Onconova Therapeutics, Inc.
Form 10-Q
September 06, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

Or

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

Commission file number: 001-36020

Onconova Therapeutics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**22-3627252**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
375 Pheasant Run, Newtown, PA	**18940**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(267) 759-3680**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. o 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

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

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

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

The number of outstanding shares of the registrant s common stock, par value $0.01 per share, as of August 30, 2013 was 21,403,655

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ONCONOVA THERAPEUTICS, INC.

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FOR THE QUARTER ENDED JUNE 30, 2013

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Onconova Therapeutics, Inc.

Condensed Consolidated Balance Sheets

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 51,181,000	$ 81,527,000
Prepaid expenses and other current assets	5,867,000	1,725,000
Total current assets	57,048,000	83,252,000
Property and equipment, net	729,000	463,000
Restricted cash	125,000	125,000
Other non-current assets	12,000	12,000
Total assets	$ 57,914,000	$ 83,852,000
Liabilities, redeemable convertible preferred stock and stockholders deficit		
Current liabilities:		
Accounts payable	$ 4,410,000	$ 5,517,000
Accrued expenses and other current liabilities	5,338,000	3,925,000
Warrant liability	50,000	62,000
Option liability		11,967,000
Deferred revenue	3,509,000	3,907,000
Total current liabilities	13,307,000	25,378,000
Deferred revenue, non-current	14,136,000	15,421,000
Other	47,000	44,000
Total liabilities	27,490,000	40,843,000
Commitments and contingencies		
Redeemable convertible preferred stock, $0.01 par value per share, 18,548,253 shares authorized at June 30, 2013 and December 31, 2012, 16,912,199 issued and outstanding at June 30, 2013 and December 31, 2012, liquidation preference of $205,760,000 at June 30, 2013	203,366,000	201,315,000
Stockholders deficit:		
Common stock, $0.01 par value, 30,145,155 authorized at June 30, 2013 and December 31, 2012, 2,609,484 and 2,606,484 shares issued and outstanding at June 30, 2013 and December 31, 2012	26,000	26,000
Additional paid in capital	22,787,000	10,021,000
Accumulated other comprehensive income	5,000	
Accumulated deficit	(195,760,000)	(168,353,000)
Total stockholders deficit	(172,942,000)	(158,306,000)
Total liabilities, redeemable convertible preferred stock and stockholders deficit	$ 57,914,000	$ 83,852,000

See accompanying notes to condensed consolidated financial statements.

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Onconova Therapeutics, Inc.

Condensed Consolidated Statements of Operations (unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenue	$ 591,000	$ 220,000	$ 1,707,000	$ 418,000
Operating expenses:				
General and administrative	3,117,000	1,627,000	6,463,000	4,087,000
Research and development	10,047,000	6,776,000	22,803,000	15,224,000
Total operating expenses	13,164,000	8,403,000	29,266,000	19,311,000
Loss from operations	(12,573,000)	(8,183,000)	(27,559,000)	(18,893,000)
Change in fair value of warrant liability	(2,000)	999,000	12,000	390,000
Interest expense	(2,000)	(230,000)	(2,000)	(251,000)
Other income (expense), net	15,000	(2,000)	142,000	539,000
Net loss before income taxes	(12,562,000)	(7,416,000)	(27,407,000)	(18,215,000)
Income taxes				
Net loss	(12,562,000)	(7,416,000)	(27,407,000)	(18,215,000)
Accretion of redeemable convertible preferred stock	(1,032,000)	(927,000)	(2,051,000)	(2,158,000)
Net loss applicable to common stockholders	$ (13,594,000)	$ (8,343,000)	$ (29,458,000)	$ (20,373,000)
Net loss per share of common stock, basic and diluted	$ (5.21)	$ (3.84)	$ (11.29)	$ (9.37)
Basic and diluted weighted average shares outstanding	2,609,495	2,173,549	2,608,450	2,173,549

See accompanying notes to condensed consolidated financial statements.

