UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2006

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: 000-51136

Threshold Pharmaceuticals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**94-3409596**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1300 Seaport Boulevard
Redwood City, CA 94063
(Address of principal executive offices, including zip code)

(650) 474-8200
(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 such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

On May 1, 2006, there were 37,287,538 shares of common stock, par value $0.001 per share, of Threshold Pharmaceuticals, Inc. outstanding.

Threshold Pharmaceuticals, Inc.

FORM 10-Q
THREE MONTHS ENDED MARCH 31, 2006

TABLE OF CONTENTS

The terms "Threshold," "we," "us" "the Company" and "our" as used in this report refer to Threshold Pharmaceuticals, Inc.

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

Threshold Pharmaceuticals, Inc.
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 53,888	$ 74,947
Marketable securities	33,559	24,707
Prepaid expenses and other current assets	1,092	563
Total current assets	88,539	100,217
Property and equipment, net	2,389	1,667
Restricted cash and other assets	509	217
Total assets	$ 91,437	$ 102,101
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,560	$ 1,237
Accrued clinical and development expenses	4,697	4,500
Accrued liabilities	1,964	2,158
Deferred revenue, current portion	1,437	1,437
Notes payable, current portion	188	230
Total current liabilities	9,846	9,562
Deferred revenue, less current portion	2,514	2,873
Notes payable, less current portion	109	151
Deferred rent	158	147
Total liabilities	12,627	12,733
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 2,000,000 shares; no shares issued and outstanding	—	—
Common stock, $0.001 par value, 150,000,000 shares authorized; issued and outstanding: 37,290,828 shares at March 31, 2006 and 37,231,572 shares at December 31, 2005	37	37
Additional paid-in capital	181,464	179,634
Deferred stock-based compensation	(9,844)	(11,356)
Accumulated other comprehensive income (loss)	(50)	24
Deficit accumulated during the development stage	(92,797)	(78,971)
Total stockholders' equity	78,810	89,368
Total liabilities and stockholders' equity	$ 91,437	$ 102,101

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

Threshold Pharmaceuticals, Inc.
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31,		Cumulative Period from October 17, 2001 (date of inception) to March 31, 2006
	2006	2005	
Revenue	$ 359	$ —	$ 1,049
Operating expenses:			
Research and development	11,438	5,251	72,222
General and administrative	3,813	2,565	25,261
Total operating expenses	15,251	7,816	97,483
Loss from operations	(14,892)	(7,816)	(96,434)
Interest and other income, net	1,072	284	3,766
Interest expense	(6)	(8)	(129)
Net loss	(13,826)	(7,540)	(92,797)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	—	—	(40,862)
Net loss attributable to common stockholders	$(13,826)	$ (7,540)	$ (133,659)
Net loss per common share, basic and diluted	$ (0.38)	$ (0.46)	
Weighted average number of shares used in per common share calculations: basic and diluted	35,949	16,340	

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

Threshold Pharmaceuticals
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,		Cumulative Period from October 17, 2001 (date of inception) to March 31, 2006
	2006	2005	
Cash flows from operating activities:			
Net loss	$(13,826)	$ (7,540)	$ (92,797)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	166	147	983
Stock-based compensation expense	2,966	1,627	19,450
Amortization of debt issuance costs	—	—	44
Gain on sale of investments, property and equipment	(41)	—	(36)
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(529)	(674)	(1,118)
Accounts payable	323	61	1,560
Accrued clinical and development expenses	197	572	4,697
Accrued liabilities	(194)	(137)	1,964
Deferred rent	11	13	158
Deferred revenue	(359)	—	3,951
Net cash used in operating activities	(11,286)	(5,931)	(61,144)
Cash flows from investing activities:			
Acquisition of property and equipment	(870)	(886)	(3,359)
Acquisition of marketable securities	(19,707)	(9,180)	(91,076)
Proceeds from sale of marketable securities	10,803	7,400	57,489
Restricted cash	(291)	85	(483)
Net cash used in investing activities	(10,065)	(2,581)	(37,429)
Cash flows from financing activities:			
Proceeds from redeemable convertible preferred stock, net	—	—	49,839
Proceeds from issuance of common stock, net of offering expenses	376	39,239	102,325
Proceeds from issuance of notes payable	—	—	1,000
Repayment of notes payable	(84)	(83)	(703)
Net cash provided by financing activities	291	39,156	152,460
Net increase (decrease) in cash and cash equivalents	(21,059)	30,644	53,888
Cash and cash equivalents, beginning of period	74,947	14,339	—
Cash and cash equivalents, end of period	$ 53,888	$44,983	$ 53,888
Supplemental schedule of non-cash investing and financing activities			
Deferred stock-based compensation	$ —	$ 2,645	$ 23,201
Fair value of redeemable convertible preferred stock warrant	$ —	$ —	$ 44
Deferred offering costs in connection with initial public offering	$ —	$ (1,287)	$ —
Change in unrealized loss on marketable securities	$ (74)	$ (22)	$ (50)
Conversion of redeemable preferred stock	$ —	$49,389	$ 49,839
Dividend related to beneficial conversion feature of redeemable convertible preferred stock.	$ —	$ —	$ 40,862

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

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Threshold Pharmaceuticals, Inc. (the "Company") is a development stage enterprise engaged primarily in the research, development and commercialization of targeted small molecule therapies initially for the treatment of benign prostatic hyperplasia ("BPH") and cancer. The Company was incorporated in the State of Delaware on October 17, 2001, and has devoted substantially all of its time and efforts to performing research and development, raising capital and recruiting personnel. The Company has incurred losses since its inception.

In June 2005, the Company formed a wholly-owned subsidiary, THLD Enterprises (UK), Limited in the United Kingdom for purposes of conducting clinical trials in Europe. There is currently no financial activity related to this entity.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. As discussed in Note 3 Stock Based Compensation, on January 1, 2006, the Company began accounting for stock options and stock purchase rights related to our 2004 Employee Stock Purchase Plan ("ESPP") under the provisions of Statement of Financial Accounting Standards No. 123(R), *"Share-Based Payments"* ("SFAS 123(R)"), which requires the recognition of the fair value of stock-based compensation. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of results for the periods presented, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period.

The preparation of condensed consolidated financial statements requires management to make estimates and assumptions that affect the recorded amounts reported therein. A change in facts or circumstances surrounding the estimate could result in a change to estimates and impact future operating results.

The condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the interim condensed consolidated financial statements have read or have access to the audited consolidated financial statements for the preceding fiscal year. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2005 included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2006.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, and reflect the elimination of intercompany accounts and transactions.

NOTE 2 — NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing net loss per share attributable to common stockholders by the weighted-average number of vested common shares outstanding during the period. Diluted net loss per common share is computed by giving effect to all potential dilutive common shares, including outstanding options, warrants and common stock subject to repurchase. A reconciliation of the numerator and denominator used in the calculation is as follows (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2006	2005
Numerator:		
Net loss attributable to common stockholders	$(13,826)	$ (7,540)
Denominator:		
Weighted average common shares outstanding	37,257	18,577
Less: Weighted average unvested common shares subject to repurchase	(1,308)	(2,237)
Denominator for basic and diluted calculations	35,949	16,340
Basic and diluted net loss per share	$ (0.38)	$ (0.46)

The following outstanding stock options and warrants and common stock subject to repurchase were excluded from the computation of diluted net loss per share for the periods presented because including them would have had an antidilutive effect (in thousands):

	As of March 31,	
	2006	2005
Shares issuable upon exercise of stock options	2,388	288
Shares issuable related to the ESPP	28	27
Shares issuable upon exercise of warrants	—	23
Common stock subject to repurchase	1,249	2,255

NOTE 3 — STOCK BASED COMPENSATION

Equity Incentive Plans

2004 Equity Incentive Plan The 2004 Amended and Restated Equity Incentive Plan, adopted by the board of directors and approved by stockholders, provides for the granting of incentive stock options, nonstatutory stock options, stock appreciation rights, stock awards and cash awards to employees, officers, non-employee directors and consultants. Stock options to employees and officers are generally granted with an exercise price equal to the closing market price of the Company's stock at the date of grant; those option awards expire after 10 years or three months after termination of service and generally vest based over four years of continuous service, with options for new employees generally including a one-year cliff vesting period. At March 31, 2006, 1,582,744 shares were authorized and available for issuance under the stock option plan.

