SYNAPTIC PHARMACEUTICAL CORP
Form 10-Q
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Mark One:

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

For the quarter ended September 30, 2002

OR

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

Commission File Number 0-27324

SYNAPTIC PHARMACEUTICAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	22-2859704
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
215 College Road Paramus, NJ (Address of principal executive offices)	07652 (Zip Code)

(201) 261-1331
(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, as amended, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of November 1, 2002, there were 10,977,790 shares of the registrant's Common Stock outstanding.

SYNAPTIC PHARMACEUTICAL CORPORATION

INDEX TO QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED

SEPTEMBER 30, 2002

PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SYNAPTIC PHARMACEUTICAL CORPORATION

BALANCE SHEETS

(in thousands, except share information)

Assets	September 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Current assets:		
Cash and cash equivalents	$ 26,234	$ 45,552
Marketable securities--current maturities	1,529	2,553
Deferred tax assets	-	256

Other current assets	803	431
Total current assets	28,566	48,792
Property and equipment, net	4,610	4,268
Marketable securities	-	1,545
Other assets	214	228
	$ 33,390	$ 54,833
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' (Deficit) Equity		
Current liabilities:		
Accounts payable	$ 1,380	$ 1,441
Accrued liabilities	1,462	1,104
Accrued compensation	403	550
Deferred revenue	734	107
Total current liabilities	3,979	3,202
Deferred rent obligation	1,056	845
Series B senior redeemable convertible preferred stock; authorized, issued and outstanding--11,056 shares liquidation preference--$11,056	10,529	10,206
Series C senior redeemable convertible preferred stock; authorized, issued and outstanding--29,944 shares liquidation preference--$29,944	27,761	27,613
Stockholders' (deficit) equity:		
Series A preferred stock, $.01 par value; authorized--1,000,000 shares	-	-
Common Stock, $.01 par value; authorized--25,000,000 shares issued and outstanding--10,977,790 shares in 2002 and 10,953,353 shares in 2001	109	109
Additional paid-in capital	99,428	99,376
Accumulated other comprehensive income--net unrealized gains on securities	28	87
Accumulated deficit	(109,230)	(86,605)
Total stockholders' (deficit) equity	(9,665)	12,967
	$ 33,390	$ 54,833

See notes to financial statements.

SYNAPTIC PHARMACEUTICAL CORPORATION
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except share and per share information)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2002	2001	2002	2001
Revenues:				
Contract revenue	$ 293	$ 290	$ 879	$ 867
License revenue	83	84	1,854	250
Total revenues	376	374	2,733	1,117
Expenses:				
Research and development	6,339	4,677	19,574	12,777
General and administrative	2,446	1,605	6,822	5,152
Total expenses	8,785	6,282	26,396	17,929
Loss from operations	(8,409)	(5,908)	(23,663)	(16,812)
Other income, net:				
Interest income	161	315	618	1,093
Other	121	118	362	372
Other income, net	282	433	980	1,465
Net loss before benefit from income taxes	(8,127)	(5,475)	(22,683)	(15,347)
Income tax benefit	-	-	58	-
Net loss	(8,127)	(5,475)	(22,625)	(15,347)
Accretion to redemption value of mandatorily redeemable convertible preferred stock	(68)	(4,316)	(201)	(4,316)
Net loss applicable to common stockholders	$(8,195)	$(9,791)	$(22,826)	$(19,663)
Comprehensive loss:				
Net loss	$(8,127)	$(5,475)	$(22,625)	$(15,347)
Unrealized (losses) gains arising during period	(13)	75	(60)	334
Comprehensive loss	$(8,140)	$(5,400)	$(22,685)	$(15,013)
Basic and diluted net loss per share	$(0.75)	$(0.89)	$(2.08)	$(1.80)
Shares used in computation of net loss per share	10,977,614	10,942,755	10,973,345	10,939,822

See notes to financial statements.

