ZIOPHARM ONCOLOGY INC
Form 10-K/A
June 28, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A

Amendment No. 1

x **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

OR

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

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)	(IRS Employer Identification No.)

One First Avenue, Parris Building 34, Navy Yard Plaza

Boston, Massachusetts	02129
(Address of Principal Executive Offices)	(Zip Code)

(617) 259-1970

(Issuer s Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Common Stock (par value $0.001 per share)

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

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

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x No ¨

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

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

Large Accelerated Filer ¨	Accelerated Filer x

Non-Accelerated Filer ¨ Smaller Reporting Company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the registrant s common stock held by non-affiliates was $396,154,064 as of June 30, 2012 (the last business day of the registrant s most recently completed second fiscal quarter), based on a total of 66,580,515 shares of common stock held by non-affiliates and on a closing price of $5.95 as reported on the NASDAQ Capital Market on June 30, 2012.

As of February 22, 2013, there were 83,703,934 shares of the registrant s common stock, $.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive proxy statement for our 2013 annual meeting of stockholders, which is to be filed within 120 days after the end of the fiscal year ended December 31, 2012, are incorporated by reference into Part III of this Form 10-K, to the extent described in Part III.

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EXPLANATORY NOTE REGARDING THIS AMENDMENT

We are filing this Amendment No. 1 to our Annual Report on Form 10-K for our year ended December 31, 2012 filed with the Securities and Exchange Commission on March 18, 2013, which we refer to as the Original Report , to refile Item 8. Financial Statements and Supplementary Data in its entirety to include the report of Caturano and Company, P.C., the Company s independent registered accounting firm for the period from September 9, 2003 (date of inception) through December 31, 2009 and the related consent of such independent registered accounting firm to the inclusion of such report in this Form 10-K/A. In addition, this Form 10/K-A includes the signature of our current principal financial officer on this Amendment No. 1 and on the Section 302 and Section 906 Certifications of the Principal Financial Officer.

No other changes have been made to the Original Report. This Form 10-K/A speaks as of the original filing date of the Original Report, does not reflect events that may have occurred subsequent to the original filing date, and does not modify or update in any way any other disclosures made in the Original Report.

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Item 8. Financial Statements and Supplementary Data

The information required by this Item 8 is contained on pages F-1 through F-46 of this annual report on Form 10-K/A and is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ZIOPHARM ONCOLOGY, INC.

Date: June 28, 2013

By: /s/ Jonathan Lewis
Jonathan Lewis
Chief Executive Officer
(Principal Executive Officer)

Date: June 28, 2013

By: /s/ Kevin G. Lafond
Kevin G. Lafond
Vice President Finance,

Chief Accounting Officer and Treasurer
(Principal Financial and Accounting Officer)

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ZIOPHARM Oncology, Inc. *(a development stage enterprise)*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

ZIOPHARM Oncology, Inc.

Boston, Massachusetts

We have audited the accompanying balance sheets of ZIOPHARM Oncology, Inc. (a development stage company) as of December 31, 2012 and 2011, and the related statements of operations, changes in preferred stock and stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2012 and for the period from September 9, 2003 (date of inception) through December 31, 2012. We also have audited ZIOPHARM Oncology, Inc. s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ZIOPHARM Oncology, Inc. s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management report on internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company s internal control over financial reporting based on our audits. The financial statements for the period from September 9, 2003 (date of inception) to December 31, 2009 were audited by other auditors and our opinion, insofar as it relates to cumulative amounts included for such periods, is based solely on the reports of such other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of ZIOPHARM Oncology, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the

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period ended December 31, 2012 and from September 9, 2003 (date of inception) through December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, ZIOPHARM Oncology, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the annual financial statements, the Company has incurred recurring losses from operations which raises substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ McGladrey LLP

Boston, Massachusetts

March 18, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

ZIOPHARM Oncology, Inc.

Boston, Massachusetts

We have audited the statements of operations, changes in preferred stock and stockholders equity (deficit) and cash flows of ZIOPHARM Oncology, Inc. (a development stage company) for the period from September 9, 2003 (date of inception) through December 31, 2009 (not separately presented herein). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, audits of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations of ZIOPHARM Oncology, Inc. and its cash flows from September 9, 2003 (date of inception) through December 31, 2009 (not separately presented herein) in conformity with accounting principles generally accepted in the United States of America.

/s/ Caturano and Company, P.C.

Boston, Massachusetts

March 17, 2010

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ZIOPHARM Oncology, Inc. ***(a development stage enterprise)***

BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 73,306	$ 104,713
Receivables	58	79
Prepaid expenses and other current assets	6,912	1,313
Total current assets	80,276	106,105
Property and equipment, net	1,994	1,141
Deposits	133	91
Other non current assets	1,001	771
Total assets	$ 83,404	$ 108,108
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,509	$ 1,727
Accrued expenses	16,516	10,821
Deferred revenue current portion	800	800
Deferred rent current portion	39	15
Total current liabilities	18,864	13,363
Deferred revenue	2,733	3,533
Deferred rent	400	180
Warrant liabilities	12,962	19,425
Total liabilities	34,959	36,501
Commitments and contingencies (note 8)		
Stockholders equity:		
Common stock, $0.001 par value; 250,000,000 shares authorized; 83,236,840 and 69,206,044 shares issued and outstanding at December 31, 2012 and 2011, respectively	83	69
Preferred stock, $0.001 par value; 30,000,000 shares authorized and no shares issued and outstanding		
Additional paid-in capital common stock	325,177	246,519
Additional paid-in capital warrants issued	6,909	12,611
Deficit accumulated during the development stage	(283,724)	(187,592)
Total stockholders equity	48,445	71,607
Total liabilities and stockholders equity	$ 83,404	$ 108,108

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

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ZIOPHARM Oncology, Inc. ***(a development stage enterprise)***

STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	For the Year Ended December 31,			Period from September 9, 2003 (date of inception) through December 31, 2012
	2012	2011	2010	
Revenue	$ 800	$ 667	$	$ 1,467
Operating expenses:				
Research and development	83,446	57,083	12,910	212,345
General and administrative	19,523	14,984	11,636	88,318
Total operating expenses	102,969	72,067	24,546	300,663
Loss from operations	(102,169)	(71,400)	(24,546)	(299,196)
Other income, net	(13)	39	765	4,701
Change in fair value of warrants	6,050	7,583	(8,889)	10,771
Net loss	$ (96,132)	$ (63,778)	$ (32,670)	$ (283,724)
Basic and diluted net loss per share	$ (1.22)	$ (0.97)	$ (0.71)	
Weighted average common shares outstanding used to compute basic and diluted net loss per share	78,546,112	66,003,789	46,003,996	

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

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ZIOPHARM Oncology, Inc. ***(a development stage enterprise)***

STATEMENTS OF CHANGES IN PREFERRED STOCK

AND STOCKHOLDERS EQUITY (DEFICIT)

For the Period September 9, 2003 (date of inception) to December 31, 2012

(in thousands, except share and per share data)

	Preferred Stock and Warrants			Stockholder s Equity (Deficit)					
	Series A Preferred Stock Shares	Amount	Warrants to Purchase Series A Preferred Stock Warrants	Common Stock Shares	Amount	Additional Paid-in Capital Common Stock	Additional Paid-in Capital Warrants	Deficit Accumulated During the Development Stage	Total Stockholders Equity/ (Deficit)
Stockholders contribution, September 9, 2003	$	$		250,487	$	$ 500	$	$	$ 500
Net loss								(160)	(160)
Balance at December 31, 2003				250,487		500		(160)	340
Issuance of common stock				2,254,389	2	4,498			4,500
Issuance of common stock for services				256,749	1	438			439
Fair value of options/warrants issued for nonemployee services						13	251		264
Net loss								(5,687)	(5,687)
Balance at December 31, 2004				2,761,625	3	5,449	251	(5,847)	(144)

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

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ZIOPHARM Oncology, Inc. ***(a development stage enterprise)***

STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED STOCK

AND STOCKHOLDERS EQUITY (DEFICIT) (Cont.)

For the Period September 9, 2003 (date of inception) to December 31, 2012

(in thousands, except share and per share data)

	Convertible Preferred Stock and Warrants			Stockholders Equity (Deficit)					
	Series A Convertible Preferred Stock		Warrants to Purchase Series A Convertible Preferred Stock Warrants	Common Stock		Additional Paid-in Capital Common Stock	Additional Paid-in Capital Warrants	Deficit Accumulated During the Development Stage	Total Stockholders Equity/ (Deficit)
	Shares	Amount		Shares	Amount				
Issuance of Series A convertible preferred stock (net of expenses of $1,340 and warrant cost of $1,683)	4,197,946	15,077							15,077
Fair value of warrants to purchase Series A convertible preferred stock			1,683						1,683
Issuance of common stock to EasyWeb Stockholders				189,922					
Conversion of Series A convertible preferred stock @ $0.001 into $0.001 common stock on September 13, 2005 at an exchange ratio of .500974	(4,197,946)	(15,077)	(1,683)	4,197,823	4	15,073	1,683		
Issuance of common stock for options				98,622		4			4
Fair value of options/warrants issued for nonemployee services						54	45		99
Net loss								(9,517)	(9,517)
Balance at December 31, 2005				7,247,992	7	20,580	1,979	(15,364)	7,202

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

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ZIOPHARM Oncology, Inc. ***(a development stage enterprise)***

STATEMENTS OF CHANGES IN PREFERRED STOCK

AND STOCKHOLDERS EQUITY (DEFICIT) (Cont.)

For the Period September 9, 2003 (date of inception) to December 31, 2012

(in thousands, except share and per share data)

	Preferred Stock and Warrants			Stockholders Equity (Deficit)				
	Series A Preferred Stock Shares	Amount	Warrants to Purchase Series A Preferred Stock Warrants	Common Stock Shares	Amount	Additional Paid-in Capital Common Stock	Additional Paid-in Capital Warrants	Deficit Accumulated During the Development Stage	Total Stockholders Equity/ (Deficit)
Issuance of common stock in private placement, net of expenses $2,719				7,991,256	8	21,180			21,188
Issuance of warrants							13,092		13,092
Issuance of common stock for services rendered				25,000		106			106
Stock-based compensation for employees						2,777			2,777
Issuance of common stock due to exercise of stock options				5,845		25			25
Issuance of common stock due to exercise of stock warrants				2,806					
Net loss								(17,857)	(17,857)
Balance at December 31, 2006				15,272,899	15	44,668	15,071	(33,221)	26,533
Issuance of common stock in private placement, net of expenses $1,909				5,910,049	6	23,532			23,538
Issuance of warrants							5,433		5,433
Stock-based compensation for employees						1,318			1,318
Stock-based compensation for non-employee						120			120
Issuance of common stock for stock options				46,016		36			36
Issuance of restricted stock				70,000					
Net Loss								(26,608)	(26,608)
Balance at December 31, 2007				21,298,964	21	69,674	20,504	(59,829)	30,370

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

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ZIOPHARM Oncology, Inc. ***(a development stage enterprise)***

STATEMENTS OF CHANGES IN PREFERRED STOCK

AND STOCKHOLDERS EQUITY (DEFICIT) (Cont.)