2004 Employee Stock Purchase Plan The 2004 Employee Stock Purchase Plan, adopted by the board of directors and approved by the stockholders, contains consecutive, overlapping 24 month offering periods. Each offering period includes four six-month purchase periods. The price of the common stock purchased will be the lower of 85% of the fair market value of the common stock at the beginning of an offering period or at the end of the purchase period. At March 31, 2006, plan participants had $0.2 million withheld to purchase stock on August 14, 2006, which is included in accrued liabilities on the accompanying condensed consolidated balance sheet. At March 31, 2006, 1,013,324 shares were authorized and available for issuance under the ESPP.

Adoption of SFAS No. 123(R)

Prior to January 1, 2006 the Company accounted for stock-based employee compensation arrangements in accordance with the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* ("APB 25") and complied with the disclosure provisions of Statement of Financial Accounting Standards No. 123*, "Accounting for Stock-Based Compensation"* ("SFAS 123"), as amended by SFAS No. 148*, "Accounting for Stock-Based Compensation, Transition and Disclosure."* Under APB 25, unearned stock compensation is based on the difference, if any, on the date of grant, between the fair value of the Company's common stock and the exercise price. Stock-based compensation expense was recognized under APB 25 for options granted prior to the Company's initial public offering of its common stock in February 2005 based upon the intrinsic value (the difference between the exercise price at the date of grant and the deemed fair value of the common stock based on the anticipated initial public offering stock price.) The Company did not recognize stock-based compensation cost in its statement of operations for periods prior to January 1, 2006, for option grants that had an exercise price equal to the market value of the underlying common stock on the date of grant.

On January 1, 2006, the Company adopted the fair value provisions of SFAS 123(R) using the modified prospective transition method, except for options granted prior to the Company's initial public offering in February 2005, for which the fair value was determined for disclosure purposes using the minimum value method. Under this transition method, stock-based compensation cost recognized in the quarter ended March 31, 2006 includes:

- compensation cost for all unvested stock-based awards as of January 1, 2006 that were granted subsequent to the Company's initial public offering in February 2005, and prior to January 1, 2006, that vested during the three months ended March 31, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS 123;
- compensation cost for all stock-based awards granted subsequent to January 1, 2006, that vested during the three months ended March 31, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R); and
- compensation cost based on the intrinsic value method for options granted prior to the Company's initial public offering in February 2005 that vested during the three months ended March 31, 2006.

In addition, SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to the adoption of SFAS 123(R), the Company accounted for forfeitures upon occurrence. Under the modified prospective transition method, results for prior periods have not been restated.

Employee stock-based compensation expense recognized under SFAS 123(R) and APB 25 in the condensed consolidated statement of operations for the three months ended March 31, 2006 related to stock options and ESPP was $2.5 million. The stock-based compensation expense for the three months ended March 31, 2006, included $1.2 million related to options granted prior to the initial public offering that were valued using the intrinsic value method in accordance with the provisions of APB 25. As a result of adopting SFAS 123(R) on January 1, 2006, the Company's loss from operations and net loss for the three months ended March 31, 2006 was $1.3 million higher than if it had continued to account for share-based compensation under APB 25. Basic and diluted net loss per share for the three months ended March 31, 2006 would have been $0.35, if the Company had not adopted SFAS 123(R). The implementation did not have an impact on cash flows from operations or financing activities during the three months ended March 31, 2006.

Valuation Assumptions

The Company estimated the fair value of stock options granted using the Black-Scholes option-pricing formula and a single option award approach. This fair value is being amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The fair value of employee stock options and employee purchase rights under our ESPP was estimated using the following weighted-average assumptions for the three months ended March 31, 2006 and 2005:

	Three Months ended March 31,	
	2006	2005
Employee Stock Options		
Risk-free interest rate	4.29 – 4.78%	3.56%
Expected life (in years)	6.02	3.6
Dividend yield	—	—
Volatility	77%	67%
Weighted average fair value of stock options granted	$ 10.23	$6.98
Employee Stock Purchase Plan (ESPP):		
Risk-free interest rate	4.70%	2.86%
Expected life (in years)	0.5	0.5
Dividend yield	—	—
Volatility	50%	67%
Weighed average fair value of ESPP purchase rights	$ 2.32	$2.34

To determine the expected term of our employee stock options granted during the three months ended March 31 2006, the Company utilized the simplified approach as defined by SEC Staff Accounting Bulletin No. 107, *"Share-Based Payment"* ("SAB 107"), which resulted in an expected term of 6.02 years. To determine the risk-free interest rate, the Company utilized an average interest rate based on U.S. Treasury instruments whose term was consistent with the expected term of our awards. To determine the expected stock price volatility for our stock options for the three months ended March 31, 2006, the Company examined historical volatilities for industry peers as we did not have sufficient trading history for our common stock and utilized a median of the historical volatilities of our industry peers. The Company will continue to analyze the expected stock price volatility and expected term assumption as more historical data for our common stock becomes available. The expected stock price volatility for our ESPP for the three months ended March 31, 2006 was based on expected stock price volatilities of our industry peers, as well as the historical volatility of our common stock as we had trading history for our common stock in excess of the expected term of the purchase rights under the ESPP. The fair value of all the Company's stock based award assumes no dividends as the Company does not anticipate paying cash dividends on its common stock.

Employee Stock-based Compensation Expense

Deferred stock-based compensation Prior to the initial public offering, the Company issued options to certain employees with exercise prices below the fair market value of the Company's common stock at the date of grant, determined with hindsight. In accordance with the requirements of APB 25, the Company recorded deferred stock-based compensation aggregating $22.9 million, net of forfeitures for the difference between the exercise price of the stock option and the fair market value of the Company's stock at the date of grant. This deferred stock-based compensation is being amortized on a straight-line basis over the period during which the Company's right to repurchase the stock lapses or the options vest, generally four years. Through March 31, 2006, the Company amortized approximately $13.1 million of such compensation expense, net of forfeitures, with approximately $1.2 million and $1.5 million being amortized in the three months ended March 31, 2006 and 2005, respectively.

Stock-based compensation expense As required by SFAS 123(R) the Company recognized $1.2 million of stock-based compensation expense related to stock options granted under the Company's stock option plans, for the three months ended March 31, 2006, in addition to the amortization of deferred compensation above. As of March 31, 2006, the total compensation cost related to unvested stock-based awards granted to employees under the Company's stock option plans was approximately $16.6 million, net of estimated forfeitures of $0.4 million. This cost will be amortized on a straight-line basis over the remaining weighted average requisite service period of approximately 3.6 years.

The stock-based compensation expense in connection with the ESPP for the three months ended March 31, 2006 was $0.1 million. In February 2006, 53,682 shares of common stock of the Company were purchased at a weighted average price of $6.26 under the ESPP.

Amortization of stock-based compensation for employees was allocated to research and development and general and administrative as follows (in thousands):

	Three Months Ended March 31,	
	2006	2005
Amortization of employee stock-based compensation:		
Research and development	$ 961	$ 700
General and administration	1,502	778
Total	$ 2,463	$ 1,478

Stock Option Activity

The following table summarizes information about stock options issued under the Company's stock option plans:

Options	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	926,357	$ 8.29	9.31	
Granted	1,473,000	$ 14.31	9.94	
Exercised	(8,750)	$ 6.26	—	
Forfeitures	(3,100)	$ 11.16	—	
Outstanding at March 31, 2006	2,387,507	$ 12.01	9.60	$7,130,572
Vested and expected to vest at March 31, 2006	2,301,507	$ 11.96	9.60	$6,983,380
Exercisable at March 31, 2006	316,697	$ 4.37	8.60	$3,364,095

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for options that were in-the-money at March 31, 2006. The weighted-average fair value of stock options granted during the three months ended March 31, 2006 was $10.23 per stock option. The total intrinsic value of stock options exercised during the three months ended March 31, 2006 was $0.1 million determined at the date of the option exercise. Cash received from stock option exercises was $0.1 million for the three months ended March 31, 2006. The Company issues new shares of common stock upon exercise of options. In connection with these exercises, there was no tax benefit realized by the Company due to the Company's current loss position.