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Onconova Therapeutics, Inc.

Condensed Consolidated Statements of Comprehensive Loss (unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net loss	$ (12,562,000)	$ (7,416,000)	$ (27,407,000)	$ (18,215,000)
Other comprehensive (loss) income, before tax:				
Foreign currency translation adjustments, net	(2,000)		5,000	
Other comprehensive (loss) income, net of tax	(2,000)		5,000	
Comprehensive loss	$ (12,564,000)	$ (7,416,000)	$ (27,402,000)	$ (18,215,000)

See accompanying notes to condensed consolidated financial statements.

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Onconova Therapeutics, Inc.

Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders Deficit (unaudited)

	Redeemable Convertible Preferred Stock		Stockholders Deficit					
			Common Stock		Additional Paid in Capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
	Shares	**Amount**	**Shares**	**Amount**				
Balance at January 1, 2013	16,912,199	$ 201,315,000	2,606,484	$ 26,000	$ 10,021,000	$ (168,353,000)	$	$ (158,306,000)
Net loss						(27,407,000)		(27,407,000)
Other comprehensive income							5,000	5,000
Exercise of stock options			3,000		44,000			44,000
Stock-based compensation					291,000			291,000
Accretion of preferred stock to redemption value		2,051,000			(2,051,000)			(2,051,000)
Modification of stock option awards					14,482,000			14,482,000
Balance at June 30, 2013	16,912,199	$ 203,366,000	2,609,484	$ 26,000	$ 22,787,000	$ (195,760,000)	$ 5,000	$ (172,942,000)
Balance at January 1, 2012	11,227,169	$ 119,997,000	2,167,928	$ 22,000	$	$ (138,441,000)	$	$ (138,419,000)
Net loss						(18,215,000)		(18,215,000)
Exercise of stock options			5,700		9,000			9,000
Settlement of stock option liabilities					34,000			34,000
Issuance of preferred stock upon exercise of warrants	221,399	2,802,000						
Accretion of preferred stock to redemption value		2,158,000			(43,000)	(2,115,000)		(2,158,000)
Balance at June 30, 2012	11,448,568	$ 124,957,000	2,173,628	$ 22,000	$	$ (158,771,000)	$	$ (158,749,000)

See accompanying notes to condensed consolidated financial statements.

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Onconova Therapeutics, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended June 30, 2013	2012
Operating activities:		
Net loss	$ (27,407,000)	$ (18,215,000)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	207,000	157,000
Change in fair value of warrant liabilities	(12,000)	(390,000)
Stock compensation expense	2,844,000	2,540,000
Changes in assets and liabilities:		
Grants receivable		19,000
Prepaid expenses and other current assets	(4,142,000)	177,000
Accounts payable	(1,107,000)	(2,532,000)
Accrued expenses	1,413,000	2,644,000
Other liabilites	3,000	(20,000)
Deferred revenue	(1,683,000)	3,373,000
Net cash used in operating activities	(29,884,000)	(12,247,000)
Investing activities:		
Payments for purchase of property and equipment	(473,000)	(6,000)
Net cash used in investing activities	(473,000)	(6,000)
Financing activities:		
Proceeds from the exercise of stock options	6,000	9,000
Proceeds from the exercise of warrants		2,167,000
Proceeds from the sale of Series H preferred stock		400,000
Proceeds from stockholder loan and convertible debt		9,486,000
Net cash provided by financing activities	6,000	12,062,000
Effect of foreign currency translation on cash	5,000	
Net decrease in cash and cash equivalents	(30,346,000)	(191,000)
Cash and cash equivalents at beginning of period	81,527,000	2,713,000
Cash and cash equivalents at end of period	$ 51,181,000	$ 2,522,000

See accompanying notes to condensed consolidated financial statements.

