

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number: 000-51531



SUNESIS PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

94-3295878
(I.R.S. Employer
Identification Number)

395 Oyster Point Boulevard, Suite 400
South San Francisco, California 94080
(Address of Principal Executive Offices including Zip Code)

(650) 266-3500
(Registrant's Telephone Number, Including Area Code)

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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The registrant had 34,371,173 shares of common stock, \$0.0001 par value per share, outstanding as of May 1, 2018.

SUNESIS PHARMACEUTICALS, INC.
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Item 1. Financial Statements

SUNESIS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(1)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,365	\$ 26,977
Marketable securities	4,033	4,773
Prepays and other current assets	1,480	1,183
Total current assets	<u>26,878</u>	<u>32,933</u>
Property and equipment, net	18	20
Other assets	96	1,381
Total assets	<u>\$ 26,992</u>	<u>\$ 34,334</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,038	\$ 1,697
Accrued clinical expense	570	767
Accrued compensation	862	1,440
Other accrued liabilities	1,905	1,570
Notes payable	7,252	7,204
Total current liabilities	<u>11,627</u>	<u>12,678</u>
Other liabilities	—	112
Commitments		
Stockholders' equity:		
Convertible preferred stock	20,966	20,966
Common stock	3	3
Additional paid-in capital	634,528	633,436
Accumulated other comprehensive loss	(5)	(7)
Accumulated deficit	<u>(640,127)</u>	<u>(632,854)</u>
Total stockholders' equity	<u>15,365</u>	<u>21,544</u>
Total liabilities and stockholders' equity	<u>\$ 26,992</u>	<u>\$ 34,334</u>

(1) The condensed consolidated balance sheet as of December 31, 2017, has been derived from the audited financial statements as of that date included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

See accompanying notes to condensed consolidated financial statements.

SUNESIS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share amounts)

	Three months ended	
	March 31,	
	2018	2017
	(Unaudited)	
Revenue:		
License and other revenue	\$ 237	\$ 669
Total revenues	237	669
Operating expenses:		
Research and development	3,969	6,162
General and administrative	3,359	3,942
Total operating expenses	7,328	10,104
Loss from operations	(7,091)	(9,435)
Interest expense	(281)	(484)
Other income, net	99	85
Net loss	(7,273)	(9,834)
Unrealized gain on available-for-sale securities	2	4
Comprehensive loss	\$ (7,271)	\$ (9,830)
Basic and diluted loss per common share:		
Net loss	\$ (7,273)	\$ (9,834)
Shares used in computing net loss per common share	34,345	21,029
Net loss per common share	\$ (0.21)	\$ (0.47)

See accompanying notes to condensed consolidated financial statements.

SUNESIS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three months ended	
	March 31,	
	2018	2017
	(Unaudited)	
Cash flows from operating activities		
Net loss	\$ (7,273)	\$ (9,834)
Adjustments to reconcile loss to net cash used in operating activities:		
Stock-based compensation expense	896	887
Depreciation and amortization	2	2
Amortization of debt discount and debt issuance costs	48	78
Changes in operating assets and liabilities:		
Prepays and other assets	988	(71)
Accounts payable	(659)	776
Accrued clinical expense	(197)	(83)
Accrued compensation	(578)	(945)
Other accrued liabilities	223	143
Deferred revenue	—	(610)
Net cash used in operating activities	<u>(6,550)</u>	<u>(9,657)</u>
Cash flows from investing activities		
Proceeds from maturities of marketable securities	742	10,830
Net cash provided by investing activities	<u>742</u>	<u>10,830</u>
Cash flows from financing activities		
Proceeds from issuance of common stock through controlled equity offering facilities, net	32	—
Proceeds from exercise of warrants, stock options and stock purchase rights	164	2,241
Net cash provided by financing activities	<u>196</u>	<u>2,241</u>
Net increase (decrease) in cash and cash equivalents	(5,612)	3,414
Cash and cash equivalents at beginning of period	26,977	8,056
Cash and cash equivalents at end of period	<u>\$ 21,365</u>	<u>\$ 11,470</u>

See accompanying notes to condensed consolidated financial statements.

SUNESIS PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018
(Unaudited)

1. Company Overview

Description of Business

Sunesis Pharmaceutical, Inc. (“Sunesis” or the “Company”) is a biopharmaceutical company focused on the development and commercialization of new therapeutics for the treatment of cancer. The Company’s primary activities since incorporation have been conducting research and development internally and through corporate collaborators, in-licensing and out-licensing pharmaceutical compounds and technology, conducting clinical trials, and raising capital.

The Company’s lead program is vecabrutinib, formerly known as SNS-062, a non-covalent inhibitor of Bruton’s Tyrosine Kinase (“BTK”). Vecabrutinib is being studied in a Phase 1b/2 clinical trial in B-cell malignancies. In January 2017, the Company announced that its Investigational New Drug (“IND”) application with the U.S. Food and Drug Administration (“FDA”) for vecabrutinib had become effective. In July 2017, the Company announced the dosing of the first patient in a Phase 1b/2 study to assess the safety and activity of vecabrutinib in patients with advanced B-cell malignancies after two or more prior therapies, including ibrutinib or another covalent BTK inhibitor, and including patients with BTK C481 mutations.

The Company is also developing SNS-510, a PDK1 inhibitor licensed from Millennium Pharmaceuticals, Inc., a wholly-owned subsidiary of Takeda Pharmaceutical Company Limited (“Takeda”). Sunesis acquired from Takeda global commercial rights to several potential first-in class, preclinical inhibitors of the novel target PDK1, including SNS-510. Sunesis is currently characterizing SNS-510 in preclinical pharmacology and toxicology studies with the goal of filing an IND in 2019.

The Company is in a collaboration with Takeda for the development of TAK-580 (formerly MLN2480), an oral pan-RAF inhibitor, for which Takeda is conducting a multi-arm, open-label Phase 1b study in combination with various anticancer agents in adult patients with advanced solid tumor cancers.

Liquidity and Going Concern

The Company has incurred significant losses and negative cash flows from operations since its inception, and as of March 31, 2018, had cash, cash equivalents and marketable securities totaling \$25.4 million and an accumulated deficit of \$640.1 million.

The Company expects to continue to incur significant losses for the foreseeable future as it continues development of its kinase inhibitor pipeline, including its BTK inhibitor vecabrutinib. Following the decision to withdraw the European Marketing Authorization Application (“MAA”) for vosaroxin, the Company has prioritized development funding on its kinase inhibitor portfolio with a focus on vecabrutinib. The Company has a limited number of products that are still in the early stages of development and will require significant additional investment.

The Company’s cash, cash equivalents and marketable securities are not sufficient to support its operations for a period of twelve months from the date these condensed consolidated financial statements are available to be issued. These factors raise substantial doubt about its ability to continue as a going concern. The Company will require additional financing to fund working capital, repay debt and pay its obligations as they come due. Additional financing might include one or more offerings and one or more of a combination of equity securities, debt arrangements or partnership or licensing collaborations. However, there can be no assurance that the Company will be successful in acquiring additional funding at levels sufficient to fund its operations or on terms favorable to the Company. If the Company is unsuccessful in its efforts to raise additional financing in the near term, the Company will be required to significantly reduce or cease operations. The principal payments due under the Loan Agreement (as defined in Note 7) have been classified as a current liability as of March 31, 2018 and December 31, 2017 due to the considerations discussed above and the assessment that the material adverse change clause under the Loan Agreement is not within the Company’s control. The Company has not been notified of an event of default by the Lenders (as defined in Note 7) as of the date of the filing of this Form 10-Q. The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts of liabilities that may result from uncertainty related to the Company’s ability to continue as a going concern.

Concentrations of Credit Risk

In accordance with its investment policy, the Company invests cash that is not currently being used for operational purposes. The policy allows for the purchase of low risk debt securities issued by: (a) the United States and certain European governments and government agencies, and (b) highly rated banks and corporations, denominated in U.S. dollars, Euros or British pounds, subject to certain concentration limits. The policy limits maturities of securities purchased to no longer than 24 months and the weighted average maturity of the portfolio to 12 months. Management believes these guidelines ensure both the safety and liquidity of any investment portfolio the Company may hold.

Financial instruments that potentially subject the Company to concentrations of credit risk generally consist of cash, cash equivalents and marketable securities. The Company is exposed to credit risk in the event of default by the institutions holding its cash, cash equivalents and any marketable securities to the extent of the amounts recorded in the balance sheets.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) that management believes are necessary for a fair presentation of the periods presented. The balance sheet as of December 31, 2017 was derived from the audited consolidated financial statements as of that date. These interim financial results are not necessarily indicative of results to be expected for the full year or any other period. These unaudited condensed consolidated financial statements and the notes accompanying them should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 made modifications to how certain financial instruments should be measured and disclosed, including using the exit price notion when measuring the fair value, separating the presentation of financial assets and financial liabilities by measurement category on the balance sheet and eliminating the requirement to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. In February 2018, FASB issued ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which clarifies the guidance in ASU No. 2016-01 on several issues, such as Equity Securities without a Readily Determinable Fair Value – Discontinuation. The Company has determined the adoption of this standard will not have a material impact on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU 2016-02 is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. ASU 2016-02 is effective for the Company’s interim and annual reporting periods during the year ending December 31, 2019, and all annual and interim reporting periods thereafter. As currently issued, entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which will require a reporting entity to use a new forward-looking impairment model for most financial assets that generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, credit losses will be recognized as allowances rather than as reductions in amortized cost. The standard will be effective for annual periods beginning after December 15, 2019, with early adoption permitted beginning in 2019. Entities will apply the guidance as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company will evaluate the guidance and present the impact in its consolidated financial statements at the time of adoption.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax

Cuts and Jobs Act. The Company has determined the adoption of this standard will not have a material impact on its consolidated financial statements and related disclosures.

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (“SAB”) No. 118 (SEC Update)*. This standard adds various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118, which clarifies the SEC Staff’s views on income tax accounting implications of the Tax Cuts and Jobs Act (the “Act”). It requires reporting of provisional amounts for specific income tax effects of the Act for which the accounting under ASC Topic 740 will be incomplete, but a reasonable estimate can be determined. Provision amounts for income tax effects of the Act for which a reasonable estimate cannot be determined, ASC Topic 740 should be applied based on provisions of the tax laws that were in effect immediately prior to the Act being enacted. Provisional amounts for income tax effects for which a reasonable estimate cannot be determined would be reported in the first reporting period in which a reasonable estimate can be determined. In accordance with this standard and SAB 118, the Company reported provisional amounts for income tax effects from the Act as of December 31, 2017 and amounts will be finalized before December 22, 2018.

Revenue Recognition

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company’s historic accounting under Topic 605.

Adoption of the new standard did not result in any change to the Company’s opening retained earnings as of January 1, 2018 as no cumulative impact to the adoption of ASC 606 was noted as result of the Company’s assessment of the comparative revenue recognized since inception of the contracts under the new revenue standard ASC 606 and historic standard ASC 605. The Company is applying the practical exemption allowed under ASC 606 and does not disclose the value of variable consideration that is a sale-based royalty promised in exchange for a license of intellectual property. The adoption of the new standard resulted in changes to the Company’s accounting policies for revenue recognition as detailed below:

The Company’s contract revenues consist of license revenue primarily generated through agreements with strategic partners for the development and commercialization of the Company’s product candidates. The terms of the agreement typically include non-refundable upfront fees, payments based upon achievement of milestones and royalties on net product sales. The Company has both fixed and variable consideration. Non-refundable upfront fees are considered fixed, while milestone payments are identified as variable consideration.

In determining the appropriate amount of revenue to be recognized as it fulfills its performance obligations under its agreements, the Company performs the following steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations based on estimated selling prices; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

Licenses of intellectual property: If the license to the Company’s intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from non-refundable, up-front fees allocated to the license when the license is transferred to the customer, and the customer can use and benefit from the license. For licenses that are bundled with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Event-based or milestone payments: At the inception of each arrangement that includes event-based or milestone payments, the Company evaluates whether the events or milestones are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the value of the associated event-based or milestone payments is included in the transaction price. Event-based or milestone payments that are not within the control of the Company are not included in the transaction price until they become probable of being achieved.