Pro forma Disclosure

The modified prospective transition method of SFAS 123(R) requires the presentation of pro forma information for periods presented prior to the adoption of SFAS 123(R) regarding net loss and net loss per share as if the Company had accounted for its stock options under the fair value method of SFAS 123(R). If compensation expense had been determined based upon the fair value at the grant date for employee compensation arrangements, consistent with the methodology prescribed under SFAS 123, the Company's pro forma net loss and pro forma net loss per common share under SFAS 123 would have been as shown in the following table. For the purpose of this pro forma disclosure, the estimated value of the stock awards is recognized on a straight-line basis over the vesting periods of the awards (in thousands, except per share data):

	Three Months ended March 31, 2005
Net loss attributable to common stockholders, as reported	$ (7,540)
Deduct: Employee total stock-based compensation determined under fair value method	(64)
Pro-forma net loss attributable to common stockholders	$ (7,604)
Net loss attributable to common stockholders per common share, basic and diluted:	
As reported	$ (0.46)
Pro-forma	$ (0.47)

Disclosures for the three months ended March 31, 2006 are not presented because stock-based employee compensation was accounted for under SFAS 123(R)'s fair-value method during this period. Additionally, the stock-based employee compensation determined under the fair-value method for the three months ended March 31, 2005 has been adjusted to exclude the effect of the options granted prior to the Company's initial public offering in February 2005, as those options were valued for pro forma disclosure purposes using the minimum value method. The weighted-average fair values of stock options granted during the three months ended March 31, 2005 was $6.98 per stock option. The total intrinsic value of stock options exercised during the three months ended March 31, 2005 was $5,000 determined at the date of the option exercise. Cash received from stock option exercises was $0.2 million for the three months ended March 31, 2005.

NOTE 4 — COMMITMENTS AND CONTINGENCIES

The Company leases certain of its facilities under noncancelable leases, which qualify for operating lease accounting treatment under SFAS No. 13,*"Accounting for Leases,"* and, as such, these facilities are not included on its Condensed Consolidated Balance Sheet. On February 3, 2006, the Company entered into a lease for an additional 34,205 square feet of space and increase the lease term for the existing space located at the Company's headquarters in Redwood City, California. The lease is for a period of 66 months, beginning on April 1, 2006 with respect to the additional square footage and on March 1, 2010 with respect to the existing square footage. The lease will expire, unless otherwise terminated under the terms of the lease, on September 30, 2011. The aggregate rent for the term of the lease is approximately $4.8 million. In addition, the lease requires the Company to pay certain taxes, assessments, fees and other costs and expenses associated with the premises in amounts yet to be determined as well as a customary management fee. The Company will also be responsible for the costs of certain tenant improvements associated with the leased space. In connection with the lease, the Company furnished a letter of credit to the landlord for approximately $0.3 million.

The future rental payments required by the Company for all of its facilities under noncancelable operating leases are as follows (in thousands):

Years Ending December 31,	
2006 (remaining nine months)	$ 706
2007	1,232
2008	1,358
2009	1,399
2010	1,462
Thereafter	1,129
Total	$7,286

The Company's purchase commitments at March 31, 2006 were $2.3 million.

Indemnification

The Company enters into indemnification provisions under its agreements with other companies in the ordinary course of business, including business partners, contractors and parties performing its clinical trials. Pursuant to these arrangements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party as a result of the Company's activities. The terms of these indemnification agreements are generally perpetual. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. The Company maintains commercial general liability insurance and products liability insurance to offset certain of its potential liabilities under these indemnification provisions.

The Company's bylaws provide that it is required to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of a culpable nature, to the fullest extent permissible by applicable law; and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.

NOTE 5 — COMPREHENSIVE LOSS

Comprehensive loss is comprised of net loss and other comprehensive loss, which consists of unrealized losses on the Company's available-for-sale securities. The components of comprehensive loss are as follows (in thousands):

	Three Months Ended March 31,	
	2006	2005
Net Loss	$(13,826)	$(7,540)
Other comprehensive loss:		
Unrealized loss on marketable securities	(74)	(22)
Total comprehensive loss	$(13,900)	$(7,562)

NOTE 6 — SUBSEQUENT EVENTS

In April 2006, the Company amended the existing loan and security agreement with Silicon Valley Bank to borrow up to an additional $4.0 million for working capital and equipment purchases. The interest rate for borrowings under this facility will be determined based on the 36-month U.S. Treasury note plus 2.25% on the date of borrowing. Upon the signing of the amendment, the Company borrowed $2.0 million under this facility, which will be repaid over a 36-month period from the date of borrowing. The interest rate on this borrowing is 7.2% per annum.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the "Risk Factors" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations. Other than statements of historical fact, statements made in this quarterly report on Form 10-Q are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. When used in this report or elsewhere by management from time to time, the words "believe," "anticipate," "intend," "plan," "estimate," "expect," and similar expressions are forward-looking statements. Such forward-looking statements are based on current expectations. Forward-looking statements made in this report include, for example, statements about:

- the progress of our clinical programs, including estimated milestones;
- estimates of future performance, capital requirements and needs for financing; and
- uncertainties associated with obtaining and enforcing patents and other intellectual property rights.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors. For a more detailed discussion of the potential risks and uncertainties that may impact their accuracy, see the "Overview" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations and the "Risk Factors" section in Part II of this quarterly report on Form 10-Q. Forward-looking statements reflect our view only as of the date of this report. We undertake no obligations to update any forward looking statements. You should also carefully consider the factors set forth in other reports or documents that we file from time to time with the Securities and Exchange Commission.

Overview

We are a biotechnology company focused on the discovery, development and commercialization of drugs based on Metabolic Targeting, an approach that targets fundamental differences in metabolism between normal and certain diseased cells. We are building a pipeline of drugs that are designed to selectively target tumor cells and abnormally proliferating cells so that the drugs are more efficacious and less toxic to healthy tissues than conventional drugs, thereby providing potential improvements over current therapies.

Our initial clinical focus is on product candidates for the treatment of benign prostatic hyperplasia, or BPH, a disease characterized by overgrowth of the prostate, and of cancer. We have three product candidates for these programs, for which we have exclusive worldwide marketing rights:

- TH-070 is our lead product candidate for the treatment of symptomatic BPH. We completed enrollment in March 2006 in a Phase 2 trial that was initiated in the United States in June 2005 and we completed enrollment in April 2006 in a Phase 3 trial that was initiated in Europe and Canada ("EU Phase 3 trial"), in August 2005. Both of these trials are multi-centered, randomized, blinded and placebo controlled trials. We previously completed a single center Phase 2 clinical trial in Italy. In May 2006, the United States Food and Drug Administration ("FDA") placed our US TH-070 program on partial clinical hold and requested that we provide additional information related to the drug's acceptable dose and duration of treatment in BPH patients. We are amending the EU Phase 3 trial to discontinue dosing and we will not initiate a previously announced trial in patients undergoing a radical prostatectomy.
- Glufosfamide is our lead product candidate for cancer. We initiated a pivotal Phase 3 clinical trial of glufosfamide for the second-line treatment of pancreatic cancer in September 2004. We have received a special protocol assessment from the FDA for this trial and Glufosfamide for the second-line treatment of pancreatic cancer has also received FDA Fast Track designation. In January 2006, we initiated the Phase 2 stage of a study of glufosfamide plus gemcitabine for the first-line treatment of pancreatic cancer, after completing a Phase 1 dose-escalating study in patients with advanced solid tumors and pancreatic cancer.
- 2-deoxyglucose, or 2DG, our product candidate for the treatment of solid tumors, is being evaluated in a Phase 1 clinical trial alone and as a combination therapy. This trial began in the first quarter of 2004.

We are also working to discover novel drug candidates that will specifically target cancer cells, and we have identified lead compounds with promising *in vivo* data. In addition, we are investigating additional compounds for activity against BPH.

We are a development stage company incorporated in October 2001. We have devoted substantially all of our resources to research and development of our product candidates. We have not generated any revenue from the sale of our product candidates, and, prior to our initial public offering in February 2005, we funded our operations through the private placement

of equity securities. In February 2005, we completed our initial public offering that raised net proceeds of approximately $38.1 million, and in October 2005, we completed an offering of common stock that raised net proceeds of $62.4 million. As of March 31, 2006 we had cash, cash equivalents, and marketable securities of $87.4 million, which is expected to last through at least 2007. We believe we have sufficient funds to complete our current and planned trials of TH-070, glufosfamide and 2DG. The net loss for the three months ended March 31, 2006 was $13.8 million and the cumulative net loss since our inception through March 31, 2006 was $92.8 million.

