property rights would diminish.

Our success, competitive position, and future revenues will depend in part on our ability and the abilities of our licensors to obtain and maintain patent protection for our products, methods, processes and other technologies, to preserve our trade secrets, to prevent third parties from infringing on our proprietary rights, and to operate without infringing the proprietary rights of third parties.

To date, we have exclusive rights to certain U.S. and foreign intellectual property with respect to our small molecule product candidates and with respect to the Intrexon technology, including the existing Intrexon product candidates. Under our Channel Agreement with Intrexon, Intrexon has the sole right to conduct and control the filings, prosecution and maintenance of the patents and patent applications licensed to us. Although under the agreement Intrexon has agreed to consider in good faith and consult with us regarding any comments we may have regarding these patents and patent applications, we cannot guarantee that our comments will be solicited or followed. Without direct control of the channel program patents and patent applications, we are dependent on Intrexon to keep us advised of prosecution, particularly in foreign jurisdictions where prosecution information may not be publicly available. We anticipate that we and Intrexon will file additional patent applications both in the United States and in other countries.

However, we cannot predict or guarantee:

- The degree and range of protection any patents will afford us against competitors, including whether third parties will find ways to invalidate or otherwise circumvent our patents;
- If and when patents will be issued;
- Whether or not others will obtain patents claiming aspects similar to those covered by our patents and patent applications; or
- Whether we will need to initiate litigation or administrative proceedings that may be costly whether we win or lose.

45

Changes in patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property or narrow the scope of our patent protection. In September 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law, resulting in a number of significant changes to U.S. patent law. These changes include provisions that affect the way patent applications will be prosecuted and may also affect patent litigation. In addition, the U.S. Supreme Court has ruled on several patent cases in recent years, either narrowing the scope of patent protection available in certain circumstances or weakening the rights of patent owners in certain situations. This combination of events has created uncertainty with respect to the value of patents, once obtained, and with regard to our ability to obtain patents in the future. Depending on decisions by the U.S. Patent and Trademark Office, which is developing regulations and procedures to implement the Leahy-Smith Act, and federal courts, the laws and regulations governing patents could change in unpredictable ways that would weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future.

Certain technologies utilized in our research and development programs are already in the public domain. Moreover, a number of our competitors have developed technologies, filed patent applications or obtained patents on technologies, compositions and methods of use that are related to our business and may cover or conflict with our owned or licensed patent applications, technologies or product candidates. Such conflicts could limit the scope of the patents that we may be able to obtain or may result in the rejection of claims in our patent applications. Because patent applications in the United States and many foreign jurisdictions are typically not published until eighteen months after filing, or in some cases not at all, and because publications of discoveries in the scientific literature often lag behind actual discoveries, neither we nor our licensors can be certain that others have not filed or maintained patent applications for technology used by us or covered by our pending patent applications without our being aware of these applications. In addition, our own earlier filed patents and applications or those of Intrexon may limit the scope of later patents we obtain or may result in the rejection of claims in our later filed patent applications. If third parties filed patent applications or obtained patents on technologies, compositions and methods of use that are related to our business and that cover or conflict with our owned or licensed patent applications, technologies or product candidates, we may be required to challenge such protection, terminate or modify our programs impacted by such protection or obtain licenses from such third parties, which might not be available on acceptable terms, or at all.

Our success also depends upon the skills, knowledge, and experience of our scientific and technical personnel, our consultants and advisors, as well as our licensors and contractors. To help protect our proprietary know-how and our inventions for which patents may be unobtainable or difficult to obtain, we rely on trade secret protection and confidentiality agreements. To this end, it is our general policy to require our employees, consultants, advisors, and contractors to enter into agreements that prohibit the disclosure of confidential information and, where applicable, require disclosure and assignment to us of the ideas, developments, discoveries, and inventions important to our business. These agreements may not provide adequate protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information. If any of our trade secrets, know-how or other proprietary information is disclosed, the value of our trade secrets, know-how and other proprietary rights would be significantly impaired and our business and competitive position would suffer.

Third-party claims of intellectual property infringement would require us to spend significant time and money and could prevent us from developing or commercializing our products.

In order to protect or enforce patent rights, we, or Intrexon, may initiate patent infringement litigation against third parties. Similarly, we may be sued by others for patent infringement. We also may become subject to proceedings conducted in the U.S. Patent and Trademark Office, including interference proceedings to determine the priority of inventions, or reexamination proceedings. In addition, any foreign patents that are granted may become subject to opposition, nullity, or revocation proceedings in foreign jurisdictions having such proceedings. The defense and prosecution, if necessary, of intellectual property actions are costly and divert technical and management personnel away from their normal responsibilities.

Our research, development and commercialization activities, as well as any product candidates or products resulting from these activities, may infringe or be claimed to infringe patents or patent applications under which we do not hold licenses or other rights. Patents do not protect its owner from a claim of infringement of another owner's patent. Therefore, our patent position cannot and does not provide any assurance that we are not infringing the patent rights of another.

The patent landscape in the field of novel DNA biotherapeutics, which we are pursuing under our exclusive channel partnership with Intrexon, is particularly complex. We are aware of numerous U.S. and foreign patents and pending patent applications of third parties that cover compositions, methods of use and methods of manufacture of novel DNA biotherapeutics, including biotherapeutics involving the *in vivo* expression of human IL-12. In addition, there may be patents and patent applications in the field of which we are not aware. The technology we license from Intrexon is early-stage technology and we are just beginning the process of designing and developing products using this technology. Although we will seek to avoid pursuing the development of products that may infringe any patent claims that we believe to be valid and enforceable, we may fail to do so. Moreover, given the breadth and number of claims in patents and pending patent applications in the field of novel DNA biotherapeutics and the complexities and uncertainties associated with them, third parties may allege that we are infringing upon patent claims even if we do not believe such claims to be valid and enforceable.

If a claim for patent infringement is asserted, there can be no assurance that the resolution of the claim would permit us to continue marketing the relevant product on commercially reasonable terms, if at all. We may not have sufficient resources to bring these actions to a successful conclusion. If we do not successfully defend any infringement actions to which we become a party or are unable to have infringed patents declared invalid or unenforceable, we may have to pay substantial monetary damages, which can be tripled if the infringement is deemed willful, or be required to discontinue or significantly delay commercialization and development of the affected products.

Any legal action against us or our collaborators claiming damages and seeking to enjoin developmental or marketing activities relating to affected products could, in addition to subjecting us to potential liability for damages, require us or our collaborators to obtain licenses to continue to develop, manufacture, or market the affected products. Such a license may not be available to us on commercially reasonable terms, if at all.

An adverse determination in a proceeding involving our owned or licensed intellectual property may allow entry of generic substitutes for our products.

If we breach any of the agreements under which we license rights to products or technology from others, we could lose license rights that are material to our business or be subject to claims by our licensors.

We license rights to products and technology that are important to our business, and we expect to enter into additional licenses in the future. For instance, we have exclusively licensed patents and patent applications under our agreement with Intrexon. Under these agreements, we are subject to a range of commercialization and development, sublicensing, royalty, patent prosecution and maintenance, insurance and other obligations.

Any failure by us to comply with any of these obligations or any other breach by us of our license agreements could give the licensor the right to terminate the license in whole, terminate the exclusive nature of the license or bring a claim against us for damages. Any such termination or claim could have a material adverse effect on our financial condition, results of operations, liquidity or business. Even if we contest any such termination or claim and are ultimately successful, such dispute could lead to delays in the development or commercialization of potential products and result in time-consuming and expensive litigation or arbitration. On termination we may be required to license to the licensor any related intellectual property that we developed.

In addition, in certain cases, the rights licensed to us are rights of a third party licensed to our licensor. In such instances, if our licensors do not comply with their obligations under such licenses, our rights under our license agreements with our licensor may be adversely affected.

OTHER RISKS RELATED TO OUR COMPANY

We are subject to Sarbanes-Oxley and the reporting requirements of federal securities laws, which can be expensive.

As a public reporting company, we are subject to the Sarbanes-Oxley Act of 2002, as well as to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and other federal securities laws. As a result, we incur significant legal, accounting, and other expenses that we would not incur as a private company, including costs associated with our public company reporting requirements and corporate governance requirements. As an example of public reporting company requirements, we evaluate the effectiveness of disclosure controls and procedures and of our internal control over financing reporting in order to allow management to report on such controls. Sarbanes-Oxley generally requires that a public reporting company's independent registered public accounting firm attest to the effectiveness of the company's internal control over financial reporting as of the end of each fiscal year in the company's annual report on Form 10-K. In addition, any updates to our finance and accounting systems, procedures and controls, which may be required as a result of our ongoing analysis of internal controls, or results of testing by our independent auditor, may require significant time and expense. As a company with limited accounting resources, a significant amount of management's time and attention has been and will continue to be diverted from our business to ensure compliance with these regulatory requirements. This diversion of management's time and attention may have a material adverse effect on our business, financial condition and results of operations.

Management is working to continuously monitor and improve internal controls and has set in place controls to mitigate the potential segregation of duties risk. In the event significant deficiencies or material weaknesses are indentified in our internal control over financial reporting that we cannot remediate in a timely manner, or if we are unable to receive a positive attestation from our independent registered public accounting firm with respect to our internal controls over financial reporting, investors and others may lose confidence in the reliability of our financial statements and the trading price of our common stock and ability to obtain any necessary equity or debt financing could suffer. In addition, in the event that our independent registered public accounting firm is unable to rely on our internal controls over financial reporting in connection with its audit of our financial statements, and in the further event that it is unable to devise alternative procedures in order to satisfy itself as to the material accuracy of our financial statements and related disclosures, we may be unable to file our periodic reports with the SEC. This would likely have an adverse affect on the trading price of our common stock and our ability to secure any necessary additional equity or debt financing, and could result in the delisting of our common stock from the NASDAQ Capital Market, which would severely limit the liquidity of our common stock.

Anti-takeover provisions in our charter documents and under Delaware law may make an acquisition of us, which may be beneficial to our stockholders, more difficult.

Provisions of our amended and restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. These provisions authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and hinder a takeover attempt, and limit who may call a special meeting of stockholders. In addition, Section 203 of the Delaware General Corporation Law generally prohibits a publicly-held Delaware corporation from engaging in a business combination with a party that owns at least 15% of its common stock unless the business combination is approved by the company's board of directors before the person acquires the 15% ownership stake or later by its board of directors and two-thirds of its stockholders. In connection with our January 2011 issuance of shares of common stock to Intrexon in a private placement transaction, our board of directors waived the Section 203 prohibition with respect to a future business combination with Intrexon. However, the Stock Purchase Agreement governing such issuance contains a standstill provision that generally prohibits Intrexon from seeking, initiating, offering or proposing to effect such a transaction with our inviting them to do so. Section 203 and this standstill provision could have the effect of delaying, deferring or preventing a change in control that our stockholders might consider to be in their best interests.

Because we do not expect to pay dividends, you will not realize any income from an investment in our common stock unless and until you sell your shares at profit.

We have never paid dividends on our capital stock and we do not anticipate that we will pay any dividends for the foreseeable future. Accordingly, any return on an investment in us will be realized, if at all, only when you sell shares of our common stock.