Royalties: For arrangements that include sales-based royalties and the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (a) when the related sales occur, or (b) when the performance

obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). To date, the Company has not recognized any royalty revenue resulting from any of its licensing arrangements.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Sunesis Europe Limited, a United Kingdom corporation, and Sunesis Pharmaceuticals (Bermuda) Ltd., a Bermuda corporation, as well as a Bermuda limited partnership, Sunesis Pharmaceuticals International LP. All intercompany balances and transactions have been eliminated in consolidation.

Significant Estimates and Judgments

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company's condensed consolidated financial statements and accompanying notes thereto. Actual results could differ materially from these estimates. Estimates, assumptions and judgments made by management include those related to the valuation of equity and related instruments, debt instruments, revenue recognition, stock-based compensation and clinical trial accounting.

Fair Value Measurements

The Company measures cash equivalents and marketable securities at fair value on a recurring basis using the following hierarchy to prioritize valuation inputs, in accordance with applicable GAAP:

Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities that can be accessed at the measurement date.

Level 2 - inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

Level 3 - unobservable inputs.

The Company's Level 2 valuations of marketable securities are generally derived from independent pricing services based upon quoted prices in active markets for similar securities, with prices adjusted for yield and number of days to maturity, or based on industry models using data inputs, such as interest rates and prices that can be directly observed or corroborated in active markets.

The carrying amounts of the Company's financial instruments, including cash, prepayments, accounts payable, accrued liabilities, and notes payable approximated their fair value as of March 31, 2018 and December 31, 2017.

3. Loss per Common Share

Basic loss per common share is calculated by dividing net loss by the weighted-average number of common shares outstanding for the period. Diluted loss per common share is computed by dividing (a) net loss, less any anti-dilutive amounts recorded during the period for the change in the fair value of warrant liabilities, by (b) the weighted-average number of common shares outstanding for the period plus dilutive potential common shares as determined using the treasury stock method for options and warrants to purchase common stock.

The following table represents the potential common shares issuable pursuant to outstanding securities as of the related period end dates that were excluded from the computation of diluted loss per common share because their inclusion would have had an anti-dilutive effect (in thousands):

	Three months ended	
	March 31,	
	2018	2017
Warrants to purchase shares of common stock	5,218	218
Convertible preferred stock	6,331	4,270
Options to purchase shares of common stock	3,288	2,655
Restricted stock units	—	53
Outstanding securities not included in calculations	14,837	7,196

4. Financial Instruments

Financial Assets

The following tables summarize the estimated fair value of the Company's financial assets measured on a recurring basis as of the dates indicated, which comprised solely of available-for-sale marketable securities with remaining contractual maturities of one year or less (in thousands):

March 31, 2018	Input Level	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	Level 1	\$ 16,106	\$ —	\$ —	\$ 16,106
U.S. corporate debt obligations	Level 2	3,291	—	(4)	3,287
U.S. commercial paper	Level 2	747	—	(1)	746
Total available-for-sale securities		20,144	—	(5)	20,139
Less amounts classified as cash equivalents		(16,106)	—	—	(16,106)
Amounts classified as marketable securities		<u>\$ 4,038</u>	<u>\$ —</u>	<u>\$ (5)</u>	<u>\$ 4,033</u>

December 31, 2017	Input Level	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	Level 1	\$ 20,470	\$ —	\$ —	\$ 20,470
U.S. corporate debt obligations	Level 2	3,282	—	(5)	3,277
U.S. commercial paper	Level 2	1,498	—	(2)	1,496
Total available-for-sale securities		25,250	—	(7)	25,243
Less amounts classified as cash equivalents		(20,470)	—	—	(20,470)
Amounts classified as marketable securities		<u>\$ 4,780</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ 4,773</u>

The following table summarizes the available-for-sale securities that were in an unrealized loss position as of the date indicated, having been in such position for less than 12 months, and none having been deemed to be other-than temporarily impaired (in thousands):

March 31, 2018	Gross Unrealized Losses	Estimated Fair Value
U.S. corporate debt obligations	\$ (4)	\$ 3,287
U.S. commercial paper	(1)	746
	<u>\$ (5)</u>	<u>\$ 4,033</u>

December 31, 2017	Gross Unrealized Losses	Estimated Fair Value
U.S. corporate debt obligations	(5)	3,277
U.S. commercial paper	(2)	1,496
	<u>\$ (7)</u>	<u>\$ 4,773</u>

No significant facts or circumstances have arisen to indicate that there has been any deterioration in the creditworthiness of the issuers of these securities. As of March 31, 2018, we did not hold any investments with a maturity exceeding 12 months or that have been in a continuous loss position for 12 months or more. The Company does not intend to sell the securities that are in an unrealized loss position and it is more likely than not that the investments will be held until recovery of the amortized cost bases. The Company has determined that the gross unrealized losses on its securities as of March 31, 2018 were temporary in nature. There were no realized gains or losses on the available-for-sale securities during three months ended March 31, 2018 and 2017.

5. Royalty Agreement

In March 2012, the Company entered into a Revenue Participation Agreement (the “Royalty Agreement”), with RPI Finance Trust (“RPI”), an entity related to Royalty Pharma. In September 2012, pursuant to the provisions of the Royalty Agreement, RPI made a \$25.0 million cash payment to the Company. The payment, less \$3.1 million representing the fair value of the warrants granted under the arrangement, was initially classified as deferred revenue and was fully amortized to revenue as of March 31, 2017.

Revenue participation right payments will be made to RPI when and if vosaroxin is commercialized, at a rate of 6.75% of net sales of vosaroxin, on a product-by-product and country-by-country basis world-wide through the later of: (a) the expiration of the last to expire of certain specifically identified patents; (b) 10 years from the date of first commercial sale of such product in such country; or (c) the expiration of all applicable periods of data, market or other regulatory exclusivity in such country with respect to such product.

6. License Agreements

Biogen

The first amended and restated collaboration agreement with Biogen Idec MA, Inc. (the “Biogen 1st ARCA”) amended and restated the collaboration agreement with Biogen (the “Biogen OCA”), to provide for the discovery, development and commercialization of small molecule BTK inhibitors. Under this agreement, the Company no longer has research obligations, but licenses granted to Biogen with respect to the research collaboration under the Biogen OCA (other than the licenses transferred to Takeda under the Takeda Agreement) remain in effect.

In June 2012, the Company received an event-based payment and recognized as revenue of \$1.5 million from Biogen for the advancement of preclinical work in connection with the Biogen 1st ARCA. Under this agreement, the Company is eligible to receive up to an additional \$58.5 million in pre-commercialization event-based payments related to the development by Biogen of the first two indications for licensed products against the BTK target. The Company is also eligible to receive royalty payments depending on related product sales, if any. As of March 31, 2018, all future event-based payments and royalty payments are considered fully constrained variable considerations and therefore, no contract assets have been recorded and no revenue have been recognized.

In December 2013, the Company entered into a second amended and restated collaboration agreement with Biogen (the “Biogen 2nd ARCA”), to provide the Company with an exclusive worldwide license to develop, manufacture and commercialize vecabrutinib, a BTK inhibitor synthesized under Biogen 1st ARCA, solely for oncology indications. During the third quarter of 2017, the Company made a milestone payment of \$2.5 million to Biogen upon the dosing of the first patient in a Phase 1b/2 study to assess the safety and activity of vecabrutinib in patients with advanced B-cell malignancies after two or more prior therapies, including ibrutinib or other covalent BTK inhibitor for those patients with malignancies for which a BTK inhibitor is approved, and including patients with BTK C481 mutations. The payment was recorded in the research and development expenses line item in the consolidated statement of operations. The Company may also be required to make tiered royalty payments based on percentages of net sales of vecabrutinib, if any, in the mid-single-digits. All other of the Company’s rights and obligations contained in the Biogen 1st ARCA remain unchanged, except that potential future royalty payments to the Company were reduced to equal those amounts due to Biogen for potential future sales of vecabrutinib.

Takeda

In March 2011, Takeda Pharmaceuticals, Inc., a wholly-owned subsidiary of Takeda Pharmaceutical Company Limited (“Takeda”) purchased and exclusively licensed Biogen’s rights to a PDK1 inhibitor program and a pan-Raf inhibitor program which were both originally developed through a collaboration agreement between Sunesis and Biogen. In January 2014, the Company entered into an amended and restated license agreement with Takeda (the “Amended Takeda Agreement”), to provide the Company with an exclusive worldwide license to develop and commercialize preclinical inhibitors of PDK1. In connection with the execution of the Amended Takeda Agreement, the Company paid an upfront fee and may be required to make up to \$9.2 million in pre-commercialization milestone payments depending on its development of PDK1 inhibitors and tiered royalty payments based on percentages of net sales, if any, beginning in the mid-single-digits and not to exceed the low-teens.

With respect to the pan-Raf inhibitor program, the Company may in the future receive up to \$57.5 million in pre-commercialization event-based payments related to the development by Takeda of the first two indications for each of the licensed products directed against the Raf target and royalty payments depending on related product sales. Under this program, Takeda is currently conducting Phase 1b/2 clinical studies of an oral investigative drug, TAK-580 (formerly MLN2480). As of March 31, 2018, all future event-based payments and royalty payments are considered fully constrained variable considerations and therefore, no contract assets have been recorded and no revenue have been recognized.

7. Notes Payable

On March 31, 2016, the Company entered into a loan and security agreement (the “Loan Agreement”) with Western Alliance Bank (“Western Bank”) and Solar Capital Ltd. (“Solar Capital,” and collectively with Western Bank, the “Lenders”) and Western Alliance, as Collateral Agent (the “Collateral Agent”). Pursuant to the terms of the Loan Agreement, the Lenders provided the Company with a loan in the principal amount of \$15,000,000, for working capital, to fund its general business requirements and to repay indebtedness of the Company to Oxford Finance LLC, Silicon Valley Bank and Horizon Technology Finance Corporation (collectively, the “Existing Lenders”) pursuant to the Loan and Security Agreement, dated as of October 18, 2011, entered into by and among the Existing Lenders and the Company (the “Oxford Loan Agreement”). On March 31, 2016, the Company used \$7.2 million of the loan proceeds to repay the outstanding principal of \$6.0 million, a final payment fee of \$1.2 million and accrued interest of \$45,000 under the Oxford Loan Agreement. The Company paid the Lenders a \$0.1 million facility fee and \$0.1 million in legal fees.

On June 30, 2017, the Company entered into an amendment to the existing Loan Agreement (the “Amended Loan Agreement”). Under terms of the Amended Loan Agreement, the Company will be required to pay interest on the borrowings under the Loan Agreement at a per annum rate equal to 8.54% plus the then effective one-month U.S. LIBOR rate. The Amendment modified the loan repayment terms to be interest-only through July 1, 2018, followed by twenty-two (22) equal monthly payments of principal and interest through the maturity date, contingent upon receipt of at least Fifteen Million Dollars (\$15,000,000) in unrestricted cash proceeds received after June 1, 2017 from the issuance by the Company of new equity securities any time after June 1, 2017, but on or prior to December 31, 2017. Thereafter and until the scheduled maturity date of April 1, 2020, in addition to interest accrued during such period, the monthly payments will include an amount equal to the outstanding principal divided by 28 months, unless the interest only period is extended by a further six months, in which case the amortization period will be 22 months. In addition to principal and interest, a final payment equal to \$312,500 will be due upon maturity or such earlier date specified in the Loan Agreement, of which \$152,000 has been accrued and recorded in the other accrued liabilities line item in the accompanying condensed consolidated balance sheet as of March 31, 2018. If the Company repays all amounts owed under the Loan Agreement prior to the maturity date, the Company will pay a prepayment fee equal to 1.0 % of the amount prepaid if the prepayment occurs after June 30, 2017 but on or prior to March 31, 2018 and 0.5 % of the amount prepaid if the prepayment occurs thereafter.