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Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Business

The Company

Onconova Therapeutics, Inc. (the Company) was incorporated in the State of Delaware on December 22, 1998 and commenced operations on January 1, 1999. The Company s headquarters are located in Newtown, Pennsylvania. The Company is a clinical-stage biopharmaceutical company focused on discovering and developing novel small molecule drug candidates to treat cancer. Using its proprietary chemistry platform, the Company has created an extensive library of targeted anti-cancer agents designed to work against specific cellular pathways that are important to cancer cells. The Company believes that the drug candidates in its pipeline have the potential to be efficacious in a wide variety of cancers without causing harm to normal cells. The Company has three clinical-stage product candidates and six preclinical programs. To accelerate and broaden the development of rigosertib, the Company s most advanced product candidate, the Company entered into a collaboration and license agreement with Baxter Healthcare SA (Baxter), a subsidiary of Baxter International Inc., in 2012 to commercialize rigosertib in Europe. In 2011, the Company entered into a collaboration and license agreement with SymBio Pharmaceuticals Limited (SymBio) to commercialize rigosertib in Japan and Korea. The Company has retained development and commercialization rights to rigosertib in the rest of the world, including the United States. During 2012, Onconova Europe GmbH was established as a wholly owned subsidiary of the Company for the purpose of further developing business in Europe.

Liquidity

The Company has incurred recurring operating losses since inception. For the six months ended June 30, 2013, the Company incurred a net loss of $27,407,000 and as of June 30, 2013, the Company had generated an accumulated deficit of $195,760,000. The Company anticipates operating losses to continue for the foreseeable future due to, among other things, costs related to research funding, development of its product candidates and its preclinical programs, strategic alliances and the development of its administrative organization.

The Company has raised significant capital through the issuance of its redeemable convertible preferred stock, par value $0.01 per share, in ten series denominated as Series A through Series J (Series A Preferred Stock through Series J Preferred Stock, respectively, and collectively the Preferred Stock). See Note 6.

On July 30, 2013, the Company completed its initial public offering (the IPO) of 5,941,667 shares of the Company s common stock, par value $0.01 per share (Common Stock), at a price of $15.00 per share, including 775,000 shares of Common Stock issued upon the exercise in full by the underwriters of their option to purchase additional shares at the same price to cover over-allotments. The Company received net proceeds of $79,600,000 from the sale, net of underwriting discounts and commissions and other estimated offering expenses. Immediately prior to the consummation of the IPO, all outstanding shares of Preferred Stock automatically converted into shares of Common Stock at the applicable conversion ratio then in effect. As a result of the conversion, as of July 30, 2013, the Company had no shares of Preferred Stock outstanding.

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company s ability to continue as a going concern is dependent on its ability to raise additional capital to fund its research and development and commercial programs and meet its obligations. Management intends to fund future operations through additional equity offerings, licensing revenue, grants, government contracts and, if any of the Company s product candidates receive marketing approval, future sales of its products. There can be no assurance, however, that the Company will be successful in obtaining financing at the level needed to sustain operations or on terms acceptable to the Company, or that the Company will obtain approvals necessary to market its products or achieve profitability or sustainable, positive cash flow.

The Company faces many risks associated with companies in the early stages. It also faces risks inherent in its business and its industry generally. These risks include, among others, the following:

• the Company s success is primarily dependent on the regulatory approval and commercialization of rigosertib;

• the Company is subject to regulatory approval processes that are lengthy, time consuming, expensive and unpredictable. The Company may not obtain approval on a timely basis or at all for any of its product candidates from the U.S. Food and Drug Administration or foreign regulatory authorities;

• the Company has no significant source of product revenue, may never become profitable and may incur substantial and increasing net losses for the foreseeable future as it continues to develop and seek regulatory approvals for, and potentially begins to commercialize, its product candidates;

• the Company may need to obtain additional funding to continue operations;

• it is difficult and costly to protect the Company s intellectual property rights;

• the Company may be unable to recruit or retain key employees, including its senior management team; and

• the Company depends on the performance of third parties, including contract research organizations and third-party manufacturers.