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

None.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed as part of this report and such Exhibit Index is incorporated herein by reference.

SIGNATURES

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

/s/ Jonathan Lewis
Jonathan Lewis, M.D., Ph.D.

Chief Executive Officer
(Principal Executive Officer)
Dated: August 2, 2012

/s/ Jason A. Amello
Jason A. Amello

Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
Dated: August 2, 2012

EXHIBIT INDEX

10.1	Employment Agreement, dated May 8, 2012 by and between the Company and Jason Amello (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 10, 2012)
10.2	ZIOPHARM Oncology, Inc. 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 26, 2012)
10.3	Form of Restricted Stock Agreement granted under the ZIOPHARM Oncology, Inc. 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 26, 2012)
10.4	Form of Option Agreement Granted under the ZIOPHARM Oncology, Inc. 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 26, 2012)
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications pursuant to 18 U.S.C. Section 1350
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** To be furnished in an amendment to this Form 10-Q to be filed no later than 30 days after the filing date of this Form 10-Q, as permitted by Rule 405 of Regulation S-T.

designed to recognize this key executive for his strong current and expected future contributions to our company with regard to his oversight to the company s Asia Pacific organization.

Changes to Granting of Stock Options and Restricted Stock

In response to shareholder feedback, the Committee has made efforts to create a stronger, more direct link between compensation and performance. Beginning in fiscal year 2013, more weight has been placed on performance-based equity. This includes both stock options and performance-based share units within the overall long-term incentive mix.

In addition, based on shareholder input and market trends, beginning in fiscal year 2014 vesting of restricted stock will occur 100% after three years.

Retirement

Grounded in the market practices of our Compensation Peer Group and general industry data, retirement benefits are also a critical element to the competitiveness of an executive compensation program. Johnson Controls provides three retirement benefit plans to eligible U.S. salaried employees; NEOs are eligible for an additional plan.

Retirement Benefit Plans

Johnson Controls provides retirement benefits to help NEOs prepare financially for retirement. NEOs are generally eligible for one or more of the following retirement benefit plans:

Pension Plan (plan will be frozen on December 31, 2014)

401(k) Plan (available to all employees)

Retirement Restoration Plan (available to all employees whose benefits are limited by certain Internal Revenue Code rules)

Executive Deferred Compensation Plan

Pension Plan

All U.S. salaried employees hired before January 1, 2006, participate in the pension plan. Employees with five years of employment are eligible to receive certain benefits upon retirement. **This plan will be frozen on December 31, 2014, and employees including NEOs will no longer accrue future pension benefits under this plan.** Employees who were originally York International Corp. employees, including Mr. Myers, already had their pension benefits frozen on December 31, 2013.

The current NEOs that participate in the pension plan are Mr. Molinaroli, Mr. McDonald, and Mr. Kesseler, and their benefits under that plan will be frozen on December 31, 2014. Mr. Jackson and Mr. Stief do not participate in the pension plan because they were hired after January 1, 2006. Mr. Myers no longer actively participates, but remains eligible to receive his frozen December 31, 2013 benefit amount. Dr. Bolzenius also does not participate in the pension plan. Under an agreement negotiated with Dr. Bolzenius at the time of his employment, Johnson Controls will continue to recognize Dr. Bolzenius German pension agreement, which provides benefits consistent with those given to senior executives of a German company.

Table of Contents

401(k) Plan

All U.S. employees are eligible for the 401(k) plan, including NEOs other than Dr. Bolzenius. Participants can contribute up to 25 percent of their compensation on a pre-tax basis; however, executive officers can contribute only up to 6 percent of their compensation. Based on company performance, Johnson Controls matches 75 percent to 100 percent of each dollar an employee contributes, up to 6 percent of the employee s eligible compensation.

However, employees that we hired on or after January 1, 2006, or who were originally York employees and no longer receive service credit under the pension plan, receive a varied annual retirement contribution. This group of employees includes Mr. Myers who was originally a York employee, Mr. Jackson and Mr. Stief. The contribution for this group of employees is between 1% and 7% of the participant s eligible compensation and is based on the participant s age and service. Both the matching contribution and the annual retirement contribution are subject to vesting requirements.

All NEOs participate in the 401(k) plan, with the exception of Dr. Bolzenius who waived his participation in the plan. In exchange, Johnson Controls agreed that Dr. Bolzenius will continue to accrue benefits under his German pension agreement.

Retirement Restoration Plan

The Internal Revenue Code limits the benefits Johnson Controls can provide to employees under the pension plan and the 401(k) plan, including the annual retirement contribution. Thus, Johnson Controls sponsors the Retirement Restoration Plan, which allows all employees who are affected by these Internal Revenue Code limits to obtain the full intended benefit from the pension and 401(k) plans without regard to such limits. Because benefits under the pension plan are frozen on December 31, 2014, the pension portion of the Retirement Restoration Plan likewise will be frozen on December 31, 2014, such that no additional pension restoration benefits will accrue after that date.

All employees whose benefits under the pension plan and 401(k) plan, as applicable, are affected by the Internal Revenue Code limits, including NEOs, are eligible for the Retirement Restoration Plan. Dr. Bolzenius is ineligible to participate in the Retirement Restoration Plan, however, as a result of his waiver to participate in the 401(k) plan.

Executive Deferred Compensation Plan

The Executive Deferred Compensation Plan assists all senior leaders, including NEOs, with personal financial planning by allowing participants to defer compensation and associated taxes until retirement or termination of employment. It also assists senior leaders in the management of their executive stock ownership requirements. Investment options in the Executive Deferred Compensation Plan mirror investment options available in our 401(k) Plan.

Other Benefits

We provide perquisites to help executive officers be more productive and be efficient, and to provide protection from potential business risks. Perquisites are limited in amount, and we maintain a strict policy regarding eligibility and use of these benefits. There are no exceptions outside of this policy. For fiscal year 2014, our NEOs received personal financial planning, club dues, and personal use of a company airplane. Personal use of a company airplane is minimal and the aggregate value of this perquisite for all named executives in fiscal year 2014 was less than $21,000 in total. Executive officers are also eligible for three additional perquisites: (1) the company vehicle policy, which is offered to all senior leadership and provides for personal use of a vehicle (the type of vehicle varies by leadership level and is limited to vehicles that use our automotive seating and interiors products), (2) the executive physical examination

program that offers executive officers an annual comprehensive physical examination within a compressed time period, and (3) the executive security policy, which is offered to all senior leadership and provides a risk-based mitigation strategy and security program that recognizes exposure to potential personal security threats due to local/geographic conditions and the nature of their positions as executives of the company.

The Committee periodically reviews competitive market data to ensure that perquisites in our executive compensation program are standard and within market practice. Additionally, the Committee annually reviews the use of perquisites to ensure adherence to our policy.

Executive Survivor Benefits Plan

NEOs hired before September 15, 2009, are eligible for the Executive Survivor Benefits Plan. Under this plan, if a participating executive officer dies while he or she is an employee, Johnson Controls will make certain payments to his or her beneficiary. This benefit is offered to executive officers in place of regular group life insurance coverage and any other executive life insurance policy. All benefits under our Executive Survivor Benefits Plan cease upon retirement or other termination. NEOs hired after September 15, 2009, participate in our regular group life insurance coverage.

Table of Contents

Employment and Change of Control Agreements

Johnson Controls enters into employment and change of control agreements with all of our executive officers to define their right to terminate employment and protect the company from certain business risks such as threats from competitors, loss of confidentiality or trade secrets, disparagement and solicitation of employees.

Employment agreements protect executive officers from risks by providing:

- Economic stability that enables executive officers to focus on the performance of duties
- Death or disability payments and benefits in the event of certain terminations of employment
- Payments and benefits, if eligible, in the event of a change of control in our company

Our employment agreements with senior executive officers do not include excise tax gross-up payments and include a double-trigger in the event of a change of control of our company, which means that an executive will not receive termination payments under the employment agreement following a change of control unless we terminate the executive s employment without cause or the executive terminates with good reason. Under the Omnibus Incentive Plan, equity awards are subject to double-trigger equity vesting in the event of a change of control. Double-trigger equity vesting requires both a change of control and executive termination to vest the equity awards. Our employment agreements help retain key NEOs after a change of control and encourage NEOs to maximize the value of the transaction for shareholders in the long term.

Changes to Employment and Change of Control Agreements

In fiscal year 2012, in response to shareholder feedback, Johnson Controls revised all of its employment agreements to eliminate (1) all excise tax gross-up payments, and (2) the trigger that allowed for an executive officer to voluntarily terminate his employment within a 30-day period beginning on the first anniversary of a change of control and receive benefits corresponding to a termination for good reason.

Risk Assessment

To discourage excessive risk-taking, the Committee conducts an annual risk assessment of our compensation plans.

Reviewing Our Compensation Program for Risk

After reviewing our compensation program, the Committee has determined that our program (including each individual element) is unlikely to place the company at material risk. The review indicated several of our current practices effectively mitigate risk and promote performance, including:

- A balanced mix of pay elements that ties pay to performance
- Appropriate caps on incentives
- Use of multiple performance measures in the annual and long-term incentive plans
- Use of performance measures that are based on our Annual Report and Form 10-K filing
- Committee discretion and oversight
- Significant stock ownership guidelines
- Appropriate use and provisions of severance and change of control agreements
- Limited and appropriate perquisites
- Provisions of the clawback policy
- No excise tax gross-up payments

Clawback Provisions

Johnson Controls maintains an Executive Compensation Incentive Recoupment (Clawback) Policy. Under the policy, the Committee requires all executive officers elected by the Board to reimburse any incentive awards if:

The awards were based on that performance period s financial results and became the subject of a material restatement, other than a restatement due to changes in accounting policy

The Committee believes the elected officer engaged in conduct that caused, or even partially caused, the need for the restatement

A lower payment could have been made to the elected executive officer based upon the restated financial results

If there is a material restatement of financial statements, the Committee must also seek to recover any compensation from the Chief Executive Officer and Chief Financial Officer, to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002.

Fiscal Year 2013 Executive Compensation Incentive Recoupment Review and Change

During fiscal year 2013, the Committee revised the Executive Compensation Incentive Recoupment Policy to include the ability to claw back performance-based share units in addition to cash performance incentives. We will continue to monitor developments under the

Table of Contents

Dodd-Frank Act, including with respect to mandatory recoupment of incentive compensation, and will comply with regulations when they are released.

Tax and Accounting Rules and Regulations

When determining total direct compensation packages, the Committee considers all factors that may have an impact on our financial performance, including tax and accounting rules and regulations under the Section 162(m) of the Internal Revenue Code. The Code limits us from deducting compensation in excess of $1 million awarded to the principal executive officer or to the other three highest-paid executive officers. One exception to the Code is if compensation meets the requirements to qualify as performance-based compensation.

Our compensation philosophy strongly emphasizes performance-based compensation for our executive officers, thus minimizing the consequences of the Section 162(m) limitation. However, the Committee retains full discretion to award compensation packages that will best attract, retain, and reward successful executive officers. Therefore, the Committee may award compensation that is not fully deductible under Section 162(m) if the Committee believes it will contribute to the achievement of our business objectives.