SYNAPTIC PHARMACEUTICAL CORPORATION
STATEMENTS OF CASH FLOWS

(in thousands)
(Unaudited)

For the nine months ended September 30, 2002 and 2001

	2002	2001
Operating activities:		
Net loss	$ (22,625)	$ (15,347)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation	856	1,037
Amortization of premiums on securities	10	262
Deferred rent, net	225	125
Non-cash stock compensation	139	-
Changes in operating assets and liabilties:		
Increase in other current assets	(116)	100
Increase in accounts payable, accrued liabilities and accrued compensation	150	3,324
Increase in deferred revenue	624	44
Net cash (used in) operating activities	(20,734)	(10,455)
Investing activities:		
Proceeds from sale or maturity of investments	2,500	22,240
Purchases of property and equipment	(1,198)	(540)
Purchase of investments	-	(2,000)
Proceeds from sale of equipment	-	16
Net cash provided by investing activities	1,302	19,916
Financing activities:		
Issuance of common stock	114	38
Issuance of common stock	--	37,745
Net cash provided by financing activities	114	37,783
Net (decrease) increase in cash and cash equivalents	(19,318)	47,244
Cash and cash equivalents at beginning of period	45,552	2,037
Cash and cash equivalents at end of period	$ 26,234	$ 49,281

See notes to financial statements.

SYNAPTIC PHARMACEUTICAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

September 30, 2002

Note 1 -- Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and may not include all information and footnotes required for a presentation in accordance with accounting principles generally accepted in the United States. In the opinion of the management of Synaptic Pharmaceutical Corporation (the "company"), these financial statements include all normal and recurring adjustments necessary for a fair presentation of the financial position and the results of operations and cash flows of the company for the interim periods presented. For more complete financial information, these financial statements should be read in conjunction with the audited financial statements for the fiscal year ended December 31, 2001, and notes thereto included in the company's 2001 Annual Report on Form 10-K. The results of operations for the fiscal quarter ended September 30, 2002, are not necessarily indicative of the results of operations to be expected for the full year.

Note 2 - Senior Redeemable Convertible Preferred Stock

On August 3, 2001, the company sold to investors (the "purchasers"), 9,438 shares of Series B Preferred Stock in a private placement for $9,438,000. On September 26, 2001, the company sold 1,618 shares of Series B Preferred Stock and 29,944 shares of Series C Preferred Stock for $31,562,000. Net proceeds, after giving effect to placement fees and offering expenses, were approximately $37,745,000. The purchasers were granted certain subscription and registration rights in connection with their acquisition of the Preferred Stock.

The Series B and Series C Convertible Preferred Stock (the "Preferred Stock") are two series of senior redeemable convertible preferred stock having identical terms, except that the Series B Preferred Stock has an initial conversion price of $4.3358 and the Series C Preferred Stock has an initial conversion price of $5.9713. Each share of Preferred Stock may be converted at any time at the option of the holder thereof into a number of shares of common stock determined by dividing $1,000 by the conversion price, as appropriately adjusted for any stock splits, stock dividends, combinations or similar events. All shares of Preferred Stock shall automatically be converted into common stock upon the vote to so convert of holders of a majority of the Preferred Stock then outstanding, voting together as a separate class. The Preferred Stock is currently convertible into an aggregate of 7,564,584 shares of common stock.

Holders of Preferred Stock are entitled to receive dividends on a pari passu basis, if and when dividends are declared on the common stock, in an amount equal to the dividends that would have been payable had their shares been converted to common stock immediately prior to the record date for the dividend.

Upon any liquidation of the company, each holder of Preferred Stock is entitled to receive $1,000, plus declared but unpaid dividends, if any, for each share held, prior to the holders of any common stock or junior preferred stock receiving any assets of the company available for distribution.

Holders of Preferred Stock, voting together as a separate class, are entitled to elect two members of the board of directors, as long as 60% of the Preferred Stock issued and outstanding as of September 26, 2001 remains outstanding.

The holders of the Preferred Stock are entitled to vote together with the holders of the common stock on all matters presented to our stockholders for consideration, except that as long as the holders of the Preferred Stock are entitled to vote as a separate class to elect members of the board of directors, they will not be entitled to vote for the remaining directors. Each share of Preferred Stock has a number of votes equal to the number of shares of common

stock into which it may then be converted.

The company may redeem all outstanding shares of Preferred Stock at any time after August 3, 2003, provided that the company can redeem these shares prior to August 3, 2009, only if the market price of the common stock is at least 200% of the conversion price then in effect for any 20 consecutive trading days ending within 10 trading days of the redemption date. The company must redeem all outstanding shares of Preferred Stock in two annual installments beginning on August 3, 2009. On any redemption, the redemption price will be $1,000 per share, as appropriately adjusted for any stock splits, stock dividends, combinations or similar events, plus declared but unpaid dividends.