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Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

2. Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP) for interim financial information. Certain information and footnotes normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements include the consolidated accounts of the Company and its wholly-owned subsidiary, Onconova Europe GmbH. All significant intercompany transactions have been eliminated.

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of June 30, 2013, the condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2013 and 2012, the condensed consolidated statements of redeemable convertible preferred stock and stockholders deficit and the condensed consolidated statements of cash flows for the six months ended June 30, 2013 and 2012 are unaudited. The interim unaudited condensed consolidated financial statements have been prepared on the same basis as the annual audited consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company s financial position as of June 30, 2013 and the results of its operations, its comprehensive loss and its cash flows for the six months ended June 30, 2013 and 2012. The financial data and other information disclosed in these notes related to the six months ended June 30, 2013 and 2012 are unaudited. The results for the six months ended June 30, 2013 are not necessarily indicative of results to be expected for the year ending December 31, 2013, any other interim periods, or any future year or period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2012 included in the Company s final prospectus filed on July 25, 2013 with the Securities and Exchange Commission (the SEC) pursuant to Rule 424(b)(4) of the Securities Act of 1933, as amended (the Securities Act).

Segment Information

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one segment, which is the identification and development of oncology therapeutics.

Significant Accounting Policies

The Company s significant accounting policies are disclosed in the audited consolidated financial statements for the year ended December 31, 2012 included in the Company s final prospectus filed on July 25, 2013 with the SEC pursuant to Rule 424(b)(4) of the Securities Act. Since the date of such financial statements, there have been no changes to the Company s significant accounting policies.

Foreign Currency Translation

The reporting currency of the Company and its U.S. subsidiary is the U.S. dollar. The functional currency of the Company s non-U.S. subsidiary is the local currency. Assets and liabilities of the foreign subsidiary are translated into U.S. dollars based on exchange rates at the end of the period. Revenues and expenses are translated at average exchange rates during the reporting period. Gains and losses arising from the translation of assets and liabilities are included as a component of accumulated other comprehensive income. Gains and losses resulting from foreign currency transactions are reflected within the Company s results of operations. The Company has not utilized any foreign currency hedging strategies to mitigate the effect of its foreign currency exposure.

Deferred Initial Public Offering Costs

Deferred IPO costs as of June 30, 2013, consisting of legal, accounting, printing and filing fees incurred in the preparation of the Company s Registration Statement on Form S-1 were capitalized. The deferred costs are included in prepaid expenses and other current assets on the consolidated balance sheets. See Note 5. The deferred offering costs were offset against the IPO proceeds upon the completion of the offering in July 2013.

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Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

2. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the FASB) amended its guidance to require an entity to present the effect of certain significant reclassifications out of accumulated other comprehensive income on the respective line items in net income. The new accounting guidance does 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. The guidance is effective prospectively for fiscal years beginning after December 15, 2012. The Company adopted these new provisions for the quarter beginning January 1, 2013. As the guidance requires additional presentation only, there was no impact to the Company s consolidated financial position, results of operations or cash flows.

In July 2013, the FASB issued guidance clarifying that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax benefit is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be netted with the deferred tax asset. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company is currently evaluating the impact that adoption will have on the determination or reporting of its financial results.

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Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

3. Fair Value Measurements

The Company applies various valuation approaches in determining the fair value of its financial assets and liabilities within a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available under the circumstances. The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary among the various types of financial assets and liabilities. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for financial statement disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is classified is based on the lowest level input that is significant to the overall fair value measurement.

The Company had no assets or liabilities classified as Level 1 or Level 2. The Series G Preferred Stock warrants (see Note 6) are classified as Level 3. The fair values of these instruments are determined using models based on market observable inputs and management judgment. There were no material re-measurements of fair value during the six months ended June 30, 2013 and the year ended December 31, 2012 with respect to financial assets and liabilities, other than those assets and liabilities that are measured at fair value on a recurring basis.