For the Period September 9, 2003 (date of inception) to December 31, 2012

(in thousands, except share and per share data)

	Preferred Stock and Warrants			Stockholders Equity (Deficit)				
	Series A Preferred Stock Shares	Amount	Warrants to Purchase Series A Preferred Stock Warrants	Common Stock Shares	Amount	Additional Paid-in Capital Common Stock	Additional Paid-in Capital Warrants	Deficit Accumulated During the Development Stage	Total Stockholders Equity/ (Deficit)
Stock-based compensation						1,600			1,600
Issuance of restricted common stock				586,500	1	(1)			
Forfeiture of unvested restricted common stock				(25,000)					
Other						1		(1)	
Net loss								(25,231)	(25,231)
Balance at December 31, 2008				21,860,464	22	71,274	20,504	(85,061)	6,739
Cumulative effect of a change in accounting principle - January 1, 2009 reclassification of warrants to warrant liabilities							(1,638)	1,566	(72)
Stock-based compensation						2,181			2,181
Forfeiture of unvested restricted common stock				(69,500)					
Issuance of common stock and warrants in a private placement, net of expenses $465				2,772,337	3	385	4,207		4,595
Issuance of common stock and warrants in a registered direct offering, net of commission and expenses of $2,802 and warrants of $22,860				15,484,000	15	22,323			22,338
Exercise of warrants to purchase common stock				136,986		279			279
Exercise of employee stock options				102,564		73			73
Issuance of restricted common stock				1,400,500	2	(2)			
Repurchase of shares of restricted common stock				(103,823)		(380)			(380)
Net loss								(7,649)	(7,649)
Balance at December 31, 2009				41,583,528	42	96,133	23,073	(91,144)	28,104

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

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ZIOPHARM Oncology, Inc. ***(a development stage enterprise)***

STATEMENTS OF CHANGES IN PREFERRED STOCK

AND STOCKHOLDERS EQUITY (DEFICIT) (Cont.)

For the Period September 9, 2003 (date of inception) to December 31, 2012

(in thousands, except share and per share data)

	Preferred Stock and Warrants			Stockholders Equity (Deficit)				
	Series A Preferred Stock Shares	Amount	Warrants to Purchase Series A Preferred Stock Warrants	Common Stock Shares	Amount	Additional Paid-in Capital Common Stock	Additional Paid-in Capital Warrants	Deficit Accumulated During the Development Stage	Total Stockholders Equity/ (Deficit)
Stock-based compensation						3,637			3,637
Issuance of common stock in a registered direct offering, net of commission and expenses of $2,203				7,000,000	7	32,797			32,804
Exercise of warrants to purchase common stock				39,225		360	(239)		121
Exercise of employee stock options				196,167		225			225
Issuance of restricted common stock				115,000					
Repurchase of shares of restricted common stock				(416,108)	(1)	(1,667)			(1,668)
Cancelled restricted stock				(51,250)					
Expired warrants						45	(45)		
Net loss								(32,670)	(32,670)
Balance at December 31, 2010				48,466,562	48	131,530	22,789	(123,814)	30,553
Stock-based compensation						2,759			2,759
Issuance of common stock in a securities offering, net of commission and expenses of $245				11,040,000	11	59,795			59,806
Issuance of common stock in a collaboration agreement net of commission and expenses of $86				6,063,161	6	28,852			28,858
Exercise of warrants to purchase common stock				2,377,571	2	21,766	(9,067)		12,701
Exercise of employee stock options				479,666	1	980			981
Exercise of non-employee stock options				6,904					
Issuance of restricted common stock				848,406	1	(1)			
Repurchase of shares of restricted common stock				(59,559)		(273)			(273)
Cancelled restricted stock				(16,667)					
Expired warrants						1,111	(1,111)		
Net loss								(63,778)	(63,778)
Balance at December 31, 2011				69,206,044	69	246,519	12,611	(187,592)	71,607

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

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ZIOPHARM Oncology, Inc. ***(a development stage enterprise)***

STATEMENTS OF CHANGES IN PREFERRED STOCK

AND STOCKHOLDERS EQUITY (DEFICIT) (Cont.)

For the Period September 9, 2003 (date of inception) to December 31, 2012

(in thousands, except share and per share data)

	Preferred Stock and Warrants			Stockholders Equity (Deficit)				
	Series A Preferred Stock Shares	Amount	Warrants to Purchase Series A Preferred Stock Warrants	Common Stock Shares	Amount	Additional Paid-in Capital Common Stock	Additional Paid-in Capital Warrants	Deficit Accumulated During the Development Stage	Total Stockholders Equity/ (Deficit)
Stock-based compensation						4,880			4,880
Issuance of common stock in a registered direct offering, net of commission and expenses of $3,426				10,114,401	11	49,159			49,170
Exercise of warrants to purchase common stock				259,660		1,011	(269)		742
Exercise of employee stock options				8,300		30			30
Issuance of restricted common stock				258,032					
Repurchase of shares of restricted common stock				(123,153)		(546)			(546)
Cancelled restricted stock				(123,370)					
Expired warrants						5,433	(5,433)		
Issuance of common stock in a collaboration agreement				3,636,926	3	18,691			18,694
Net Loss								(96,132)	(96,132)
Balance at December 31, 2012	$	$		83,236,840	$ 83	$ 325,177	$ 6,909	$ (283,724)	$ 48,445

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

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ZIOPHARM Oncology, Inc. ***(a development stage enterprise)***

STATEMENTS OF CASH FLOWS

(in thousands)

	For the Year Ended December 31,			Period from September 9, 2003 (date of inception) through December 31, 2012
	2012	2011	2010	
Cash flows from operating activities:				
Net loss	$ (96,132)	$ (63,778)	$ (32,670)	$ (283,724)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	658	268	188	2,574
Stock-based compensation	4,880	2,759	3,637	20,181
Change in fair value of warrants	(6,050)	(7,583)	8,889	(10,771)
Loss on disposal of fixed assets	48			57
Common stock issued in exchange for in-process research and development	18,694	17,457		36,151
Change in operating assets and liabilities:				
(Increase) decrease in:				
Collaboration receivable	21	(79)		(58)
Prepaid expenses and other current assets	(5,599)	(889)	(70)	(6,912)
Other noncurrent assets	(230)	(407)	(122)	(1,001)
Deposits	(43)	(4)	(41)	(134)
Increase (decrease) in:				
Accounts payable	(218)	696	(758)	1,509
Accrued expenses	5,695	8,283	1,277	16,516
Deferred revenue	(800)	4,333		3,533
Deferred rent	244	109	(24)	439
Net cash used in operating activities	(78,832)	(38,835)	(19,694)	(221,640)
Cash flows from investing activities:				
Purchases of property and equipment	(1,559)	(1,156)	(186)	(4,626)
Proceeds from sale of property and equipment				1
Net cash used in investing activities	(1,559)	(1,156)	(186)	(4,625)
Cash flows from financing activities:				
Stockholders capital contribution				500
Proceeds from exercise of stock options	30	980	225	1,373
Payments to employees for repurchase of restricted common stock	(546)	(274)	(1,668)	(2,867)
Proceeds from exercise of warrants	330	12,399	72	13,079
Proceeds from issuance of common stock and warrants, net	49,170	71,207	32,804	270,726
Proceeds from issuance of preferred stock, net				16,760
Net cash provided by financing activities	48,984	84,312	31,433	299,571

Net increase (decrease) in cash and cash equivalents	(31,407)	44,321	11,553	73,306
Cash and cash equivalents, beginning of period	104,713	60,392	48,839	
Cash and cash equivalents, end of period	$ 73,306	$ 104,713	$ 60,392	$ 73,306
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	$ 269	$ 9,067	$ 239	$ 9,324
Exercise of liability-classified warrants to common shares	$ 412	$ 303	$ 49	$ 352

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

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

1. Organization

ZIOPHARM Oncology, Inc., which we refer to as 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 December 31, 2012. The Company s fiscal year ends on December 31.

The Company has operated at a loss since its inception in 2003 and had no significant revenues. The Company anticipates that losses will continue for the foreseeable future. At December 31, 2012, the Company s accumulated deficit was approximately $283.7 million. The Company currently believes that its existing cash resources at December 31, 2012, will be sufficient to fund its operations into the second half of 2013. These factors raise substantial doubt about the Company s ability to continue as a going concern. The Company has a variety of ongoing clinical trials, the outcomes of which will have an impact on managements plans to improve liquidity. The Company has various dilutive and non-dilutive funding alternatives if the results are positive and if the results are negative, alternative cost-cutting efficiencies are planned in an attempt to extend the Company s cash resources as long as possible. There is no assurance that any fundraising or any cost-cutting alternative would be realized. In addition, changes may occur that would consume the Company s existing capital prior to the second half of 2013, including expansion of the scope of, and/or slower than expected progress of, the Company s research and development efforts and changes in governmental regulation. Actual costs may ultimately vary from the Company s current expectations, which could materially impact the Company s use of capital and the Company s forecast of the period of time through which the Company s financial resources will be adequate to support the Company s operations. The Company has also assumed responsibility for the advancement of two product candidates in the clinic under its exclusive channel partnership with Intrexon Note 2 and the Company expects that the costs associated with these and additional product candidates will increase the level of its overall research and development expenses significantly going forward. Although the Company s forecasts for expenses and the sufficiency of its capital resources takes into account its plans to develop the Intrexon products, the Company 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, the Company s actual cash requirements may vary materially from the Company s current expectations for a number of other factors that may include, but are not limited to, changes in the focus and direction of its research and development programs, competitive and technical advances, costs associated with the development of the Company s product candidates, its ability to secure partnering arrangements, and costs of filing, prosecuting, defending and enforcing the Company s intellectual property rights. If the Company exhausts its capital reserves more quickly than anticipated, regardless of the reason, and the Company is unable to obtain additional financing on terms acceptable to it or at all, the Company 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. Moreover, if the Company fails to advance one or more of its current product candidates to later-stage clinical trials, successfully commercialize one or more of its product candidates, or acquire new product candidates for development, the Company may have difficulty attracting investors that might otherwise be a source of additional financing.

In the current economic environment, the Company s need for additional capital and limited capital resources may force it to accept financing terms that could be significantly more dilutive to existing stockholders than if the

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

1. Organization (Continued)

Company were raising capital when the capital markets were more stable. To the extent that the Company raises additional capital by issuing equity securities, its stockholders may experience dilution. In addition, the Company could grant future investors rights superior to those of its existing stockholders. If the Company raises additional funds through collaborations and licensing arrangements, it could be necessary to relinquish some rights to its technologies, product candidates or products, or grant licenses on terms that are not favorable to the Company. If it raises additional funds by incurring debt, the Company could incur significant interest expense and become subject to covenants in the related transaction documentation that could affect the manner in which the Company conducts its business.

2. Financings

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 estimated offering expenses payable by the Company.

On February 3, 2011, the Company entered into an underwriting agreement with Barclays Capital Inc., or Barclays, relating to the issuance and sale of 9,600,000 shares of the Company s common stock in a public offering. The price to the public in the offering was $5.75 per share, and Barclays, as the sole underwriter for the offering, agreed to purchase the shares from the Company pursuant to the underwriting agreement at a purchase price of $5.425 per share. Under the terms of the underwriting agreement, the Company also granted Barclays an option, exercisable for 30 days, to purchase up to an additional 1,440,000 shares of the Company s common stock at a purchase price of $5.425 per share. On February 8, 2011, the transactions contemplated by the underwriting agreement were completed. In connection with the closing, Barclays exercised in full its option to purchase the additional 1,440,000 shares, resulting in the Company issuing a total of 11,040,000 shares at the closing. The net proceeds from the offering were approximately $59.8 million after deducting underwriting discounts and offering expenses.