We expect our net losses to increase on an annual basis primarily due to ongoing and planned clinical trial activities and to prepare for potential commercialization. We expect expenses for our glufosfamide program to increase significantly, as we continue our pivotal Phase 3 clinical trial for the second-line treatment of pancreatic cancer, our Phase 2 clinical trial for the first-line treatment of pancreatic cancer in combination with gemcitabine, initiate additional trials and prepare for potential commercialization. We expect expenses for our TH-070 program to increase in the near term as we conclude our US Phase 2 trial and our modified EU Phase 3 trial. Future expenses for this program will depend upon the resolution of the partial clinical hold. We expect expenses to increase on an annual basis; however they may fluctuate significantly from period to period and could even decrease from quarter to quarter. Additionally, we have expanded our infrastructure and facilities, and have hired additional clinical development, research, and administrative personnel. We are unable to predict when, if ever, we will be able to commence sales of any product.

Results of Operations

Revenue. For the three months ended March 31, 2006, we recognized $0.4 million in revenue related to a $5.0 million upfront payment received in connection with a 2004 agreement with MediBIC Co. Ltd for the development of glufosfamide in Japan and several other Asian countries. The payment was contingent upon the finalization of the clinical development plan, which occurred in July 2005. Revenue is being recognized on a straight-line basis over the estimated development period, currently estimated to be through 2008. We are responsible for all development activities under this agreement.

Research and Development. Research and development expenses were $11.4 million for the three months ended March 31, 2006 compared to $5.3 million for the three months ended March 31, 2005. The $6.1 million increase in expenses is primarily due to a $4.4 million increase in clinical and development expenses, $1.0 million increase in staffing expenses, and an increase in non-cash stock-based compensation expense of $0.7 million primarily due to the adoption of FAS 123(R) beginning January 1, 2006.

Research and Development Expenses by Project (in thousands)	For the period ending March 31,	
	2006	2005
TH-070	$ 4,498	$ 1,847
Glufosfamide	3,938	1,928
2DG	381	446
Discovery Research	2,621	1,030
	$ 11,438	$ 5,251

Research and development expenses associated with TH-070 were $4.5 million for the three months ended March 31, 2006 and $1.8 million for the three months ended March 31, 2005. This increase in expenses was primarily due to an increase of $2.8 million in expenses associated with our Phase 2 United States trial initiated in June 2005, and our EU Phase 3 trial initiated in August 2005. Research and development expenses associated with glufosfamide were $3.9 million for the three months ended March 31, 2006 and $1.9 million for the three months ended March 31, 2005. This increase is primarily due to $1.3 million increase in clinical and manufacturing expenses and $0.7 million increase in higher staffing expenses. Research and development expenses associated with 2DG were $0.4 million for the three months ended March 31, 2006 and $0.4 million for the three months ended March 31, 2005. Discovery research and development expenses were $2.6 million for the three months ended March 31, 2006 and $1.0 million for the three months ended March 31, 2005. The increase was primarily due to increases in staffing costs to support expansion of our discovery research programs.

We expect to continue to devote substantial resources to research and development in future periods as we continue our current clinical trials and start additional trials. Research and development expenses will likely increase on an annual basis but will fluctuate from period to period based largely on clinical trial activities and may even decrease from quarter to quarter.

General and Administrative. General and administrative expenses were $3.8 million for the three months ended March 31, 2006, compared to $2.6 million for the three months ended March 31, 2005. The increase of $1.2 million in general and

administrative expenses reflects additional expenses associated with being a public company, including $0.4 million of higher legal fees, insurance premiums and consulting services and $0.2 million for higher staffing expenses. Additionally the increase in general and administrative costs was due to an increase in non-cash stock-based compensation expenses of $0.6 million primarily due to the adoption of FAS 123(R) beginning January 1, 2006.

We expect our general and administrative expenses to increase in 2006 due to the additional administrative and infrastructure costs as well as costs associated with implementing procedures for compliance with Section 404 of the Sarbanes-Oxley Act.

Interest and Other Income, Net. Interest income for the three months ended March 31, 2006 was $1.1 million compared to $0.3 million for the three months ended March 31, 2005. The increase was primarily due to higher invested cash balances and to a lesser extent higher average interest rates during the three months ended March 31, 2006 compared to the prior year due to proceeds received from our follow on offering completed in October 2005.

Liquidity and Capital Resources

We have incurred net losses of $92.8 million since inception through March 31, 2006. We have not generated and do not expect to generate revenue from sales of product candidates for at least the next couple years. From inception until our initial public offering in February 2005, we funded our operations primarily through the private placement of our preferred stock. In February 2005 we completed our initial public offering of 6,112,601 shares of common stock, raising gross proceeds of $38.1 million. In October 2005, we completed a public offering of 6,399,222 shares of our common stock for net proceeds of $62.4 million.

We had cash, cash equivalents and marketable securities of $87.4 million and $99.7 million at March 31, 2006 and December 31, 2005, respectively, available to fund operations.

Net cash used in operating activities for the three months ended March 31, 2006 and 2005 was $11.3 million and $5.9 million, respectively. The increase of $5.4 million in cash used in operations was primarily attributable to a higher net loss in 2006, partially offset by an increase in non-cash charges related to deferred stock-based compensation.

Net cash used in investing activities was $10.1 million and $2.6 million for the three months ended March 31, 2006 and 2005, respectively. The $7.5 million change in cash from investing activities for the three month ended March 31, 2006 compared to the same period in 2005 was due primarily to an increase in purchases of marketable securities, partially offset by an increase in proceeds from sales of marketable securities.

Net cash provided by financing activities was $0.3 million and $39.2 million for the three months ended March 31, 2006 and 2005, respectively. The cash provided in the three months ending March 31, 2005 was primarily from the proceeds of our initial public offering in February 2005.

Obligations and Commitments

In March 2003, we entered into a loan and security agreement with Silicon Valley Bank to borrow up to $1.0 million for working capital and equipment purchases. As of December 31, 2004, we had borrowed the full amount under this facility, which is being repaid over a 36-month period from the dates of borrowing. These borrowings bear interest at an average rate of 5.8% per year at March 31, 2006. At March 31, 2006 the amount due under this facility was $0.3 million. In April 2006, we amended the existing loan and security agreement with Silicon Valley Bank to borrow up to an additional $4.0 million for working capital and equipment purchases. The interest rate for borrowings under this facility will be determined based on the 36-month U.S. Treasury note plus 2.25% on the date of borrowing. Upon the signing of the amendment, we borrowed $2.0 million under this facility, which will be repaid over a 36-month period from the date of borrowing. The interest rate on this borrowing is 7.2% per annum. The financial covenant in this agreement requires us to maintain the lower of 85% of our total cash and cash equivalents or $10.0 million at Silicon Valley Bank. At March 31, 2006, we were in compliance with this covenant.

In August 2004, we entered into a noncancelable facilities sublease agreement that expires on February 28, 2010. On April 1, 2005, we entered into a noncancelable facilities lease agreement that expires on February 28, 2010.

In February 2006, we entered into a lease for an additional 34,205 square feet of space and increased the lease term for the existing space located at our headquarters in Redwood City, California. The lease is for a period of 66 months, beginning on April 1, 2006 with respect to the additional square footage and on March 1, 2010 with respect to the existing square footage. The lease will expire, unless otherwise terminated under the terms of the lease, on September 30, 2011. The aggregate rent for the term of the lease is approximately $4.8 million.

In addition, the lease requires us to pay certain taxes, assessments, fees and other costs and expenses associated with the premises as well as a customary management fee. We will also be responsible for the costs of certain tenant improvements associated with the leased space. In connection with the lease, we furnished a letter of credit to the landlord for approximately $0.3 million. In April 2006, we borrowed $2.0 million under the amended loan and security facility, for leasehold improvements related to this additional leased space and may borrow up to an additional $2.0 million for other working capital and equipment purchases.

Our major outstanding contractual obligations consist of amounts due under our financing and lease agreements, and purchase commitments. Contractual obligations and related scheduled payments as of March 31, 2006, are as follows (in thousands):

	Remaining of current year (2006)	One to three years (2007 to 2009)	Four to five years (2010 to 2011)	After five Years	Total
Facilities sublease and lease	$ 706	$ 3,989	$ 2,591	$ —	$7,286
Notes payable, principal and interest	156	156	—	—	312
Purchase commitments	2,283	—	—	—	2,283
Total	$ 3,145	$ 4,145	$ 2,591	$ —	$9,881

Developing drugs, conducting clinical trials, and commercializing products is expensive. Our future funding requirements will depend on many factors, including:

- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- the progress and costs of our clinical trials and other research and development activities;
- the costs and timing of obtaining regulatory approvals;
- the costs of filing, prosecuting, defending and enforcing any patent applications, claims, patents and other intellectual property rights;
- the costs and timing of obtaining manufacturing materials for our clinical product candidates and commercial products, if any; and
- the costs of establishing sales, marketing and distribution capabilities.