The Company has classified the Series G Preferred Stock warrants as a liability and has re-measured the liability to estimated fair value at June 30, 2013 and December 31, 2012, using the Black-Scholes option pricing model with the following assumptions: contractual life according to the remaining terms of the warrants, no dividend yield, weighted average risk-free interest rates of 0.33% and 0.31% at June 30, 2013 and December 31, 2012, respectively, and weighted average volatility of 72.07% and 64.87% at June 30, 2013 and December 31, 2012, respectively. The volatility was based on average historical share price trading data for a group of 11 comparable companies.

The following fair value hierarchy table presents information about the Company s financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012:

	Fair Value Measurement as of June 30, 2013				Fair Value Measurement as of December 31, 2012			
	Level 1	Level 2	Level 3	Balance	Level 1	Level 2	Level 3	Balance
Warrant liability	$	$	$ 50,000	$ 50,000	$	$	$ 62,000	$ 62,000
Total	$	$	$ 50,000	$ 50,000	$	$	$ 62,000	$ 62,000

The following table presents a reconciliation of the Company s liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2013:

	Warrant Liability
Balance at December 31, 2012	$ 62,000
Change in fair value upon re-measurement	(12,000)
Balance at June 30, 2013	$ 50,000

There were no transfers between Level 1 and Level 2 in any of the periods reported.

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Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

4. Net Loss Per Share of Common Stock

The following potentially dilutive securities outstanding at June 30, 2013 and 2012 have been excluded from the computation of diluted weighted average shares outstanding, as they would be antidilutive:

	June 30,	
	2013	**2012**
Preferred Stock	12,838,127	8,742,006
Warrants	4,597	4,597
Stock options	2,796,519	2,111,336
	15,639,243	10,857,939

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Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

5. Balance Sheet Detail

Prepaid expenses and other current assets:

	June 30, 2013	December 31, 2012
Research and development	$ 2,399,000	$ 1,429,000
Deferred initial public offering costs	2,285,000	
Other	1,183,000	296,000
	$ 5,867,000	$ 1,725,000

Property and equipment:

	June 30, 2013	December 31, 2012
Property and equipment	$ 2,284,000	$ 1,811,000
Accumulated depreciation	(1,555,000)	(1,348,000)
	$ 729,000	$ 463,000

Accrued expenses and other current liabilities:

	June 30, 2013	December 31, 2012
Research and development	$ 3,972,000	$ 3,521,000
Payroll	818,000	247,000
Other	548,000	157,000
	$ 5,338,000	$ 3,925,000

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Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

6. Preferred Stock and Stockholders Deficit

Capitalization

The following is the composition of share capital as of the dates indicated:

	Authorized		Issued and Outstanding	
	June 30, 2013	**December 31, 2012**	**June 30, 2013**	**December 31, 2012**
Shares of $0.01 par value per share:				
Common stock	30,145,155	30,145,155	2,609,484	2,606,484
Series A Preferred Stock	400,000	400,000	107,000	107,000
Series B Preferred Stock	1,200,000	1,200,000	1,107,189	1,107,189
Series C Preferred Stock	1,200,000	1,200,000	1,069,946	1,069,946
Series D Preferred Stock	1,625,000	1,625,000	1,583,568	1,583,568
Series E Preferred Stock	1,650,000	1,650,000	1,633,082	1,633,082
Series F Preferred Stock	2,000,000	2,000,000	2,000,000	2,000,000
Series G Preferred Stock	2,700,000	2,700,000	1,934,359	1,934,359
Series H Preferred Stock	2,042,950	2,042,950	2,013,424	2,013,424
Series I Preferred Stock	2,700,000	2,700,000	2,433,328	2,433,328
Series J Preferred Stock	3,030,303	3,030,303	3,030,303	3,030,303
Total Preferred Stock	18,548,253	18,548,253	16,912,199	16,912,199

In preparation for the IPO, the Company s board of directors and stockholders approved a one-for-1.333 reverse stock split of the Company s Common Stock. The reverse stock split became effective on July 17, 2013. All Common Stock share and per share amounts in the condensed consolidated financial statements and notes thereto have been retroactively adjusted for all periods presented to give effect to this reverse stock split, including reclassifying an amount equal to the reduction in par value of common stock to additional paid-in capital. The reverse stock split did not result in a retroactive adjustment of share amounts for the Preferred Stock.