During 2001, the company recorded an adjustment to net loss applicable to common stockholders of $4,226,000 relating to the beneficial conversion feature inherent in the issuances of the Series B Preferred Stock. This amount was determined based upon the excess of the fair value of the company's common stock into which the Series B Preferred Stock was immediately convertible less the initial conversion price of $4.3358 per share in accordance with Emerging Issues Task Force No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios." For the nine-month period ended September 30, 2002, the company recorded an adjustment to net loss applicable to common stockholders of approximately $201,000 representing the accretion of the Series B Preferred Stock and Series C Preferred Stock to their respective redemption values.

Note 3 - Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS no. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. SFAS 146 is effective for exit or disposal activities initiated after December 31, 2002. The company does not anticipate that SFAS 146 will have a material affect on the Company's financial position or results of operations.

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

Overview

Synaptic is a drug discovery company using G protein-coupled receptors as the basis for developing new drugs for the treatment of a variety of human disorders.

We currently collaborate with Grunenthal GmbH ("Grunenthal") and Kissei Pharmaceutical Co., Ltd. ("Kissei"). In connection with our collaborative arrangement with Grunenthal, we have licensed some of our technology and patent rights to them. We have also granted licenses to some of our technology and patent rights to other pharmaceutical companies.

Since our inception, we have financed our operations primarily through the sale of our stock, through contract and license revenue under license agreements, and through interest income and capital gains resulting from the investment of the proceeds of our financing activities pending use of these funds for operational activities. We have also received funds through government grants under the Small Business Innovative Research ("SBIR") program of the National Institutes of Health and through the sale of our New Jersey state tax net operating loss ("NOL") carryforwards.

To date, our expenditures have been for research and development related expenses, general and administrative related expenses, fixed asset purchases and various patent related expenditures incurred in protecting our technologies. Historically, we have not been profitable, and at September 30, 2002 we had an accumulated deficit of $109,230,000. We incurred net losses applicable to common stockholders of $26,118,000, $13,859,000 and $15,121,000 for the fiscal years ended 2001, 2000 and 1999, respectively. We expect to continue to incur operating losses for a number of years, and we will not become profitable unless and until we receive royalty revenue or revenue from sales of drugs developed with the use of our technology or patent rights.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States that require us to make estimates and assumptions. We believe that of our significant accounting policies, the following may involve a higher degree of judgment and complexity:

Revenue

Revenues that we receive, or may receive, are derived from either multi-element revenue arrangements or from research services that we perform. Historically, virtually all revenue that has been recorded has been under multi-element revenue arrangements. Generally, revenue is realized or realizable and earned when all of the following criteria are met: (1) an arrangement exists, (2) services have been rendered, (3) prices of services are fixed or determinable and (4) collectibility is reasonably assured. As the structures of our arrangements are unique and may contain several different revenue components, each is reviewed on a case-by-case basis in order to determine the appropriate amount and term over which to recognize revenues.

Under these multi-element revenue arrangements, we may receive one or more of the following types of revenue: license revenue, research funding revenue, milestone revenue, royalty revenue and revenue derived from sales of drugs.

License revenue represents non-refundable payments for a license to one or more of our patents and/or a license to our technology. Payments for licenses are recognized as they are received or, if earlier, when they become guaranteed, provided they are independent of any continuing research activity on the related project. Otherwise, they are recognized pro-rata during the term of the related research agreement in accordance with Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements."

Research funding revenue includes payment to support a specified number of Synaptic's scientists. Such revenue is recognized ratably over the period in which the research is performed.

Milestone revenue represents non-refundable payments for the achievement of a specified milestone under either an existing arrangement or under a license that has been granted to one or more of our patents and/or our technology. Such payments typically coincide with the achievement of a substantial element in a multi-element arrangement or measure substantive stages of progress toward completion under a long-term contract. The recognition of such payments as revenue is determined based upon the nature of the underlying arrangement. Milestone payments received under contracts where the company is performing related ongoing research, and which are deemed to have multi-element financial arrangements, will be recognized as revenue over the remaining life of the contract. Milestone payments received under license agreements are recognized as revenue as they are received or, if earlier, when they become guaranteed, provided they are independent of any research activity.