On January 6, 2011, and in conjunction with the Company s execution and delivery of the Channel Agreement with Intrexon Corporation, or Intrexon, the Company entered into a Stock Purchase Agreement and Registration Rights Agreement with Intrexon. On January 12, 2011, and pursuant to that Stock Purchase Agreement, Intrexon purchased 2,426,235 shares of the Company s common stock in a private placement for a total purchase price of $11,645,928, or $4.80 per share. The Company simultaneously issued to Intrexon an additional 3,636,926 shares of its common stock for a cash purchase price equal to the $0.001 par value of such shares, which price was deemed paid in partial consideration for the execution and delivery of the Channel Agreement. This resulted in a non-cash expense of approximately $17.5 million for the in process research and development. Under the terms of the Stock Purchase Agreement, the Company agreed to issue to Intrexon an additional 3,636,926 shares of its common stock under certain conditions upon dosing of the first patient in a ZIOPHARM-conducted Phase 2 clinical trial in the Unites States, or similar study as the parties may agree in a country other than the United States, of a product candidate that is created, produced, developed or identified directly or indirectly by us during

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

2. Financings (Continued)

the term of the Channel Agreement and that, subject to certain exceptions, involves DNA administered to humans for expression of anti-cancer effectors for the purpose of treatment or prophylaxis of cancer. These shares were issued on November 7, 2012 (See Note 11 to the financial statements, Preferred Stock and Stockholders Equity), and when issued, the purchase price for such shares was equal to the $0.001 par value of such shares, which price was deemed paid in partial consideration for the execution and delivery of the Channel Agreement, in accordance with the terms of the Stock Purchase Agreement. Pursuant to the Registration Rights Agreement, the Company has filed a registration statement with the SEC registering the resale of the shares that we have issued or may issue to Intrexon under the Stock Purchase Agreement.

Also under the Stock Purchase Agreement, if requested by the Company and subject to certain conditions, restrictions and limitations, Intrexon has agreed to purchase the Company s securities in conjunction with qualified securities offerings that are conducted by the Company while the Channel Agreement remains in effect. In conjunction with a qualified offering, Intrexon has committed to purchase up to 19.99% of the securities offered and sold therein (exclusive of Intrexon s purchase) if requested to do so by the Company. Intrexon will not be obligated to purchase securities in a qualified securities offering unless the Company is then in substantial compliance with its obligations under the Channel Agreement and, with respect to a qualified offering that is completed following January 6, 2012, the Company confirms its intent that 40% of the offering s net proceeds shall have been spent, or in the next year will be spent, by the Company under the Channel Agreement. In the case of a qualified offering that is completed after January 6, 2013, Intrexon s purchase commitment will be further limited to an amount equal to one-half of the proceeds spent or to be spent by the Company under the Channel Agreement. Intrexon s aggregate purchase commitment for all future qualified offerings is capped at $50.0 million. The Company and Intrexon subsequently amended the Stock Purchase Agreement to clarify that gross proceeds from the sale of Company securities to Intrexon in a qualified offering will apply against Intrexon s $50.0 million purchase commitment regardless of whether Intrexon participates voluntarily or at the request of the Company. As a result of Intrexon s purchase of securities in our February 2012 public offering, the remaining maximum amount of Intrexon s equity purchase commitment is approximately $29.0 million.

On May 27, 2010, the Company entered into an underwriting agreement with Jefferies & Company, Inc. (the Representative) relating to the issuance and sale of 7,000,000 shares of the Company s common stock, par value $0.001 per share. The Representative, on behalf of itself and JMP Securities LLC, as underwriters for the offering, purchased 7,000,000 shares from the Company pursuant to the underwriting agreement and offered the shares to the public at a price of $5.00, and to certain dealers at that price less a concession not in excess of $0.18 per share of common stock. The net proceeds to the Company from this offering were $32.8 million, after deducting underwriting discounts, commissions and other offering expenses of $2.2 million. The offering was completed on June 2, 2010. Under the terms of the underwriting agreement, the Company granted the Representative an option, exercisable for 30 days, to purchase up to an additional 1,050,000 shares of common stock to cover over-allotments, if any. The overallotment expired on July 2, 2010, without being exercised.

On December 4, 2009, the Company entered into an underwriting agreement in which JMP Securities LLC and Rodman & Renshaw, LLC agreed to serve as co-lead managers (together, the Underwriters) in connection with a public offering and sale by the Company of 15,484,000 units at a price to the public of $3.10 per unit for gross proceeds of $48.0 million. The Company paid $2.8 million in commissions and offering expenses and expects to use the remaining net proceeds of $45.2 million for general corporate purposes, which include ongoing research and development activities. Each unit sold in the offering consisted of one share of our common stock and an investor warrant to purchase 0.5 of a share of common stock. The shares of common stock and investor warrants were immediately separable. The closing of the transaction occurred on December 9, 2009.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

2. Financings (Continued)

In connection with a 2009 underwritten public 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). The investor warrants are exercisable immediately and the underwriter warrants exercisable six months after the date of issuance. The warrants have an exercise price of $4.02 per share and have a five year term. The fair value of the 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 warrants require accounting as derivatives. The Company determined that the warrants were not indexed to the Company s own stock in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 815, *Derivatives and Hedging* . As such, the Company has concluded the warrants did not meet the scope exception for determining whether the instruments require accounting as derivatives and should be classified as liabilities (see Note 9 to the financial statements, Warrants).

On September 9, 2009, the Company entered into a securities purchase agreement with certain investors pursuant to which it sold a total of 2,772,337 units (the 2009 Private Placement), each unit consisting of one share of common stock and a warrant to purchase one share of common stock for a purchase price of $1.825 per unit. The closing of the transaction occurred on September 15, 2009. In connection with the 2009 Private Placement, the Company raised approximately $5.1 million in gross proceeds. After paying $455 thousand in placement agent fees and offering expenses, the net proceeds were $4.6 million.

In connection with a 2009 private placement, the Company issued warrants to purchase an aggregate of 2,910,954 shares of common stock (including 138,617 warrants issued to the placement agents) which are exercisable immediately. The warrants have an exercise price of $2.04 per share and have a five year term. The fair value of the warrants was estimated at $4.2 million using a Black-Scholes model with the following assumptions: expected volatility of 105%, risk free interest rate of 2.41%, expected life of five years and no dividends. The fair value of the warrants was recorded in the equity section of the balance sheet.

The Company assessed whether the warrants require accounting as derivatives. The Company determined that the warrants were indexed to the Company s own stock in accordance with FASB ASC Topic 815, *Derivatives and Hedging* . As such, the Company has concluded the warrants meet the scope exception for determining whether the instruments require accounting as derivatives and should be classified in stockholders equity.

In connection with the 2009 Private Placement, the Company entered into a registration rights agreement with each of the investors. The registration rights agreement requires that the Company file a resale registration statement covering all of the shares issued in the 2009 Private Placement and the shares issuable upon exercise of the warrants issued in the 2009 Private Placement, up to the maximum number of shares able to be registered pursuant to applicable Securities and Exchange Commission (SEC) regulations, within 30 days of the closing of the 2009 Private Placement. The Company filed the registration statement with the SEC on September 28, 2009 (File No. 333-162160). Under the terms of the registration rights agreement, the Company is obligated to maintain the effectiveness of the resale registration statement until all securities therein are sold or are otherwise can be sold pursuant to Rule 144, without any restrictions. A cash penalty at the rate of 1% of the purchase price per month, capped at a maximum of 10% of the purchase price (or $506 thousand), will be triggered for any filing or effectiveness failures or if, at any time after six months following the closing of the 2009 Private Placement, the Company ceases to be current in periodic reports with the SEC.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

2. Financings (Continued)

In December 2006, the FASB issued an accounting standard, which addresses an issuer s accounting for registration payment arrangements. The accounting standard specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB guidance in Accounting for Contingencies. The accounting standard further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with US GAAP without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. The Company applied the recognition and measurement provisions of the accounting standard to the registration rights associated with the registration rights agreement. As result, the Company believes that the contingent obligation to make future payments is not probable and as such has recorded no liability associated with these registration rights.

On February 23, 2007, pursuant to subscription agreements between the Company and certain institutional and other accredited investors, the Company completed the sale of an aggregate of 5,910,049 shares of the Company s common stock at a price of $5.225 per share in a private placement (the 2007 Offering). In addition to these shares sold in the 2007 Offering, the Company also issued to each investor a five-year warrant to purchase, at an exercise price of $5.75 per share, an additional number of shares of common stock equal to 20 percent of the shares purchased by such investor in the 2007 Offering. In the aggregate, these warrants entitle investors to purchase an additional 1,182,015 shares of common stock. The Company estimated the fair value of these warrants at $4.7 million using the Black-Scholes model, using an assumed risk-free rate of 4.71% and an expected life of 5 years, volatility of 93%, and a dividend yield of 0%. The total gross proceeds resulting from the 2007 Offering was approximately $30.9 million, before deducting selling commissions and expenses.

The Company assessed whether the warrants require accounting as derivatives. The Company determined that the warrants were indexed to the Company s own stock in accordance with ASC Topic 815, *Derivatives and Hedging* . As such, the Company has concluded the warrants meet the scope exception for determining whether the instruments require accounting as derivatives and should be classified in stockholders equity.

The Company engaged Paramount BioCapital, Inc. (Paramount), Oppenheimer & Co. Inc., and Griffin Securities, Inc. (together, the 2007 Placement Agents) as placement agents in connection with the 2007 Offering. In consideration for their services, the Company paid the 2007 Placement Agents aggregate cash commissions of $1.6 million (of which $1.0 million was paid to Paramount; see Note 7 to the financial statements, Related Party Transactions) and issued 5-year warrants to the 2007 Placement Agents and their designees to purchase an aggregate of 156,058 shares of the Company s common stock at an exercise price of $5.75 per share. In connection with the 2007 Offering, the Company also made cash payments of $222 thousand and issued 5-year warrants to purchase 21,244 shares of the Company s common stock, at an exercise price of $5.75 per share, to a financial consultant pursuant to the non-circumvention provision of a prior agency agreement. The Company estimated the fair value of these 177,302 warrants at $709 thousand using the Black-Scholes model, using an assumed risk-free rate of 4.71% and an expected life of 5 years, volatility of 93%, and a dividend yield of 0%.

The Company assessed whether the warrants require accounting as derivatives. The Company determined that the warrants were indexed to the Company s own stock in accordance with ASC Topic 815, *Derivatives and Hedging* . As such, the Company has concluded the warrants meet the scope exception for determining whether the instruments require accounting as derivatives and should be classified in stockholders equity.

Pursuant to the 2007 Offering, the Company agreed to use its best efforts to (i) file a registration statement covering the resale of the shares sold in the 2007 Offering and the common stock issuable upon exercise of the investor warrants and placement agent warrants issued in the 2007 Offering within 45 days following the closing date of the 2007 Offering, and (ii) use reasonable commercial efforts to cause the registration statement to be effective within 120 days after such final closing date.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

2. Financings (Continued)

With respect to each investor in the 2007 Offering, the Company also agreed to use reasonable commercial efforts to cause the registration statement to remain effective until the earliest of (i) the date on which the investor may sell all of the shares and shares issuable upon exercise of the warrants then held by the investor pursuant to then-Rule 144 of the Securities Act of 1933 without regard to volume restrictions; and (ii) such time as all of the securities held by the investor and registered under the registration statement have been sold pursuant to a registration statement, or in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 under Section 4(1) thereof so that all transfer restrictions and restrictive legends are removed upon the consummation of such sale. The 2007 Placement Agents have been afforded equivalent registration rights as the investors in the 2007 Offering with respect to the shares issuable upon exercise of the placement agent warrants. Effective January 1, 2007, the Company adopted a new accounting standard which requires that instruments subject to registration payments are accounted for without regard to the contingent obligation to make registration payments. As a result, the Company has determined that no contingent loss exists based on its history of timely annual, quarterly and registration filings. The Company intends to continue the timely compliance with all SEC filing requirements, which will keep the Company current and the shares registered. On March 1, 2007, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission. The registration statement was declared effective on March 26, 2007, rendering the resale of the shares issued in the 2007 Offering registered under the Securities Exchange Act of 1933 and no penalty was recorded.