Table of Contents

SUMMARY COMPENSATION TABLE FOR FISCAL YEARS 2014, 2013 AND 2012

The following table summarizes the compensation earned in the fiscal years noted by our NEOs. We are not including information for Messrs. Jackson, Kesseler, and Stief for prior years because they did not become named executive officers until fiscal year 2014.

Name and Principal Position	Year	Salary ($)	Stock Awards[1][2] ($)	Option Awards[2] ($)	Non-Equity Incentive Plan Compen-sation[1][3] ($)	Change in Pension Value and Nonqualified Deferred Compen-sation Earnings[4] ($)	All Other Compen-sation[5] ($)	Total[6] ($)
Alex A. Molinaroli	2014	1,400,000	6,749,937	2,249,997	5,744,000	3,145,751	250,996	19,540,681
	2013	966,333	4,001,741	1,184,040	3,450,000	0	270,255	9,872,369
Chairman of the Board, President and Chief Executive Officer	2012	825,000	627,880	1,115,000	1,407,000	2,493,237	143,061	6,611,178
R. Bruce McDonald	2014	881,000	2,173,942	724,989	2,972,000	750,796	190,701	7,693,428
	2013	855,000	4,739,119	641,784	2,592,000	0	113,783	8,941,686
Executive Vice President and Vice Chairman	2012	830,000	642,150	1,248,800	1,390,000	1,073,096	170,028	5,354,074
Beda Bolzenius	2014	855,000	2,153,916	717,992	2,806,000	1,335,524	422,039	8,290,471
	2013	830,000	2,088,319	641,784	1,579,000	408,757	90,040	5,637,900
Vice President, Vice Chairman Asia Pacific and President Automotive Experience	2012	830,000	642,150	1,248,800	956,000	1,292,671	20,838	4,990,459
William C. Jackson	2014	769,000	1,804,927	601,994	2,304,000	0	204,339	5,684,260
Vice President and President, Building								

Efficiency								
Brian J. Kesseler Vice President and President, Power Solutions	2014	719,000	1,780,984	593,993	1,701,000	763,506	99,439	5,657,922
C. David Myers	2014	945,000	2,129,973	709,995	1,911,000	54,671	162,539	5,913,178
	2013	917,000	2,064,599	634,062	2,940,000	0	221,071	6,776,732
Corporate Vice President (and President Building Efficiency through September 14, 2014)	2012	890,000	627,880	1,195,280	1,343,000	75,861	270,255	4,402,276
Brian J. Stief Executive Vice President and Chief Financial Officer	2014	536,000	631,954	210,989	1,138,000	0	138,030	2,654,973

(1) We have not reduced amounts that we show to reflect a NEO s election, if any, to defer the receipt of compensation into our qualified and nonqualified deferral plans.

Table of Contents

(2) Amounts reflect the aggregate grant date fair value of restricted stock awards and performance-based share unit awards (in the Stock Awards column) and option awards (in the Option Awards column), in each case computed in accordance with FASB ASC Topic 718. In the case of performance-based share units, the amounts shown in the Stock Awards column are based on the probable outcome of performance conditions, consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures, as follows: Mr. Molinaroli $4,499,958; Mr. McDonald $1,448,972; Dr. Bolzenius $1,435,960; Mr. Jackson $1,202,962; Mr. Kesseler $1,187,000; Mr. Myers $1,419,998; and Mr. Stief $420,964. The values of the performance-based share unit awards at the grant date if the highest level of performance conditions were to be achieved would be as follows: Mr. Molinaroli $8,999,916; Mr. McDonald $2,897,944; Dr. Bolzenius $2,871,920; Mr. Jackson $2,405,924; Mr. Kesseler $2,374,000; Mr. Myers $2,839,996; and Mr. Stief $841,928. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Footnote 12 to our audited financial statements for the fiscal year ended September 30, 2014, which appear in our Annual Report on Form 10-K that we filed with the Securities and Exchange Commission on November 19, 2014, includes assumptions that we used in the calculation of these amounts

(3) Amounts reflect the cash awards to the NEOs which we discuss in further detail in the Compensation Discussion and Analysis under the headings *Annual Incentive Performance Plan* and *Long-Term Incentive Performance Plan*. Our NEOs earned the amounts shown based on performance during fiscal years 2012-2014. We paid these amounts after our fiscal year-end (September 30, 2014).

(4) Amounts reflect the actuarial increase in the present value of the NEO s benefits under all defined benefit pension plans that we have established, determined as of the measurement dates we used for financial statement reporting purposes for fiscal year 2014 and using interest rate and mortality rate assumptions consistent with those that we used in our financial statements. The amounts include benefits that the NEO may not currently be entitled to receive because the executive is not vested in such benefits. The value that an executive will actually receive under these benefits will differ to the extent facts and circumstances vary from what these calculations assume. Changes in the present value of the NEO s benefits are the result of the assumptions applied (and discussed in footnote 1 to the pension table) and the value of executive compensation received over the previous five year period. No NEO received preferential or above market earnings on nonqualified deferred compensation.

(5) Amounts reflect reimbursements with respect to financial planning, personal use of a vehicle, relocation expenses, executive physicals, executive security, personal use of our aircraft and club dues. (We discuss these benefits further under the heading *Other Benefits* on page 40.) Amounts for fiscal 2014 also reflect our matching contributions under our qualified and nonqualified retirement plans, as follows: Mr. Molinaroli $180,660; Mr. McDonald $131,815; Mr. Jackson $185,090; Mr. Kesseler $89,784; Mr. Myers $149,794; and Mr. Stief $109,690. The amount shown for Mr. Molinaroli includes $20,569 for club memberships and $14,662 for executive security. The amount shown for Mr. McDonald includes $17,200 for financial planning and $27,951 for club memberships. The amount shown for Dr. Bolzenius includes $7,292 for club memberships and $401,502 for executive security. The amount shown for Mr. Jackson includes $9,505 for club memberships. The amount shown for Mr. Stief includes $6,840 for financial planning and $11,719 for club memberships.

(6) Because the double LTIPP reporting issue exists for all NEOs, compensation totals for fiscal year 2014 are elevated on average 14% from actual annual total compensation excluding the payout for fiscal year 2014 under the old cash-based long-term incentive awards. The reported total compensation will fall, all else remaining equal, when the performance periods for the outstanding cash LTIPP grants end after fiscal year 2014.

(7) Dr. Bolzenius change in pension value is calculated in Euros (based on his German Pension Agreement). For purposes of disclosure in the table, we assume a conversion of Euros into US Dollars using a fixed exchange rate of

1.32027 US Dollars to 1.00 Euro to avoid distorting reported compensation due to fluctuations in exchange rates.

Table of Contents

GRANTS OF PLAN BASED AWARDS DURING FISCAL YEAR 2014

The following table contains information concerning the plan-based equity and non-equity awards that we granted to our NEOs in fiscal year 2014.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Securities Underlying Options[3] (#)	All Other Option Awards: Number of Shares of Stock[4] (#)	Exercise or Base Price of Option Awards[5] ($/Share)	Grant Value and Awar
	Grant Date	Threshold ($)[1]	Target ($)[1]	Maximum ($)[1]	Threshold ($)[2]	Target ($)[2]	Maximum ($)[2]				
li	11/19/2013	-	-	-	-	-	-	-	153,061	48.37	2,24
	11/19/2013	-	-	-	-	-	-	46,516	-	48.37	2,24
	N/A[6]	980,000	2,450,000	4,900,000	-	-	-	-	-	-	N
	11/19/2013	-	-	-	46,516	93,032	186,064	93,032	-	48.37	4,49
d	11/19/2013	-	-	-	-	-	-	-	49,319	48.37	724
	11/19/2013	-	-	-	-	-	-	14,988	-	48.37	724

N/A[6]	396,450	991,125	1,982,250	-	-	-	-	-	-	N
11/19/2013	-	-	-	14,978	29,956	59,912	29,956	-	48.37	1,44
s 11/19/2013	-	-	-	-	-	-	-	48,843	48.37	71
11/19/2013	-	-	-	-	-	-	14,843	-	48.37	71
N/A[6]	384,750	961,875	1,923,750	-	-	-	-	-	-	N
11/19/2013	-	-	-	14,844	29,687	59,374	29,687	-	48.37	1,43
5/19/2014[8]	-	-	-	-	-	-	4,283	-	46.69	19
11/19/2013	-	-	-	-	-	-	-	40,952	48.37	60
11/19/2013	-	-	-	-	-	-	12,445	-	48.37	60
N/A[7]	326,825	817,063	1,634,125	-	-	-	-	-	-	N

11/19/2013	-	-	-	12,435	24,870	49,740	24,870	-	48.37	1,20
11/19/2013	-	-	-	-	-	-	-	40,408	48.37	59
11/19/2013	-	-	-	-	-	-	12,280	-	48.37	59
N/A[7]	305,575	763,938	1,527,875	-	-	-	-	-	-	N
11/19/2013	-	-	-	-	-	-	24,540	-	48.37	1,18
11/19/2013	-	-	-	-	-	-	-	48,299	48.37	70
11/19/2013	-	-	-	-	-	-	14,678	-	48.37	70
N/A[6]	425,250	1,063,125	2,126,250	-	-	-	-	-	-	N
11/19/2013	-	-	-	14,679	29,357	58,714	29,357	-	48.37	1,41

Table of Contents

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Securities Underlying Options[3] (#)	All Other Option Awards: Number of Shares of Stock[4] (#)	Exercise or Base Price of Option Awards[5] ($/Share)	Grant Date Value of St and Optio Awards[6]
ne	Grant Date	Threshold ($)[1]	Target ($)[1]	Maximum ($)[1]	Threshold ($)[2]	Target ($)[2]	Maximum ($)[2]				
n											
	11/19/2013	-	-	-	-	-	-	-	14,353	48.37	210,989
	11/19/2013	-	-	-	-	-	-	4,362	-	48.37	210,990
	N/A[7]	174,200	435,500	871,100	-	-	-	-	-	-	N/A
	11/19/2013	-	-	-	-	-	-	8,703	-	48.37	420,964

[1] These columns show the range of potential payouts for annual incentive performance awards that we describe in the section titled *Annual Incentive Performance Plan* in the Compensation Discussion and Analysis. We granted the annual incentive awards for fiscal year 2014 at the beginning of fiscal year 2014 as we describe in the Compensation Discussion and Analysis. The threshold amount assumes zero payout from the discretionary portion of the award, while both target and maximum amounts assume full payout from the discretionary portion of the award.

[2] These columns show the range of potential payouts for the performance-based share units that we described in the section titled *Long-Term Incentive Performance Plan* in the Compensation Discussion and Analysis. The number of performance-based share units that are earned, if any, will be based on performance for fiscal years 2014 to 2016 and will be determined after the close of fiscal year 2016.

[3] The amounts shown in this column reflect the number of shares of restricted stock we granted to each NEO pursuant to the 2012 Omnibus Incentive Plan. The grant vests 100% on the third anniversary of the grant, contingent on the NEO s continued employment.

[4] The amounts shown in this column reflect the number of stock options we granted to each NEO pursuant to the 2012 Omnibus Incentive Plan. The stock options vest 50% on the second anniversary of the grant date and 50% on the

third anniversary of the grant date, contingent on the NEO s continued employment, and expire, at the latest, on the tenth anniversary of the grant date.