Royalty revenue represents payments that may be received from the sales of drugs that may be developed using the technology or the patent rights that have been licensed. We are entitled to receive royalty payments under most of our license agreements. To date, we have not received royalty payments and we do not expect to receive such payments for a number of years, if at all.

Revenue derived from the sales of drugs would be recognized if the company markets drugs. The company may develop drugs on its own or in partnership with others. As part of the agreement with Grunenthal, we have development and marketing rights in certain geographic areas with respect to any drugs that are jointly identified under the agreement. Accordingly, we may receive revenue from sales of drugs in our designated geographic areas if we market them independently, or we may receive royalty payments if we license our marketing rights to a third party. To date, we have not received revenue from the sales of drugs. The collaboration with Grunenthal is scheduled to expire on January 11, 2003.

Income Taxes

We account for income taxes using the liability method. Under this method, deferred income tax assets and liabilities reflect tax carryforwards and the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes, as determined under currently enacted tax rates. Deferred tax assets are recorded if future realization is more likely than not.

Deferred taxes are recorded primarily for Federal and state net operating loss carryforwards, research and development credit carryforwards and depreciation and amortization, which are reported in different periods for Federal income tax purposes than for financial reporting purposes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized.

At December 31, 2001, we had approximately $29,625,000 of Federal and state net operating loss carryforwards and approximately $1,610,000 research and development credit carryforwards. We

have a history of operating losses and expect these losses to increase as a result of our strategy of increasing our internal drug development efforts. These losses would remain available to us on a carryforward basis to offset any future earnings; however, deferred tax assets attributable to these net

operating losses have been fully offset by a valuation allowance in the financial statements, as their future realization is uncertain.

Research and Development

We perform research for ourselves and for our current collaborators, Kissei and Grunenthal. As this research progresses, we designate some projects for preclinical and clinical development. Until a lead compound is chosen for development, all costs associated with that compound are considered to be research expense. Costs incurred during the research phase are not separately identifiable by project. At this preliminary or investigational stage, research is performed within a broad family of receptors with the objective of identifying lead compounds. Once a lead compound enters the preclinical development stage, costs are accumulated for each project associated with that compound. Currently, the only project for which a lead compound has been chosen is the company's depression program. The lead compound in this program was selected during the second quarter of 2000. Costs incurred on the depression program for the nine-month and inception-to-date periods ended September 30, 2002 approximated $5,543,000 and $8,093,000, respectively. Total research costs for the nine-month period ended September 30, 2002 amounted to $19,574,000.

In general, from the time a lead compound is chosen until that compound reaches the market, many years may elapse. During this time, the compound must undergo clinical trials that include Phase I, Phase II and Phase III trials, the results of which are subject to review and approval by the U.S. Food & Drug Administration and other regulatory agencies. Successful completion of each trial carries its own set of risks and may cost many millions of dollars. At this stage of Phase I clinical development of the depression program, completion costs and dates cannot be estimated.

Net Loss Applicable to Common Stockholders

During the third quarter of 2001, we sold shares of two series of senior redeemable convertible preferred stock the Series B Convertible Preferred Stock and Series C Convertible Preferred Stock, in a private equity placement. In connection with these issuances, we recorded an adjustment to net loss applicable to common stockholders for the year ended December 31, 2001 of approximately $4,226,000 relating to the beneficial conversion feature inherent in the issuances of the Series B Convertible Preferred Stock. This amount was determined based upon the excess of the fair value of the company's common stock into which the Series B Convertible Preferred Stock was immediately convertible less the initial conversion price of $4.3358 per share in accordance with Emerging Issues Task Force No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios." For the nine-month period ended September 30, 2002, we recorded an adjustment to net loss applicable to common stockholders of approximately $201,000 representing the accretion of the Series B and Series C Convertible Preferred Stock to their respective redemption values.

Results of Operations

Comparison of the Three Months Ended September 30, 2002 and 2001

Revenues. We recognized license and contract revenue of $376,000 and $374,000 for the three months ended September 30, 2002 and 2001, respectively.

Research and Development Expenses. We incurred research and development expenses of $6,339,000, and $4,677,000 for the three months ended September 30, 2002 and 2001, respectively. The increase of $1,662,000, or 36%, was attributable primarily to increases in: clinical and preclinical testing costs

associated with the company's depression program; research and development salaries and fringe benefits resulting from a net increase in headcount; and preclinical testing costs associated with moving compounds in other programs towards development.