On October 31, 2017, the Company entered into a second amendment to the Amended Loan Agreement (the “Second Amendment”). The Second Amendment modified the loan repayment terms to add two additional extended interest-only periods beyond July 1, 2018. If under the terms of the Amended Loan Agreement, the interest-only period has been extended to July 1, 2018, the Company could further extend the interest-only period to October 1, 2018, contingent upon the receipt of at least Fifteen Million dollars (\$15,000,000) in unrestricted net cash proceeds from the issuance by the Company of new equity securities or as a non-refundable upfront payment on a new business development agreement or royalty financing agreement (the “New Capital”), on or after October 24, 2017, but on or prior to December 31, 2017. The Company qualified for the first additional extended interest-only period and extended the interest-only period to October 1, 2018. Subsequently, the Company may further extend the interest-only period to January 1, 2019, contingent upon the receipt of at least Twenty-Five Million dollars (\$25,000,000) in New Capital (inclusive of any prior amounts received after October 24, 2017), on or after October 24, 2017, but on or prior to September 15, 2018.

In conjunction with the Loan Agreement, the Lenders were issued five-year warrants to purchase an aggregate of up to 208,002 shares of the Company’s common stock at a per share exercise price of \$3.2454. The fair value of the warrants issued was estimated to be \$0.5 million using a Black-Scholes valuation model with the following assumptions: common stock price at issuance of \$3.24; exercise price of \$3.2454; risk-free interest rate of 1.21% based upon observed risk-free interest rates; expected volatility of 111.96% based on the Company’s average historical volatility; expected term of five years, which is the contractual life of the warrants; and a dividend yield of 0%. The fair value was recorded as a debt discount within notes payable and an increase to additional paid-in capital on the Company’s balance sheet. The debt discount is being amortized as interest expense over the term of the Loan Agreement, using the effective interest method.

Pursuant to the Loan Agreement and the amendments, the Company is bound by a variety of affirmative covenants during the term of the Loan Agreement, including, without limitation, certain information delivery requirements, notice requirements and obligations to maintain certain insurance. Additionally, the Company is bound by certain negative covenants setting forth actions that are not permitted to be taken during the term of the Amended Loan Agreement without the Lenders’ consent, including, without limitation, incurring certain additional indebtedness, making certain asset dispositions, entering into certain mergers, acquisitions or other business combination transactions or incurring any non-permitted lien or other encumbrance on the Company’s assets. Upon the occurrence of an event of default under the Amended Loan Agreement (subject to cure periods for certain events of default), all amounts owed by the Company thereunder would begin to bear interest at a rate that is 5.0% higher than the rate that would otherwise be applicable and may be declared immediately due and payable by the Collateral Agent. Events of default under the Amended Loan Agreement include, among other things, the following: the occurrence of certain bankruptcy events; the failure to make payments under the Loan Agreement when due; the occurrence of a material impairment on the Collateral Agent’s security interest over the collateral, a material adverse change in the business, operations or condition (financial or otherwise) of the Company or material impairment of the prospect of repayment of the obligations under the Amended Loan Agreement; the occurrence of a default under certain other agreements entered into by the Company; the rendering of certain types of judgments against the Company; the

revocation of certain government approvals of the Company; any breach by the Company of any covenant (subject to cure periods for certain covenants) made in the Amended Loan Agreement; and the failure of any representation or warranty made by the Company in connection with the Amended Loan Agreement to be correct in all material respects when made. The Amended Loan Agreement defines certain events of default, including instances of a Material Adverse Change in its operations, which may require prepayment of the outstanding loan. In the event of default by the Company under the Loan Agreement, the Lenders would be entitled to exercise their remedies thereunder, including the right to accelerate the debt, upon which the Company may be required to repay all amounts then outstanding under the Loan Agreement, which could harm the Company's financial condition. The Company was in compliance with all applicable covenants set forth in the Loan Agreement as of March 31, 2018 and December 31, 2017. The principal payments due under the Loan Agreement have been classified as a current liability at December 31, 2017 due to the considerations discussed in Note 1 and the assessment that the material adverse change clause under the Loan Agreement is not within the Company's control. The Company has not been notified of an event of default by the Lenders as of the date of the filing of this Form 10-Q.

The Collateral Agent, for the benefit of the Lenders, has a perfected security interest in substantially all of the Company's property, rights and assets, except for intellectual property, to secure the payment of all amounts owed to the Lenders under the Amended Loan Agreement.

Aggregate future minimum payments due under the Loan Agreement as of March 31, 2018 were as follows (in thousands):

Year ending December 31,	Total
2018	1,415
2019	5,456
2020	2,015
Total minimum payments	8,886
Less amount representing interest	(1,386)
Total notes payable as of March 31, 2018	7,500
Less unamortized debt discount and issuance costs	(248)
Less carrying amount of notes payable	(7,252)
Non-current portion of notes payable	\$ —

8. Stockholders' Equity

Controlled Equity Offerings

During the three months ended March 31, 2018, 9,757 shares of common stock were sold under the Controlled Equity OfferingSM sales agreement (the "Sales Agreement"), as amended, with Cantor Fitzgerald & Co. ("Cantor"), as agent and/or principal, pursuant to which the Company could issue and sell shares of its common stock, for net proceeds of less than \$0.1 million. As of March 31, 2018, \$45.0 million of common stock remained available to be sold under this facility, subject to certain conditions as specified in the Sales Agreement, as amended.

9. Stock-Based Compensation

Employee stock-based compensation expense is calculated based on the grant-date fair value of awards ultimately expected to vest, and recognized under the straight-line attribution method, assuming that all stock-based awards will vest. Forfeitures are recognized as they occur.

The following table summarizes stock-based compensation expense related to the Company's stock-based awards for the periods indicated (in thousands):

	Three months ended	
	March 31,	
	2018	2017
Research and development	\$ 164	\$ 252
General and administrative	234	611
Employee stock-based compensation expense	398	863
Non-employee stock-based compensation expense	498	24
Total stock-based compensation expense	\$ 896	\$ 887

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

The following discussion and analysis of our financial condition as of March 31, 2018 and results of operations for the three months ended March 31, 2018 and 2017 should be read together with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and in our other Securities and Exchange Commission, or SEC, filings, including our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 9, 2018.

This discussion and analysis contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995, which involve risks, uncertainties and assumptions. All statements regarding future events or results are “forward-looking statements” for purposes of these provisions, including without limitation any statements relating to our expectations for gaining marketing approval in the United States, including the continued development and commercialization of vecabrutinib (formerly SNS-062), SNS-510, vosaroxin, and other product candidates, the timing of our Phase 1b/2 trial of vecabrutinib, presenting clinical data and initiating clinical trials, our future research and development activities, including clinical testing and the costs and timing thereof, sufficiency of our cash resources, our ability to raise additional funding when needed, any statements concerning anticipated regulatory activities or licensing or collaborative arrangements, including any partnering arrangements related to further vosaroxin development, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as “anticipates,” “believe,” “continue,” “estimates,” “expects,” “intend,” “look forward,” “may,” “could,” “seeks,” “plans,” “potential,” or “will” or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those set forth under “Risk Factors,” and elsewhere in this report. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All forward-looking statements included in this report are based on information available to us on the date of this report, and we assume no obligation to update any forward-looking statements contained in this report except as required by law.

“Sunesis,” “we,” “us,” and “our” refer to Sunesis Pharmaceuticals, Inc. and its wholly-owned subsidiaries, except where it is made clear that the term means only the parent company.

Overview

Sunesis is a biopharmaceutical company focused on the development and commercialization of new therapeutics for the treatment of solid and hematologic cancers. Our primary activities since incorporation have been conducting research and development internally and through corporate collaborators, in-licensing and out-licensing pharmaceutical compounds and technology, conducting clinical trials, and raising capital.

Our lead program is vecabrutinib, formerly known as SNS-062, a non-covalent inhibitor of Bruton’s Tyrosine Kinase, or BTK. Vecabrutinib is being studied in a Phase 1b/2 clinical trial in B-cell malignancies. In December 2013, we acquired global commercial rights to vecabrutinib, an orally available compound, from Biogen Idec MA, Inc., or Biogen. In January 2017, we announced our Investigational New Drug, or IND, application with the U.S. Food and Drug Administration, or FDA, for vecabrutinib had become effective. In July 2017, we announced the dosing of the first patient in a Phase 1b/2 study to assess the safety and activity in patients with advanced B-cell malignancies after two or more prior therapies, including ibrutinib or another covalent BTK inhibitor, and including patients with BTK C481S mutations. In connection to the dosing of the first patient, we also made a milestone payment of \$2.5 million to Biogen under the licensing agreement. The Phase 1b portion of the study is a dose escalation component that will proceed to define a maximum tolerated dose and/or a recommended Phase 2 dose. We currently expect to announce a recommended Phase 2 dose in the fall of 2018. Upon identifying the Phase 2 dose, the Phase 2 portion will further explore clinical activity and safety in disease- and mutation-specific cohorts, including patients with and without the BTK C481S mutation.

We are also developing SNS-510, a PDK1 inhibitor licensed from Millennium Pharmaceuticals, Inc., a wholly-owned subsidiary of Takeda Pharmaceutical Company Limited, or Takeda. We acquired from Takeda global commercial rights to several potential first-in class, preclinical inhibitors of the novel target PDK1, including SNS-510. We are currently characterizing SNS-510 in preclinical pharmacology and toxicology studies with the goal of filing an IND in 2019.

We are in a collaboration with Takeda for the development of TAK-580 (formerly MLN2480), an oral pan-RAF inhibitor, which is under investigation for pediatric low-grade glioma and other solid tumor cancers.

We are also seeking to identify a partner to support further vosaroxin development. We conducted a Phase 3, multinational, randomized, double-blind, placebo-controlled trial of vosaroxin in combination with cytarabine in patients with relapsed or refractory Acute Myeloid Leukemia, or AML. This trial did not meet its primary endpoint of demonstrating a statistically significant improvement in overall survival. We announced on May 1, 2017 the withdrawal of our Marketing Authorization Application, or MAA, for vosaroxin. We believe that one additional successful pivotal trial could support future marketing approvals of vosaroxin in the U.S and Europe. It is our intention to out-license vosaroxin to a partner to continue development and commercialization for vosaroxin. In the meantime, we continue to support limited investigator-sponsored trials with vosaroxin.

Recent Financial History

Controlled Equity Offerings

During the three months ended March 31, 2018, we sold 9,757 shares of common stock under the Controlled Equity OfferingSM sales agreement, or the Sales Agreement, as amended, with Cantor Fitzgerald & Co., or Cantor, as agent and/or principal, pursuant to which we could issue and sell shares of its common stock, for net proceeds of less than \$0.1 million. As of March 31, 2018, \$45.0 million of common stock remains available to be sold under the Sales Agreement, as amended, subject to certain conditions as specified in the Sales Agreement.

Capital Requirements

We have incurred significant losses in each year since our inception. As of March 31, 2018, we had cash, cash equivalents and marketable securities of \$25.4 million and an accumulated deficit of \$640.1 million. We expect to continue to incur significant losses for the foreseeable future as we continue the development of our kinase inhibitor pipeline, including our BTK inhibitor ibrutinib. Following our decision to withdraw the European MAA for vosaroxin as a treatment for relapsed/refractory AML in patients aged 60 years or older we have prioritized our kinase inhibitors with a focus on ibrutinib. We have a limited number of products that are still in the early stages of development and will require significant additional future investment.

We expect our current cash, cash equivalents, and marketable securities of \$25.4 million are not sufficient to support our operations for a period of twelve months from the date the condensed consolidated financial statements for the quarter ended March 31, 2018, are available to be issued. We will require additional financing to fund working capital, repay debt and pay our obligations as they come due. Additional financing might include one or more offerings and one or more of a combination of equity securities, debt arrangements or partnership or licensing collaborations. However, there can be no assurance that we will be successful in acquiring additional funding at levels sufficient to fund our operations or on terms favorable to us. These conditions raise substantial doubt about our ability to continue as a going concern for a period of one year from the date our condensed consolidated financial statements for the quarter ended March 31, 2018, are available to be issued. If we are unsuccessful in our efforts to raise additional financing in the near term, we will be required to significantly reduce or cease operations. Our accompanying condensed consolidated financial statements for the quarter ended March 31, 2018, have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts of liabilities that may result from uncertainty related to our ability to continue as a going concern.