On May 3, 2006, pursuant to subscription agreements, the Company and certain institutional and other accredited investors, the Company completed the sale of an aggregate of 7,991,256 shares of the Company s common stock at a price of $4.63 per share in a private placement (the 2006 Offering). In addition to the shares, the Company also issued to each investor a five-year warrant to purchase, at an exercise price of $5.56 per share, an additional number of shares of common stock equal to 30 percent of the shares purchased by such investor in the 2006 Offering. In the aggregate, these Warrants entitle investors to purchase an additional 2,397,392 shares of common stock. The Company estimated the fair value of these warrants at $9.6 million using the Black-Scholes model, using an assumed risk-free rate of 5.01% and an expected life of 5 years, volatility of 100%, and a dividend yield of 0%. The total gross proceeds resulting from the 2006 Offering was approximately $37 million, before deducting selling commissions and expenses.

The Company assessed whether the warrants require accounting as derivatives. The Company determined that the warrants were both (1) indexed to the Company s own stock and (2) classified in stockholders equity in accordance with ASC Topic 815, *Derivatives and Hedging* . As such, the Company has concluded the warrants meet the scope exception for determining whether the instruments require accounting as derivatives and should be classified in stockholders equity.

The Company engaged Paramount BioCapital, Inc. and Griffin Securities, Inc. (together, the 2006 Placement Agents) as co-placement agents in connection with the 2006 Offering. In consideration for their services, the Company paid the 2006 Placement Agents and certain selected dealers engaged by the 2006 Placement Agents and their designees aggregate cash commissions of $2.6 million (of which $1.7 million was paid to Paramount; see Note 7 to the financial statements, Related Party Transactions) and issued 7-year warrants to the 2006 Placement Agents and their designees to purchase an aggregate of 799,126 shares of the Company s common stock (10 percent of the shares sold in the 2006 Offering) at an exercise price of $5.09 per share. The Company estimated the fair value of these warrants at $3.5 million using the Black-Scholes model, using an assumed risk-free rate of 5.01% and an expected life of 7 years, volatility of 100% and a dividend yield of 0%. The Company made reimbursements of $100 thousand to the 2006 Placement Agents for their expenses incurred in connection with the 2006 Offering.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

2. Financings (Continued)

Pursuant to the 2006 Offering, the Company agreed to use its best efforts to (i) file a registration statement covering the resale of the shares issued in the 2006 Offering and the common stock issuable upon exercise of the warrants issued in the 2006 Offering (including the placement agent warrants) within 30 days following the closing date of the 2006 Offering, and (ii) use its reasonable commercial efforts to cause the registration statement to be effective within 120 days after such final closing date.

With respect to each investor in the 2006 Offering, the Company also agreed to use its reasonable commercial efforts to cause the registration statement to remain effective until the earliest of (i) the date on which the investor may sell all of the shares issued in the 2006 Offering and shares issuable upon exercise of the warrants then held by the investor pursuant to then-Rule 144 of the Securities Act of 1933 without regard to volume restrictions; and (ii) such time as all of the securities held by the investor and registered under the registration statement have been sold pursuant to a registration statement, or in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 under Section 4(1) thereof so that all transfer restrictions and restrictive legends are removed upon the consummation of such sale. The 2006 Placement Agents have been afforded equivalent registration rights as the investors in the 2006 Offering with respect to the shares issuable upon exercise of the placement agent warrants. Warrants issued in the 2006 Offering are classified as equity. On May 19, 2006, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission. The registration statement was declared effective on May 30, 2006, rendering the resale of the shares issued in the 2006 Offering registered under the Securities Exchange Act of 1933 and no penalties were recorded.

On August, 3, 2005, the Company entered into an Agreement and Plan of Merger dated as of August 3, 2005 (the Merger Agreement) with EasyWeb, Inc., a Delaware corporation (EasyWeb), and ZIO Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of EasyWeb (ZIO Acquisition). EasyWeb was a company that was incorporated in September 1998 and had been in the business of designing, marketing, selling and maintaining customized and template turnkey sites on the Internet that are hosted by third parties. At the time of the Merger (as defined below), however, EasyWeb had no operating business and had limited assets and liabilities. Pursuant to the Merger Agreement, ZIO Acquisition merged with and into ZIOPHARM, with ZIOPHARM remaining as the surviving company and a wholly-owned subsidiary of EasyWeb (the Merger). In connection with the Merger, which was effective as of September 13, 2005, ZIO Acquisition ceased to exist and the surviving company changed its corporate name to ZIOPHARM, Inc. Based upon an Exchange Ratio, as defined in the Merger Agreement, in exchange for all of their shares of capital stock in ZIOPHARM, the ZIOPHARM stockholders received a number of shares of common stock of EasyWeb such that, upon completion of the Merger, the then-current ZIOPHARM stockholders held approximately 96.8% of the outstanding shares of common stock of EasyWeb on a fully-diluted basis. Upon completion of the Merger, EasyWeb ceased all of its remaining operations and adopted and continued implementing the business plan of ZIOPHARM. Further, effective upon the Merger, the then current officers and directors of EasyWeb resigned, and the then current officers and directors of ZIOPHARM were appointed officers and directors of EasyWeb. In conjunction with the Merger, ZIOPHARM made payments of approximately $425,000 to certain affiliates of EasyWeb in the third quarter of 2005. Subsequently, on September 14, 2005, ZIOPHARM merged into EasyWeb, and EasyWeb changed its name to ZIOPHARM Oncology, Inc.

Although EasyWeb was the legal acquirer in the transaction, ZIOPHARM became the registrant with the Securities and Exchange Commission. Under generally accepted accounting principles, the transaction was

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

2. Financings (Continued)

accounted for as a reverse acquisition, whereby ZIOPHARM was considered the acquirer of EasyWeb for financial reporting purposes because ZIOPHARM s stockholders controlled more than 50% of the post-transaction combined entity, the management and the board were that of ZIOPHARM after the transaction, EasyWeb had no operating activity and limited assets and liabilities as of the transaction date, and the continuing operations of the entity are those of ZIOPHARM.

Accordingly, the equity of EasyWeb was adjusted to reflect a recapitalization of the stock and the equity of ZIOPHARM was adjusted to reflect a financing transaction with the proceeds equal to the net asset value of EasyWeb immediately prior to the Merger. The historical financial statements of ZIOPHARM became the historical financial statements of the Company. The historical stockholders equity was retroactively restated to adjust for the exchange of shares pursuant to the Merger Agreement. All share and per share information included in the accompanying financial statements and notes give effect to the exchange, except as otherwise stated.

On June 6, 2005, the Company completed an offering (the 2005 Offering) of Series A Convertible Preferred Stock (Series A Preferred Stock). The Company issued 4,197,946 shares at $4.31 for gross proceeds of approximately $18.1 million. In connection with the 2005 Offering, the Company compensated Paramount, placement agent for the 2005 Offering, or its affiliates for its services through the payment of (a) cash commissions equal to 7% of the gross proceeds from the sale of the shares of Series A Preferred Stock, and (b) placement warrants to acquire 419,794 shares of Series A Preferred Stock (the Series A Stock Warrants), exercisable for a period of 7 years from the closing date at a per-share exercise price equal to 110% of the price per share sold in the 2005 Offering. These commissions are also payable on additional sales by the Company of securities (other than in a public offering) to investors introduced to the Company by Paramount during the twelve (12) month period subsequent to the final closing of the Offering. The Company also paid Paramount an expense allowance of $50 thousand to reimburse Paramount for its out-of-pocket expenses. Also, for a period of 36 months from the final Closing, Paramount has the right of first refusal to act as the placement agent for any private sale of the Company s securities. On September 13, 2005, the Series A Preferred Stock was converted to 4,197,946 of the company s common stock. Lastly, the Company has agreed to indemnify Paramount against certain liabilities, including liabilities under the Securities Act (see Note 7 to the financial statements, Related Party Transactions).

The Company valued the Series A Stock Warrants using the Black-Scholes model and recorded a charge of $1.7 million against additional paid-in capital. The Company has estimated the fair value of such warrants using the Black-Scholes model, using an assumed risk-free rate of 3.93% and expected life of 7 years, volatility of 134% and dividend yield of 0%. The net proceeds from the 2005 Offering were used for research and development, licensing fees and expenses, and for working capital and general corporate purposes.

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (Continued)

The Company s most significant estimates and judgments used in the preparation of our 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. During this period, the Company did not identify any material events that require accounting or disclosure in these financial statements.

Cash and Cash Equivalents

Cash equivalents consist primarily of demand deposit accounts and deposits in short-term U.S. treasury money market mutual funds. Cash equivalents are stated at cost, which approximates fair market value.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company maintains cash accounts in commercial banks, which may, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for maintenance and repairs are charged to expense while the costs of significant improvements are capitalized. Depreciation is provided using the straight-line method over the following estimated useful lives of the related assets, which is between three and five years. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are eliminated from the balance sheets and related gains or losses are reflected in the statements of operations.

Restricted Cash

Other non-current assets include cash of $691 thousand that is restricted as collateral for the Company s facility leases.

Long-Lived Assets

In accordance with FASB accounting standards, the Company reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair values less costs to sell.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (Continued)

Warrants

The Company applies the accounting standard which provides guidance in assessing whether an equity-based financial instrument is indexed to an entity s own stock for purposes of determining whether a financial instrument should be treated as a derivative. In applying the methodology the Company concluded that certain warrants issued by the Company have terms that do not meet the criteria to be considered indexed to the Company s own stock and therefore are classified as liabilities in the Company s balance sheet. The liability classified warrants are subject to re-measurement at each balance sheet date and any change in fair value is recognized as a component of Other income, net in the accompanying Statement of Operations. Fair value is measured using the binomial valuation model. In December 2011, the Company switched from the Black-Scholes valuation model to the binomial valuation model as it provides a better evaluation of the fair market value of the Company s liability-classified warrants.

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 December 31, 2012 and 2011 are as follows:

($ in thousands)		Fair Value Measurements at Reporting Date Using		
Description	Balance as of December 31, 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	$ 72,002	$ 72,002	$	$

Warrant liability	$	12,962	$		$	12,962	$	

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (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. The warrants were valued using a binomial valuation model. See Note 9 to the financial statements, Warrants, for additional disclosure on the valuation methodology and significant assumptions.

Revenue Recognition

The Company receives revenue from a collaboration agreement (see Note 4 to the financial statements, Collaborations and Alliances). Collaboration arrangements typically include payments for one or more of the following: non-refundable, upfront license fees, funding of research and development efforts, milestone payments if specified objectives are achieved and/or profit-sharing or royalties on product sales. Arrangements containing multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the collaborative partner. The consideration received is then allocated among the separate units based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate units.

Revenue from non-refundable, upfront research and development fees is reported as research and development revenue and is recognized on a straight-line basis over the contracted or estimated period of performance, which is typically the development term. Research and development funding is earned over the period of effort.

Milestone payments are recognized as research and development revenue upon achievement of the milestone only if (1) the milestone payment is non-refundable, (2) substantive effort is involved in achieving the milestone and (3) the amount of the milestone is reasonable in relation to the effort expended or the risk associated with achievement of the milestone. If any of these conditions are not met, the milestone payment is deferred and recognized as revenue over the estimated remaining period of performance under the contract as the Company completes its performance obligations.

Research and Development Costs

Research and development expenditures are charged to the statement of operations as incurred. Such costs include proprietary research and development activities, purchased research and development, and expenses associated with research and development contracts, whether performed by the Company or contracted with independent third parties.