General and Administrative Expenses. We incurred general and administrative expenses of $2,446,000 and $1,605,000 for the three months ended September 30, 2002 and 2001, respectively. The increase of $841,000, or 52%, was attributable primarily to increases in: severance costs incurred in complying with the terms of the separation agreement entered into with our president and chief executive officer; costs incurred in attracting a new president and chief executive officer; and an increase in legal expenses as a result of a suit filed by the company (See "Legal Proceedings" in PART II, Item 1).

Other Income, Net. We recorded other income of $282,000 and $433,000 for the three months ended September 30, 2002 and 2001, respectively. The decrease of $151,000 was primarily due a decrease in interest income related to lower cash, cash equivalent and marketable securities balances during 2002 as a result of the utilization of these resources to fund the company's operations and an overall reduction in interest rates.

Net loss applicable to common stockholders. Our net loss applicable to common stockholders was $8,195,000 ($0.75 per share), and $9,791,000 ($0.89 per share) for the three months ended September 30, 2002 and 2001, respectively. The decrease in net loss per share of $0.14 resulted primarily from the $4,226,000 adjustment in 2001, described in the section entitled "Net Loss Applicable to Common Stockholders," partially offset by higher expenses during the third quarter of 2002 as described above.

Comparison of the Nine Months Ended September 30, 2002 and 2001

Revenues. We recognized revenue of $2,733,000 and $1,117,000 for the nine months ended September 30, 2002 and 2001, respectively. The increase in revenue of $1,616,000 resulted primarily from an increase in license revenue resulting from the grant of licenses for certain patent rights to two separate pharmaceutical companies.

Research and Development Expenses. We incurred research and development expenses of $19,574,000, and $12,777,000 for the nine months ended September 30, 2002 and 2001, respectively. The increase of $6,797,000, or 53%, was attributable primarily to increases in: clinical and preclinical testing costs associated with the company's depression program; research and development salaries and fringe benefits resulting from a net increase in headcount; and preclinical testing costs associated with moving compounds in other programs towards development.

General and Administrative Expenses. We incurred general and administrative expenses of $6,822,000 and $5,152,000 for the nine months ended September 30, 2002 and 2001, respectively. The increase of $1,670,000, or 32%, was attributable primarily to increases in: severance costs associated with the separation agreement entered into with our president and chief executive officer; costs incurred in attracting a new president and chief executive officer; an increase in patent expenses and an increase in legal expenses as a result of a suit filed by the company (See "Legal Proceedings" in PART II, Item 1).

Other Income, Net. We recorded other income of $980,000 and $1,465,000 for the nine months ended September 30, 2002 and 2001, respectively. The decrease of $485,000 was primarily due a decrease in interest income related to lower cash, cash equivalent and marketable securities balances during 2002 as a result of

the utilization of these resources to fund the company's operations and an overall reduction in interest rates.

Income tax benefit. During the nine months ended September 30, 2002, we recorded a $58,000 income tax benefit related to the sale of a portion of our New Jersey state net operating loss carryforwards.

Net loss applicable to common stockholders. Our net loss applicable to common stockholders was $22,826,000 ($2.08 per share), and $19,663,000 ($1.80 per share) for the nine months ended September 30, 2002 and 2001, respectively. The increase in net loss per share of $0.28 resulted primarily from higher expenses partially offset by higher revenues during the second quarter of 2002 as described above.

Operating Trends. Our revenues may vary from period to period depending on numerous factors, including the timing of revenue earned under license agreements and revenue that may be earned under future collaborative and/or license agreements. During 2001 and for the nine-month period ended September 30, 2002, we recognized revenue under our research and licensing agreement with Kissei Pharmaceutical Co., Ltd. and will continue to recognize additional revenues under this agreement during the remainder of 2002. Also during the second quarter of 2002 we recognized revenue relating to the licensing of certain of the company's patent rights to Procter and Gamble Pharmaceuticals and Ranbaxy Laboratories Limited. Under the terms of some of our license agreements, revenues may be recognized if specified milestones are achieved. We continue to monitor our spending level in order to ensure that we have enough cash to last through the second quarter of 2003. We continue to assess the opportunity for obtaining additional funding under new collaborative and/or license agreements as well as through equity financings.