We expect to incur losses from operations in the future. We expect to incur increasing research and development expenses, including expenses related to clinical trials and additional personnel. We expect that our general and administrative expenses will increase in the future as we expand our staff, add infrastructure and incur additional expenses related to being a public company and potentially commercialize products.

We believe that our cash, cash equivalents and marketable securities as of March 31, 2006 will be sufficient to fund our projected operating requirements through at least 2007, including completing our current clinical trials and initiating additional trials, conducting research and discovery efforts towards additional product candidates, initial development of a commercialization effort, working capital and general corporate purposes. We intend to seek funds through arrangements with collaborators or others that may require us to relinquish rights to certain product candidates that we might otherwise seek to develop or commercialize independently. Additionally, we may need or choose to raise additional capital or incur indebtedness to continue to fund our operations in the future. Our ability to raise additional funds will depend on financial, economic and market conditions, our clinical events and other factors, many of which are beyond our control. We cannot be certain that sufficient funds will be available to us when required or on satisfactory terms. If necessary funds are not available, we may have to delay, reduce the scope or eliminate some of our research and development, which could delay the time to market for any of our product candidates.

Critical Accounting Policies and Use of Estimates

Our discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses based on historical experience and on various assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. For further information of our critical accounting

policies, see the discussion of critical accounting policies in our 2005 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 28, 2006. In addition, as of January 1, 2006, we implemented the following new critical accounting policy:

Stock-Based Compensation Beginning on January 1, 2006, we began accounting for stock options and stock purchase rights related to our 2004 Employee Stock Purchase Plan under the provisions of Statement of Financial Accounting Standards No. 123(R), *"Share-Based Payments"* ("SFAS 123(R)"), which requires the recognition of the fair value of stock-based compensation. The fair value of stock options and ESPP shares was estimated using a Black-Scholes option valuation model. This model requires the input of subjective assumptions in implementing SFAS 123(R), including expected stock price volatility, expected life and estimated forfeitures of each award. The fair value of equity-based awards is amortized over the vesting period of the award, and we have elected to use the straight-line method of amortization. Due to the limited amount of historical data available to us, particularly with respect to stock-price volatility, employee exercise patterns and forfeitures, actual results could differ from our assumptions.

Prior to the implementation of SFAS 123(R), we accounted for stock options and ESPP shares under the provisions of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* and made pro forma footnote disclosures as required by SFAS No. 148, *"Accounting For Stock-Based Compensation — Transition and Disclosure,"* which amended SFAS No. 123, *"Accounting For Stock-Based Compensation."* Pro forma net loss and pro forma net loss per share disclosed in the footnotes to the consolidated condensed financial statements were estimated using a Black-Scholes option valuation model.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates to our cash equivalents on deposit in highly liquid money market funds and investments in short-term marketable securities. The primary objective of our cash investment activities is to preserve principal while at the same time maximizing the income we receive from our invested cash without significantly increasing risk of loss. We invest in high-quality financial instruments, which currently have an average maturity of less than one year. We do not use derivative financial instruments in our investment portfolio. Our cash and investments policy emphasizes liquidity and preservation of principal over other portfolio considerations. Our investment portfolio is subject to interest rate risk and will fall in value if market interest rates rise. However, due to the short duration of our investment portfolio we believe an immediate 10% change in the interest rates would not be material to our financial condition or results of operations.

In addition, we do not have any material exposure to foreign currency rate fluctuations as we operate primarily in the United States. Although we conduct some clinical trials and safety studies, and manufacture some active pharmaceutical product with vendors outside the United States, most of our transactions are denominated in U.S. dollars.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Based on their evaluation as of March 31, 2006, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) were sufficiently effective to ensure that the information required to be disclosed by us in this quarterly report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and Form 10-Q and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

Changes in internal controls.

There were no changes in our internal controls over financial reporting during the three months ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of controls.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been

detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and we cannot be certain that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our chief executive officer and chief financial officer have concluded, based on their evaluation, that our disclosure controls and procedures were sufficiently effective as of March 31, 2006 to provide reasonable assurance that the objectives of our disclosure control system were met.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to other information in this report, the following factors should be considered carefully in evaluating our company. If any of the risks or uncertainties described in this Form 10-Q or in our annual report on Form 10-K for the year ended December 31, 2005 actually occurs, our business, results of operations or financial condition could be materially adversely affected. The risks and uncertainties described in this Form 10-Q are not the only ones facing the company. Additional risks and uncertainties of which we are unaware or currently deem immaterial may also become important factors that may harm our business. The risk factors set forth below contain a number of material changes relative to those set forth in the "RISK FACTORS" section of our annual report on Form 10-K for the year ended December 31, 2005. The changes relate primarily to our TH-070 program.

RISKS RELATED TO OUR BUSINESS

Risks Related to Drug Discovery, Development and Commercialization

Our US TH-070 program for the treatment of symptomatic BPH has been placed on partial clinical hold by the FDA and we are amending our EU Phase 3 trial to discontinue dosing.

As a result of abnormalities observed in liver enzyme levels in six subjects in our ongoing clinical trials for TH-070, the FDA has placed our US TH-070 program on partial clinical hold and has requested that we provide additional information related to the drug's acceptable dose and duration of treatment in BPH patients. These abnormalities include three serious adverse events observed at three months of dosing in the EU Phase 3 trial and three additional observations of elevated liver enzymes that occurred in other ongoing clinical trials.

We are amending our EU Phase 3 trial to discontinue dosing the 567 patients enrolled in this study. Data from these patients combined with the data from the 216 US Phase 2 patients will be evaluated and will be used to develop the next steps for this program and our response to the FDA.

A partial clinical hold is a delay or suspension of part of the clinical work being performed under our Investigational New Drug Application. Under the partial clinical hold the current US Phase 2 trial will continue to completion. A human pharmacokinetic trial, already underway, will also continue at the dose level agreed with the FDA. We have withdrawn a radical prostatectomy trial which was planned to start this year but will not be initiated. We expect to receive a formal letter from the FDA detailing the partial clinical hold issues within the next 30 days and we will not initiate any new trials until a complete response has been submitted and the partial clinical hold has been removed. It is possible that as the ongoing trials conclude, additional safety issues may be observed.

We cannot be certain that we will resolve the safety issues that led to the imposition of the partial clinical hold to the satisfaction of the FDA or that the FDA will release the partial clinical hold. Even if the partial clinical hold is released, we cannot be certain that European or Canadian regulatory agencies will not prevent or limit clinical trial activities in their jurisdictions.

We are substantially dependent upon the success of our TH-070 and glufosfamide product candidates. Pivotal clinical trials for our products may not demonstrate efficacy or lead to regulatory approval.

We will not be able to commercialize our lead product candidates, TH-070 and glufosfamide, until we obtain FDA approval in the United States or approval by comparable regulatory agencies in Europe and other countries. To satisfy FDA or foreign regulatory approval standards for the commercial sale of our product candidates, we must demonstrate in adequate and controlled clinical trials that our product candidates are safe and effective. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in earlier clinical trials.

Our US development program for TH-070 for the treatment of symptomatic BPH patients has been placed on partial clinical hold by the FDA as described in the above risk factor. We cannot be certain that we will resolve the safety issues that led to the imposition of the partial clinical hold to the satisfaction of the FDA or that the FDA will release the partial clinical hold. Even if the partial clinical hold is released, we cannot be certain that European or Canadian regulatory agencies will not prevent or limit clinical trial activities in their jurisdictions.

Phase 1 and Phase 2 safety trials of glufosfamide were conducted on small numbers of patients and were designed to evaluate the activity of glufosfamide on a preliminary basis. However, these trials were not designed to demonstrate the efficacy of glufosfamide as a therapeutic agent. We cannot be certain that results similar to the Phase 1 and 2 trials will be observed in subsequent trials, or that such results will prove to be statistically significant or demonstrate safety and efficacy to the satisfaction of the FDA or other regulatory agencies. In Phase 2 studies, glufosfamide has not shown clinical activity for the treatment of glioblastoma and has only demonstrated marginal activity for the treatment of non-small cell lung cancer. The clinical trial we commenced in September 2004 for the second-line treatment of pancreatic cancer is intended to serve as a pivotal Phase 3 trial. If the results from this trial are not persuasive as determined by the FDA, then this trial will not serve as the basis for FDA approval. We may decide to conduct additional clinical trials or other studies, or the FDA may require us to conduct additional clinical trials or other studies prior to accepting our NDA or granting marketing approval.