Income Taxes

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences between the financial statement carrying amounts and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (Continued)

apply to taxable income in the year in which the temporary differences are expected to be recovered or settled. The Company evaluates the realizability of our deferred tax assets and establishes a valuation allowance when it is more likely than not that all or a portion of deferred tax assets will not be realized.

The Company accounts for uncertain tax positions using a more-likely-than-not threshold for recognizing and resolving uncertain tax positions. The evaluation of uncertain tax positions is based on factors including, but not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, new audit activity and changes in facts or circumstances related to a tax position. The Company evaluates this tax position on an annual basis. The Company also accrues for potential interest and penalties, related to unrecognized tax benefits in income tax expense (see Note 10 to the financial statements, Income Taxes).

Accounting for Stock-Based Compensation

Stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee s requisite service period. Stock-based compensation expense is based on the number of awards ultimately expected to vest and is therefore reduced for an estimate of the awards that are expected to be forfeited prior to vesting. Consistent with prior years, the Company uses the Black-Scholes option pricing model which requires estimates of the expected term option holders will retain their options before exercising them and the estimated volatility of the Company s common stock price over the expected term.

The Company recognizes the full impact of its share-based employee payment plans in the statements of operations for each of the years ended December 31, 2012, 2011, and 2010 and did not capitalize any such costs on the balance sheets. The Company recognized $3.1 million, $2.1 million, and $1.3 million of compensation expense related to vesting of employee stock options during the years ended December 31, 2012, 2011, and 2010, respectively. In the years ended December 31, 2012, 2011, and 2010, the Company recognized $1.7 million, $635 thousand, and $2.4 million of compensation expense, respectively, related to vesting of restricted stock (see Note 12 to the financial statements, Stock Option Plan). In the years ended December 31, 2012, 2011, and 2010, the Company recognized $4.9 million, $2.8 million, and $3.6 million of compensation expense, respectively, related to vesting of employee and director awards. In the year ended December 31, 2010, the Company recognized $27 thousand of compensation expense related to non-employee milestone awards. The following table presents share-based compensation expense included in the Company s Statements of Operations:

	Year ended December 31,		
(in thousands)	**2012**	**2011**	**2010**
Research and development	$ 1,917	$ 890	$ 690
General and administrative	2,963	1,869	2,947
Share based employee compensation expense before tax	4,880	2,759	3,637
Income tax benefit			
Net share based employee compensation expense	$ 4,880	$ 2,759	$ 3,637

Prior to the adoption of the current accounting standards in 2006, the Company previously accounted for stock-based awards to employees using the intrinsic value method and had elected the disclosure-only alternative. All stock-based awards to nonemployees were accounted for at their fair value. The Company had recorded the fair value of each stock option issued to non-employees as determined at the date of grant using the Black-Scholes option pricing model.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (Continued)

The following table illustrates the effect on net loss and earnings per share if the Company had applied the fair value recognition provisions of current accounting standards to stock-based awards from September 9, 2003 (date of inception) to December 31, 2005:

(in thousands, except per share data)	**September 9, 2003 (date of inception) to December 31, 2005**
Net loss:	
As reported	$ (15,364)
Stock-based compensation expense included in reported net loss	802
Stock-based compensation expense under the fair-value based method	(1,756)
Pro forma net loss	$ (16,318)
Basic and diluted net loss per share:	
As reported	$ (3.75)
Pro forma	$ (3.98)

The fair value of each stock option is estimated at the date of grant using the Black-Scholes option pricing model. The estimated weighted-average fair value of stock options granted to employees in 2012, 2011, and 2010 was approximately $3.06, $4.04, and $3.26 per share, respectively. Assumptions regarding volatility, expected term, dividend yield and risk-free interest rate are required for the Black-Scholes model. The volatility assumption is based on the Company s historical experience. The risk-free interest rate is based on a U.S. treasury note with a maturity similar to the option award s expected life. The expected life represents the average period of time that options granted are expected to be outstanding. The Company calculated volatility using the simplified method described in SEC Staff Accounting Bulletin, or SAB, No. 107 and No. 110. The assumptions for volatility, expected life, dividend yield and risk-free interest rate are presented in the table below:

	2012	**2011**	**2010**
Weighted average risk-free interest rate	0.79 - 1.13%	1.09 - 2.69%	1.13 - 2.75%
Expected life in years	6	6	5
Expected volatility	83.36 - 83.53%	83.26 - 87.29%	89.2 - 90.6%
Expected dividend yield	0	0	0

Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares 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 common shares at December 31, 2012, 2011, and 2010 consist of the following:

December 31,

	2012	2011	2010
Stock options	7,147,303	5,138,486	4,566,935
Unvested restricted stock	733,739	950,906	348,753
Warrants	11,197,454	13,117,264	15,912,142
	19,078,496	19,206,656	20,827,830

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In January 2011, the Company adopted Accounting Standards Update, or ASU, No. 2010-06, *Improving Disclosures About Fair Value Measurements* which requires additional disclosure about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. In addition, effective for interim and annual periods beginning after December 15, 2010, this standard further requires an entity to present disaggregated information about activity in Level 3 fair value measurements on a gross basis, rather than as one net amount. As this accounting standard only requires enhanced disclosure, the adoption of this newly issued accounting standard did not impact our financial position or results of operations.

In May 2011, the Financial Accounting Standards Board, or FASB, issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* . This newly issued accounting standard clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This ASU is effective on a prospective basis for annual and interim reporting periods beginning on or after December 15, 2011, which for us is January 1, 2012. The adoption of this standard did not have a material impact on our financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* .. This newly issued accounting standard (1) eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity; (2) requires the consecutive presentation of the statement of net income and other comprehensive income; and (3) requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income nor do the amendments affect how earnings per share is calculated or presented. This ASU is required to be applied retrospectively and is effective for fiscal years and interim periods within those years beginning after December 15, 2011. As this accounting standard only requires enhanced disclosure, the adoption of this standard did not impact our financial position or results of operations.

In December 2011, the FASB issued ASU No. 2011-11 *Balance Sheet (Topic 210): Disclosures About Offsetting Assets and Liabilities* which require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This update is effective for periods beginning after January 1, 2013. The adoption of this standard will not have an impact on our financial position or results of operations.

4. Collaborations and Alliances

On March 7, 2011, the Company entered into a License and Collaboration Agreement with Solasia Pharma K.K., or Solasia.

Pursuant to the License and Collaboration Agreement, the Company 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.

As consideration for the license, the Company received an upfront payment of $5 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.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

4. Collaborations and Alliances (Continued)

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

5. Property and Equipment, net

Property and equipment, net consist of the following:

	December 31,	
(in thousands)	**2012**	**2011**
Office and computer equipment	$ 1,552	$ 1,021
Software	856	399
Leasehold improvements	1,357	890
Manufacturing equipment	153	156
	3,918	2,466
Less accumulated depreciation	(1,924)	(1,325)
Property and equipment, net	$ 1,994	$ 1,141

Depreciation and amortization charged to the Statement of Operations for the years ended December 31, 2012, 2011, 2010 and from September 9, 2003 (date of inception) to December 31, 2012 (in thousands) was: $658, $268, $188, and $2,574, respectively.

6. Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
(in thousands)	**2012**	**2011**
Professional services	$ 835	$ 1,131
Clinical consulting services	9,628	6,913
Preclinical services	411	1,093
Manufacturing services	3,217	767

Accrued vacation	452	307
Other consulting services	903	347
Payroll taxes and benefits	585	263
Severance	474	
Employee compensation	11	
Accrued expenses	$ 16,516	$ 10,821

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

7. Related Party Transactions

During 2005, the Company engaged Paramount to assist in placing shares of Series A Preferred Stock on a best efforts basis. Lindsay A. Rosenwald, M.D. is Chairman and Chief Executive Officer of Paramount. Dr. Rosenwald is also a managing member of Horizon BioMedical Ventures, LLC, or Horizon. On December 30, 2004, Horizon authorized the distribution of 2,428,911(4,848,376 pre-Merger) shares of the Company s common stock (such shares, the Horizon Distributed Shares), in equal installments of 1,214,456 (2,424,188 pre-Merger) shares of common stock to Mibars, LLC, or Mibars, and to Dr. Rosenwald and his designees, which we refer to as the Designated Shares . The disposition of the Designated Shares will be subject to certain restrictions as agreed to among Dr. Rosenwald and Dr. Rosenwald s designees. Among other things, under certain circumstances set forth in pledge agreements between Dr. Rosenwald and his designees, Dr. Rosenwald has the right to re-acquire the Designated Shares from his designees. As a result of those rights, Dr. Rosenwald may be deemed to be an affiliate of the Company.

In connection with the December 22, 2004 Option Agreement with Southern Research Institute, or SRI, the Company entered into a Finders Agreement, dated December 23, 2004, with Paramount pursuant to which the Company has agreed to compensate Paramount, for services in connection with the Company s introduction to SRI through the payment of (a) a cash fee of $60 thousand and (b) warrants to purchase 62,621 (125,000 pre-Merger) shares of the Company s common stock at a price equal to $4.75 ($2.38 pre-Merger) per share. The Company has estimated the fair value of such warrants using the Black-Scholes model, using an assumed risk-free rate of 3.93%, and expected life of 7 years, volatility of 134% and dividend yield of 0%. In December 2004, the Company expensed the $60 thousand that was payable to Paramount and recognized compensation expense in the amount of $251 thousand for the issuance of the warrants. These warrants expired on December 23, 2011.

In connection with the Series A Preferred Stock Offering, the Company and Paramount entered into an Introduction Agreement in January 2005, pursuant to which the Company had agreed to compensate Paramount for its services in connection with the Offering through the payment of (a) cash commissions equal to 7% of the gross proceeds from the sale of the shares of Series A Preferred Stock, and (b) placement warrants to acquire a number of shares of Series A Preferred Stock equal to 10% of the number of shares of Series A Preferred Stock issued in the Offering, exercisable for a period of 7 years from the Closing Date at a per Share exercise price equal to 110% of the price per Share sold in the Offering. These commissions are also payable on additional sales by the Company of securities (other than in a public offering) to investors introduced to the Company by Paramount during the twelve (12) month period subsequent to the final closing of the Offering. The Company also agreed to pay to Paramount a non-accountable expense allowance of $50 thousand to reimburse Paramount for its out-of-pocket expenses. Also, for a period of 36 months from the final Closing, Paramount has the right of first refusal to act as the placement agent for the private sale of the Company s securities. Lastly, the Company has agreed to indemnify Paramount against certain liabilities, including liabilities under the Securities Act.

In connection with the 2006 Offering, on May 3, 2006, the Company paid Paramount a cash commission equal to 7% of the gross proceeds from the sale of the Shares sold by Paramount in the 2006 Offering, resulting in a cash payment of approximately $1.7 million. In addition, the Company issued 7-year warrants to the 2006 Placement Agents and their designees to purchase an aggregate of 799,126 shares (10 percent of the Shares sold in the Offering) of the Company s common stock, of which 532,750 were issued to Paramount at an exercise price of $5.09 per share.

On December 18, 2006 the Company paid Paramount a cash settlement of $180 thousand in exchange for Paramount s agreement to terminate certain of its rights under the 2005 and 2004 agreements. This amount was expensed in the year ended December 31, 2006.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

7. Related Party Transactions (Continued)

Mr. Timothy McInerney, who is a member of the Board of Directors of the Company, was a full-time employee of Paramount from 1992 through March 2007. In addition, Michael Weiser, a current member of the Board of Directors of the Company, and David M. Tanen, who was a member of the Board of Directors of the Company, were full-time employees of Paramount from July 1998 through November 2006, and July 1996 through August 2004, respectively. Mr. John Knox, our former Treasurer, was also a full-time Paramount employee.