In July 2012, the Company issued 2,433,328 shares of Series I Preferred Stock in exchange for the conversion of the convertible promissory notes and accrued interest in the amount of $26,444,000 and $323,000, respectively. The effective conversion price was $11.00 per share. Additionally, in July 2012, the Company issued 3,030,303 shares of Series J Preferred Stock at $16.50 per share for gross proceeds of $50,000,000. Issuance costs associated with this offering were $2,204,000.

Series A Preferred Stock was originally issued at $5.00 per share; Series B Preferred Stock was issued at $5.75 per share; Series C Preferred Stock was issued at $3.56 per share; Series D Preferred Stock was issued at $4.67 per share; Series E Preferred Stock was issued at $9.76 per share; Series F Preferred Stock was issued at $11.00 per share; Series G and Series H Preferred Stock were issued at $9.79 per share; Series I Preferred Stock was issued at $11.00 per share; and Series J Preferred Stock was issued at $16.50 per share.

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Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

6. Preferred Stock and Stockholders   Deficit (Continued)

The following is the activity of the Preferred Stock for the six months ended June 30, 2013:

	December 31, 2012	Issuance of Preferred Stock	Exercise of warrants	Accretion of redemption premium and issuance costs on Preferred Stock	June 30, 2013
Series A					
Shares	107,000				107,000
Amount	$ 535,000	$	$	$	$ 535,000
Series B					
Shares	1,107,189				1,107,189
Amount	$ 12,733,000	$	$	$	$ 12,733,000
Series C					
Shares	1,069,946				1,069,946
Amount	$ 7,618,000	$	$	$	$ 7,618,000
Series D					
Shares	1,583,568				1,583,568
Amount	$ 18,211,000	$	$	$	$ 18,211,000
Series E					
Shares	1,633,082				1,633,082
Amount	$ 18,780,000	$	$	$	$ 18,780,000
Series F					
Shares	2,000,000				2,000,000
Amount	$ 23,000,000	$	$	$	$ 23,000,000
Series G					
Shares	1,934,359				1,934,359
Amount	$ 22,819,000	$	$	$	$ 22,819,000
Series H					
Shares	2,013,424				2,013,424
Amount	$ 22,005,000	$	$	$ 767,000	$ 22,772,000
Series I					
Shares	2,433,328				2,433,328
Amount	$ 26,933,000	$	$	$ 200,000	$ 27,133,000
Series J					
Shares	3,030,303				3,030,303

Amount	$	48,681,000	$		$		$	1,084,000	$	49,765,000
Total										
Shares		16,912,199								16,912,199
Amount	$	201,315,000	$		$		$	2,051,000	$	203,366,000

Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

6. Preferred Stock and Stockholders Deficit (Continued)

Voting

As of June 30, 2013, each holder of outstanding shares of Preferred Stock had the right to one vote for each share of Common Stock into which such Preferred Stock could then be converted. The holders of shares of Preferred Stock had full voting rights and powers equal to the voting rights and powers of shares of Common Stock and were entitled to notice of any stockholders meeting and voted together with the holders of Common Stock, with respect to any question upon which holders of shares of Common Stock have the right to vote, as a single class, including without limitation, actions to increase or decrease the aggregate number of authorized shares of Common Stock and/or Preferred Stock.