Critical Accounting Policies and Significant Judgments and Estimates

Except for the change in accounting policy noted below, there have been no significant changes during the three months ended March 31, 2018 to our critical accounting policies and significant judgments and estimates as disclosed in our management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Revenue Recognition

Our contract revenues consist of license revenue primarily generated through agreements with strategic partners for the development and commercialization of our product candidates. The terms of the agreement typically include non-refundable upfront fees, payments based upon achievement of milestones and royalties on net product sales. We have both fixed and variable consideration. Non-refundable upfront fees are considered fixed, while milestone payments are identified as variable consideration.

In determining the appropriate amount of revenue to be recognized as it fulfills our obligations under its agreements, we perform the following steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations including whether they are distinct in the context of the contract; (iii) measurement of

the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations based on estimated selling prices; and (v) recognition of revenue when (or as) we satisfy each performance obligation.

Licenses of intellectual property: If the license to our intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, we recognize revenues from non-refundable, up-front fees allocated to the license when the license is transferred to the customer, and the customer can use and benefit from the license. For licenses that are bundled with other promises, we utilize judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front fees. We evaluate the measure of progress each reporting period and, if necessary, adjust the measure of performance and related revenue recognition.

Milestone payments: At the inception of each arrangement that includes milestone payments, we evaluate whether the milestones are considered probable of being achieved and estimate the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the value of the associated milestone is included in the transaction price. Milestone payments that are not within our control are not included in the transaction price until they become probable of being achieved.

Royalties: For arrangements that include sales-based royalties and the license is deemed to be the predominant item to which the royalties relate, we recognize revenue at the later of (a) when the related sales occur, or (b) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). To date, we have not recognized any royalty revenue resulting from any of our licensing arrangements.

Overview of Operating Expenses

Research and Development expense. Research and development expense consists primarily of clinical trial costs, which include: payments for work performed by our contract research organizations, clinical trial sites, labs and other clinical service providers and for drug packaging, storage and distribution; drug manufacturing costs, which include costs for producing drug substance and drug product, and for stability and other testing; personnel costs, including non-cash stock-based compensation; other outside services and consulting costs; and payments under license agreements. We expense all research and development costs as they are incurred.

We are currently focused on the development of vecabrutinib for the treatment of B-cell malignancies and our new product candidate, SNS-510, for the treatment of solid tumor and hematologic malignancies. Research and development costs typically increase as product development candidates move from early stage to later stage, larger clinical trials. As a result, our research and development costs may increase in the future. Due to the above uncertainties and other risks inherent in the development process, we are unable to estimate the costs we will incur in the development of our product candidates in the future.

If we engage a development or commercialization partner for our development programs, or if, in the future, we acquire additional product candidates, our research and development expenses could be significantly affected. We cannot predict whether future licensing or collaborative arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements.

We anticipate continuing expenditures associated with advancing the vecabrutinib and SNS-510 programs in 2018 and beyond. Additionally, under the Takeda Agreement, we have the right to participate in co-development and co-promotion activities for the related product candidates, including TAK-580 (formerly MLN2480), an oral pan-RAF inhibitor currently in Phase 1b/2 clinical studies being conducted by Takeda and investigators. If we were to exercise our option on this or other product candidates, our research and development expense would increase significantly.

General and Administrative expense. General and administrative expense consists primarily of personnel costs for the related employees, including non-cash stock-based compensation; outside service costs, including fees paid to external legal advisors, marketing consultants and our independent registered public accounting firm; facilities expenses; and other administrative costs. If we proceed to commercialization in either Europe or the United States, we anticipate general and administrative expenses to increase in the future, including additional costs related to selling and marketing.

Results of Operations

Revenue

Total revenue was \$0.2 million for the three months ended March 31, 2018 as compared to \$0.7 million for the same period in 2017. Decrease in revenue in the period was primarily due to deferred revenue related to the Royalty Agreement with RPI Finance Trust, which was fully amortized to revenue in March 2017.

Research and Development Expense

Research and development expense was \$4.0 million for the three months ended March 31, 2018 as compared to \$6.2 million for the same period in 2017, primarily relating to the vecabrutinib and the vosaroxin development program in each period. The decrease of \$2.2 million was primarily due to a \$1.7 million decrease in professional services and clinical trials expenses related to higher expenses incurred in the first quarter of 2017 due to the MMA with the European Medicines Agency, or EMA, and a \$0.3 million decrease in salary and personnel expenses due to lower headcounts.

General and Administrative Expense

General and administrative expense was \$3.4 million for the three months ended March 31, 2018 as compared to \$3.9 million for the same period in 2017. The decrease of \$0.5 million was primarily due to a \$0.4 million decrease in professional services expenses and a \$0.1 million decrease in commercial expenses as result of higher expenses incurred in the first quarter of 2017 due to the MMA with the EMA.

Interest Expense

Interest expense was \$0.3 million for the three months ended March 31, 2018 as compared to \$0.5 million for the same period in 2017. The decrease in 2018 was primarily due to the decrease in the outstanding notes payable.

Other Income, Net

Net other income was \$0.1 million for each of the three months ended March 31, 2018 and 2017. The other income primarily comprised of interest income from the short term investments.

Liquidity and Capital Resources

Sources of Liquidity

We have incurred significant losses in each year since our inception. As of March 31, 2018, we had cash, cash equivalents and marketable securities of \$25.4 million and an accumulated deficit of \$640.1 million, compared to cash, cash equivalents and marketable securities totaling \$31.8 million and an accumulated deficit of \$632.9 million as of December 31, 2017. We expect to continue to incur significant losses for the foreseeable future. Our products are still in the early stages of development and will require significant additional investment. In October 2017, we completed underwritten public offerings of (i) 7,500,000 shares of common stock and accompanying warrants to purchase 3,750,000 shares of common stock at a price to the public of \$2.00 for each share of common stock and warrant to purchase 0.5 shares of common stock, and (ii) 2,500 shares of non-voting Series D Convertible Preferred Stock (Series D Stock) and accompanying warrants to purchase 1,250,000 shares of common stock at a price to the public of \$2,000 for each share of Series D Stock and warrant to purchase 500 shares of common stock, for total net proceeds of \$18.5 million. The exercise price of the warrants is \$3.00 per whole share of common stock. The warrants may be exercised at any time until and including October 27, 2018. If exercised in full, the warrants could result in additional net financing proceeds to us of up to \$15 million.

We expect our current cash, cash equivalents, and marketable securities of \$25.4 million are not sufficient to support our operations for a period of twelve months beyond the date the condensed consolidated financial statements for the quarter ended March 31, 2018, are available to be issued. We will require additional financing to fund working capital, repay debt and pay our obligations as they come due, so substantial doubt exists about our ability to continue as a going concern. Additional financing might include one

or more of a combination of offerings of equity securities or debt arrangements or partnerships or licensing collaborations. However, there can be no assurance that we will be successful in acquiring additional funding at levels sufficient to fund our operations or on terms favorable to us.

During the three months ended March 31, 2018, we sold 9,757 shares of common stock under the Sales Agreement, as amended, with Cantor, for net proceeds of less than \$0.1 million. As of March 31, 2018, \$45.0 million of common stock remains available to be sold under the Sales Agreement, as amended, subject to certain conditions as specified in the Sales Agreement.

Our cash, cash equivalents and marketable securities totaled \$25.4 million as of March 31, 2018, as compared to \$31.8 million as of December 31, 2017. The decrease of \$6.4 million was primarily due to \$6.6 million of net cash used in operating activities, partially offset by \$0.2 million in net proceeds from the exercise of stock options.

If we become unable to continue as a going concern, we may have to liquidate our assets, and might realize significantly less than the values at which they are carried on our consolidated financial statements, and stockholders may lose all or part of their investment in our common stock. Other than raising additional funds from investors or business partners, management cannot identify conditions or events to mitigate the substantial doubt that exists about our ability to continue as a going concern.

Cash Flows

Net cash used in operating activities was \$6.6 million for the three months ended March 31, 2018, as compared to \$9.7 million for the same period in 2017. Net cash used in the three months ended March 31, 2018, resulted primarily from the net loss of \$7.3 million and changes in operating assets and liabilities of \$0.2 million, offset by net adjustments for non-cash items of \$0.9 million. Net cash used in the three months ended March 31, 2017, resulted primarily from the net loss of \$9.8 million and changes in operating assets and liabilities of \$0.9 million, partially offset by net adjustments for non-cash items of \$1.0 million.

Net cash provided by investing activities was \$0.7 million for the three months ended March 31, 2018, as compared to net cash provided by investing activities of \$10.8 million for the same period in 2017. Net cash provided in both periods consisted of proceeds from maturities of marketable securities.

Net cash provided by financing activities was \$0.2 million for the three months ended March 31, 2018, as compared to \$2.2 million for the same period in 2017. Net cash provided in the 2018 period resulted primarily from net proceeds of \$0.2 million from the exercise of stock options. Net cash provided in the 2017 period resulted from net proceeds of \$2.2 million from the sales of our common stock under the Sales Agreement with Cantor.

Operating Capital Requirements

We have incurred significant operating losses and negative cash flows from operations since our inception. As of March 31, 2018, we had cash, cash equivalents and marketable securities of \$25.4 million and cash used in operating activities of \$6.6 million for the three months ended March 31, 2018.

We expect to continue to incur substantial operating losses in the future. We will not receive any product revenue until a product candidate has been approved by the FDA, EMA, or similar regulatory agencies in other countries, and has been successfully commercialized, if ever. We will need to raise substantial additional funding to complete the development and potential commercialization of any of our development programs. Additionally, we may evaluate in-licensing and acquisition opportunities to gain access to new drugs or drug targets that would fit with our strategy. Any such transaction would likely increase our funding needs in the future.

Our future funding requirements will depend on many factors, including but not limited to:

- the rate of progress and cost of our clinical trials;
- the timing, economic and other terms of any licensing, collaboration or other similar arrangement into which we may enter;
- the costs and timing of seeking and obtaining FDA, EMA, or other regulatory approvals;
- the costs associated with building or accessing commercialization and additional manufacturing capabilities and supplies;
- the costs of acquiring or investing in businesses, product candidates and technologies, if any;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;

- the effect of competing technological and market developments; and
- the costs, if any, of supporting our arrangements with Biogen and Takeda.

Our failure to raise significant additional capital in the future would force us to delay or reduce the scope of our vecabrutinib and other development programs, potentially including any additional clinical trials or subsequent regulatory filings in Europe or the United States, and/or limit or cease our operations. Any one of the foregoing would have a material adverse effect on our business, financial condition and results of operations.

Contractual Obligations

During the three months ended March 31, 2018, there were no material changes to our market risk disclosures as set forth in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

Since our inception, we have not had any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or variable interest entities, which are typically established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the three months ended March 31, 2018, there were no material changes to our market risk disclosures as set forth in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in SEC Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our interim Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Exchange Act Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our interim Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on the foregoing, our interim Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting , as defined in Rules 13a-15(f) under the Securities and Exchange Act of 1934, as amended, that occurred during the quarter ended March 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 1. Legal Proceedings

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation, which arise in the normal course of our business. The ultimate outcome of any litigation is uncertain and unfavorable outcomes could have a negative impact on our results of operations and financial condition. Regardless of outcome, litigation can have an adverse impact on us because of the defense costs, diversion of management resources and other factors.

We believe there is no litigation pending that could, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below and all information contained in this Quarterly Report on Form 10-Q, as each of these risks could adversely affect our business, operating results and financial conditions. If any of the possible adverse events described below actually occurs, we may be unable to conduct our business as currently planned and our financial condition and operating results could be adversely affected. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. In addition, the trading price of our common stock could decline due to the occurrence of any of these risks, and you may lose all or part of your investment.