In connection with the 2007 Offering, on February 23, 2007, the Company paid Paramount cash commissions equal to 6% of the gross proceeds from the sale of the shares sold by Paramount in the 2007 Offering, resulting in a cash payment of approximately $1.0 million. In addition, the Company issued 5-year warrants to the placement agents in the 2007 Offering and their designees to purchase an aggregate of 177,302 shares (3% of the shares sold in the 2007 Offering) of the Company s common stock at an exercise price of $5.75 per share, of which 97,536 were issued to Paramount.

During the year ended December 31, 2008, there were no related party transactions.

Mr. Timothy McInerney, who is a member of the Board of Directors of the Company, has been a Partner at Riverbank Capital Securities, Inc. since June 2007. In connection with the 2009 Private Placement, on September 15, 2009, the Company paid Riverbank Capital Securities, Inc. cash commissions equal to 3.325% of the gross proceeds from the sale of the shares sold by Riverbank Capital Securities, Inc. in the 2009 Private Placement, resulting in a payment of approximately $168 thousand. In addition, the Company issued 5-year warrants to the placement agents in the 2009 Private Placement and their designees to purchase an aggregate of 138,617 shares of the Company s common stock (5% of the shares sold in the September 2009 Offering) at an exercise price of $2.04 per share, of which 65,843 were issued to Riverbank Capital Securities, Inc.

On January 6, 2011, the Company entered into an Exclusive Channel Partner Agreement, or Channel Agreement, with Intrexon Corporation, or Intrexon (see Note 8 to the financial statements, Commitments and Contingencies, for additional disclosure relating to the Channel Agreement). Our director, Randall J. Kirk, is the CEO, a director, and the largest stockholder of Intrexon. During the year ended December 31, 2012, the Company paid Intrexon approximately $11.4 million, of which $6.5 million was for services already incurred and the remaining $4.9 million was for services 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 December 31, 2012. The Company does not owe any amounts to Intrexon that have not already been accrued for as of December 31, 2012.

On January 25, 2012, Intrexon purchased 1,923,075 shares of common stock in the Company s public offering (see Note 2 to the financial statements, Financings).

On November 7, 2012, the Company issued 3,636,926 shares of common stock to Intrexon (see Note 11 to the financial statements, Preferred Stock and Stockholders Equity).

8. Commitments and Contingencies

Operating Leases

Prior to December 31, 2011, the Company entered into an operating lease in New York, NY, consisting of 6,251 square feet of office space. In accordance with this agreement, the Company entered into a letter of credit in the amount of $388 thousand, naming the Company s landlord as beneficiary. In January 2012, the Company amended the lease agreement, adding 1,008 square feet of office space. As of December 31, 2012, the Company occupies 7,259 square feet of space in New York, NY, and maintains a $388 thousand letter of credit. The collateral for the letter of credit is recorded in other non-current assets on the balance sheet as of December 31, 2012. The lease for office space in New York, NY expires in October 2018.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies (Continued)

Prior to December 31, 2011, the Company entered into separate operating lease agreements for various spaces in a building in Boston, MA. That space consisted of 5,249 square feet on the first floor, 8,538 square feet on the second floor, and 6,959 square feet on the third floor. As of December 31, 2011, the Company had paid a total of $86 thousand to its landlord for security deposits for these agreements. In June 2012, the Company re-negotiated a master lease for the entire Boston office space, added 9,800 square feet of office space on the fourth floor, surrendered 4,113 square feet from the second floor, and incorporated all floors lease agreements under the same master agreement expiring in August 2016. The Company provided an additional $41 thousand security deposit for the additional space on the fourth floor. As of December 31, 2012, the Company occupies 26,433 square feet of space in its Boston, MA office and has paid a total of $127 thousand for security deposits, which are recorded in other non-current assets on the balance sheet.

In April 2011, the Company entered into an operating lease for office space in Germantown, MD, consisting of 2,227 square feet. As December 31, 2011, the Company recorded the $4 thousand security deposit in other non-current assets on the balance sheet. The lease expires in March 2014. On July 16, 2012, the Germantown, Maryland office was closed.

Future minimum lease payments under operating leases as of December 31, 2012 are as follows (in thousands):

2013	$ 1,200
2014	1,209
2015	1,236
2016	997
2017	501
2018 and later	424
Total future minimum lease payments	$ 5,567

Total rent expense was approximately $1.1 million, $647 thousand, $398 thousand, and $4.2 million for the years ended December 31, 2012, 2011, 2010 and from September 9, 2003 (date of inception) to December 31, 2012, respectively.

The Company records rent expense on a straight-line basis over the term of the lease. Accordingly, the Company has recorded a liability for deferred rent at December 31, 2012 and 2011 of $439 thousand ($39 thousand current and $400 thousand long-term) and $195 thousand ($15 thousand current and $180 thousand long-term), respectively, which is recorded in deferred rent on the balance sheet.

License Agreements

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, which the Company refers to, collectively, as the Licensors.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies (Continued)

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, or 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, or 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 Registrant-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, 2010, 2011 or 2012.

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.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies (Continued)

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. There were no payments made during 2009. 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 have been reached or expensed since 2010.

License Agreement with Southern Research Institute

On December 22, 2004, the Company entered into an Option Agreement with the Southern Research Institute, or SRI, 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, 2011 and 2012. 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 since the agreement s inception.

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

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies (Continued)

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 manufacture indibulin. No milestones under the license agreement were reached or expensed during the years ended December 31, 2010 or 2011. During the year ended December 31, 2012, a milestone of $250 thousand was reached and expensed.

Exclusive Channel Partner Agreement with Intrexon Corporation

On January 6, 2011, we entered into an Exclusive Channel Partner Agreement, or 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, which we collectively refer to as the ZIOPHARM Products. Such license is exclusive with respect to any clinical development, selling, offering for sale or other commercialization of ZIOPHARM Products, and otherwise is non-exclusive. Subject to limited exceptions, 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. (see Note 2 to the financial statements, Financings)

Following the first 24 months of the agreement, Intrexon may 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.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies (Continued)

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. Subject to renewal or extension by the parties, the term of the agreement was for a one year period that expired April 8, 2009. Following such expiration, the parties continued to operate under the terms of the agreement and, during 2010, the agreement was formally extended through April 8, 2011 and again through April 8, 2012. The agreement was extended through November 8, 2012 and has now expired. The Company expensed $240 thousand during the years ended December 31, 2010 and 2011 and expensed $200 thousand during the year ended December 31, 2012 for consulting services per the aforementioned agreement. No milestones under the collaboration agreement were reached or expensed during the years ended December 31, 2010, 2011 or 2012.

Collaboration Agreement with Solasia Pharma K.K.

On March 7, 2011, the Company entered into a License and Collaboration Agreement with Solasia Pharma K.K., or Solasia.

Pursuant to the License and Collaboration Agreement, the Company 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.

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

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies (Continued)

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 License and Collaboration 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.

CRO Services Agreement with PPD Development, L. P.

The Company is party to a Master Clinical Research Organization Services Agreement with PPD Development, L. P., or PPD, 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, or CRO, services in support of the Company s clinical trials. PPD is entitled to cumulative payments of up to $23.0 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 year ended December 31, 2012, additional enrollment-based and contract modification milestones were met and expensed totaling $3.8 million.

CRO Services Agreement with Pharmaceutical Research Associates, Inc.

On December 13, 2011, we entered into a Master Clinical Research Organization Services Agreement with Pharmaceutical Research Associates, Inc., or PRA, under which PRA provides CRO services in support of our clinical trials. PRA is entitled to cumulative payments of up to $19.7 million under these arrangements, which is payable by us in varying amounts upon PRA achieving specified milestones. During the year ended December 31, 2012, we expensed $7.3 million upon the achievement of various letter of intent and enrollment-based milestones.

CRO Services Agreement with Novella Clinical, Inc.

On December 4, 2008, we entered into a Master Clinical Research Organization Services Agreement with Novella Clinical, Inc., or Novella, under which PRA provides CRO services in support of our clinical trials. The work order for the newest trial being conducted by Novella was signed on November 2, 2012. Novella is entitled to cumulative payments of up to $789 thousand under these arrangements, which is payable by us in varying amounts upon Novella achieving specified milestones. During the year ended December 31, 2012, we expensed $256 thousand upon the achievement of various milestones.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

9. Warrants

The Company has issued both warrants that are accounted for as liabilities and warrants that are accounted for as equity instruments.

The Company follows accounting standards that provide guidance in assessing whether an equity-issued financial instrument is indexed to an entity s own stock for purposes of determining whether a financial instrument should be treated as a derivative and classified as a liability. Accounting standards require that liability classified warrants be recorded at their fair value at each financial reporting period and the resulting gain or loss be recorded as other income (expense) in the Statements of Operations. Fair value is measured using the binomial valuation model.

In May 2005, the Company issued 419,786 warrants to placement agents for services performed in connection with the 2005 Offering, 11,083 of which were subsequently exercised. The remaining 408,703 warrants were originally valued at $1.6 million. Subject to certain exceptions, these 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 warrants then in effect, which was initially $4.75 per share. This provision was triggered in 2006 when stock was sold at $4.63 per share in the 2006 Offering. Accordingly, the warrants were re-priced at $4.69. The provision was triggered a second time with 2009 Private Placement when stock was sold at $1.825 per share and the warrants were subsequently re-priced at $4.25. The provision was triggered again with the Company s December 2009 public offering when stock was sold at $3.10 per share and the warrants were subsequently re-priced at $3.93. Using a Black-Scholes model, the warrants were valued at $72 thousand on January 1, 2009, when the accounting standard was adopted. The reclassification attributed to adoption of the standard had the following cumulative effect on the Balance Sheets:

(in thousands)	Liabilities	Stockholders Equity	
			Deficit Accumulated During the Development
	Warrants	Warrants	Stage
As reported on December 31, 2008	$	$ 20,504	$ (85,061)
Re-classification	72	(1,638)	1,566
Balance on January 1, 2009	$ 72	$ 18,866	$ (83,495)

The following Black-Scholes pricing assumptions were used at January 1, 2009:

	January 1, 2009
Risk-free interest rate	1.55%
Expected life in years	3.42
Expected volatility	102%
Expected dividend yield	0

Also, in connection with the December 2009 public 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). The investor warrants are exercisable immediately and the underwriter warrants exercisable six months after the date of issuance. The warrants have an exercise price of $4.02 per share and have a five year term. The fair value of the 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 warrants require accounting as derivatives. The Company determined that the 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 the warrants did not meet the scope exception for determining whether the instruments require accounting as derivatives and should be classified in liabilities.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

9. Warrants (Continued)

On December 31, 2010, the liability-classified warrants were valued at $27.3 million using a Black-Scholes valuation model. The increase in the fair value of the warrant liabilities of $8.9 million for the year ended December 31, 2010 was credited to Other income, net in the Statements of Operations.

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. Accordingly, on December 31, 2011, the liability-classified warrants were valued at $19.4 million using the Binomial/Monte Carlo valuation model. The decrease in the fair value of the warrant liabilities of $7.6 million for the year ended December 31, 2011 was charged to Other income, net in the Statements of Operations. Additionally, $0.3 million of the decrease resulted from the exercise of warrants.

On December 31, 2012, the liability-classified warrants were valued at $13.0 million using a Binomial/Monte Carlo valuation model. The decrease in the fair value of the warrant liabilities of $6.1 million for the year ended December 31, 2012 was charged to Other income, net in the Statements of Operations.