Dividends

As of June 30, 2013, the holders of each share of Series A, Series B, Series C, Series D, Series E, Series F, Series G, Series H, Series I and Series J Preferred Stock were entitled to receive dividends when, as, and if declared by the Company s board of directors in the following order of preference: (i) the Series D, Series E, Series F, Series G, Series H, Series I and Series J Preferred Stock, which ranked pari passu; (ii) the Series B and Series C Preferred Stock, which ranked pari passu; (iii) the Series A Preferred Stock; and then (iv) Common Stock.

Liquidation

As of June 30, 2013, the assets of the Company legally available for distribution to stockholders were distributable in the following order of priority: (i) the holders of the shares of Series D, Series E, Series F, Series G, Series H, Series I and Series J Preferred Stock, which ranked pari passu; (ii) the holders of the shares of Series B and Series C Preferred Stock, which ranked pari passu; (iii) the holders of the shares of Series A Preferred Stock; and (iv) the holders of the shares of Common Stock. Each series of Preferred Stock was entitled to receive an amount per share equal to the greater of (1) the original issuance price for such series, plus all declared but unpaid dividends thereon, or (2) the amount that the holders of such series would receive per share of Common Stock if all shares of such series of Preferred Stock were converted to Common Stock immediately prior to such liquidation. If, upon a deemed liquidation event, the assets of the Company were insufficient to make payment in full to all holders of a series of Preferred Stock, then such assets would be distributed among the holders of such series of Preferred Stock at the time outstanding ratably in proportion to the full amount to which they would otherwise be respectively entitled. The holders of Common Stock were entitled to receive, after the payment of the liquidation preference of all Preferred Stock outstanding, the remaining assets of the Company on a pro rata basis.

Conversion

As of June 30, 2013, each issued and outstanding share of Preferred Stock was convertible into Common Stock at the holder s option at any time after the date of issuance or automatically upon the occurrence of certain events as defined in the Company s ninth amended and restated certificate of incorporation, at a defined conversion rate. At June 30, 2013, the number of shares of Common Stock into which one share of each series of Preferred Stock was convertible was as follows, after giving effect to the reverse stock split discussed in Note 11: the Series A Preferred Stock, 0.80; the Series B Preferred Stock, 0.85; the Series C Preferred Stock, 0.75; the Series D Preferred Stock, 0.75; the Series E Preferred Stock, 0.75; the Series F Preferred Stock, 0.77; the Series G

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Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

6. Preferred Stock and Stockholders Deficit (Continued)

Preferred Stock, 0.75; the Series H Preferred Stock, 0.75; the Series I Preferred Stock, 0.75; and the Series J Preferred Stock, 0.75.

The conversion price for each share of Preferred Stock was subject to adjustment upon the occurrence of certain events. The conversion price of each share of a series of Preferred Stock was adjusted if the Company issued additional shares, subject to specified exceptions, at a price lower than the then current conversion price for such series, which is measured and recognized if the contingency occurs.

On July 30, 2013, immediately prior to the consummation of the IPO, all outstanding shares of Preferred Stock automatically converted in shares of Common Stock at the applicable conversion ratio then in effect. See Note 11.

Redemption

To the extent it was then lawfully able to do so, the Company was required at any time, upon written request of the holders of at least 66.67% of the then outstanding Series A, Series B and Series C Preferred Stock collectively, or upon written request of the holders of at least a majority of the then outstanding shares of Series D, Series E and Series F Preferred Stock collectively, in each case as determined on an as-converted to Common Stock basis, to redeem the requested number of outstanding shares of Series A Preferred Stock at $5.00 per share, Series B Preferred Stock at $11.50 per share, and Series C Preferred Stock at $7.12 per share, and/or Series D, E and F Preferred Stock at $11.50 per share, as the case may be.

In addition, to the extent it was lawfully able to do so, the Company was required at any time, upon written request of the holders of at least a majority of the then outstanding shares of Series G Preferred Stock, to redeem, from the holders requesting such redemption, the requested number of outstanding shares of Series G Preferred Stock at $11.50 per share.