(5) We awarded the fiscal year 2014 stock option grants to the NEOs with an exercise price per share equal to our closing stock price on the date of grant.

(6) Amounts reflect the grant date fair value determined in accordance with FASB ASC Topic 718. Footnote 12 to our audited financial statements for the fiscal year ended September 30, 2014, which appear in our Annual Report on Form 10-K that we filed with the Securities and Exchange Commission on November 19, 2014, includes assumptions that we used in the calculation of these amounts.

(7) The award reflected in this row is an annual incentive performance award that we granted for the performance period of fiscal year 2014, the material terms of which we describe in the Compensation Discussion and Analysis section titled *Annual Incentive Performance Plan.*

(8) The award reflected in this row is a one-time restricted stock award granted in connection with the announcement of Dr. Bolzenius expanded role of Vice President, Vice Chairman Asia Pacific and President Automotive Experience.

Table of Contents

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR 2014 YEAR-END

The following table contains information concerning equity awards held by our NEOs that were outstanding as of September 30, 2014.

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable[1]	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)[2]	Market Value of Shares of Stock that Have Not Vested ($)[3]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have Not Vested (#)[4]	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have Not Vested ($)[3]
					115,616	5,319,492	358,864	16,511,332
Alex A. Molinaroli	90,000	-	40.21	10/1/2017				
	155,000	-	24.87	10/1/2019				
	135,000	-	30.54	10/1/2020				
	62,500	62,500	28.54	10/7/2021				
	-	72,900	27.85	10/5/2022				
	-	65,100	30.73	1/23/2023				
	-	153,061	48.37	11/19/2023				
					123,238	5,670,180	150,512	6,925,058
R. Bruce McDonald	225,000	-	22.5617	11/16/2015				
	192,000	-	23.965	10/2/2016				
	120,000	-	40.21	10/1/2017				
	160,000	-	28.79	10/1/2018				
	170,000	-	24.87	10/1/2019				
	150,000	-	30.54	10/1/2020				
	70,000	70,000	28.54	10/7/2021				
	-	74,800	27.85	10/5/2022				
	-	49,319	48.37	11/19/2023				
					67,376	3,099,970	149,974	6,900,304
Beda Bolzenius	120,000	-	40.21	10/1/2017				
	160,000	-	28.79	10/1/2018				
	170,000	-	24.87	10/1/2019				
	150,000	-	30.54	10/1/2020				
	70,000	70,000	28.54	10/7/2021				
	-	74,800	27.85	10/5/2022				
	-	48,843	48.37	11/19/2023				
William C.					37,945	1,745,849	114,940	5,288,390
	43,000	43,000	28.54	10/7/2021				
	-	53,800	27.85	10/5/2022				

Jackson	-	40,952	48.37	11/19/2023				
					33,530	1,542,715	112,680	5,184,406
	30,000	-	$40.21	10/1/2017				
	40,000	-	$28.79	10/1/2018				
	40,000	-	$24.87	10/1/2019				
Brian J.	35,000	-	$30.54	10/1/2020				
	14,250	14,250	$28.54	10/7/2021				
Kesseler	-	36,700	$27.85	10/5/2022				
	-	14,300	$30.73	1/23/2023				
	-	40,408	$48.37	11/19/2023				
					62,378	2,870,012	148,314	6,823,928
	120,000	-	40.21	10/1/2017				
	160,000	-	28.79	10/1/2018				
C. David	170,000	-	24.87	10/1/2019				
	150,000	-	30.54	10/1/2020				
Myers	67,000	67,000	28.54	10/7/2021				
	-	73,900	27.85	10/5/2022				
	-	48,299	48.37	11/19/2023				
					18,312	842,535	43,406	1,997,110
Brian J.	35,000	-	$30.54	10/1/2020				
	17,250	17,250	$28.54	10/7/2021				
Stief	-	21,500	$27.85	10/5/2022				
	-	14,353	$48.37	11/19/2023				

Table of Contents

(1) We granted options listed in this column ten years prior to their respective expiration dates. The options vest 50% on the second anniversary date of the grant date and 50% on the third anniversary of the grant date, contingent on continuous employment.

(2) Restricted stock and restricted stock unit vesting dates are as follows: Mr. Molinaroli 11,000 shares vested on October 7, 2013; 11,250 shares vested on November 2, 2013; 12,150 shares will vest on October 5, 2014, 12,000 shares will vest on November 1, 2014; 10,900 shares will vest on January 23, 2015; 11,000 shares will vest on October 7, 2015; 12,150 shares on October 5, 2016, 46,515 shares will vest on November 19, 2016, and 10,900 shares will vest on January 23, 2017; Mr. McDonald 11,250 shares vested on October 7, 2013, 13,500 shares vested on November 2, 2013, 12,500 shares will vest on October 5, 2014, 12,000 shares will vest on November 1, 2014, 11,250 shares will vest on October 7, 2015, 12,500 shares on October 5, 2016, 14,988 shares will vest on November 19, 2016, and 60,000 shares will vest on September 24, 2018; Dr. Bolzenius 11,250 shares vested on October 7, 2013, 11,250 shares vested on November 2, 2013, 12,500 shares will vest on October 5, 2014, 12,000 shares will vest on November 1, 2014, 11,250 shares will vest on October 7, 2015; 12,500 shares will vest on October 5, 2016, 14,843 shares will vest on November 19, 2016, and 4,283 shares will vest on May 19, 2017; Mr. Jackson 7,500 shares vested on October 7, 2013, 9,000 shares will vest on October 5, 2014, 7,500 shares will vest on October 7, 2015, 9,000 shares will vest on October 5, 2016, and 12,445 shares will vest on November 19, 2016; Mr. Kesseler 2,250 shares vested on October 7, 2013, 2,750 shares vested on November 2, 2013, 3,150 shares vest on October 5, 2014, 2,500 shares vest on November 1, 2014, 5,100 shares vest on January 23, 2015, 2,250 shares vest on October 7, 2015, 3,150 shares vest on October 5, 2016, 12,280 shares vest on November 19, 2016, and 5,100 shares vest on January 23, 2017; Mr. Myers 11,000 shares vested on October 7, 2013, 11,250 shares vested on November 2, 2013, 12,350 shares will vest on October 5, 2014, and 12,000 shares will vest on November 1, 2014; and Mr. Stief 3,000 shares vested on October 7, 2013, 3,600 shares will vest on October 5, 2014, 3,750 shares will vest on November 1, 2014, 3,000 shares will vest on October 7, 2015, 3,600 shares will vest on October 5, 2016, and 4,362 shares will vest on November 19, 2016.

(3) We calculated the market value of shares of stock that have not vested and performance-based share units that have not been earned based on the September 30, 2014 closing market price for a share of our common stock, which was $44.00. Performance for fiscal years 2013 and 2014 was above target; therefore, the maximum amounts are shown.

(4) The performance-based share units will be earned or forfeited based on our performance from fiscal year 2014 through fiscal year 2016. Performance for fiscal years 2013 and 2014 was above target; therefore, the maximum amounts are shown.

Table of Contents

OPTION EXERCISES AND STOCK VESTED DURING FISCAL YEAR 2014

The following table provides information about stock options that our NEOs exercised and restricted stock that vested in fiscal year 2014.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)[1]
Alex A. Molinaroli	145,000	$3,095,460	22,250	$1,029,461
R. Bruce McDonald	150,000	$4,443,915	24,750	$1,152,191
Beda Bolzenius	192,000	$5,129,280	22,500	$1,040,122
William C. Jackson	-	$-	7,500	$319,852
Brian J. Kesseler	135,000	$3,565,869	5,000	$232,929
C. David Myers	312,000	$8,193,682	22,250	$1,029,461
Brian J. Stief	-	$-	3,000	$127,941

[1] Amounts represent the product of the number of shares an officer acquired on vesting and the closing market price of the shares on the vesting date, plus the value of dividends released.

Table of Contents

PENSION BENEFITS AS OF SEPTEMBER 30, 2014

The following table sets forth certain information with respect to the potential benefits to our NEOs under our qualified pension plan and the pension component of the retirement restoration plans as of September 30, 2014.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit[1] ($)	Payments During Last Fiscal Year ($)
Alex A. Molinaroli	Johnson Controls Pension Plan	29.75	1,009,727	-
	Retirement Restoration Plan	29.75	8,067,626	-
R. Bruce McDonald	Johnson Controls Pension Plan	12.92	424,572	-
	Retirement Restoration Plan	12.92	3,156,941	-
Beda Bolzenius[3]	German Pension Arrangement	-	1,335,524	-
Brian J. Kesseler	Johnson Controls Pension Plan	20.25	498,475	-
	Retirement Restoration Plan	20.25	1,564,000	-
C. David Myers	Johnson Controls Pension Plan[2]	9.83	318,997	-

[1] We calculated the amounts reflected in this column for all NEOs other than Dr. Bolzenius using the following assumptions: A calculation date of September 30, 2014, a 4.35% discount rate, retirement occurring at normal retirement age based on Social Security Normal Retirement Age minus three years (Mr. Myers assumed retirement age is 62), and applicability of the 2009 Static Mortality Table for Annuitants per Treasury Regulation 1.430(h)(3)-1(e), that we used for financial reporting purposes as of September 30, 2014. The value that an executive will actually receive under these benefits will differ to the extent facts and circumstances vary from what these calculations assume. We calculated the amount reflected in this column for Dr. Bolzenius using the assumptions described below under German Pension Arrangement.

[2] Mr. Myers is a participant in the Johnson Controls Pension Plan as a historic York Plan participant.

[3] Dr. Bolzenius has a German Pension Arrangement. Dr. Bolzenius pension benefit will be paid in Euros. For purposes of disclosure in the table, we assume a conversion of Euros into US Dollars using an exchange rate as of January 1, 2007 of 1.32027 US Dollars to 1.00 Euro to avoid distorting reported compensation due to fluctuations in exchange rates.

Messrs. Jackson and Stief are not included in the table above because they do not participate in either the qualified pension plan or the pension component of the retirement restoration plan.

Johnson Controls Pension Plan The Johnson Controls Pension Plan is a defined benefit pension plan that provides benefits for most of our non-union U.S. employees, including several of our eligible NEOs. Our Pension Plan has two components: (1) a component that covers Johnson Controls employees hired prior to January 1, 2006, other than York employees, and (2) a component that covers York employees who were participants in the York International Pension Plan Number One, which was merged into the Pension Plan effective December 31, 2006.

Employees we hired prior to January 1, 2006 (other than York employees) automatically became participants in our Pension Plan in the month in which they were hired. Employees hired on or after January 1, 2006, are not eligible to participate in the Pension Plan. Because both Mr. Jackson and Mr. Stief were hired after January 1, 2006, neither are participants in the Pension Plan.

Subject to certain limitations that the Internal Revenue Code imposes, the monthly retirement benefit payable under our Pension Plan to participants other than the York employees, at normal retirement age in a single life annuity, is determined as follows:

1.15% of final average monthly compensation times years of benefit service, plus

0.55% of final average monthly compensation in excess of Social Security covered compensation times years of benefit service (up to 30 years).