Our product candidates must undergo rigorous clinical testing, the results of which are uncertain and could substantially delay or prevent us from bringing them to market.

Before we can obtain regulatory approval for a product candidate, we must undertake extensive clinical testing in humans to demonstrate safety and efficacy to the satisfaction of the FDA or other regulatory agencies. Clinical trials of new drug candidates sufficient to obtain regulatory marketing approval are expensive and take years to complete.

We cannot be certain of successfully completing clinical testing within the time frame we have planned, or at all. We may experience numerous unforeseen events during, or as a result of, the clinical trial process that could delay or prevent us from receiving regulatory approval or commercializing our product candidates, including the following:

- our clinical trials may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical and/or preclinical testing or to abandon programs;
- the results obtained in earlier stage testing may not be indicative of results in future trials;
- trial results may not meet the level of statistical significance required by the FDA or other regulatory agencies;
- enrollment in our clinical trials for our product candidates may be slower than we anticipate, resulting in significant delays;
- we, or regulators, may suspend or terminate our clinical trials if the participating patients are being exposed to unacceptable health risks; and
- the effects of our product candidates on patients may not be the desired effects or may include undesirable side effects or other characteristics that may delay or preclude regulatory approval or limit their commercial use, if approved.

Completion of clinical trials depends, among other things, on our ability to enroll a sufficient number of patients, which is a function of many factors, including:

- the therapeutic endpoints chosen for evaluation;
- the eligibility criteria defined in the protocol;
- the size of the patient population required for analysis of the trial's therapeutic endpoints;
- our ability to recruit clinical trial investigators and sites with the appropriate competencies and experience;
- our ability to obtain and maintain patient consents; and
- competition for patients by clinical trial programs for other treatments.

We may experience difficulties in enrolling patients in our clinical trials, which could increase the costs or affect the timing or outcome of these trials. This is particularly true with respect to diseases with relatively small patient populations, such as pancreatic cancer, which is the indication we are currently testing for our glufosfamide product candidate. In addition, we are aware that future trials for TH-070 for the treatment of symptomatic BPH may be subject to competition for patients by competing trials, which could delay enrollment for our trials.

We are subject to significant regulatory approval requirements, which could delay, prevent or limit our ability to market our product candidates.

Our research and development activities, preclinical studies, clinical trials and the anticipated manufacturing and marketing of our product candidates are subject to extensive regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in Europe and elsewhere. We require the approval of the relevant regulatory authorities before we may commence commercial sales of our product candidates in a given market. The regulatory approval process is expensive and time-consuming, and the timing of receipt of regulatory approval is difficult to predict. Our product candidates could require a significantly longer time to gain regulatory approval than expected, or may never gain approval. We cannot be certain that, even after expending substantial time and financial resources, we will obtain regulatory approval for any of our product candidates. A delay or denial of regulatory approval could delay or prevent our ability to generate product revenues and to achieve profitability.

Changes in regulatory approval policies during the development period of any of our product candidates, changes in, or the enactment of, additional regulations or statutes, or changes in regulatory review practices for a submitted product application may cause a delay in obtaining approval or result in the rejection of an application for regulatory approval.

Regulatory approval, if obtained, may be made subject to limitations on the indicated uses for which we may market a product. These limitations could adversely affect our potential product revenues. Regulatory approval may also require costly post-marketing follow-up studies. In addition, the labeling, packaging, adverse event reporting, storage, advertising, promotion and record-keeping related to the product will be subject to extensive ongoing regulatory requirements. Furthermore, for any marketed product, its manufacturer and its manufacturing facilities will be subject to continual review and periodic inspections by the FDA or other regulatory authorities. Failure to comply with applicable regulatory requirements may, among other things, result in fines, suspensions of regulatory approvals, product recalls, product seizures, operating restrictions and criminal prosecution.

The "Fast Track" designation for development of glufosfamide for the treatment of refractory pancreatic cancer may not lead to a faster development or regulatory review or approval process.

If a drug is intended for the treatment of a serious or life-threatening condition and the drug demonstrates the potential to address unmet medical needs for this condition, the drug sponsor may apply for FDA "Fast Track" designation for a particular indication. Marketing applications filed by sponsors of products in Fast Track development may qualify for expedited FDA review under the policies and procedures offered by the FDA, but the Fast Track designation does not assure any such qualification. Although we have obtained a Fast Track designation from the FDA for glufosfamide for the treatment of second-line pancreatic cancer, we may not experience a faster development process, review or approval compared to drugs considered for approval under conventional FDA procedures. In addition, the FDA may withdraw our Fast Track designation at any time. If we lose our Fast Track designation, the approval process may be lengthened. In addition, our Fast Track designation does not increase the likelihood that glufosfamide will receive regulatory approval for the treatment of second-line pancreatic cancer.

Our product candidates are based on Metabolic Targeting, which is an unproven approach to therapeutic intervention.

All of our product candidates are based on Metabolic Targeting, a therapeutic approach that targets fundamental differences in energy metabolism between normal and certain diseased cells. We have not, nor to our knowledge has any other company, received regulatory approval for a drug based on this approach. We cannot be certain that our approach will lead to the development of approvable or marketable drugs.

In addition, the FDA or other regulatory agencies may lack experience in evaluating the safety and efficacy of drugs based on Metabolic Targeting, which could lengthen the regulatory review process, increase our development costs and delay or prevent commercialization of our product candidates.

Our product candidates may have undesirable side effects that prevent or delay their regulatory approval or limit their use if approved.

As a result of abnormalities observed in liver enzyme levels in six subjects in ongoing clinical trials, the FDA has placed our US TH-070 program on partial clinical hold and has requested that we provide additional information related to the drug's acceptable dose and duration of treatment in BPH patients. These abnormalities include three serious adverse events observed at three months of dosing in the EU Phase 3 clinical trial and three additional observations of elevated liver enzymes that occurred in other ongoing clinical trials. We expect to receive a formal letter from the FDA detailing the partial clinical hold issues within the next 30 days and we will not initiate any further clinical trials of TH-070 until a complete response has been submitted and the partial clinical hold has been removed. It is possible that as the ongoing trials conclude, additional liver enzyme elevation events or other safety issues may be observed.

In addition, TH-070 has been investigated by others as a male contraceptive because of its effects on spermatogenesis, fertility and shrinkage of testes in animals. As a consequence, these may be significant side effects that may or may not be reversible in patients treated with TH-070 for BPH. Clinical studies to investigate these side effects can be lengthy and expensive. Furthermore, in clinical trials involving cancer patients at doses significantly higher than the doses of TH-070 currently being investigated for BPH, myalgia and testicular pain have been observed. Glufosfamide is known to cause reversible toxicity to the bone marrow and kidneys, as well as nausea and vomiting.

These side effects or others identified in the course of our clinical trials or that may otherwise be associated with our product candidates may outweigh the benefits of our product candidates. Side effects may prevent or delay regulatory approval or limit market acceptance if our products are approved.

Delays in clinical testing could result in increased costs to us and delay our ability to obtain regulatory approval and commercialize our product candidates.

Significant delays in clinical testing could materially impact our product development costs and delay regulatory approval of our product candidates. We do not know whether planned glufosfamide and 2DG clinical trials will begin on time, will need to be

redesigned or will be completed on schedule, if at all. We have no planned clinical trials for TH-070 due to the partial clinical hold imposed by the FDA. We cannot be certain that we will be able to resolve the safety issues that led to this partial clinical hold by the FDA or that the FDA will release the partial clinical hold. Even if the hold is released it is not clear what clinical or preclinical trials may be required. Clinical trials can be delayed for a variety of reasons, including adverse safety events experienced during our trials and delays in:

- obtaining regulatory approval to commence a trial;
- obtaining clinical materials;
- reaching agreement on acceptable clinical study agreement terms with prospective sites;
- obtaining institutional review board approval to conduct a study at a prospective site; and
- recruiting patients to participate in a study.

Orphan drug exclusivity affords us limited protection, and if another party obtains orphan drug exclusivity for the drugs and indications we are targeting, we may be precluded from commercializing our product candidates in those indications.