To the extent it would have been lawfully able to do so, the Company would have been required at any time on or after September 21, 2013, upon written request of the holders of at least a majority of the then outstanding shares of Series H Preferred Stock, to redeem, from the holders requesting such redemption, the requested number of outstanding shares of Series H Preferred Stock at $11.50 per share.

To the extent it would have been lawfully able to do so, the Company would have been required at any time on or after July 25, 2015, upon written request of the holders of at least a majority of the then outstanding shares of Series I Preferred Stock, to redeem, from the holders requesting such redemption, the requested number of outstanding shares of Series I Preferred Stock at $11.50 per share.

To the extent it would have been lawfully able to do so, the Company would have been required at any time on or after July 27, 2015, upon written request of the holders of at least a majority of the then outstanding shares of Series J Preferred Stock, to redeem, from the holders requesting such redemption, the requested number of outstanding shares of Series J Preferred Stock at $18.00 per share.

If, upon any applicable redemption date, defined as sixty days after the Company receives the written request for redemption, the funds of the Company legally available for redemption of Preferred Stock would have been insufficient to redeem the total number of shares to be redeemed on that date, those funds that were legally available would have been used to redeem the maximum possible number of shares, ratably among the holders of such shares to be redeemed. All remaining shares not redeemed would have remained outstanding until such time as additional funds become legally available for redemption.

If more than one series of Preferred Stock had been contemporaneously subject to redemption, the redemption rights of the Preferred Stock would have followed the liquidation order of priority.

As of June 30, 2013, Preferred Stock with an aggregate redemption value of $103,122,000 was redeemable. During 2013 and 2015, additional shares of Preferred Stock with an aggregate redemption value of $23,154,000 and $82,529,000, respectively, would have become redeemable at the option of the holders of Preferred Stock.

Series G Preferred Stock Warrant Transactions

The Company issued 6,128 Series G Preferred Stock warrants in connection with a Loan and Security Agreement. Additionally, the Company issued one Series G Preferred Stock warrant for every two shares of Series G Preferred Stock purchased in 2009 and 2010. The warrants were initially recorded at their fair value calculated using the Black-Scholes model, with the following weighted average assumptions: exercise price of $9.79, share price of $9.79, expected term of three years, risk-free rate of 1.52% and volatility of 85.46%. The warrants are classified as liabilities because they are exercisable for Preferred Stock, and the value of the warrants is adjusted to current fair value at each reporting period end. For the three and six months ended June 30, 2013, the Company recorded $(2,000) and $12,000, respectively, in the consolidated statements of operations and comprehensive loss related to the change in the fair value of the outstanding warrants.

There were no Series G Preferred Stock warrant transactions during the six months ended June 30, 2013.

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Onconova Therapeutics, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

7. Stock-Based Compensation

In January 2008, the board of directors approved the 2007 Equity Compensation Plan (the 2007 Plan), which amended and restated the Company s 1999 Stock Based Compensation Plan, which provides for the granting of incentive and nonqualified stock options and restricted stock to its employees, directors and consultants at the discretion of the board of directors. Under the 2007 Plan, the Company increased the number of shares reserved for issuance under the 2007 Plan such that the number of reserved shares is equal to 17% of the fully diluted shares calculated annually on December 10th.

	June 30,		December 31,	
	2013	2012	2012	2011
Shares of Common Stock reserved for issuance under the 2007 Plan	3,081,644	2,285,803	3,081,644	2,285,803

Stock options may be granted with exercise prices of not less than the estimated fair value of the Company s common stock on the date of grant and generally vest over a period of up to four years. Stock options granted under the 2007 Plan generally expire no later than ten years from the date of grant. A summary of stock option activity for the six months ended June 30, 2013 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)
Outstanding at December 31, 2012	2,564,147	$ 8.10	7.52
Granted	314,890	13.30	
Exercised	(3,000)	2.00	
Forfeited	(79,518)	13.28	
Outstanding at June 30, 2013	2,796,519	$ 8.56	7.27