Service after December 31, 2014 does not count as benefit service in this formula. For purposes of this formula, final average monthly compensation means a participant s gross compensation, excluding certain unusual or non-recurring items of compensation, such as severance or moving expenses, for the highest five consecutive years of the last ten consecutive years of employment occurring prior to January 1, 2015. Social Security covered compensation means the average of the Social Security wage base for the 35 years preceding a participant s normal retirement age. Normal retirement age for Johnson Controls participants is age 65. The pension benefits of all of our eligible NEOs, except Mr. Myers and Dr. Bolzenius, are calculated using this formula.

Table of Contents

For York employees, including Mr. Myers, participating in our Pension Plan, the monthly benefit payable at normal retirement age in a single life annuity is $25 times years of credited service, or if greater, an amount equal to 1/12th of the following:

1.6% of final average compensation minus 1% of the participant s primary Social Security benefit payable at normal retirement age, times years of credited service (up to 30 years), plus

0.50% of final average compensation times years of credited service in excess of 30, but not more than 40, years. Service after December 31, 2003, does not count as credited service in this formula. For purposes of this formula, compensation means the participant s taxable compensation, plus contributions to a 401(k) plan and 50% of the amount that the participant deferred under a nonqualified deferred compensation plan, for the highest five consecutive years of the last ten consecutive years of employment occurring prior to January 1, 2014. Normal retirement age for York participants is age 65. Mr. Myers is the only NEO whose benefits are calculated using this formula.

Participants in our Pension Plan generally become vested in their pension benefits upon completion of 5 years of service. Our Pension Plan does not pay full pension benefits until after a participant terminates employment and reaches normal retirement age. However, a participant who terminates employment may elect to receive benefits at a reduced level at any time after age 55, as follows:

If a Johnson Controls participant terminates employment prior to age 55, then the reduction is 5% for each year that benefits begin before their social security retirement age. If a Johnson Controls participant terminates employment on or after age 55 and after completing ten years of service, then the reduction is 5% for each year that benefits begin before the three years preceding the participant s Social Security retirement age.

If a York participant terminates employment prior to age 55, then the benefit is actuarially reduced for each year earlier than the normal retirement age. If a York participant terminates employment on or after age 55, then benefits are reduced 7% for each year that benefits begin before age 62 and 6% for each year that benefits begin before age 59.

German Pension Arrangement We have entered into a supplemental agreement with Dr. Bolzenius that provides for retirement benefits. We refer to the supplemental agreement as the German Pension Arrangement. The German Pension Arrangement entitles Dr. Bolzenius to credit for one pension unit for each year since November 2, 2004 that he has been an employee of our subsidiary, Johnson Controls GmbH. The values of the pension units range between 28,282 (or $37,340 using a conversion of Euros into US Dollars using an exchange rate as of January 1, 2007, of 1.32027 US Dollars to 1.00 Euro) and 10,857 (or $14,334 using a conversion of Euros into US Dollars using an exchange rate as of January 1, 2007, of 1.32027 US Dollars to 1.00 Euro) depending on Dr. Bolzenius age. The annual pension benefit, paid monthly, under the German Pension Arrangement is given by the sum of all pension units credited until the time of the termination of Dr. Bolzenius employment.

Dr. Bolzenius German Pension Arrangement provides for full benefits only if his employment terminates after age 65, but permits him to receive reduced benefits upon an eligible early retirement (age 63). Upon an early retirement, Dr. Bolzenius benefits are based on the acquired pension unit total would be reduced by 0.5% for each month the early retirement occurred prior to age 65. Dr. Bolzenius is not currently eligible for early retirement.

In calculating the amounts shown in the column titled Present Value of Accumulated Benefit in the table above, we used the following valuation method and material assumptions: We calculated the amounts reflected for Dr. Bolzenius in accordance with SFAS No. 87 *Employers Accounting for Pensions* using the following assumptions: A calculation date of September 30, 2014, a 2.60% discount rate, retirement occurring at age 65, and applicability of the RT-2005 G by K. Heubeck Mortality Tables.

Retirement Restoration Plan Our Retirement Restoration Plan is an unfunded, nonqualified plan that provides retirement benefits above the payments that an employee, other than a York employee, will receive from our Pension Plan in those cases in which the Code s qualified plan limits restrict the employee s benefits. The Retirement Restoration Plan provides a benefit equal to the difference between the actual pension benefit payable under our Pension Plan and what such pension benefit would have been without regard to any Code limitation on either the amount of benefits or the amount of compensation that the benefit formula can take into account. Because Mr. Myers was a York employee, he is not eligible under the Retirement Restoration Plan for a benefit with respect to the Pension Plan. Dr. Bolzenius and Messrs. Jackson and Stief are also not eligible under the Retirement Restoration Plan for a benefit with respect to the Pension Plan because they are not participants in the Johnson Controls Pension Plan.

A participant is vested in his or her Retirement Restoration Plan benefits only if vested in his or her benefits under our Pension Plan. Benefits under the Retirement Restoration Plan are payable as an annuity at the later of the participant s termination of employment or attainment of age 55.

Table of Contents

NONQUALIFIED DEFERRED COMPENSATION DURING FISCAL YEAR 2014

The following table sets forth certain information with respect to participation in our nonqualified Executive Deferred Compensation Plan by our NEOs during the fiscal year ended September 30, 2014.

Name	Executive Contributions in Last FY[1] ($)	Registrant Contributions in Last FY[2] ($)	Aggregate Earnings in Last FY[3] ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE[4] ($)
Alex A. Molinaroli	173,250	167,195	1,138,440	0	6,186,265
R. Bruce McDonald	1,092,543	118,351	1,406,097	0	18,734,765
Beda Bolzenius	0	0	0	0	0
William C. Jackson	678,060	161,426	440,835	0	1,819,726
Brian J. Kesseler	85,320	71,320	7,779	0	177,168
C. David Myers	156,780	265,430	425,191	0	6,348,131
Brian J. Stief	367,040	87,025	368,506	0	5,213,911

(1) Certain amounts that appear in the Nonqualified Deferred Compensation table also appear in the Summary Compensation Table as compensation that a NEO earned in fiscal year 2014. Mr. Molinaroli s Executive Contributions include $68,400 that is also reported in the Salary column in the Summary Compensation Table for fiscal year 2014. Additionally, Mr. Molinaroli s Executive Contributions include $104,850 that is reported in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table for fiscal year 2014. Mr. Molinaroli s Registrant Contributions include $167,195 that is also reported in the All Other Compensation column of the Summary Compensation Table. Mr. McDonald s Executive Contributions include $37,443 that is also reported in the Salary column in the Summary Compensation Table for fiscal year 2014. Additionally, Mr. McDonald s Executive Contributions include $98,100 that is reported in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table for fiscal year 2014. Mr. McDonald s Registrant Contributions include $118,351 that is also reported in the All Other Compensation column of the Summary Compensation Table. Mr. Jackson s Executive Contributions include $30,540 that is also reported in the Salary column in the Summary Compensation Table for fiscal year 2014. Additionally, Mr. Jackson s Executive Contributions include $74,520 that is reported in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table for fiscal year 2014. Mr. Jackson s Registrant Contributions include $161,426 that is also reported in the All Other Compensation column of the Summary Compensation Table. Mr. Kesseler s Executive Contributions include $27,540 that is also reported in the Salary column in the Summary Compensation Table for fiscal year 2014. Additionally, Mr. Kesseler s Executive Contributions include $57,780 that is reported in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table for fiscal year 2014. Mr. Kesseler s Registrant Contributions include $71,320 that is also reported in the All Other Compensation column of the Summary Compensation Table. Mr. Myers Executive Contributions include $42,000 that is also reported in the Salary column in the Summary Compensation Table for fiscal year 2014. Additionally, Mr. Myers Executive Contributions include $114,780 that is reported in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table for fiscal year 2014. Mr. Myers Registrant Contributions include $265,430 that is also reported in the All Other Compensation column of the Summary Compensation Table. Mr. Stief s Executive Contributions include $16,560 that is also reported in the Salary column in the Summary Compensation Table for fiscal year 2014. Additionally, Mr. Stief s Executive Contributions include $39,480 that is reported in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table for fiscal year 2014. Mr. Stief s Registrant Contributions include $87,025 that is also reported in

the All Other Compensation column of the Summary Compensation Table.

(2) Amounts shown include the company matching contributions that we make under our Retirement Restoration Plan because the Internal Revenue Code limits such contributions under our 401(k) plan.

(3) The Aggregate Earnings are not above-market or preferential earnings and therefore we do not need to report them in the Summary Compensation Table. The Aggregate Earnings represent all investment earnings, net of fees, on amounts that a NEO has deferred. Investment earnings include amounts relating to appreciation in the price of our common stock, and negative amounts relating to depreciation in the price of our common stock, because the deferred amounts include deferred stock units, the value of which is tied to the value of our common stock. Aggregate Earnings also include dividends that we pay on restricted stock that has not yet vested, which we credit to a NEO s deferred compensation account subject to vesting.

(4) Amounts included in this column that have been reported in the Salary and Non-Equity Incentive Plan Compensation columns in Summary Compensation Table since fiscal year 2007 for each named executive officer are: Mr. Molinaroli $1,297,803; Mr. McDonald $3,579,647; Mr. Jackson $266,486; Mr. Kesseler $156,640; Mr. Myers $3,794,667; and Mr. Stief $143,065.

We maintain the following two nonqualified deferred compensation plans under which executives, including our NEOs, may elect to defer their compensation. Dr. Bolzenius does not participate in the Retirement Restoration Plan because he is not a participant in the

Table of Contents

Johnson Controls Pension Plan and he has waived his participation in the 401(k) plan in exchange for continued accrual of benefits under his German pension agreement.

Our Executive Deferred Compensation Plan allows participants to defer up to 100% of their annual and long-term cash bonuses and restricted stock awards.

Our Retirement Restoration Plan allows executive officers to defer up to 6% of their compensation that is not eligible to be deferred into our 401(k) plan because of qualified plan limits that the Internal Revenue Code imposes. The Retirement Restoration Plan also credits participants with a matching contribution equal to the difference between the amount of matching contribution made under the 401(k) plan and what such matching contribution would have been without regard to any limitation that the Code imposes on either the amount of matching contribution or the amount of compensation that can be considered, and determined as if the amount the participant deferred under the Retirement Restoration Plan had been deferred into our 401(k) plan. The Retirement Restoration Plan also credits participants with an amount equal to the difference between the amount of retirement contribution made under the 401(k) plan and what such retirement contribution would have been without regard to the Code limits.

Under both plans, a participant may elect to have his or her cash deferrals credited to a common stock unit account or one or more investment accounts that are the same as those available under our 401(k) plan, which serve to measure the earnings that we will credit on the participant s deferrals. Restricted stock deferrals under the Executive Deferred Compensation Plan are automatically credited to the common stock unit account until vested, after which the participant may reallocate deferrals to another investment account. Amounts allocated to the common stock unit account are credited with dividend equivalents, which are treated as if reinvested in additional common stock units.

Under both plans, deferred amounts are paid upon a participant s termination of employment in a lump sum or up to ten year annual installments, as the participant elects.

Dividends paid on restricted stock awards prior to fiscal year 2014 that a participant has elected not to defer are also accumulated within the Executive Deferred Compensation Plan, deemed reinvested in common stock units, and paid to a participant in a lump sum when the related shares of restricted stock vest.