We intend to seek orphan drug designation for the cancer indications that our glufosfamide and 2DG product candidates are intended to treat. Under the Orphan Drug Act, the FDA may grant orphan drug designation to drugs intended to treat a rare disease or condition, which is defined by the FDA as a disease or condition that affects fewer than 200,000 individuals in the United States. The company that obtains the first FDA approval for a designated orphan drug indication receives marketing exclusivity for use of that drug for that indication for a period of seven years. Orphan drug exclusive marketing rights may be lost if the FDA later determines that the request for designation was materially defective, or if the manufacturer is unable to assure sufficient quantity of the drug. Orphan drug designation does not shorten the development or regulatory review time of a drug. Because the prevalence of BPH is greater than 200,000 individuals in the United States, TH-070 for the treatment of symptomatic BPH is not eligible for orphan drug designation and we cannot rely on this protection to provide marketing exclusivity.

Orphan drug exclusivity may not prevent other market entrants. A different drug, or, under limited circumstances, the same drug may be approved by the FDA for the same orphan indication. The limited circumstances include an inability to supply the drug in sufficient quantities or where a new formulation of the drug has shown superior safety or efficacy. As a result, if our product is approved and receives orphan drug status, the FDA can still approve other drugs for use in treating the same indication covered by our product, which could create a more competitive market for us.

Moreover, due to the uncertainties associated with developing pharmaceutical products, we may not be the first to obtain marketing approval for any orphan drug indication. Even if we obtain orphan drug designation, if a competitor obtains regulatory approval for glufosfamide or 2DG for the same indication we are targeting before we do, we would be blocked from obtaining approval for that indication for seven years, unless our product is a new formulation of the drug that has shown superior safety or efficacy, or the competitor is unable to supply sufficient quantities.

Even if we obtain regulatory approval, our marketed drugs will be subject to ongoing regulatory review. If we fail to comply with continuing United States and foreign regulations, we could lose our approvals to market drugs and our business would be seriously harmed.

Following initial regulatory approval of any drugs we may develop, we will be subject to continuing regulatory review, including review of adverse drug experiences and clinical results that are reported after our drug products become commercially available. This would include results from any post-marketing tests or vigilance required as a condition of approval. The manufacturer and manufacturing facilities we use to make any of our drug candidates will also be subject to periodic review and inspection by the FDA. If a previously unknown problem or problems with a product or a manufacturing and laboratory facility used by us is discovered, the FDA or foreign regulatory agency may impose restrictions on that product or on the manufacturing facility, including requiring us to withdraw the product from the market. Any changes to an approved product, including the way it is manufactured or promoted, often require FDA approval before the product, as modified, can be marketed. We and our contract manufacturers will be subject to ongoing FDA requirements for submission of safety and other post-market information. If we and our contract manufacturers fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters;
- impose civil or criminal penalties;

- suspend or withdraw our regulatory approval;
- suspend or terminate any of our ongoing clinical trials;
- refuse to approve pending applications or supplements to approved applications filed by us;
- impose restrictions on our operations;
- close the facilities of our contract manufacturers; or
- seize or detain products or require a product recall.

The FDA and foreign regulatory authorities may impose significant restrictions on the indicated uses and marketing of pharmaceutical products.

FDA rules for pharmaceutical promotion require that a company not promote an unapproved drug or an approved drug for an unapproved use. In addition to FDA requirements, regulatory and law enforcement agencies, such as the Department of Health and Human Services' Office of Inspector General and the United States Department of Justice, monitor and investigate pharmaceutical sales, marketing and other practices. For example, sales, marketing and scientific/educational grant programs must comply with the Medicare-Medicaid Anti-Fraud and Abuse Act, as amended, the False Claims Act, as amended, and similar state laws. In recent years, actions by companies' sales forces and marketing departments have been scrutinized intensely to ensure, among other things, that actions by such groups do not qualify as "kickbacks" to healthcare professionals. A "kickback" refers to the provision of any item of value to a healthcare professional or other person in exchange for purchasing, recommending, or referring an individual for an item or service reimbursable by a federal healthcare program. These kickbacks increase the expenses of the federal healthcare program and may result in civil penalties, criminal prosecutions, and exclusion from participation in government programs, any of which would adversely affect our financial condition and business operations. In addition, even if we are not determined to have violated these laws, government investigations into these issues typically require the expenditure of significant resources and generate negative publicity, which would also harm our financial condition. Comparable laws also exist at the state level.

We are, and in the future may be, subject to new federal and state requirements to submit information on our open and completed clinical trials to public registries and databases.

In 1997, a public registry of open clinical trials involving drugs intended to treat serious or life-threatening diseases or conditions was established under the Food and Drug Administration Modernization Act, or FDMA, in order to promote public awareness of and access to these clinical trials. Under FDMA, pharmaceutical manufacturers and other trial sponsors are required to post the general purpose of these trials, as well as the eligibility criteria, location and contact information of the trials. Since the establishment of this registry, there has been significant public debate focused on broadening the types of trials included in this or other registries, as well as providing for public access to clinical trial results. A voluntary coalition of medical journal editors has adopted a resolution to publish results only from those trials that have been registered with a no-cost, publicly accessible database, such as www.clinicaltrials.gov. The Pharmaceuticals and Research Manufacturers of America has also issued voluntary principles for its members to make results from certain clinical studies publicly available and has established a website for this purpose. Other groups have adopted or are considering similar proposals for clinical trial registration and the posting of clinical trial results. The state of Maine has enacted legislation, with penalty provisions, requiring the disclosure of results from clinical trials involving drugs marketed in the state, and similar legislation has been introduced in other states. Federal legislation was introduced in the fall of 2004 to expand www.clinicaltrials.gov and to require the inclusion of study results in this registry. In some states, such as New York, prosecutors have alleged that a lack of disclosure of clinical trial information constitutes fraud, and these allegations have resulted in settlements with pharmaceutical companies that include agreements to post clinical trial results. Our failure to comply with any clinical trial posting requirements could expose us to negative publicity, fines, and other penalties, all of which could materially harm our business.

Risks Related to Our Financial Performance and Operations

We have incurred losses since our inception and anticipate that we will incur significant continued losses for the next several years, and our future profitability is uncertain.

We are a development stage company with a limited operating history and no current source of revenue from the sale of our product candidates. We have incurred losses in each year since our inception in 2001. We have devoted substantially

all of our resources to research and development of our product candidates. Prior to our initial public offering in February 2005, we financed our operations primarily through private placements of our equity securities. For the three months ended March 31, 2006, we had a net loss of $13.8 million, and we had an accumulated deficit of $92.8 million. We do not expect to generate any revenue from the sale of our product candidates at least within the next couple of years. Clinical trials are costly, and as we continue to advance our product candidates through development, we expect our research and development expenses to increase significantly, especially as we continue our pivotal Phase 3 clinical trial for glufosfamide, completed our Phase 2 and Phase 3 clinical trials for TH-070 for the treatment of BPH and start other additional trials. In addition, we have expanded our operations, our infrastructure, hired additional personnel and begin commercialization activities. As a result, we expect that our annual operating losses will increase significantly over the next several years.

To attain profitability, we will need to develop products successfully and market and sell them effectively. We have never generated revenue from the sale of our product candidates, and there is no guarantee that we will be able to do so in the future. If our TH-070 or glufosfamide product candidates fail to show positive results in our ongoing clinical trials, or we do not receive regulatory approval for either of them, or if these product candidates do not achieve market acceptance even if approved, we may not become profitable. If we fail to become profitable, or if we are unable to fund our continuing losses, we may be unable to continue our clinical development programs.

We may need substantial additional funding and may be unable to raise capital when needed, which could force us to delay, reduce or eliminate our drug discovery, product development and commercialization activities.

Developing drugs, conducting clinical trials, and commercializing products is expensive. Our future funding requirements will depend on many factors, including:

- the terms and timing of any collaborative, licensing, acquisition or other arrangements that we may establish;
- the progress and cost of our clinical trials and other research and development activities;
- the costs and timing of obtaining regulatory approvals;
- the costs of filing, prosecuting, defending and enforcing any patent applications, claims, patents and other intellectual property rights;
- the cost and timing of securing manufacturing capabilities for our clinical product candidates and commercial products, if any; and
- the costs of establishing sales, marketing and distribution capabilities.

We believe that our cash on hand and marketable securities will be sufficient to fund our projected operating requirements through at least 2007, including our current and planned clinical trials of TH-070, glufosfamide, and 2DG, the initial development of a commercialization effort, general corporate purposes and the support and expansion of our product candidate pipeline. We expect to seek funds through arrangements with collaborators or others that may require us to relinquish rights to certain products candidates that we might otherwise seek to develop or commercialize independently. We cannot be certain that we will be able to enter into any such arrangements on reasonable terms, if at all.