The following pricing assumptions were used in the Binomial/Monte Carlo valuation model at December 31, 2012 and 2011 and the Black-Scholes valuation model at December 31, 2010:

	December 31, 2012	December 31, 2011	December 31, 2010
Risk-free interest rate	0.25%	0.05 - 0.35%	0.42 - 1.48%
Expected life in years	1.94	0.42 - 2.92	1.42 - 3.92
Expected volatility	70%	64 - 80%	75 - 116%
Expected dividend yield	0	0	0

Warrants accounted for as equity instruments include the following issuances:

During 2004, the Company issued warrants to purchase 62,621 shares of the Company s common stock to Paramount as compensation for services rendered in connection with our entering into an option agreement with Southern Research Institute. In connection with the warrants issued, the Company recorded a charge of $251 thousand to general and administrative expense. The Company has estimated the fair value of such options using the Black-Scholes model, using an assumed risk-free rate of 3.93%, and expected life of 7 years, volatility of 134% and dividend yield of 0%.

In 2005, the Company issued performance warrants to purchase 50,000 shares of the Company s common stock for services to be rendered to its investor relations consultant as compensation. In connection with the warrant issuance, 12,500 shares were exercisable immediately and the Company recorded a charge of $45 thousand to general and administrative expense in the year ended December 31, 2005. The Company has estimated the fair value of such options using the Black-Scholes model, using an assumed risk-free rate of 4.39%, an expected life of 5 years, volatility of 109%, and dividend yield of 0%. The remaining 37,500 warrants were cancelled in the year ended December 31, 2006 due to performance objectives not being obtained at the expiration of agreement.

In connection with the 2006 Offering completed on May 3, 2006, the Company issued warrants to purchase 2,397,392 shares of common stock to investors and 799,126 warrants to purchase common stock to the 2006

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

9. Warrants (Continued)

Placement Agents and their designees. The Company estimated the fair value of the warrants at $9.6 million and $3.5 million, respectively, using the Black-Scholes model, using an assumed risk-free rate of 5.01% and an expected life of 5 and 7 years, volatility of 100% and a dividend yield of 0%.

On February 23, 2007, as part of the 2007 Offering, the Company issued warrants to purchase 1,182,015 shares of common stock to investors and 177,302 warrants to purchase common stock to the placement agents in connection with the Company s 2007 private placement, their designees and a previously-engaged financial consultant. The Company estimated the fair value of the warrants at $4.7 million and $709 thousand respectively, using the Black-Scholes model, using an assumed risk-free rate of 4.71% and an expected life of 5 years, volatility of 93% and a dividend yield of 0%.

In connection with its 2009 private placement, the Company issued warrants to purchase an aggregate of 2,910,954 shares of common stock (including 138,617 warrants issued to the placement agents) which were exercisable immediately. The warrants have an exercise price of $2.04 per share and have a five year term. The fair value of the warrants was estimated at $4,207 thousand using a Black-Scholes model with the following assumptions: expected volatility of 105%, risk free interest rate of 2.41%, expected life of five years and no dividends. The fair value of the warrants was recorded in the equity section of the balance sheet. In October 2009, 136,986 of these warrants were exercised.

During 2010, no new warrants were issued. However, 95,505 warrants were exercised for 39,225 shares of common stock. Of these warrants, 70,738 were equity-classified and 24,767 were liability-classified. Additionally, 12,500 equity-classified warrants expired without being exercised.

During 2011, no new warrants were issued. However, 2,516,968 warrants were exercised for 2,377,571 shares of common stock. Of these warrants, 2,351,417 were equity-classified and 165,551 were liability-classified. Additionally, 277,910 equity-classified warrants expired without being exercised.

During 2012, no new warrants were issued. However, 553,914 warrants were exercised for 259,660 shares of common stock. Of these warrants, 186,297 were equity-classified and 373,617 were liability-classified. Additionally, 1,359,317 equity-classified warrants and 579 liability-classified warrants expired without being exercised.

The following is a summary of warrants outstanding as of December 31, 2012.

Number of Warrants	Issued in Connection With	Exercise Price	Expiration Date
706,708	Placement warrants for services performed	$ 5.09	May 3, 2013
2,399,739	Investor warrants	$ 2.04	September 15, 2014
40,298	Placement warrants for services performed	$ 2.04	September 15, 2014
7,726,000	Investor warrants	$ 4.02	December 9, 2014
324,709	Underwriter warrants for services performed	$ 4.02	December 9, 2014
11,197,454			

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

10. Income Taxes

There is no provision for income taxes because the Company has incurred operating losses since inception. The reported amount of income tax expense for the years differs from the amount that would result from applying domestic federal statutory tax rates to pretax losses primarily because of the changes in the valuation allowance. Significant components of the Company s deferred tax assets at December 31, 2012 and 2011 are as follows:

	December 31,	
(in thousands)	**2012**	**2011**
Net operating loss carryforwards	$ 42,715	$ 18,283
Start-up and organizational costs	44,262	40,047
Research and development credit carryforwards	18,388	8,885
Stock compensation	991	702
Capitalized acquisition costs	13,270	6,400
Deferred revenue	1,388	
Depreciation	331	170
Other	998	306
	122,343	74,793
Less valuation allowance	(122,343)	(74,793)
Net deferred tax assets	$	$

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At December 31, 2012, the Company has aggregate net operating loss carryforwards for federal tax purposes of approximately $111.5 million available to offset future federal taxable income to the extent permitted under the Internal Revenue Code of 1986, as amended, or IRC, expiring in varying amounts through 2031. Additionally, the Company has approximately $20.0 million of research and development credits at December 31, 2012, expiring in varying amounts through 2031, which may be available to reduce future taxes. The research and development credit expired at the end of December 31, 2011, as a result, the Company cannot recognize a benefit for the year ended December 31, 2012 related to the credits generated by qualified research expenditures, or QRE s, paid or incurred after December 31, 2011. The credit was reinstated in January 2013; a resulting benefit for the credit will be recorded in the first quarter of 2013.

Under the IRC Section 382, certain substantial changes in the Company s ownership may limit the amount of net operating loss carryforwards that can be utilized in any one year to offset future taxable income. The net operating loss carryforwards for the year ended December 31, 2012 includes approximately $4.1 million resulting from excess tax deductions from stock options. Pursuant to ASC 740, the deferred tax asset relating to excess tax benefits generated from exercises of stock options was not recognized for financial statement purposes.

Section 382 of the IRC provides limits to which a corporation that has undergone a change in ownership (as defined) can utilize any net operating loss, or NOL, and general business tax credit carryforwards it may have. The Company commissioned an analysis to determine whether Section 382 could limit the use of its carryforwards in this manner. After completing the analysis, it was determined an ownership change had occurred in February 2007. As a result of this change, the Company s NOL s and general business tax credits from February 23, 2007 and prior would be completely limited under IRC Section 382. The deferred tax assets related to NOL s and general business credits have been reduced by $11.2 million and $636 thousand, respectively, as a result of the change. The losses may be further limited under Section 382 as the analysis has not been updated through 2012.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

10. Income Taxes (Continued)

The Company has provided a valuation allowance for the full amount of these net deferred tax assets, since it is more likely than not that these future benefits will not be realized. However, these deferred tax assets may be available to offset future income tax liabilities and expenses. The valuation allowance increased by $47.6 million primarily due to net operating loss carryforwards, start-up and organizational costs, and the increase in research and development credits.

A reconciliation of income tax expense/(benefit) at the statutory federal income tax rate and income taxes as reflected in the financial statements is as follows:

	Year ended December 31,		
(in thousands)	**2012**	**2011**	**2010**
Federal income tax at statutory rates	34.0%	34.0%	34.0%
State income tax, net of federal tax benefit	4.6%	6.0%	4.3%
Research and development credits	9.7%	11.1%	0.0%
Stock compensation	(1.0)%	(0.5)%	(0.1)%
Uncertain tax position adjustment	0.0%	0.0%	(15.4)%
Change in warrant value	2.1%	3.7%	(9.3)%
Federal R&D tax grant	0.0%	0.0%	0.8%
Other	0.0%	0.0%	1.5%
Increase in valuation allowance	(49.4)%	(54.2)%	(15.8)%
Effective tax rate	0.0%	0.0%	0.0%

The Company adopted ASC740, Accounting for Uncertain Tax Positions on January 1, 2007. ASC740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. ASC 740 prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. The Company did not establish any additional reserves for uncertain tax liabilities upon adoption of ASC 740. A summary of the company s adjustments to its uncertain tax positions in the years ended December 31, 2012, 2011, and 2010 are as follows:

(in thousands)	
Balance at December 31, 2009	$ 238
Increase/Decrease for tax positions related to the current year	
Increase/Decrease for tax positions related to prior years	37
Decreases for settlements with applicable taxing authorities	
Decreases for lapses of statute of limitations	
Balance at December 31, 2010	275
Increase/Decrease for tax positions related to the current year	
Increase/Decrease for tax positions related to prior years	
Decreases for settlements with applicable taxing authorities	
Decreases for lapses of statute of limitations	

Balance at December 31, 2011	$ 275
Increase/Decrease for tax positions related to the current year	
Increase/Decrease for tax positions related to prior years	
Decreases for settlements with applicable taxing authorities	
Decreases for lapses of statute of limitations	
Balance at December 31, 2012	$ 275

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

10. Income Taxes (Continued)

The Company has not recognized any interest and penalties in the statement of operations because of the Company s net operating losses and tax credits that are available to be carried forward. When necessary, the Company will account for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes. The Company does not expect the amounts of unrecognized benefits will change significantly within the next twelve months.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and state jurisdictions for the years ended December 31, 1999 through 2012.

11. Preferred Stock and Stockholders Equity

On April 26, 2006, the date of the Company s annual stockholders meeting that year, the shareholders approved the adoption of an Amended and Restated Certificate of Incorporation pursuant to which the Company has 280,000,000 shares of authorized capital stock, of which 250,000,000 shares are designated as common stock (par value $.001 per share), and 30,000,000 shares are designated as preferred stock (par value $.001 per share), which the Company refers to as the Preferred Stock.

Common Stock

In September 2003, the Company issued 1,001,949 shares of common stock at $0.50 per share for gross proceeds of $500 thousand.

In January 2004, the Company issued 9,017,538 shares of common stock at $0.50 per share for gross proceeds of $4.5 million.

In February 2004, the Company amended its articles of incorporation to provide for the combination of the Company s common stock, par value $0.001 per share on a 1-for-4 basis.

On June 6, 2005, the Company completed the 2005 Offering (see Note 2 to the financial statements, Financings). As a result of the Merger, all shares of the Series A Preferred Stock were automatically converted into the number of shares of common stock that the holders of Series A Preferred Stock would have received if their shares of Series A Preferred Stock had been converted into common stock immediately prior to the Merger.

On May 3, 2006, pursuant to subscription agreements between the Company and certain institutional and other accredited investors, the Company completed the sale of an aggregate of 7,991,256 shares of the Company s common stock at a price of $4.63 per share in the 2006 Offering. The total gross proceeds resulting from the 2006 Offering was approximately $37 million, before deducting selling commissions and expenses.

On February 23, 2007, pursuant to subscription agreements between the Company and certain institutional and other accredited investors, the Company completed the sale of an aggregate of 5,910,049 shares of the Company s common stock at a price of $5.225 per share in a private placement. The total gross proceeds resulting from the 2007 Offering was approximately $30.9 million, before deducting selling commissions and expenses.

On September 15, 2009, pursuant to subscription agreements between the Company and certain institutional and other accredited investors, the Company completed the sale of an aggregate of 2,772,337 shares of the Company s common stock at a price of $1.825 per share in a private placement. The total gross proceeds resulting from the September 2009 Offering was approximately $5.1 million, before deducting selling commissions and expenses (see Note 2 to the financial statements, Financings).