Table of Contents

DIRECTOR COMPENSATION DURING FISCAL YEAR 2014

The following table provides information about the compensation that our directors earned during fiscal year 2014 and their holdings of equity awards as of September 30, 2014. The table does not include Mr. Stephen Roell, who was our Chairman of the Board from October 1, 2013 through December 31, 2013, or Mr. Molinaroli, who was President and Chief Executive Officer and a director during fiscal year 2014 and Chairman of the Board beginning January 1, 2014, because they received no additional compensation for service as a director.

Name	Fees Earned or Paid in Cash[1] ($)	Stock Awards[2] ($)	Total ($)
David P. Abney	110,006	134,994	245,000
Dennis W. Archer	110,006	134,994	245,000
Natalie A. Black	135,006	134,994	270,000
Julie L. Bushman	110,006	134,994	245,000
Eugenio Clariond Reyes-Retana	110,006	134,994	245,000
Raymond L. Conner[3]	95,370	116,470	211,840
Richard Goodman	135,006	134,994	270,000
Jeffrey A. Joerres[4]	128,756	134,994	263,750
William H. Lacy	142,506	134,994	277,500
Mark P. Vergnano	135,006	134,994	270,000

[1] Amounts shown include a portion (44.9%) of the annual retainer of $245,000 that we pay quarterly to each of our non-employee directors, and an additional annual retainer of $25,000 that we pay quarterly to the Chairperson of each of our committees of the Board. We pay our Lead Director an annual cash retainer of $30,000 if he/she is not a chairperson or an additional cash retainer of $15,000 if he/she is a chairperson.

[2] Amounts shown in the table reflect the aggregate grant date fair value of stock awards computed in accordance with FASB ASC Topic 718, and represent a portion (55.1%) of the annual retainer of $245,000 that we pay to each of our non-employee directors. The amounts shown include a grant to each non-employee director (other than Mr. Conner) of 2,915 shares of our common stock based on the closing stock price on the grant date of $46.31. Due to his becoming a new non-employee director after the beginning of fiscal year 2014, we granted Mr. Conner 2,515 shares of our common stock with a closing price on the grant date (January 29, 2014) of $46.31.

[3] Mr. Conner was elected as a Director on November 20, 2013.

[4] Mr. Joerres became the chairperson of the Finance Committee effective January 1, 2014.

As previously disclosed, based on a competitive pay analysis that Towers Watson performed, we increased the annual retainer we paid each non-employee director in fiscal year 2014 to $245,000 (pro-rated for partial year service), $110,000 paid in cash and $135,000 in shares of common stock at the then current market price, which shares we issued under the 2003 Director Stock Plan. We pay the cash portion of the retainer quarterly in October, January, April and July. We issue the stock annually using the market closing price as of the date of the Annual Meeting. We also reimburse non-employee directors for any expenses relating to their service as directors. Additionally, we pay the Chairpersons of the Audit, Compensation, Corporate Governance and Finance Committee, an annual cash retainer of $25,000. We pay the Lead Director an annual cash retainer of $30,000 if he/she is not a chairperson or an additional

cash retainer of $15,000 if he/she is a chairperson. Towers Watson annually conducts a competitive pay analysis to ensure that compensation paid to non-employee directors is competitive with our Compensation Peer Group and other similarly sized general industry companies. Based on their analysis completed in fiscal year 2014, beginning in fiscal year 2015 the annual retainer has been increased to $265,000, with $120,000 paid in cash and $145,000 paid in common stock.

We maintain a director stock ownership policy that requires our directors to hold significant amounts of our stock. Our current stock ownership policy requires our directors to hold five times the value of the common stock portion of their retainer within five years of their election or appointment to our Board. All of our directors comply with the stock ownership policy guidelines.

We permit non-employee directors to defer all or any part of their retainer under the Deferred Compensation Plan for Certain Directors. A director may elect to treat any amount deferred as if invested in any of the investment funds that are available under our tax-qualified Savings and Investment Plan or into share units. We pay the deferred amount as adjusted for earnings, losses, gains and dividends, as applicable, to the director after the director retires or otherwise ceases service on our Board, in a lump sum or up to ten year annual installments, as the director elects. Prior to October 1, 2006, under the Director Share Unit Plan, we credited stock units annually into each non-employee director s account. Directors may now elect to treat the value of existing units as if invested in any of the accounts available under the Savings and Investment Plan.

Table of Contents

Potential Payments and Benefits Upon Termination or a Change of Control

The following is a discussion of the nature and estimated value of payments and benefits that each of our NEOs would receive in the event of termination of the executive s employment or upon a change of control. We based the estimated value of the payments and benefits that we would provide on an assumption that the termination of employment or the change of control, or both, as applicable, occurred on September 30, 2014, the last business day of our fiscal year 2014. We can only determine the actual amounts of payments and benefits that an executive officer would receive upon his termination or upon a change of control at the actual time of such event.

Employment Agreements

We have entered into an employment agreement with each of our executive officers, including each of our NEOs.

Each employment agreement contains substantially similar terms except for individual salary amounts and benefits. In addition to setting forth the terms and conditions of each NEO s employment and the amounts payable upon the executive s termination of employment, the employment agreements contain terms that protect the company from certain business risks, including:

- an agreement by the executive officer to perform his/her assigned duties by devoting full time, due care, loyalty and best efforts to the duties and complying with all applicable laws and the requirements of our policies and procedures on employee conduct;
- a prohibition on the executive officer s competition with our company, both during employment and for a period of one year after employment;
- a prohibition on the executive officer s ownership of a 5% or greater interest in any of our competitors;
- a prohibition on the executive officer s ability to share confidential information and trade secrets, both during employment and for two years after employment; and
- a requirement that disputes related to the employment agreement be settled through arbitration instead of potentially costly litigation.

Summary of the Payments and Benefits Upon Each Termination Scenario

The following summarizes the types of payments and benefits to which each of our NEOs would have been entitled if he had terminated employment on September 30, 2014, under various scenarios. These payments and benefits are generally based on the terms of the employment agreements and our relevant compensation and benefit plans, such as our Omnibus Incentive Plan, Retirement Restoration Plan, nonqualified Executive Deferred Compensation Plan, Executive Survivor Benefits Plan, and the severance plan for our U.S. salaried employees.

For each termination scenario, we have not separately quantified any amounts that a NEO would receive under plans generally available to all management employees that do not discriminate in favor of the NEOs. These include distributions under our pension plan and 401(k) savings plan, disability benefits, vesting of stock option and restricted stock awards under equity plans, any salary or bonus awards due to the employee through the date of termination, pro-rated bonus awards relating to outstanding bonus awards and accrued vacation.

Voluntary Termination*:* A NEO may terminate his employment with us at any time. In general, upon the executive s voluntary termination:

- we are not obligated to provide any severance pay;
- all of the executive s annual and long-term bonus awards outstanding under our Omnibus Incentive Plan which the performance period has not ended will terminate (although the executive will receive a payment of the amounts he earned under his annual and long-term bonus awards for which the performance period has ended on or prior to his date of termination);
- the executive will forfeit all unvested stock options;
- the executive will forfeit all unvested restricted stock and restricted stock units and all unearned performance-based share units; and
- all benefits and perquisites we provide will cease.

The executive will be entitled to a distribution of his vested benefits under the Retirement Restoration Plan (see the Pension Benefits Table on page 50) and the nonqualified Executive Deferred Compensation Plan (see the Nonqualified Deferred Compensation Table on page 52).

Retirement and Early Retirement*:* None of our NEOs whom we employed on September 30, 2014 was eligible for early or full retirement on that date based on the applicable agreements with the company. For an estimate of the value of the pension benefit for a NEO upon retirement, please see the Pension Benefits Table on page 50. In addition to such pension benefit, upon the executive s full or early retirement:

Table of Contents

we are not obligated to pay any severance;

the executive will receive, at the end of the applicable performance period for each of his annual and long-term bonus awards outstanding under our Omnibus Incentive Plan, a pro-rata portion of the award amount he would have earned had he remained employed through the end of each such performance period, based on the company s actual performance;

with respect to stock options:

the vesting of any unvested stock options that we granted to the executive under our 2000 Stock Option Plan, our 2007 Stock Option Plan, and our Omnibus Incentive Plan that have been outstanding for at least one full calendar year after the year of grant will accelerate so that all of the options are exercisable in full (and the executive will forfeit all other options that have not been outstanding for at least one full calendar year after the date of grant);

the executive will retain his shares of restricted stock and restricted stock units that had not vested at the time of retirement, and they will continue to vest on the normal vesting schedule (however, the award agreement provides that the executive will not earn the award if he engages in conduct harmful to the best interests of our company after his retirement);

the executive will earn performance-based share units that he held at retirement based on actual performance at the end of the performance period, but the amount will be pro-rated based on the number of days of employment during the performance period (in the case of known retirements, the pro-ration of shares occurs at grant based on the number of days of employment during the performance period);

if the executive (other than Dr. Bolzenius, who is not eligible for participation in the Retirement Restoration Plan) is age 65 or older, his accounts under the Retirement Restoration Plan will vest in full; and

all benefits and perquisites we provide will cease.

The executive also will be entitled to a distribution of any vested benefits under the Retirement Restoration Plan (see the Pension Benefits Table on page 50) and the nonqualified Executive Deferred Compensation Plan (see Nonqualified Deferred Compensation Table on page 52).

Termination for Cause *:* We may terminate the employment of a NEO for cause under the terms of the employment agreements. A termination for cause generally means a termination for theft, dishonesty, fraudulent misconduct, violation of certain provisions of the employment agreement, gross dereliction of duty, grave misconduct injurious to our company, and serious violation of the law or our policies on employee conduct. A NEO will not receive any special payments or benefits if we terminate his employment for cause. On the executive s termination date, all of his outstanding stock options will immediately terminate, and we will cancel any pending option exercises. In addition, the executive will forfeit all unvested shares of restricted stock and restricted stock units and all unearned performance-based share units. The executive will be entitled to a distribution of his vested benefits under the Retirement Restoration Plan (see the Pension Benefits Table on page 50) and the nonqualified Executive Deferred Compensation Plan (see Nonqualified Deferred Compensation Table on page 52).

Termination without Cause *:* If we terminate the employment of a NEO and the termination is not for cause, then:

- the executive officer will receive a cash severance benefit in an amount equal to the greater of one year of the executive s base salary as of the termination date or twice the amount payable under our severance plan for U.S. salaried employees. The severance benefit under the salaried severance plan depends upon the employee s years of service with us, with severance starting at two weeks of base salary for an employee who has only one year of service and increasing to a maximum of 52 weeks of base salary for an employee who has 30 or more years of service;

- all of the executive s annual and long-term bonus awards outstanding under our Omnibus Incentive Plan for which the performance period has not ended will terminate (although the executive will receive a payment of the amounts he earned under his annual and long-term bonus awards for which the performance period has ended on or prior to his date of termination);

- the executive will forfeit all unvested stock options;

- the executive will forfeit all unvested restricted stock or restricted stock units and all unearned performance-based share units; and

- all benefits and perquisites we provide will cease.