Since late 2000, we have been pursuing a new business strategy of increasing our internal drug development efforts. This new strategy requires us to hire additional employees with drug development expertise and to incur additional preclinical expenses as well as expenses associated with clinical trials. We expect to sign a contract for clinical services that may result in approximately $2,800,000 of expenditures for the services provided under the contract.

Legal expenses are expected to continue to be a significant expense as a result of a suit filed by the company. See "Legal Proceedings" in PART II, Item 1.

Other income, net is expected to decrease during 2002 because of less favorable short-term interest rates. This decrease will, however, be somewhat mitigated by an increase in rental income that we expect to recognize under our existing sublease agreements.

We are pursuing further sales of our state tax NOL carryforwards and our state research and development credits under the State of New Jersey's Technology Business Tax Certificate Transfer Program (the "Program"). No assurance can be given, however, as to the amount of NOL carryforwards that may be sold under the Program in any one year. External factors that may have an effect on future NOL sales include limitations imposed by State law and availability of buyers and related demand.

Property and equipment spending may vary from period to period depending on numerous factors, including the level of drug development efforts, the number of collaborations in which we are involved at any given time, and replacement due to normal wear and obsolescence. Equipment spending in 2002 has increased from that of 2001.

At September 30, 2002, we held marketable securities with an estimated fair value of $1,529,000. Our primary interest rate exposure results from changes in short-term interest rates. We do not purchase financial instruments for trading or speculative purposes. All of the marketable securities we hold are classified as available-for-sale securities. The following table provides information about marketable securities that we held at September 30, 2002:

	Principal Amount and Stated Rate by Expected Maturity	Estimated Fair Value
(000's)	2003	(000's)
Principal	$1,500	$1,529
Stated Rate	6.20%	--

The stated rates of interest expressed in the above table may not approximate the actual yield of the securities that Synaptic currently holds since we have purchased some marketable securities at other than face value. Additionally, the securities represented in the above table may be called or redeemed, at the option of the issuer, prior to their expected due dates. If early redemptions occur, we may reinvest the proceeds realized on such calls or redemptions in marketable securities with stated rates of interest or yields that are lower than those of current holdings, affecting both future cash interest streams and future earnings.

In addition to investments in marketable securities, we place some of our cash in money market funds in order to keep cash available to fund operations and to hold cash pending investments in marketable securities. Fluctuations in short term interest rates will affect the yield on monies invested in such money market funds. Such fluctuations can have an impact on future cash interest streams and future earnings, but the impact of such fluctuations are not expected to be material.

We do not believe that inflation has had a material impact on our results of operations.

Liquidity and Capital Resources

At September 30, 2002 and December 31, 2001, cash, cash equivalents and marketable securities aggregated $27,763,000 and $49,650,000, respectively. This decrease was primarily the result of the utilization of these resources to fund our operations. We intend to utilize our cash primarily for research, preclinical and clinical development costs, for patent related expenditures, for general corporate purposes, for leasehold improvements to our facilities and for the purchase of property and equipment. We expect to continue to incur operating losses for a number of years. Additionally, we expect to sign a contract for clinical services that may result in approximately $2,800,000 of expenditures for the services provided under the contract. We believe that cash, cash equivalents and marketable securities on hand, and interest payments on investments, will be sufficient to fund operations, as well as to support our share of certain development costs under the Grunenthal Agreement, if any, through the second quarter of 2003. We are considering various alternatives as to how best to raise cash and in what amount. The alternatives we are considering include an equity financing, partnerships and collaborations with pharmaceutical and biotech companies, and possible M & A activities.

To date, we have met our cash requirements through the sale of our stock, through contract and license revenue, through interest income and gains

resulting from our investments, through SBIR grants and through sales of portions of our state research and development credits and state NOL carryforwards.

As of December 31, 2001, we had NOL carryforwards of approximately $76,000,000 for Federal income tax purposes that will expire principally in the years 2002 through 2021. In addition, we had Federal research and development credit carryforwards of approximately $1,610,000 that will expire principally in 2002 through 2018. Also at December 31, 2001, we had NOL carryforwards of approximately $61,000,000 for state income tax purposes and state research and development credit carryforwards of $311,000. For financial reporting purposes, a valuation allowance has been recognized to offset the deferred tax assets related to these carryforwards.