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

11. Preferred Stock and Stockholders Equity (Continued)

On December 9, 2009, pursuant to underwriting agreement between the Company and certain brokers, the Company completed the sale of an aggregate of 15,484,000 shares of the Company s common stock at a price of $3.10 per share in a private placement. The total gross proceeds resulting from the 2009 public offering was approximately $48.0 million, before deducting selling commissions and expenses (see Note 2 to the financial statements, Financings).

On June 2, 2010, pursuant to underwriting agreement between the Company and certain brokers, the Company completed the sale of an aggregate of 7,000,000 shares of the Company s common stock at a price of $5.00 per share in a public offering. The total gross proceeds resulting from the 2010 public offering were approximately $35.0 million, before deducting selling commissions and expenses (see Note 2 to the financial statements, Financings).

On January 6, 2011, and in conjunction with the Company s execution and delivery of a Channel Agreement, the Company entered into a Stock Purchase Agreement and Registration Rights Agreement. On January 12, 2011, and pursuant to that Stock Purchase Agreement, the Company sold 2,426,235 shares of the Company s common stock in a private placement for a total purchase price of $11.6 million, or $4.80 per share. The Company simultaneously issued an additional 3,636,926 shares of its common stock for a cash purchase price equal to the $0.001 par value of such shares, which price was deemed paid in partial consideration for the execution and delivery of the Channel Agreement (see Note 2, Financings).

On February 3, 2011, pursuant to underwriting agreement between the Company and certain brokers, the Company completed the sale of an aggregate of 11,040,000 shares of the Company s common stock at a price of $5.75 per share in a public offering. The total gross proceeds resulting from the 2011 public offering were approximately $63.5 million, before deducting selling commissions and expenses (see Note 2 to the financial statements, Financings).

On January 20, 2012, pursuant to an underwriting agreement between the Company and J. P. Morgan Securities LLC, as representative of the several underwriters named therein, the Company completed the sale of an aggregate 10,114,401 shares of the Company s common stock at a price of $5.20 per share in a public offering. The total gross proceeds resulting from the 2012 public offering were approximately $52.6 million, before deducting selling commissions and expenses (see Note 2 to the financial statements, Financings).

On November 7, 2012, the Company issued 3,636,926 shares of our common stock, which we refer to as the Milestone Shares, to Intrexon under the terms of its Stock Purchase Agreement with Intrexon dated January 6, 2011. Under the terms of the Stock Purchase Agreement with Intrexon, the Company agreed to issue the Milestone Shares under certain conditions upon dosing of the first patient in a ZIOPHARM-conducted Phase 2 clinical trial in the Unites States, or similar study as the parties may agree in a country other than the United States, of a product candidate that is created, produced, developed or identified directly or indirectly by us during the term of the Channel Agreement and that, subject to certain exceptions, involves DNA administered to humans for expression of anti-cancer effectors for the purpose of treatment or prophylaxis of cancer. On October 24, 2012, the Company initiated dosing in a Phase 2 study of ZIN-ATI-001 for unresectable Stage III or IV melanoma, triggering the issuance of the Milestone Shares.

As of December 31, 2012, the Company had 83,236,840 shares of common stock issued and outstanding and no shares of Preferred Stock issued and outstanding.

Series A Preferred Stock

All shares of Series A Preferred Stock have been converted into shares of common stock of the Company.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

11. Preferred Stock and Stockholders Equity (Continued)

Preferred Stock

The Company s Board of Directors are authorized to designate any series of Preferred Stock, to fix and determine the variations in relative rights, preferences, privileges and restrictions as between and among such series.

12. Stock Option Plan

The Company adopted the 2003 Stock Option Plan, or the 2003 Plan, in 2003, under which the Company initially reserved for the issuance of 1,252,436 shares of its common stock. The 2003 Plan was approved by the Company s stockholders on December 21, 2004. On June 23, 2010, June 4, 2009, April 25, 2007 and April 26, 2006, the dates of the Company s annual stockholders meetings during such years, the Company s stockholders approved amendments to the 2003 Plan increasing the total shares reserved by 3,000,000, 2,000,000, 2,000,000 and 750,000 shares, respectively, for a total of 9,002,436 shares. Upon approval of the 2012 Equity Incentive Plan, no additional stock awards may be granted under the 2003 Plan.

The Company adopted the 2012 Equity Incentive Plan, or the 2012 Plan, in May 2012, under which the Company initially reserved for the issuance of 4,000,000 shares of its common stock. The 2012 Plan was approved by the Company s stockholders on June 20, 2012.

As of December 31, 2012, the Company had outstanding options issued to its employees to purchase up to 6,284,408 shares of the Company s common stock, to its directors to purchase up to 862,645 shares of the Company s common stock, as well as options to consultants in connection with services rendered to purchase up to 250 shares of the Company s common stock.

Stock options to employees generally vest ratably over three years and have contractual terms of ten years. Stock options to directors generally vest ratably over two or three years and have contractual terms of ten years. Stock options are valued using the Black-Scholes option pricing model and compensation is recognized based on such fair value over the period of vesting on a straight-line basis. The Company has also reserved an aggregate of 45,823 additional shares for issuance under options granted outside of the 2003 Stock Option Plan. The options were granted to The University of Texas M. D. Anderson Cancer Center and DEKK-Tec, Inc. (see Note 8 to the financial statements, Commitments and Contingencies). During the year ended December 31, 2007, the Company recorded a $120 thousand stock compensation expense in connection with the Company achieving a predetermined development milestone, which triggered the vesting of 25,111 of the options granted outside of the 2003 Stock Option Plan. The 25,111 options were exercised on August 13, 2007. Proceeds from this exercise amounted to $50 thousand and the intrinsic value of these options amounted to $104 thousand. During 2010, the Company recorded an expense of $27 thousand when 6,904 DEKK-Tec stock options vested upon achieving Phase 3 milestones.

Proceeds from the 2012, 2011, and 2010 exercises amounted to $30 thousand, $980 thousand, and $225 thousand, respectively. The intrinsic value of these options amounted to $11 thousand, $2.5 million and $880 thousand for years ended December 31, 2012, 2011 and 2010, respectively.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

12. Stock Option Plan (Continued)

Transactions under the Plan for the years ending December 31, 2012, 2011, and 2010 were 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, 2009	3,534,686	$ 2.82		
Granted	1,293,000	4.55		
Exercised	(196,167)	1.19		
Cancelled	(64,584)	4.36		
Outstanding, December 31, 2010	4,566,935	2.82		
Granted	1,894,300	5.65		
Exercised	(479,666)	2.04		
Cancelled	(843,083)	5.01		
Outstanding, December 31, 2011	5,138,486	4.08		
Granted	2,309,650	4.36		
Exercised	(8,300)	3.61		
Cancelled	(292,533)	5.70		
Outstanding, December 31, 2012	7,147,303	$ 4.11	7.26	$ 3,973
Vested and unvested expected to vest at December 31, 2012	7,096,125	$ 3.56	5.28	$ 3,944
Options exercisable, December 31, 2012	3,683,786	$ 3.56	5.28	$ 3,972
Options exercisable, December 31, 2011	2,911,186	$ 3.21	5.52	$ 4,232
Options available for future grant	1,706,020			

At December 31, 2012, total unrecognized compensation costs related to non-vested stock options outstanding amounted to $9.9 million. The cost is expected to be recognized over a weighted-average period of 1.73 years.

Restricted Stock

In March and April 2010, the Company issued 90,000 and 25,000 shares of restricted stock to its non-employee directors, respectively, all of which vested in their entirety on the one year anniversary of the grant date. In December 2009, the Company issued 347,500 shares of restricted stock to employees and 45,000 shares of restricted stock to its non-employee directors, which vested ratably in annual installments over three

and two years, respectively, commencing on the first anniversary of the grant date. In September 2009, the Company issued 828,000 shares of restricted stock to employees and 180,000 shares of restricted stock to its board of directors, all of which vested in their entireties on the one year anniversary of the grant date. In December 2008, the Company issued 396,500 shares of restricted stock to employees and 90,000 shares of restricted stock to its board of directors, all of which vested in December 2009. Also, in January 2008, the Company issued 100,000 shares of restricted stock to one employee which vested ratably over a three-year period. In 2007, the Company issued 70,000 shares of restricted stock to several employees which vested in December 2008. During the years ended December 31, 2012, 2011 and 2010, $1.7 million, $635 thousand and $2.4 million of compensation expense was recognized, respectively.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

12. Stock Option Plan (Continued)

In July and December 2012, the Company repurchased 15,740 and 107,413 shares at $6.06 and $4.19 per share, respectively, to cover payroll taxes. In January and December 2011, the Company repurchased 15,190 shares and 44,369 shares at $5.14 and $4.41 per share, respectively, to cover payroll taxes. In January, September and December 2010, the Company repurchased 15,283 shares, 349,710 shares and 51,116 shares at $3.10, $3.95 and $4.66 per share, respectively, to cover payroll taxes. In December 2009, the Company repurchased 103,823 shares of vested restricted stock from employees at $3.66 per share to cover payroll taxes. A summary of the status of non-vested restricted stock as of December 31, 2012, 2011 and 2010 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested, December 31, 2009	1,467,167	$ 2.30
Granted	115,000	5.15
Vested	(1,182,164)	2.19
Cancelled	(51,250)	4.40
Non-vested, December 31, 2010	348,753	2.30
Granted	848,406	4.52
Vested	(229,586)	3.56
Cancelled	(16,667)	2.85
Non-vested, December 31, 2011	950,906	4.34
Granted	258,032	4.39
Vested	(351,829)	4.32
Cancelled	(123,370)	4.34
Non-vested, December 31, 2012	733,739	$ 4.37

As of December 31, 2012, there was $2.8 million of total unrecognized stock-based compensation expense related to non-vested restricted stock arrangements. The expense is expected to be recognized over a weighted-average period of 1.53 years.

13. Employee Benefit Plan

The Company sponsors a qualified 401(k) Retirement Plan under which employees are allowed to contribute certain percentages of their pay, up to the maximum allowed under Section 401(k) of the IIRC. The Company may make contributions to this plan at its discretion. The Company contributed approximately $266 thousand, $38 thousand, and $21 thousand to this plan during the years ended December 31, 2012, 2011, and 2010, respectively.

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ZIOPHARM Oncology, Inc. (a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

14. Selected Quarterly Information (Unaudited)
(in thousands, except per share amount)

Year Ended December 31, 2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 200	$ 200	$ 200	$ 200
Total operating expenses	18,833	23,166	21,927	39,043
Loss from operations	(18,633)	(22,966)	(21,727)	(38,843)
Change in fair value of warrants	(5,811)	(650)	3,945	8,566
Net (loss)	(24,470)	(23,613)	(17,824)	(30,225)
Loss per share, basic and diluted	$ (0.32)	$ (0.30)	$ (0.23)	$ (0.37)

Year Ended December 31, 2011	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 67	$ 200	$ 200	$ 200
Total operating expenses	27,993	13,048	14,409	16,617
Loss from operations	(27,926)	(12,848)	(14,209)	(16,417)
Change in fair value of warrants	(11,080)	2,115	13,388	3,160
Net (loss)	(39,008)	(10,724)	(802)	(13,244)
Loss per share, basic and diluted	$ (0.65)	$ (0.16)	$ (0.01)	$ (0.19)

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EXHIBIT INDEX

Exhibit No.	Description of Document
23.1	Consent of Independent Registered Public Accounting Firm McGladrey LLP
23.2	Consent of Independent Registered Public Accounting Firm Caturano and Company, Inc.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Filed as an exhibit to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed March 18, 2013.