The executive also will be entitled to a distribution of any vested benefits under the Retirement Restoration Plan (see the Pension Benefits Table on page 50) and the nonqualified Executive Deferred Compensation Plan (see Nonqualified Deferred Compensation Table on page 52).

Table of Contents

The following is an estimate of the severance that each NEO would receive assuming the termination without cause occurred on September 30, 2014:

	Alex A. Molinaroli	R. Bruce McDonald	Beda Bolzenius	William C. Jackson	Brian J. Kesseler	C. David Myers	Brian J. Stief
Severance	$ 2,800,000	$ 881,000	$ 855,000	$ 769,000	$ 746,654	$ 945,000	$ 536,000

Termination due to Disability*:* If a total and permanent disability causes a NEO s termination, then:

- we are not obligated to pay severance. Rather, the executive may be entitled to disability pay under our short- and long-term disability plans for U.S. salaried employees;
- the executive will receive, at the end of the applicable performance period for each of his annual and long-term bonus awards outstanding under our Omnibus Incentive Plan, a pro-rata portion of the award amount he would have earned had he remained employed through the end of each such performance period, based on the company s actual performance;
- the vesting of the executive s stock options will accelerate so that all of the options are exercisable in full;
- all of the executive s unvested shares of restricted stock and restricted stock units will vest;
- the executive will earn performance-based share units he held at the time of termination due to disability based on actual performance at the end of the performance period, but the amount will be pro-rated based on the number of days of employment during the performance period;
- the executive will immediately vest in his accounts under the Retirement Restoration Plan;
- if the executive is younger than age 65, then the executive will continue to be covered under the Executive Survivor Benefits Plan, the benefits of which we describe below; and
- all benefits and perquisites we provide will cease.

In the case of termination as a result of total and permanent disability, the executive also will be entitled to distribution of any vested benefits under the Retirement Restoration Plan (see the Pension Benefits table on page 50) and the nonqualified Executive Deferred Compensation Plan (see the Nonqualified Deferred Compensation table on page 52).

The following is an estimate of the Retirement Restoration Plan benefit that arises from vesting that accelerates due to disability that each NEO would receive assuming the disability termination occurred on September 30, 2014:

	Alex A. Molinaroli	R. Bruce McDonald	Beda Bolzenius	William C. Jackson	Brian J. Kesseler	C. David Myers	Brian J. Stief
Retirement Restoration Plan	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

Termination due to Death*:* If a NEO dies while he is our employee, then:

the executive is eligible for benefits under our Executive Survivor Benefits Plan if our Board elected him or her as an officer prior to September 15, 2009. Under the terms of the plan that were in effect at September 30, 2014, the beneficiaries of a NEO would receive a lump sum death benefit in an amount equal to three times the executive s final base salary if the executive dies prior to age 55, or two times the executive s base salary if the executive dies on or after age 55, plus an additional gross-up amount. As of September 30, 2014, the applicable multiples for the NEOs are: Mr. Molinaroli three times, Mr. McDonald three times, Mr. Myers three times, and Dr. Bolzenius three times. Mr. Jackson and Mr. Stief were hired, and Mr. Kesseler became an officer, after September 15, 2009 and therefore do not participate in the Executive Survivor Benefits Plan. In addition, the beneficiaries of the executive officer would receive a continuation of the executive s base salary for a period of six months after the executive officer s death. During fiscal year 2009, the Executive Survivor Benefits Plan was frozen to limit participation to current elected officers. Officers elected after September 15, 2009, participate in our regular group life insurance coverage.

the executive s beneficiaries will receive, at the end of the applicable performance period for each of the executive s annual and long-term bonus awards outstanding under our Omnibus Incentive Plan, a pro-rata portion of the award amount the executive would have earned had he remained employed through the end of each such performance period, based on the company s actual performance;

the vesting of the executive s stock options will accelerate such that the options become immediately exercisable to the extent they would have vested during the one-year period after the date of death;

all of the executive s unvested shares of restricted stock and restricted stock units will vest;

the executive will earn performance-based share units that he held at prior to death based on actual performance at the end of the performance period, but will be pro-rated based on the number of days of employment during the performance period; and

Table of Contents

all benefits and perquisites we provide will cease.

In the case of termination as a result of death, the executive or the executive s beneficiaries also will be entitled to a distribution of the executive s vested benefits under the Retirement Restoration Plan (see the Pension Benefits Table on page 50) and the nonqualified Executive Deferred Compensation Plan (see the Nonqualified Deferred Compensation Table on page 52).

The following is an estimate of the Executive Survivor Benefits Plan value that each NEO would receive assuming the death occurred on September 30, 2014:

	Alex A. Molinaroli	R. Bruce McDonald	Beda Bolzenius	William C. Jackson	Brian J. Kesseler	C. David Myers	Brian J. Stief
Executive Survivor Benefits Plan[1]	$ 8,677,000	$ 5,460,000	$ 3,473,000	$ 0	$ 0	$ 5,857,000	$ 0

(1) In determining the amount of the gross-up to include in the table above, we made the following material assumptions: a tax rate of 47.35% for Wisconsin residents and a tax rate of 43.85% for Michigan residents. During fiscal year 2009, the Committee froze this Plan to limit participation to current elected officers. No new participants are allowed.

Change of Control Agreements

We have entered into change of control agreements with each of our executive officers, including each of our NEOs. Upon a change of control of our company, the change of control agreements supersede the employment agreements. The change of control agreements generally entitle each NEO to continued employment with our company or our successor for two years following the change of control, with a base salary, bonus and other benefits at least equal to the base salary, bonus and benefits we paid or provided prior to the change of control. The change of control agreements require our executive officers to comply with confidential information covenant provisions during employment and for two years following termination of employment. The change of control agreements also provide for a severance payment and continued welfare and medical benefits upon termination of the executive s employment under certain circumstances during the two year employment period that begins on the date of the change of control, as we explain in more detail under *Termination Upon or Following a Change of Control* below. The agreement defines a change of control as:

the acquisition by a person or group of 35% or more of our common stock;

a change in a majority of our Board without the endorsement of the new Board members by the existing Board members;

a reorganization, merger, share exchange or other corporate reorganization or a sale of all or substantially all of our assets, except if it would result in continuity of our shareholders of at least 50%, if no person owns 35% or more of the outstanding shares of the entity resulting from the transaction, and if at least a majority of our Board remains; or

approval by our shareholders of our liquidation or dissolution.

Summary of the Payments and Benefits Upon a Change of Control

The following summarizes the types of payments and benefits to which each of our NEOs would have been entitled if a change of control had occurred or if both a change of control and a termination of employment had occurred, on September 30, 2014. These payments and benefits are generally based on the terms of our change of control agreements, and our relevant compensation and benefit plans, such as our Omnibus Incentive Plan, Retirement Restoration Plan, and nonqualified Executive Deferred Compensation Plan that were in place on September 30, 2014.

For each change of control scenario, we have not separately quantified any amounts that a NEO would receive under plans generally available to all management employees that do not discriminate in favor of the NEOs (such as vesting of stock option and restricted stock awards under equity plans and payments of pro-rated bonus awards relating to outstanding bonus awards).

Change of Control: In the event of a change of control of our company, which each relevant compensation and bonus plan generally defines in the same manner as under the change of control employment agreement we discuss above, on September 30, 2014, the following would have occurred as of the time of the change of control whether or not the NEO s employment terminated:

the executive officer would have received a pro-rata portion of the maximum amount payable under each annual and long-term bonus award outstanding under our Omnibus Incentive Plan;

vesting of all stock options that the executive officer then holds would have accelerated so that the options will be exercisable in full;

all of the executive officer s unvested shares of restricted stock and restricted stock units would have vested; and

the executive s performance-based share units will be deemed earned at the target level, but will be pro-rated based on the number of days elapsed in the performance period prior to the change of control; and

Table of Contents

all amounts that the executive officer accrued under the nonqualified Executive Deferred Compensation Plan and Retirement Restoration Plan would have vested immediately and we would have paid these amounts in full in a lump sum.

The payments and the value of benefits under the change of control agreements or under any of our other plans and programs in connection with a change of control may exceed limitations that Section 280G of the Internal Revenue Code establishes, which would cause the executive officer to pay additional federal taxes. The change of control agreement previously provided that we would pay the executive officer an additional amount, called a gross-up payment, necessary to offset any taxes of this type that the Internal Revenue Service imposes on the executive officer and any additional taxes on this payment. During fiscal year 2010, the Committee eliminated this provision for any new executive officers elected after July 27, 2010. Effective September 25, 2012, the Committee eliminated this provision for all agreements.

Under our Omnibus Incentive Plan, a double trigger is required for accelerated vesting of equity awards in a change of control in which the awards are assumed or replaced, meaning that, in addition to the change of control occurring, the employee s employment must be terminated by us without cause or by the employee with good reason (if the employee has an agreement providing for good reason termination) for his or her unvested equity to become vested on an accelerated basis.

Termination Upon or Following a Change of Control*:* As we discuss above, we have change of control agreements with each of our NEOs. This agreement provides for a two year employment period that begins on the date of the change of control.

Under the agreement,

if we terminate the executive officer s employment (or our successor terminates the executive officer s employment) other than for cause;

if the executive officer terminates his employment for good reason; or

if the executive officer s employment ceases as a result of the executive officer s death or disability;

in each case within the two year period then the executive officer or the executive officer s beneficiary will receive:

a lump sum severance payment equal to three times the executive officer s annual cash compensation, which includes the executive officer s annual base salary and the greater of:

- the average of the executive officer s annualized annual and long-term cash bonuses for the three fiscal years preceding the change of control, or
- the sum of the annual and long-term cash bonuses for the most recently completed fiscal year;

payment of a pro-rata portion of the greater of the following:

- the average of the executive officer s annualized annual and long-term cash bonuses for the three fiscal years preceding the change of control, or

- the sum of the annual and long-term cash bonuses for the most recently completed fiscal year;

however, if (and only if) the executive officer s termination occurs on the change of control date, then we will reduce this amount by the amount we paid under the Omnibus Incentive Plan as a result of the change of control;

a cash payment equal to the lump sum value of the additional benefits the executive officer would have accrued for the remainder of the employment period under our pension plan and our Retirement Restoration Plan, assuming the executive officer is fully vested in such benefits at the time of termination; and

continued medical and welfare benefits for the remainder of the employment period.

As we describe under Change of Control, the payments and the value of benefits we provide under the change of control agreements or under any of our other plans or programs in connection with the change of control may exceed limitations that Section 280G of the Internal Revenue Code establishes.

The following is an estimate of the severance and continued medical and welfare benefit value that each NEO would receive assuming the change of control and termination occurred on September 30, 2014:

	Alex A. Molinaroli	R. Bruce McDonald	Beda Bolzenius	William C. Jackson	Brian J. Kesseler	C. David Myers	Brian J. Stief
Severance[1]	$ 21,432,000	$ 6,082,000	$ 7,192,000	$ 9,219,000	$ 6,960,000	$ 7,958,000	$ 5,022,000
Continued Medical & Welfare Benefits[2]	$ 1,258,000	$ 400,000	$ 715,000	$ 31,000	$ 293,000	$ 26,000	$ 7,000

(1) The amount reported reflects the amounts actually earned under the short- and long-term bonus awards for the performance period ending in fiscal year 2014.