Please see the language regarding forward-looking statements in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

There have been no substantive changes from the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2017 that was filed with the SEC on March 9, 2018.

Risks Related to Our Business

We need to raise substantial additional funding to continue the development of vecabrutinib, SNS-510, and our other programs.

We will need to raise substantial additional capital to:

- fund additional nonclinical and clinical trials of vecabrutinib prior to any regulatory filing for approval;
- fund preclinical and clinical development of SNS-510;
- expand our development activities;
- implement additional internal systems and infrastructure; and
- build or access commercialization and additional manufacturing capabilities and supplies.

Our future funding requirements and sources will depend on many factors, including but not limited to the:

- rate of progress and cost of our clinical trials;
- need for additional or expanded clinical trials;
- timing, economic and other terms of any licensing, collaboration or other similar arrangement into which we may enter;
- costs and timing of seeking and obtaining EMA, FDA or other regulatory approvals;
- extent of our other development activities, including our other clinical programs and in-license agreements;
- costs associated with building or accessing commercialization and additional manufacturing capabilities and supplies;
- costs of acquiring or investing in businesses, product candidates and technologies, if any;
- costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- effect of competing technological and market developments;
- costs of supporting our arrangements with Biogen, Takeda or any potential future licensees or partners.

Until we can generate a sufficient amount of licensing, collaboration or product revenue to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through equity issuances, debt arrangements, one or more possible licenses, collaborations or other similar arrangements with respect to development and/or commercialization rights to vecabrutinib, SNS-510, or our other development programs, or a combination of the above. Any issuance of convertible debt securities, preferred stock or common stock may be at a discount from the then-current trading price of our common stock. If we issue additional common or preferred stock or securities convertible into common or preferred stock, our stockholders will experience additional dilution, which may be significant. Further, we do not know whether additional funding will be available on acceptable terms, or at all. If we are unable to raise substantial additional funding on acceptable terms, or at all, we will be forced to delay or reduce the scope of our vecabrutinib, SNS-510 or other development programs, potentially including any additional clinical trials or subsequent regulatory filings in Europe and the United States and/or limit or cease our operations.

We have incurred losses since inception and anticipate that we will continue to incur losses for the foreseeable future. We may not ever achieve or sustain profitability.

We are not profitable and have incurred losses in each year since our inception in 1998. Our net losses for the three month ended March 31, 2018 and the years ended December 31, 2017 and 2016 were \$7.3 million, \$35.5 million and \$38.0 million, respectively. As of March 31, 2018, we had an accumulated deficit of \$640.1 million. We do not currently have any products that have been approved for marketing, and we expect to incur significant losses for the foreseeable future as we continue to incur substantial development and general and administrative expenses related to our operations. Following the decision to withdraw the European Marketing Authorization Application (MAA) for vosaroxin as a treatment for relapsed/refractory acute myeloid leukemia (AML) in patients aged 60 years or older, we have prioritized development funding on kinase inhibitors with a focus on vecabrutinib. We have a limited number of products that are still in the early stages of development and will require significant additional investment. Our losses, among other things, have caused and will continue to cause our stockholders' equity and working capital to decrease.

To date, we have derived substantially all of our revenue from license and collaboration agreements. We currently have two agreements, the Biogen 2nd ARCA and the Amended Takeda Agreement, which each include certain pre-commercialization event-based and royalty payments. We cannot predict if our collaborators will continue development or whether we will receive any such payments under these agreements in the foreseeable future, or at all.

We are unable to predict when we will generate revenue from the sale of products, if at all. In the absence of additional sources of capital or partnering opportunity, which may not be available to us on acceptable terms, or at all, the development of vecabrutinib or future product candidates may be reduced in scope, delayed or terminated. If our product candidates or those of our collaborators fail in clinical trials or do not gain regulatory approval, or if our future products do not achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods.

There is substantial doubt about our ability to continue as a going concern.

We adopted FASB ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40) effective December 31, 2016, which requires us to make certain disclosures if we conclude that there is substantial doubt about our ability to continue as a going concern within one year from the date our condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q, are available to be issued.

We have incurred significant losses and negative cash flows from operations since our inception, and as of March 31, 2018, had cash, cash equivalents and marketable securities totaling \$25.4 million and an accumulated deficit of \$640.1 million. We expect our current cash, cash equivalents, and marketable securities of \$25.4 million are not sufficient to support our operations for a period of twelve months from the date the condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q are available to be issued. We will require additional financing to fund working capital, repay debt and pay our obligations as they come due. Additional financing might include one or more offerings and one or more of a combination of equity securities, debt arrangements or partnership or licensing collaborations. However, there can be no assurance that we will be successful in acquiring additional funding at levels sufficient to fund our operations or on terms favorable to us. These conditions raise substantial doubt about our ability to continue as a going concern for a period of one year from the date our condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q, are available to be issued. If we are unsuccessful in our efforts to raise additional financing in the near term, we will be required to significantly reduce or cease operations. The condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts of liabilities that may result from uncertainty related to our ability to continue as a going concern.

The development of vecabrutinib, SNS-510, or other product candidates could be halted or significantly delayed for various reasons; our clinical trials for vecabrutinib, SNS-510, or other product candidates may not lead to regulatory approval.

Our product candidates are vulnerable to the risks of failure inherent in the drug development process. Failure can occur at any stage of the development process, and successful preclinical studies and early clinical trials do not ensure that later clinical trials will be successful. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in earlier trials.

Our product candidates may experience toxicities that lead to a maximum tolerated dose that is not effective. If this were the case for vecabrutinib, for example, such a result would delay or prevent further development, which would severely and adversely affect our financial results, business and business prospects.

We do not know whether our current or any future clinical trials with vecabrutinib, SNS-510, or any of our product candidates will be completed on schedule, or at all, or whether our ongoing or planned clinical trials will begin or progress on the time schedule we anticipate. The commencement and completion of future clinical trials could be substantially delayed or prevented by several factors, including:

- delays or failures to raise additional funding;
- delays or failures in obtaining regulatory approval to commence a clinical trial;
- delays or failures in obtaining approval from independent institutional review boards or ECs to conduct a clinical trial at prospective sites; or
- delays or failures in reaching acceptable clinical trial agreement terms or clinical trial protocols with prospective sites.
- delays or failures in obtaining sufficient clinical materials, including any of our product and any drugs to be tested in combination with our products;
- failure of third parties such as Contract Research Organizations and medical institutions to perform their contractual duties and obligations;
- slower than expected rates of patient recruitment and enrollment;
- failure of patients to complete the clinical trial;
- delays or failures in reaching the number of events pre-specified in the trial design;
- the need to expand the clinical trial;
- unforeseen safety issues;
- lack of efficacy during clinical trials;
- inability or unwillingness of patients or clinical investigators to follow our clinical trial protocols; and
- inability to monitor patients adequately during or after treatment.

Additionally, our clinical trials may be suspended or terminated at any time by the FDA, other regulatory authorities, or ourselves for reasons such as change in protocol. Any failure to complete or significant delay in completing clinical trials for our product candidates could harm our financial results and the commercial prospects for our product candidates.

We rely on a limited number of third parties to supply us with our active pharmaceutical ingredients (“API”) and finished drug products (“FDP”). If we fail to obtain sufficient quantities of these materials, the development and potential commercialization of vecabrutinib, SNS-510 and future products, if any, could be halted or significantly delayed.

We currently rely on contract manufacturers for all API and FDP. Additional third-party contract manufacturing organizations are relied on to manufacture key starting materials and intermediates required in the manufacture of API. We have limited manufacturing experience, and we have not yet scaled-up to commercial scale. The cost to manufacture at commercial scale may materially exceed the cost of clinical-stage manufacturing.

If our third-party API or FDP manufacturers are unable or unwilling to produce the API or FDP we require, we would need to establish arrangements with one or more alternative suppliers. However, establishing a relationship with an alternative supplier would likely delay our ability to produce API or FDP. Our ability to replace an existing manufacturer would also be difficult and time consuming because the number of potential manufacturers is limited and the FDA, EMA or other corresponding state agencies must approve any replacement manufacturer before it can be an approved commercial supplier. Such approval would require new testing,

stability programs and compliance inspections. It may be difficult or impossible for us to identify and engage a replacement manufacturer on acceptable terms in a timely manner, or at all. We expect to continue to depend on third-party contract manufacturers for all our API and FDP needs for the foreseeable future.

Our products require precise, high quality manufacturing. In addition to process impurities, the failure of our contract manufacturers to achieve and maintain high manufacturing standards in compliance with cGMP regulations could result in other manufacturing errors leading to patient injury or death, product recalls or withdrawals, delays or interruptions of production or failures in product testing or delivery. Although contract manufacturers are subject to ongoing periodic unannounced inspection by the FDA, EMA or other corresponding state agencies to ensure strict compliance with cGMP and other applicable government regulations and corresponding foreign standards, any such performance failures on the part of a contract manufacturer could result in the delay or prevention of filing or approval of marketing applications, cost overruns or other problems that could seriously harm our business. This would deprive us of potential product revenue and result in additional losses.

The stability of API and FDP is also a key risk, as we must demonstrate that products continue to meet product specifications over time. There can be no assurances that future lots will meet stability requirements and if they do not, development and commercialization of our products may be delayed.

The failure to enroll patients for clinical trials may cause delays in developing vecabrutinib or other product candidates.

We may encounter delays if we are unable to enroll enough patients to complete clinical trials of vecabrutinib or other product candidates. Patient enrollment depends on many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to clinical sites, the number and nature of competing treatments and ongoing clinical trials of competing drugs for the same indication, and the eligibility criteria for the trial. In a Phase 1 dose escalation 3+3 design, slots are assigned to sites to avoid over-enrolling. After allocating a slot to a patient, patients may be unable to commence the study due to progressive disease or may withdraw consent. Patients participating in our trials may come off study due to progressive disease, or may elect to leave our trials to switch to alternative treatments that are available to them, either commercially or on an expanded access basis, or in other clinical trials. Competing treatments for vecabrutinib include other BTK inhibitors, BCL2 inhibitors, PI3K inhibitors, and other drug classes.

The results of preclinical studies and clinical trials may not satisfy the requirements of the FDA, EMA or other regulatory agencies.

Prior to receiving approval to commercialize vecabrutinib, SNS-510, or future product candidates in Europe, the United States or in other territories, we must demonstrate with substantial evidence from well-controlled clinical trials, to the satisfaction of the FDA, EMA and other regulatory authorities, that such product candidates are safe and effective for their intended uses. The results from preclinical studies and clinical trials can be interpreted in different ways. Even if we believe preclinical or clinical data from preclinical studies and clinical trials are promising, such data may not be sufficient to support approval by the FDA, EMA and other regulatory authorities. Results in preclinical studies may not be predictive of results in human clinical trials and early stage human clinical trials may not be predictive of results in later, larger trials.

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

We rely on third parties, such as contract research organizations, medical institutions, clinical investigators and contract laboratories, to conduct our planned and existing clinical trials for vecabrutinib and other product candidates. If the third parties conducting our clinical trials do not perform their contractual duties or obligations, do not meet expected deadlines or need to be replaced, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical trial protocols or for any other reason, we may need to enter into new arrangements with alternative third parties and our clinical trials may be extended, delayed or terminated or may need to be repeated, and we may not be able to obtain regulatory approval for or commercialize the product candidate being tested in such trials.

We may expand our development capabilities in the future, and any difficulties hiring or retaining key personnel or managing this growth could disrupt our operations.

We are highly dependent on the principal members of our development staff. We may expand our research and development capabilities in the future by increasing expenditures in these areas, hiring additional employees and potentially expanding the scope of our current operations. Future growth will require us to continue to implement and improve our managerial, operational and financial systems and continue to retain, recruit and train additional qualified personnel, which may impose a strain on our administrative and operational infrastructure. The competition for qualified personnel in the biopharmaceutical field is intense. We are highly dependent

on our continued ability to attract, retain and motivate highly qualified management and specialized personnel required for clinical development. Due to our limited resources, we may not be able to effectively manage any expansion of our operations or recruit and train additional qualified personnel. If we are unable to retain key personnel or manage our growth effectively, we may not be able to implement our business plan.