We lease laboratory and office facilities under an agreement expiring on December 31, 2015. The minimum annual payment under the lease is currently $1,835,000. The lease provides for fixed escalations in rent payments in the years 2005 and 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk (i.e., interest rate risk) are included in Item 2 of this Report.

Item 4. Controls and Procedures

The Company's chief executive officer and principle accounting officer performed an evaluation of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing of this quarterly report on Form 10-Q. Based on this evaluation, the Company believes that such controls and procedures effectively ensure that information required to be disclosed in this quarterly report on Form 10-Q is appropriately recorded, processed and reported. There have been no significant changes in the Company's disclosure controls and procedures or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 5, 2000, we filed suit in the United States District Court for the District of New Jersey against M.D.S. Panlabs, Inc., a Washington corporation, and Panlabs Taiwan Ltd., a Taiwanese corporation (collectively, "Panlabs"). The suit alleges that Panlabs has infringed several issued U.S. Patents owned by Synaptic that relate to cloned human receptors and their use in binding assays. The suit also alleges that Panlabs has been importing, selling and offering to sell products of our patented binding assay processes to pharmaceutical companies and others in the United States, particularly in New Jersey.

On December 14, 2001, we filed a suit in the United States District Court for the District of New Jersey against Euroscreen, S.A., a Belgian corporation ("Euroscreen"). The suit alleges that Euroscreen has infringed numerous issued U.S. Patents owned by us, which relate to cloned human receptors and their use in binding assays. The suit alleges that Euroscreen has been importing, selling and offering to sell products of our patented binding assay processes to pharmaceutical companies and others in the United States, particularly in New Jersey, and that Euroscreen has conspired with Panlabs to infringe our patents.

The suits seek injunctions against the infringing activities of Euroscreen and Panlabs, damages, the destruction of data obtained by the infringement of patents and other relief.

We believe that our complaint against Panlabs and Euroscreen is well founded and necessary to protect the value of our intellectual property assets.

We believe that an adverse resolution of the above matters would not have a material adverse effect on our ongoing business.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Employment agreement, dated as of September 9, 2002,between the Company and Dr. Errol B. De Souza, filed herewith

10.2 Incentive Stock Option Agreement, dated as of September 9, 2002,between the Company and Dr. Errol B. De Souza, filed herewith

10.3 Nonqualified Stock Option Agreement, dated as of September 9, 2002, between the Company and Dr. Errol B. De Souza, filed herewith

10.4 Nonqualified Stock Option Agreement relating to non-plan options, dated as of September 9, 2002, between the Company and Dr. Errol B. De Souza, filed herewith

99.1 Certification Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K during the fiscal quarter ended September 30, 2002 relating to a Certification Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 certifying information in the June 30, 2002 10-Q.

Safe Harbor Statement

This Report on Form 10-Q contains "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Such statements include, but are not limited to, those relating to future cash and spending plans, amounts of future research funding, and any other statements regarding future growth, future cash needs, future operations, business plans and financial results, and any other statements which are not historical facts. When used in this document, the words "expects," "may," "believes," and similar expressions are intended to be among the words that identify forward-looking statements. Such statements involve risks and uncertainties, including, but not limited to, those risks and uncertainties detailed in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (the "2001 Form 10-K"), including in Item 1 of the 2001 Form 10-K under the captions "Patents, Proprietary Technology and Trade Secrets," "Competition" and "Government Regulation" as well as in the section entitled "Risk Factors" or detailed from time to time in filings the company makes with the SEC. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. Although the company believes that the expectations reflected in the forward-looking statements contained herein are reasonable, it can give no assurance that such expectations will prove to be correct.

SIGNATURE PAGE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SYNAPTIC PHARMACEUTICAL CORPORATION

Date: November 14, 2002

By: /s/ Errol B. De Souza

Name: Errol B. De Souza
Title: President and Chief Executive Officer

By: /s/ Edmund M. Caviasco

Name: Edmund M. Caviasco
Title: Controller (Principal Accounting Officer)

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Errol B. De Souza, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synaptic Pharmaceutical Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4.The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within Synaptic Pharmaceutical Corporation, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002 By: /s/ Errol B. De Souza

Name: Errol B. De Souza
Title: President and Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Edmund M. Caviasco, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synaptic Pharmaceutical Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4.The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within Synaptic Pharmaceutical Corporation, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002 By: /s/ Edmund M. Caviasco

Name: Edmund M. Caviasco
Title: Controller and Principal Accounting Officer