(2) The amount reflects our estimate of the cost to us of providing medical and welfare benefits for the employment period, including medical, prescription, dental, disability and life, accidental death and travel and accident insurance. The amount also includes the lump sum value of the additional benefits the NEO would have accrued during the employment period under our pension plan and our Retirement Restoration Plan.

Table of Contents

If the executive officer terminates his employment during the employment period for other than good reason then the executive officer will receive only a payment of a pro-rata portion of the greater of the average of the executive officer s annualized annual and long-term cash bonuses for the three fiscal years preceding the change of control, or the sum of the annual and long-term cash bonuses for the most recently completed fiscal year.

If we terminate the executive officer s employment for cause, then no additional pay or benefits are due.

We would have cause to terminate the executive officer s employment under the change of control agreement if the executive repeatedly and deliberately fails to perform the duties of his position and does not correct such failure after notice, or if the executive officer is convicted of a felony involving moral misconduct.

The executive officer would have good reason to terminate employment under the change of control agreement if:

- we assign the executive officer duties inconsistent with his position or we take other actions to reduce the executive officer s authority or responsibilities;
- we breach any provision of the change of control agreement relating to salary, bonus and benefits payable following the change of control;
- we require the executive officer to relocate;
- we terminate the executive officer s employment other than as the agreement permits;
- we fail to require the successor in the change of control transaction to expressly assume the agreement; or
- we request that the executive perform an illegal or wrongful act in violation of our code of conduct.

Table of Contents

JOHNSON CONTROLS SHARE OWNERSHIP

Security Ownership of Management

The following table lists our common stock ownership as of November 14, 2014 (except as otherwise noted) for the persons or groups specified. Ownership includes direct and indirect (beneficial) ownership as defined by SEC rules. To our knowledge, each person, along with his or her spouse, has sole voting and investment power over the shares unless otherwise noted. None of these persons beneficially own more than 1% of our outstanding common stock.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Options Exercisable Within 60 Days(2)	Cash-Settled Stock Units(3)
Molinaroli, Alex A.	642,604	541,450	110,381
McDonald, R. Bruce	1,322,392	1,194,400	338,697
Stief, Brian J.	87,750	80,250	80,927
Bolzenius, Beda	912,636	777,400	
Jackson, William C.	127,988	112,900	7,994
Kesseler, Brian J.	172,297	111,850	
Myers, C. David[4]	967,856	770,950	48,291
Abney, David P.	6,775		22,162
Archer, Dennis W.	2,400		58,681
Black, Natalie A.	15,990		74,837
Bushman, Julie L.	6,635		
Clariond Reyes-Retana, Eugenio	370,743		64,882
Conner, Raymond L.	2,515		
Goodman, Richard	4,507		26,869
Joerres, Jeffrey A.	15,961		88,090
Lacy, William H.	49,544		100,111
Vergnano, Mark P.	10,715		
All Directors and Executive Officers as a group (25 persons)	**7,073,698**	**5,633,000**	**1,117,513**
Total percent of common stock	**1.06%**		

(1) Includes all shares over which the person holds or shares voting and/or investment power, and also includes the amount shown, if any, for such person in the Options Exercisable Within 60 Days column. Also includes unvested restricted stock and unvested stock-settled restricted stock units.

(2) Reflects options to purchase common stock exercisable within 60 days. These amounts are included in the amount in the Amount and Nature of Beneficial Ownership column.

(3) Reflects common stock equivalents under our deferred and equity based compensation plans. Each stock unit is intended to be the economic equivalent of one share of Johnson Controls, Inc. common stock. Units are settled in

the form of cash and are not settled in the form of common stock. These amounts are not included in the amounts in the Amount and Nature of Beneficial Ownership column.

(4) Mr. Myers ownership balances are as of September 30, 2014, which is the effective date of his resignation from the Company.

No Director or Executive Officer has pledged shares of Johnson Controls, Inc. common stock pursuant to any loan or other arrangement, and our Insider Trading Policy prohibits pledging by Directors and Executive Officers.

Table of Contents

Security Ownership of Certain Beneficial Owners

The following table sets forth information concerning beneficial ownership of our common stock by persons known to us to own more than 5% of our common stock as of November 14, 2014.

Name and Address of Beneficial Owner	Common Stock Beneficially Owned	Percent of Class
Capital Research Global Investors (a division of Capital Research and Management Company)[1] 333 South Hope Street Los Angeles, CA 90071	52,929,119	7.7%
BlackRock, Inc.[2] 40 East 52nd Street New York, NY 10022	41,463,618	6.1%

1 Solely based on information in a Schedule 13G dated February 6, 2014, and filed with the SEC by Capital Research Global Investors, which reported that, as of December 31, 2013, Capital Research Global Investors is the beneficial owner with sole voting power and sole dispositive power as to 52,929,119 shares.

2 Solely based on information in a Schedule 13G/A dated February 6, 2014, and filed with the SEC by Blackrock Inc., which reported that, as of December 31, 2013, Blackrock Inc. is the beneficial owner with sole voting power as to 34,254,250 shares, shared voting power as to 33,106 shares, sole dispositive power as to 41,430,512 shares and shared dispositive power as to 33,106 shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based on a review of reports filed by our directors, executive officers and beneficial holders of 10% or more of our shares, and upon representations from those persons, all reports required to be filed during fiscal year 2014 with the SEC under Section 16(a) of the Securities Exchange Act of 1934 were timely made, with the exception of (i) a report filed by C. David Myers which was inadvertently filed after the filing deadline to report the disposition of a total of 75 shares of Common Stock on February 14, 2013 from a discretionary account in Mr. Myers wife s name over which neither Mr. or Mrs. Myers had control; (ii) a report filed by John P. Murphy which was inadvertently filed after the filing deadline to report the acquisition of a total of 896.467 phantom stock units on December 16, 2013 due to an administrative error by Johnson Controls; and (iii) a report filed by Simon Davis which was inadvertently filed after the filing deadline to report the disposition of 214.163 share units from Mr. Davis s 401(k) on June 17, 2014. These

reports were filed as soon as practicable after the late filings were discovered.

OTHER MATTERS AT THE ANNUAL MEETING

The Board knows of no other matters which will be presented at the Annual Meeting, but if other matters do properly come before the meeting, it is intended that the persons named in the proxy will vote according to their best judgment.

By Order of the Board of Directors,

Brian J. Cadwallader

Vice President, Secretary and General Counsel

Dated: December 8, 2014

Table of Contents

Shareowner Services[SM]

P.O. Box 64945

St. Paul, MN 55164-0945

¨ *Check this box if address change, and indicate correction below:*

To vote by Internet or telephone, see reverse side of this proxy card.

Proxy

Johnson Controls, Inc.

2015 Annual Meeting of Shareholders

Wednesday, January 28, 2015, 1:00 P.M. Pacific Time

Four Seasons Los Angeles

300 South Doheny Drive

Los Angeles, California 90048

À *Please fold here Do not separate* À

The Board of Directors recommends a vote FOR items 1 through 3.

				FOR ALL	**WITHHOLD FROM ALL**
1. Elect Directors	01 Natalie A. Black	02 Raymond L. Conner			
	03 Richard Goodman	04 William H. Lacy			
	05 Alex A. Molinaroli	06 Mark P. Vergnano		¨	¨

EXCEPTIONS

To withhold authority to vote for any individual nominee(s), write the number code(s) of the nominee(s) in the exceptions box.

2. Ratify the appointment of PricewaterhouseCoopers LLP as independent auditors for 2015.	¨ **FOR**	¨ **AGAINST**	¨ **ABSTAIN**
3. Approve on an advisory basis named executive officer compensation.	¨ **FOR**	¨ **AGAINST**	¨ **ABSTAIN**

If no direction is indicated on your returned card, this proxy will be voted FOR all nominees listed in item 1, FOR item 2, FOR item 3 and voted in the discretion of the proxies upon other such matters which may properly come before the meeting or any adjournments thereof.

[Important information contained on reverse side; please read.]

Dated:

Please sign in box. Please sign name exactly as it appears on this card. When signing as attorney, executor, administrator, trustee, or guardian, give full title. For joint accounts, each owner must sign.

Important notice regarding the availability of proxy materials for the Annual Meeting of Shareholders to be held on January 28, 2015: The Notice and Proxy Statement and Annual Report on Form 10-K are available at www.johnsoncontrols.com/proxy.

NOTE: To attend the annual meeting, you must request an admission ticket in advance by following the instructions in the Proxy Statement.

You will not be admitted to the annual meeting without presenting your admission ticket and photo identification.

Table of Contents

JOHNSON CONTROLS, INC.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

Annual Meeting January 28, 2015

The signatory hereby appoints A.A. Molinaroli and B. J. Cadwallader, and each of them, proxies with full power of substitution to represent and vote all shares of common stock of Johnson Controls the signatory is entitled to vote at the annual shareholders meeting of Johnson Controls, Inc., to be held on January 28, 2015, and at any adjournments thereof, hereby revoking any proxy heretofore given by the signatory for such meeting.

This proxy when properly executed will be voted in the manner directed therein by the signatory. Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and mailed your Proxy Form. This proxy allows you to vote all non-broker account shares of Johnson Controls you hold as of November 20, 2014. **If you submit your proxy by telephone or Internet, there is no need for you to mail back this Proxy Form.**

Johnson Controls and other plan participants: If you are a participant in the Johnson Controls Savings and Investment (401k) Plan, the Trim Masters, Inc. Retirement Plan, the Johnson Controls Automotive Experience Production Employee Savings and Investment (401k) Plan, the Johnson Controls Building Efficiency Retirement Savings Plan/Account Level Employees, the Bridgewater LLC Profit Sharing Plan, the Johnson Controls Federal Systems Retirement Savings (401k) Plan, the Avanzar Interior, LLC Savings and Investment (401k) Plan, or the JCIM US, LLC Savings and Investment (401k) Plan, this proxy card also entitles you to direct Fidelity Management Trust Company how to vote Johnson Controls shares credited to your account.

The shares credited to your account in any above-referenced plan will be voted as directed. If no voting direction is indicated on your returned card, if the card is not signed, or if the card is not received by January 22, 2015, the plan shares credited to your account will be voted in the same proportion as directions received from other participants.

If your shares of Johnson Controls, Inc. s Common Stock are registered in your name, and no voting direction is indicated on your returned card, the shares you hold will be voted FOR all nominees listed in item 1, FOR item 2, FOR item 3, and voted in the discretion of the proxies upon other such matters which may properly come before the meeting or any adjournments thereof.

If you own shares by other means than those stated above, you will receive separate proxy materials which you should complete and return as indicated in those materials. To understand the effect of not voting your shares, please refer to the Questions and Answers section of the Proxy Statement.

À *Please fold here Do not separate* À

Proxy

toll-free in U.S. and Canada: **1-866-883-3382**	**www.proxypush.com/jci**	
Use any touch-tone telephone to vote your proxy. Have your Proxy Form and the last four digits of your Social Security Number or Taxpayer Identification Number in hand when you call.	Use the Internet to vote your proxy. Have your Proxy Form and the last four digits of your Social Security Number or Taxpayer Identification Number in hand when you access the website to create your electronic ballot.	Mark, sign and date your Proxy Form and return it in the postage-paid envelope we have provided.