If we are sued for infringing intellectual property rights of third parties, litigation will be costly and time consuming and could prevent us from developing or commercializing vecabrutinib, SNS-510, or other product candidates.

Our commercial success depends on not infringing the patents and other proprietary rights of third parties and not breaching any collaboration or other agreements we have entered into with regard to our technologies and product candidates. If a third party asserts that we, our licensors, collaboration partners, or any employees thereof have misappropriated their intellectual property, or otherwise claim that we, our licensors, or collaboration partners are using technology claimed in issued and unexpired patents, or other proprietary rights, owned or controlled by the third party, even if the technology is regarded as our own intellectual property, we may need to obtain a license, enter into litigation to challenge the validity or enforceability of the patents or other rights or incur the risk of litigation in the event that a third party asserts that we infringe its patents or have misappropriated other rights.

If a third party asserts that we infringe its patents or other proprietary rights, we could face a number of challenges that could seriously harm our competitive position, including:

- infringement and other intellectual property claims, which would be costly and time consuming to litigate, whether or not the claims have merit, and which could delay the regulatory approval process and divert management's attention from our business;
- substantial damages for past infringement, which we may have to pay if a court determines that vecabrutinib, SNS-510, or any future product candidates infringe a third party's patent or other proprietary rights;
- a court order prohibiting us from selling or licensing vecabrutinib, SNS-510, or any future product candidates unless a third party licenses relevant patent or other proprietary rights to us, which it is not required to do; and
- if a license is available from a third party, we may have to pay substantial royalties or grant cross-licenses to our patents or other proprietary rights.

If our competitors develop and market products that are more effective, safer or less expensive than vecabrutinib or other product candidates, our commercial opportunities will be negatively impacted.

The life sciences industry is highly competitive, and we face significant competition from many pharmaceutical, biopharmaceutical and biotechnology companies that are researching, developing and marketing products designed to address the treatment of cancer, including B-cell malignancies and AML. Many of our competitors have significantly greater financial, manufacturing, marketing and drug development resources than we do. Large pharmaceutical companies in particular have extensive experience in the clinical testing of, obtaining regulatory approvals for, and marketing drugs.

We expect competition during the development and commercialization of all of our products in all of their potential future indications. Competition is likely to increase as additional products are developed and approved in various patient populations. If our competitors market products that are more effective, safer, and/or less expensive than our future products, if any, or that reach the market sooner we may not achieve commercial success or substantial market penetration. In addition, the biopharmaceutical industry is characterized by rapid change. Products developed by our competitors may render any of our future product candidates obsolete.

Our proprietary rights may not adequately protect vecabrutinib, SNS-510, or future product candidates, if any.

We use patents, trade secrets, trademarks, service marks, and marketing exclusivity administered by regulatory authorities to protect our products from generic copies of our products. Our ability to build and maintain our proprietary position for any future drug candidates will depend on our success in obtaining effective patent claims and enforcing granted claims. The patent positions of biopharmaceutical companies like ours are generally uncertain and involve complex legal and factual questions for which some important legal principles remain unresolved. No consistent policy regarding the breadth of patent claims has emerged to date in the United States. The patent situation outside the United States is even more uncertain. We do not know whether any of our patent applications or those patent applications that we license will result in the issuance of any patents. Even if patents are issued, they may not be sufficient to protect vecabrutinib, SNS-510, or other product candidates. The patents we own or license and those that may be issued in the future may be opposed, challenged, invalidated or circumvented, and the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages.

We apply for patents covering both our technologies and product candidates, as we deem appropriate. However, we may fail to apply for patents on important technologies or product candidates in a timely fashion, throughout the world, or at all. Our existing patents and any future patents we obtain may not be sufficiently broad, valid, enforceable, or extend globally in order to prevent others from practicing our technologies or from developing competing products and technologies. Further, obtaining and maintaining patent protection relies on compliance with various procedural requirements imposed by governmental patent agencies, including, for example, mandatory document submissions and fee payments. Failure to comply with these requirements may reduce or eliminate opportunities for, or rights to, patent protection. In addition, we generally do not exclusively control the patent prosecution of subject matter that we license to or from others. Accordingly, in such cases we are unable to exercise the same degree of control over this intellectual property as we would over our own. Similarly, we do not exclusively control patent prosecution in jurisdictions outside of the United States. Moreover, the patent positions of biopharmaceutical companies are highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. As a result, the scope, validity and enforceability of patents in addition to the related cost, can vary from country to country, and can change depending on changes in national and international law, and as such, cannot be predicted with certainty. In addition, we do not know whether:

- we, our licensors or our collaboration partners were the first to make the inventions covered by each of our issued patents and pending patent applications;
- we, our licensors or our collaboration partners were the first to file patent applications for these inventions;
- others will independently develop similar or alternative technologies or duplicate any of our technologies;
- any of our, our licensors' or our collaboration partners' pending patent applications will result in issued patents;
- any of our, our licensors' or our collaboration partners' patents will be valid or enforceable;
- because of differences in patent laws of countries, any patent granted in one country or region will be granted in another, or, if so, have the same or a different scope;
- any patents issued to us, our licensors or our collaboration partners will provide us with any competitive advantages, or will be challenged by third parties;
- we will develop additional proprietary technologies that are patentable;
- we, our licensors, or our collaboration partners will be subject to claims challenging the inventorship, ownership, or rights to claim priority with regard to our patents and other intellectual property; or
- any patents or other proprietary rights of third parties will have an adverse effect on our business.

We may need to commence or defend litigation to enforce or to determine the scope and validity of any patents issued to us or to determine the scope and validity of third party proprietary rights. Litigation would result in substantial costs, even if the eventual outcome is favorable to us. An adverse outcome in litigation affecting proprietary rights we own or have licensed could present significant risk of competition for drug candidates that we market or seek to develop. Any adverse outcome in litigation affecting third party proprietary rights could subject us to significant liabilities to third parties and could require us to seek licenses of the disputed rights from third parties or to cease using the technology if such licenses are unavailable.

There can be no assurance that the trademarks or service marks we use or register will protect our company name or any products or technologies that we develop and commercialize, that our trademarks, service marks, or trademark registrations will be enforceable against third parties, or that our trademarks and service marks will not interfere with or infringe trademark rights of third parties. We may need to commence litigation to enforce our trademarks and service marks or to determine the scope and validity of our or a third party's trademark rights. Litigation would result in substantial costs, even if the eventual outcome is favorable to us. An adverse outcome in litigation could subject us to significant liabilities to third parties and require us to seek licenses of the disputed rights from third parties or to cease using the trademarks or service marks if such licenses are unavailable.

We also rely on trade secrets to protect some of our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to maintain and enforce. While we use reasonable efforts to protect our trade secrets, our or our collaboration partners' employees, consultants, contractors or scientific and other advisors, or those of our licensors or collaborators, may unintentionally or willfully disclose our proprietary information to competitors. Enforcement of claims that a third party has illegally obtained and is using trade secrets is expensive, time consuming and uncertain. In addition, foreign courts are sometimes less willing than U.S. courts to protect trade secrets. If our competitors independently develop equivalent knowledge, methods and know-how, we would not be able to assert our trade secret protection against them and our business could be harmed.

There can be no assurance that the confidentiality and other agreements we put in place with employees, consultants, and partners will provide meaningful protection, that these agreements will not be breached, that we will have an adequate remedy for any such breach, or that our trade secrets will not otherwise become known or independently developed by a third party.

We do not know whether patent term for any drug candidate or product will offer protection for an adequate or profitable amount of time. We do not know whether patent term extensions and data exclusivity periods will be available in the future for any or all of the patent rights we own or have licensed. While it is possible that patent term restoration and/or supplemental patent certificates would be available for some of the patents we own or control through licenses, we cannot guarantee that such additional protection will be obtained, and the expiration dates described here do not include such term restoration. However, patent expiration dates described here for U.S. patents may reflect patent term adjustments by the United States patent and Trademark Office or terminal disclaimers over related patents or patent applications. Our obligation to pay royalties to licensors may extend beyond the patent expiration, which would further erode the profitability of our products.

Intellectual property rights may not address all potential threats to our competitive position for at least the reasons described above and below.

We may not succeed in finding a third party to license and complete development of vosaroxin, which may result in completely discontinuing development and returning rights to our licensor, Sumitomo Dainippon.

We are actively seeking a partner to license vosaroxin for the purpose of completing development and commercializing the product in the EU, the US, and in other countries. While we seek a partner, we are supporting a small number of investigator-initiated trials with vosaroxin. There is no certainty that we will find a commercial or financial partner to fund and undertake development, and failure to find such a partner will result in the complete discontinuation of vosaroxin development. In this case, the core IP will revert to Sumitomo Dainippon Pharma Co., Ltd. and there will be no possibility of any future upside from the product. We may also incur costs to wind down all of our activities related to this product.

Even if we do secure a partner for vosaroxin, there is no guarantee the transaction will result in significant revenue or other upside for Sunesis. Following the purchase of the revenue participation right by RPI Finance Trust (“RPI”), an entity related to Royalty Pharma, we are required to pay RPI a specified percentage of any net sales of vosaroxin. If we fail to make timely payments due to RPI under the Royalty Agreement, RPI may require us to repurchase the revenue participation right. As collateral for these payments, we granted RPI a security interest in certain of our assets, including our intellectual property related to vosaroxin. Upon marketing approval of vosaroxin, Western Alliance, the Collateral Agent (the “Collateral Agent”) of our loan and security agreement (the “Loan Agreement”), with Bridge Bank, a division of Western Alliance Bank (“Western Bank”) and Solar Capital Ltd (“Solar Capital”, and collectively with Western Bank, the “Lenders”), for the benefit of the Lenders under our Loan Agreement, will also have a perfected security interest in our intellectual property rights relating to vosaroxin. We will not realize any gain from a vosaroxin licensing agreement until all of our obligations are met.

Any future workforce and expense reductions may have an adverse impact on our internal programs, our ability to hire and retain key personnel and may be distracting to management.

We have, in the past, implemented a number of workforce reductions. Depending on our need for additional funding and expense control, we may be required to implement further workforce and expense reductions in the future. Further workforce and expense reductions could result in reduced progress on our internal programs. In addition, employees, whether or not directly affected by a reduction, may seek future employment with our business partners or competitors. Although our employees are required to sign a confidentiality agreement at the time of hire, the confidential nature of certain proprietary information may not be maintained in the course of any such future employment. Further, we believe that our future success will depend in large part upon our ability to attract and retain highly skilled personnel. We may have difficulty retaining and attracting such personnel as a result of a perceived risk of future workforce and expense reductions. In addition, the implementation of expense reduction programs may result in the diversion of efforts of our executive management team and other key employees, which could adversely affect our business.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of our employees’ former employers.

Many of our employees were previously employed at biotechnology or pharmaceutical companies, including our competitors or potential competitors. We may be subject to claims that we or our employees have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel.

A loss of key personnel or the work product of current or former personnel could hamper or prevent our ability to commercialize vecabrutinib, SNS-510, and other product candidates, which could severely harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

We may lose key employees or have difficulty hiring employees to fill key roles.

A loss of key personnel or difficulty in hiring employees to fill key roles could slow or prevent our ability to develop and commercialize our products. For example, we currently have an ongoing search for a Chief Executive Officer. If we have difficulty hiring a Chief Executive Officer, it may adversely impact our future prospects.

We depend on various consultants and advisors for the success and continuation of our development efforts.

We work extensively with various consultants and advisors, who provide advice and/or services in various business and development functions, including clinical development, operations and strategy, regulatory matters, biostatistics, legal and finance. The potential success of our drug development programs depends, in part, on continued collaborations with certain of these consultants and advisors. Our consultants and advisors are not our employees and may have commitments and obligations to other entities that may limit their availability to us. We do not know if we will be able to maintain such relationships or that such consultants and advisors will not enter into other arrangements with competitors, any of which could have a detrimental impact on our development objectives and our business.

If conflicts of interest, or a failure or dispute of reporting or diligence efforts arise between our current or future licensees or collaboration partners, if any, and us, any of them may act in their self-interest, which may be adverse to our interests.

If a conflict of interest arises between us and one or more of our current or potential future licensees or collaboration partners, if any, they may act in their own self-interest or otherwise in a way that is not in the interest of our company or our stockholders. Biogen, Takeda, or potential future licensees or collaboration partners, if any, are conducting or may conduct product development efforts within the disease area that is the subject of a license or collaboration with our company. In current or potential future licenses or collaborations, if any, we have agreed or may agree not to conduct, independently or with any third party, any research that is competitive with the research conducted under our licenses or collaborations. Our licensees or collaboration partners, however, may develop, either alone or with others, products in related fields that are competitive with the product candidates that are the subject of these licenses or collaborations. Competing products, either developed by our licensees or collaboration partners or to which our licensees or collaboration partners have rights, may result in their withdrawal of support for a product candidate covered by the license or collaboration agreement.

If one or more of our current or potential future licensees or collaboration partners, if any, were to breach or terminate their license or collaboration agreements with us or otherwise fail to perform their obligations thereunder in a timely manner, the preclinical or clinical development or commercialization of the affected product candidates could be delayed or terminated. We do not know whether our licensees or collaboration partners will pursue alternative technologies or develop alternative product candidates, either on their own or in collaboration with others, including our competitors, as a means for developing treatments for the diseases targeted by licenses or collaboration agreements with our company.

We and our current collaboration partners have certain reporting and diligence obligations to each other, and failure to report, or disagreement over the impact of information reported, or a lack of diligent efforts, or dispute of the impact of the efforts, may be adverse to our interests, the development of the product candidates and could lead to an ultimate withdrawal or dispute of the rights to a product candidate covered by the license or collaboration agreement.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure may create uncertainty regarding compliance matters. New or changed laws, regulations and standards are subject to varying interpretations in many cases. As a result, their application in practice may evolve over time. We are committed to maintaining high standards of corporate governance and public disclosure. Complying with evolving interpretations of new or changed legal requirements may cause us to incur higher costs as we revise current practices, policies and procedures, and may divert management time and attention from potential revenue-generating activities to compliance matters. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may also be harmed. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business.

Raising funds through lending arrangements or revenue participation agreements may restrict our operations or produce other adverse results.

Our Loan Agreement contains a variety of affirmative covenants, including, without limitation, certain information delivery requirements, obligations to maintain certain insurance and certain notice requirements. Additionally, we are bound by certain negative covenants setting forth actions that are not permitted to be taken during the term of the Loan Agreement without the Lenders'

consent, including, without limitation, incurring certain additional indebtedness, making certain asset dispositions, entering into certain mergers, acquisitions or other business combination transactions or incurring any non-permitted lien or other encumbrance on our assets. Upon the occurrence of an event of default under the Loan Agreement (subject to cure periods for certain events of default), all amounts owed by us thereunder would begin to bear interest at a rate that is 5.0% higher than the rate that would otherwise be applicable and may be declared immediately due and payable by the Collateral Agent. Events of default under the Loan Agreement include, among other things, the following: the occurrence of certain bankruptcy events; the failure to make payments under the Loan Agreement when due; the occurrence of a material impairment on the Collateral Agent's security interest over the collateral, a material adverse change in our business, operations or condition (financial or otherwise) or material impairment of the prospect of repayment of the obligations under the Loan Agreement; the occurrence of a default under certain other agreements entered into by us; the rendering of certain types of judgments against us; the revocation of our certain government approvals of; any breach by us of any covenant (subject to cure periods for certain covenants) made in the Loan Agreement; and the failure of any representation or warranty made by us in connection with the Loan Agreement to be correct in all material respects when made.

On October 31, 2017, we entered into a second amendment to the Amended Loan Agreement (the "Second Amendment"). The Second amendment modified the loan repayment terms to allow us to extend the interest-only period to January 1, 2019, contingent upon the receipt of at least Twenty-Five Million dollars (\$25,000,000) in unrestricted net cash proceeds from the issuance by us of new equity securities or as a non-refundable upfront payment on a new business development agreement or royalty financing agreement (the "New Capital"), on or after October 24, 2017 (inclusive of any prior amounts received after October 24, 2017), but on or prior to September 15, 2018. There is a risk that we may not be able to raise the required New Capital for the extended interest-only period and if we do not, we must begin repaying the principal after October 1, 2018.

The Collateral Agent, for the benefit of the Lenders, has a perfected security interest in substantially all of our property, rights and assets, except for intellectual property, to secure the payment of all amounts owed to the Lenders under the Loan Agreement.

We are exposed to risks related to foreign currency exchange rates.

Some of our costs and expenses are denominated in foreign currencies. When the U.S. dollar weakens against the Euro or British pound, the U.S. dollar value of the foreign currency denominated expense increases, and when the U.S. dollar strengthens against the Euro or British pound, the U.S. dollar value of the foreign currency denominated expense decreases. Consequently, changes in exchange rates, and in particular a weakening of the U.S. dollar, may adversely affect our results of operations. We have and may continue to purchase certain European currencies or highly-rated investments denominated in such currencies to manage the risk of future movements in foreign exchange rates that would affect such payables, in accordance with our investment policy. However, there is no guarantee that the related gains and losses will substantially offset each other, and we may be subject to significant exchange gains or losses as currencies fluctuate from quarter to quarter.

Our facilities are located near known earthquake fault zones, and the occurrence of an earthquake or other catastrophic disaster, or interruption by man-made problems such as network security breaches, viruses or terrorism, could cause damage to our facilities and equipment, which could require us to cease or curtail operations.

Our facilities are located in the San Francisco Bay Area near known earthquake fault zones and are vulnerable to significant damage from earthquakes. We are also vulnerable to damage from other types of disasters, including fires, floods, power loss, communications failures and similar events. Despite the implementation of network security measures, our networks also may be vulnerable to computer viruses, break-ins and similar disruptions. We rely on information technology systems to operate our business and to communicate among our workforce and with third parties. If any disruption were to occur, whether caused by a natural disaster or by manmade problems, our ability to operate our business at our facilities may be seriously or completely impaired and our data could be lost or destroyed.

Risks Related to Our Industry

The regulatory approval process is expensive, time consuming and uncertain and may prevent us from obtaining approval for the commercialization of our product candidates.

The research, testing, manufacturing, selling and marketing of product candidates are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, which regulations differ from country to country. Neither we nor our present or potential future collaboration or licensing partners, if any, are permitted to market our product candidates in Europe or the United States until we receive approval of an MAA or NDA for these respective territories, or in any other country without the equivalent marketing approval from such country. We have not received marketing approval for vecabrutinib in any jurisdiction. In addition, failure to comply with FDA, EMA, and other applicable U.S. and foreign regulatory requirements may subject us to administrative or judicially imposed sanctions, including warning letters, civil and criminal penalties, injunctions, product seizure or detention, product recalls, total or partial suspension of production, and refusal to approve pending MAAs, NDAs, supplements to approved MAAs, NDAs or their equivalents in other territories.

Regulatory approval of an MAA or NDA or their equivalent in other territories is not guaranteed, and the approval process is expensive, uncertain and may take several years. Furthermore, the development process for oncology products may take longer than in other therapeutic areas. Regulatory authorities have substantial discretion in the drug approval process. Despite the time and expense exerted, failure can occur at any stage, and we could encounter problems that cause us to abandon clinical trials or to repeat or perform additional preclinical studies and clinical trials. The number of preclinical studies and clinical trials that will be required for marketing approval varies depending on the drug candidate, the disease or condition that the drug candidate is designed to address, and the regulations applicable to any particular drug candidate.

The FDA, EMA or other foreign regulatory authority can delay, limit or deny approval of a drug candidate for many reasons, including:

- the drug candidate may not be deemed safe or effective;
- regulatory officials may not find the data from preclinical studies and clinical trials sufficient;
- the FDA, EMA or other foreign regulatory authority might not approve our or our third-party manufacturers' processes or facilities; or
- the FDA, EMA or other foreign regulatory authority may change its approval policies or adopt new regulations.

We may be subject to costly claims related to our clinical trials and may not be able to obtain adequate insurance.

Because we conduct clinical trials in humans, we face the risk that the use of vecabrutinib, SNS-510, or other product candidates, if any, will result in adverse side effects. We cannot predict the possible harms or side effects that may result from our clinical trials. Although we have clinical trial liability insurance, our insurance may be insufficient to cover any such events. We do not know whether we will be able to continue to obtain clinical trial coverage on acceptable terms, or at all. We may not have sufficient resources to pay for any liabilities resulting from a claim excluded from, or beyond the limit of, our insurance coverage. There is also a risk that third parties that we have agreed to indemnify could incur liability. Any litigation arising from our clinical trials, even if we were ultimately successful, would consume substantial amounts of our financial and managerial resources and may create adverse publicity.

Even if we receive regulatory approval to sell vecabrutinib, SNS-510, or other product candidates, the market may not be receptive.

Even if one of our product candidates obtains regulatory approval, it may not gain market acceptance among physicians, patients, healthcare payors and/or the medical community. We believe that the degree of market acceptance will depend on a number of factors, including:

- the timing of market introduction of competitive products;
- the efficacy of our product;
- the prevalence and severity of any side effects;
- the potential advantages or disadvantages over alternative treatments;
- the strength of marketing and distribution support;
- the price of the product, both in absolute terms and relative to alternative treatments; and
- the availability of reimbursement from health maintenance organizations and other third-party payors.

If vecabrutinib, SNS-510, or other product candidates fail to achieve market acceptance, due to unacceptable side effects or any other reasons, we may not be able to generate significant revenue or to achieve or sustain profitability.

Even if we receive regulatory approval for vecabrutinib, SNS-510, or any other future product candidate, we will be subject to ongoing FDA, EMA and other regulatory obligations and continued regulatory review, which may result in significant additional expense and limit our ability to commercialize vecabrutinib, or any other product candidate.

Any regulatory approvals that we or our potential future collaboration partners receive for vecabrutinib, SNS-510, or our future product candidates, if any, may also be subject to limitations on the indicated uses for which the product may be marketed or contain requirements for potentially costly post-marketing trials. In addition, even if approved, the manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and recordkeeping for any product will be subject to extensive and ongoing regulatory requirements. The subsequent discovery of previously unknown problems with a product, including adverse events of

unanticipated severity or frequency, may result in restrictions on the marketing of the product, and could include withdrawal of the product from the market.

The FDA and other agencies, including the Department of Justice (“DOJ”), closely regulate and monitor the post-approval marketing and promotion of products to ensure that they are marketed and distributed only for the approved indications and in accordance with the provisions of the approved labeling. The FDA and DOJ impose stringent restrictions on manufacturers’ communications regarding off-label use and if we do not market our products for their approved indications, we may be subject to enforcement action for off-label marketing. Violations of the Federal Food, Drug, and Cosmetic Act and other statutes, including the False Claims Act, relating to the promotion and advertising of prescription drugs may lead to investigations and enforcement actions alleging violations of federal and state health care fraud and abuse laws and state consumer protection laws.

Regulatory policies may change and additional government regulations may be enacted that could prevent or delay regulatory approval of our product candidates. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in Europe, the United States or other territories. If we are not able to maintain regulatory compliance, we might not be permitted to market our future products and we may not achieve or sustain profitability. Other penalties for failing to comply with regulatory requirements include restrictions on such products, manufacturers or manufacturing processes; restrictions on the labeling or marketing of a product; restrictions on distribution or use of a product; requirements to conduct post-marketing studies or clinical trials; warning letters or untitled letters; withdrawal of the products from the market; refusal to approve pending applications or supplements to approved applications that we submit; recall of products; damage to relationships with any potential collaborators; unfavorable press coverage and damage to our reputation; fines, restitution or disgorgement of profits or revenues; suspension or withdrawal of marketing approvals; refusal to permit the import or export of our products; product seizure; injunctions or the imposition of civil or criminal penalties; and litigation involving patients using our products. Additionally, failure to comply with the European Union’s requirements regarding the protection of personal information also can lead to significant penalties and sanctions.

The coverage and reimbursement status of newly approved drugs is uncertain and may be impacted by current and future legislation, and failure to obtain adequate coverage and reimbursement could limit our ability to market our product candidates and decrease our ability to generate revenue.

There is significant uncertainty related to the third party coverage and reimbursement of newly approved drugs both nationally and internationally. The commercial success of our future products, if any, in both domestic and international markets depends on whether third-party coverage and reimbursement is available for the ordering of our future products by the medical profession for use by their patients. Medicare, Medicaid, health maintenance organizations and other third-party payors are increasingly attempting to manage healthcare costs by limiting both coverage and the level of reimbursement of new drugs and, as a result, they may not cover or provide adequate payment for our future products. These payors may not view our future products as cost-effective, and reimbursement may not be available to consumers or may not be sufficient to allow our future products to be marketed on a competitive basis.

Likewise, in the United States and some foreign jurisdictions, there have been a number of legislative or regulatory efforts to control or reduce healthcare costs or reform government healthcare programs that could result in lower prices or rejection of our future products. Such efforts have resulted in several recent United States congressional inquiries and proposed and enacted federal and state legislation designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for products. Changes in coverage and reimbursement policies or healthcare cost containment initiatives that may limit or restrict reimbursement for our future products may reduce any future product revenue.

Additionally, in March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, or collectively the ACA, was enacted, which made a number of substantial changes in the way healthcare is financed by both governmental and private insurers. In the years since its enactment, there have been, and continue to be, significant developments in, and continued legislative activity around, attempts to repeal or repeal and replace the ACA. Due to these efforts, there is significant uncertainty regarding the future of the ACA, and its impact our business and operations.

The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our products.

Our relationships with healthcare providers, clinical investigators, and third party payors will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which, in the event of a violation, could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.

Healthcare providers, clinical investigators, and third party payors will play a primary role in the recommendation and prescription of any drug candidates for which we obtain marketing approval. Our current and future arrangements with healthcare providers, clinical investigators and third party payors may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and

distribute any products for which we obtain marketing approval. Restrictions under applicable state, federal and foreign healthcare laws and regulations include the following:

- The federal healthcare program anti-kickback statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce or in return for either the referral of an individual, or the purchasing, leasing, ordering or arranging for the purchase, lease or order of any healthcare item, good, facility or service reimbursable under Medicare, Medicaid or other federal healthcare programs;
- Federal false claims laws, including the civil False Claims Act, and civil monetary penalties laws, prohibit any person or entity from, among other things, knowingly presenting, or causing to be presented, a false claim for payment to the federal government, or knowingly making, or causing to be made, a false statement to have a false claim paid;
- HIPAA prohibits, among other actions, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, including private third-party payors, knowingly and willfully embezzling or stealing from a healthcare benefit program, willfully obstructing a criminal investigation of a healthcare offense, and knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act and its implementing regulations, among other things, imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information. HITECH, among other things, makes HIPAA's security standards directly applicable to business associates, independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity; created four new tiers of civil monetary penalties; amended HIPAA to make civil and criminal penalties directly applicable to business associates; and gave state attorneys general new authority to file civil actions to enforce the federal HIPAA laws;
- the federal Physician Payments Sunshine Act requires certain manufacturers of drugs, devices, biologicals and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to annually report to the Centers for Medicare & Medicaid Services, or CMS, information related to certain payments or other transfers of value provided to physicians and teaching hospitals, or to entities or individuals at the request of, or designated on behalf of, the physicians and teaching hospitals and to report annually certain ownership and investment interests held by physicians and their immediate family members; and
- analogous local, state and foreign laws and regulations, such as state anti-kickback and false claims laws, transparency statutes, and privacy and security laws. Such laws may be broader than the federal law, including that they may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by third party payors, including private insurers. There also are an increasing number of state laws that require manufacturers to file reports with states regarding pricing and marketing information, such as tracking and reporting of gifts, compensation, other remuneration and items of value provided to health care professionals and health care entities, or marketing expenditures; require pharmaceutical companies to, among other things, establish and implement commercial compliance programs or codes of conducts; and/or require a pharmaceutical company's sales representatives to be registered or licensed by the state or local governmental entity. State and foreign laws also govern the privacy and security of health information in some circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of the health regulatory laws described above or any other laws that apply to us, we may be subject to a wide range of sanctions and penalties, including potentially significant criminal, and civil and/or administrative penalties, damages, fines, disgorgement, individual imprisonment, exclusion from participation in government healthcare programs, integrity obligations, contractual damages, reputational harm, administrative burdens, diminished profits and future earnings, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations. We are unable to predict whether we would be subject to actions under these laws or the impact of such actions. However, the cost of defending any such claims, as well as any sanctions imposed, could adversely affect our financial performance and disrupt our business operations.

Foreign governments often impose strict price controls, which may adversely affect our future profitability.

If we or a potential future collaboration partner obtain approval in one or more foreign jurisdictions, we or the potential future collaboration partner will be subject to rules and regulations in those jurisdictions. In some foreign countries, particularly in the European Union, prescription drug pricing is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a drug candidate. To obtain reimbursement or pricing approval in some countries, we or a potential future collaboration partner may be required to conduct a clinical trial that compares the cost-effectiveness of our products to other available therapies. If reimbursement is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, we may be unable to achieve or sustain profitability.

We may incur significant costs complying with environmental laws and regulations, and failure to comply with these laws and regulations could expose us to significant liabilities.

We, through third-party contractors, use hazardous chemicals and radioactive and biological materials in our business and are subject to a variety of federal, state, regional and local laws and regulations governing the use, generation, manufacture, storage, handling and disposal of these materials. Although we believe our safety procedures for handling and disposing of these materials and waste products comply with these laws and regulations, we cannot eliminate the risk of accidental injury or contamination from the use, storage, handling or disposal of hazardous materials. In the event of contamination or injury, we could be held liable for any resulting damages, and any liability could significantly exceed our insurance coverage, which is limited for pollution cleanup and contamination.

Risks Related to Our Common Stock

The price of our common stock may continue to be volatile, and the value of an investment in our common stock may decline.

In the three months ended March 31, 2018, our common stock traded as low as \$2.60 and as high as \$7.69. Factors that could cause continued volatility in the market price of our common stock include, but are not limited to:

- all the other risks mentioned herein, including but not limited to our ability to raise additional capital to fund our operations and complete our clinical development plans, compliance with government regulations, the safety and efficacy of our products, and our ability to protect our intellectual property;
- announcements relating to restructuring and other operational changes;
- market conditions in the pharmaceutical, biopharmaceutical and biotechnology sectors;
- issuance of new or changed securities analysts' reports or recommendations;
- announcements relating to our arrangements with Biogen, Takeda or RPI;
- actual and anticipated fluctuations in our quarterly operating results;
- deviations in our operating results from the estimates of analysts;
- litigation or public concern about the safety of future products, if any;
- failure to develop or sustain an active and liquid trading market for our common stock;
- short-selling or manipulation of our common stock by investors;
- sales of our common stock by our officers, directors or significant stockholders; and
- additions or departures of key personnel.

Provisions of our charter documents or Delaware law could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders, and could make it more difficult to change management.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders might otherwise consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. In addition, these provisions may frustrate or prevent any attempt by our stockholders to replace or remove our current management by making it more difficult to replace or remove our board of directors. These provisions include:

- a classified board of directors so that not all directors are elected at one time;
- a prohibition on stockholder action through written consent;
- limitations on our stockholders' ability to call special meetings of stockholders;
- an advance notice requirement for stockholder proposals and nominations; and
- the authority of our board of directors to issue preferred stock with such terms as our board of directors may determine.

In addition, Delaware law prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person who, together with its affiliates, owns or within the last three years has owned 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Accordingly, Delaware law may discourage, delay or prevent a change in control of our company.

Provisions in our charter documents and provisions of Delaware law could limit the price that investors are willing to pay in the future for shares of our common stock.

We have never paid dividends on our capital stock and we do not anticipate paying any cash dividends in the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We do not anticipate paying any cash dividends on our capital stock in the foreseeable future. In addition, under the terms of our Loan Agreement with the Lenders, we are precluded from paying cash dividends without the prior written consent of the Lenders. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be our stockholders' sole source of gain for the foreseeable future.

We are at risk of securities class action litigation.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because biotechnology companies have experienced greater than average stock price volatility in recent years. These broad market fluctuations may adversely affect the trading price or liquidity of our common stock. In the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the issuer. If any of our stockholders were to bring such a lawsuit against us, we could incur substantial costs defending the lawsuit and the attention of our management would be diverted from the operation of our business.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

A list of exhibits filed with this report or incorporated herein by reference is found in the Exhibit Index below:

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Here with
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of the Registrant	10-K/A	000-51531	3.1	5/23/2007	
3.2	Certificate of Designation of the Series A Preferred Stock of the Registrant	8-K	000-51531	3.3	4/3/2009	
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Registrant	S-8	333-160528	3.4	7/10/2009	
3.4	Certificate of Amendment of the Certificate of Designation of the Series A Preferred Stock of the Registrant	8-K	000-51531	3.4	11/2/2009	
3.5	Certificate of Amendment of the Certificate of Designation of the Series A Preferred Stock of the Registrant	8-K	000-51531	3.5	1/21/2010	
3.6	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Registrant	8-K	000-51531	3.1	2/14/2011	
3.7	Certificate of Designation of Series B Convertible Preferred Stock of the Registrant	8-K	000-51531	3.1	12/16/2015	
3.8	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Registrant	8-K	000-51531	3.1	9/7/2016	
3.9	Certificate of Designation of the Series C Convertible Preferred Stock of the Registrant	8-K	000-51531	3.1	10/19/2016	
3.10	Certificate of Designation of the Series D Convertible Preferred Stock of the Registrant	8-K	000-51531	3.1	10/26/2017	
10.1	2018 Bonus Program	8-K	000-51531	10.1	2/5/2018	
10.2	Executive Severance Benefits Agreement, dated November 30, 2017, by and between the Registrant and William P. Quinn	10-K	000-51531	10.45	3/9/2018	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act					X
32.1#	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 13a-14(b) or 15d-14(b) of the Exchange Act					X
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 Labels Linkbase Document					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule; Management's Reports on Internal Control over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the Certification furnished in Exhibit 32.1 hereto is deemed to accompany this Form 10-Q and will not be filed for purposes of Section 18 of the Exchange Act. Such certification will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURE

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

SUNESIS PHARMACEUTICALS, INC.
(Registrant)

Date: May 8, 2018

/s/ William P. Quinn

William P. Quinn

*Chief Financial Officer, Senior Vice President, Finance and
Corporate Development
(Duly Authorized Officer and Principal Financial Officer)*

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Dayton Misfeldt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sunesis Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2018

/s/ DAYTON MISFELDT

Dayton Misfeldt
Interim Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, William P. Quinn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sunesis Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2018

/s/ WILLIAM P. QUINN

William P. Quinn

Senior Vice President, Finance and Corporate Development,
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Dayton Misfeldt, Interim Chief Executive Officer and William P. Quinn, Senior Vice President, Finance and Corporate Development and Chief Financial Officer, of Sunesis Pharmaceuticals, Inc. (the "Company"), hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018 (the "Periodic Report"), to which this Certification is attached as Exhibit 32.1, fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2018

/s/ DAYTON MISFELDT

Dayton Misfeldt

Interim Chief Executive Officer

Date: May 8, 2018

/s/ WILLIAM P. QUINN

William P. Quinn

Senior Vice President, Finance and Corporate Development, Chief Financial Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Sunesis Pharmaceuticals, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.