We may need or choose to raise additional capital or incur indebtedness to continue to fund our operations in the future. Our ability to raise additional funds will depend on financial, economic and market conditions, our clinical events and other factors, many of which are beyond our control. We cannot be certain that sufficient funds will be available to us when required or on satisfactory terms. If necessary funds are not available, we may have to delay, reduce the scope or eliminate some of our development programs, which could delay the time to market for any or all of our product candidates.

Raising additional funds may cause dilution to existing stockholders or require us to relinquish valuable rights.

We may raise additional funds through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. We cannot be certain that additional funding will be available on acceptable terms, or at all. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience dilution. Debt financing, if available, may subject us to restrictive covenants that could limit our flexibility in conducting future business activities. To the extent that we raise additional funds through collaboration and licensing arrangements, it will be necessary to relinquish some rights to our clinical product candidates.

If we are unable to establish sales and marketing capabilities, we may be unable to successfully commercialize our cancer and BPH product candidates.

If our cancer product candidates are approved for commercial sale, we plan to establish our own sales force to market them in the United States and potentially Europe. We may also establish a sales force to market TH-070 for the treatment of symptomatic BPH if it is approved for commercial sale. We currently have no experience in selling, marketing or distributing pharmaceutical products and do not have a sales force to do so. Before we can commercialize any products, we must develop our sales, marketing and distribution capabilities, which is an expensive and time consuming process and our failure to do this successfully could delay any product launch. Our efforts to develop internal sales and marketing capabilities could face a number of risks, including:

- we may not be able to attract a sufficient number of qualified sales and marketing personnel;
- the cost of establishing a marketing or sales force may not be justifiable in light of the potential revenues for any particular product; and
- our internal sales and marketing efforts may not be effective.

Our success depends in part on recruiting and retaining key personnel and, if we fail to do so, it may be more difficult for us to execute our business strategy. We are currently a small organization and will need to hire additional personnel to execute our business strategy successfully.

Our success depends on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel and on our ability to develop and maintain important relationships with leading academic institutions, clinicians and scientists. We are highly dependent upon our senior management and scientific staff, particularly our Chief Executive Officer, Dr. Harold E. Selick, and our Chief Medical Officer, Dr. Alan B. Colowick. We do not have employment contracts with Drs. Selick or Colowick. The loss of the services of Drs. Selick and Colowick or one or more of our other key employees could delay or have an impact on the successful completion of our clinical trials or the commercialization of our product candidates.

As of March 31, 2006, we had 71 employees. Our success will depend on our ability to hire additional qualified personnel. Competition for qualified personnel in the biotechnology field is intense. We face competition for personnel from other biotechnology and pharmaceutical companies, universities, public and private research institutions and other organizations. We may not be able to attract and retain qualified personnel on acceptable terms given the competition for such personnel. If we are unsuccessful in our recruitment efforts, we may be unable to execute our strategy.

As we expand our operations, we may experience difficulties in managing our growth.

Future growth will impose significant added responsibilities on management, including the need to identify, recruit, train and integrate additional employees. In addition, rapid and significant growth will place a strain on our administrative and operational infrastructure. As our operations expand, we expect that we will need to manage additional relationships with collaborators and various third parties, including contract research organizations, manufacturers and others. Our ability to manage our operations and growth will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. If we are unable to manage our growth effectively, it may be difficult for us to execute our business strategy.

Because we are a newly public company, we have little experience complying with public company obligations, including recently enacted changes in securities laws and regulations. Compliance with these requirements will increase our costs and although we have hired additional management and financial resources we still may fail to comply.

We are a small company with limited resources. Prior to our initial public offering in February 2005, we operated as a private company and were not subject to many of the requirements applicable to public companies.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-K. In addition, the independent registered public accounting firm auditing the company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal control over financial reporting. We expect this requirement will first apply to our annual report on Form 10-K for our fiscal year ending December 31, 2006. Substantial uncertainty exists regarding our ability to comply with these requirements by applicable deadlines. If we are unable to complete the required assessment as to the adequacy of our internal control reporting or if we conclude that our

internal controls over financial reporting are not effective or if our independent registered public accounting firm is unable to provide us with an unqualified report as to the effectiveness of our internal control over financial reporting as of December 31, 2006 and future year ends, investors could lose confidence in the reliability of our financial reporting.

Our facilities in California are located near an earthquake fault, and an earthquake or other natural disaster or resource shortage could disrupt our operations.

Important documents and records, such as hard copies of our laboratory books and records for our product candidates, are located in our corporate headquarters at a single location in Redwood City, California, near active earthquake zones. In the event of a natural disaster, such as an earthquake, drought or flood, or localized extended outages of critical utilities or transportation systems, we do not have a formal business continuity or disaster recovery plan, and could therefore experience a significant business interruption. In addition, California from time to time has experienced shortages of water, electric power and natural gas. Future shortages and conservation measures could disrupt our operations and could result in additional expense. Although we maintain business interruption insurance coverage, the policy specifically excludes coverage for earthquake and flood.

Risks Related to Our Dependence on Third Parties

We rely on third parties to manufacture TH-070, glufosfamide and 2DG. If these parties do not manufacture the active pharmaceutical ingredients or finished products of satisfactory quality, in a timely manner, in sufficient quantities or at an acceptable cost, clinical development and commercialization of our product candidates could be delayed.

We do not currently own or operate manufacturing facilities; consequently, we rely and expect to continue to rely on third parties for the production of clinical and commercial quantities of our product candidates. We have not yet entered into any long term manufacturing or supply agreement for any of our product candidates. Our current and anticipated future dependence upon others for the manufacture of our product candidates may adversely affect our ability to develop and commercialize any product candidates on a timely and competitive basis.

We have completed dosing of our US Phase 2 and have discontinued dosing our EU Phase 3 trial of TH-070 for the treatment of BPH. Additionally, for potential future trials, we have ordered and received TH-070 active pharmaceutical ingredient, or API, from an alternative supplier that has been formulated into drug product. Failure of any of these suppliers to continue to provide acceptable API or drug product could delay clinical trials or commercialization of TH-070, if approved.

Our initial supplies of glufosfamide were prepared by a subsidiary of Baxter International, Inc. and were used to initiate our current clinical trials. We are currently using glufosfamide API and drug product that were manufactured, tested and released by other suppliers and we believe this material will be sufficient through September 2006. We are in the process of qualifying an additional vendor to manufacture glufosfamide API. If we experience unexpected delays, or if the API does not meet specifications, we may experience a significant delay in the completion of our pivotal Phase 3 trial.

We believe that we have a sufficient supply of 2DG for our anticipated clinical trials over the next year, although we cannot be certain that these supplies will remain stable and usable during this period. If these materials are not stable, we may experience a significant delay in our 2DG clinical program.

We will need to enter into additional agreements for additional supplies of each of our product candidates to complete clinical development and/or commercialize them. We cannot be certain that we can do so on favorable terms, if at all. For regulatory purposes, we will have to demonstrate comparability of the same drug substance from different manufacturers. Our inability to do so could delay our clinical programs.

To date, our product candidates have been manufactured in quantities sufficient for preclinical studies or clinical trials. If any of our product candidates is approved by the FDA or other regulatory agencies for commercial sale, we will need to have it manufactured in commercial quantities. We may not be able to increase the manufacturing capacity for any of our product candidates in a timely or economic manner successfully or at all. Significant scale-up of manufacturing may require additional validation studies, which the FDA and other regulatory agencies must review and approve. If we are unable to successfully increase the manufacturing capacity for a product candidate, the regulatory approval or commercial launch of that product candidate may be delayed, or there may be a shortage of supply which could limit our sales.

In addition, if the facility or the equipment in the facility that produces our product candidates is significantly damaged or destroyed, or if the facility is located in another country and trade or commerce with such country is interrupted, we may be unable to replace the manufacturing capacity quickly or inexpensively. The inability to obtain manufacturing agreements,

the damage or destruction of a facility on which we rely for manufacturing or any other delays in obtaining supply would delay or prevent us from completing our clinical trials and commercializing our current product candidates.

We have no control over our manufacturers' and suppliers' compliance with manufacturing regulations, and their failure to comply could result in an interruption in the supply of our product candidates.

The facilities used by our contract manufacturers must undergo an inspection by the FDA for compliance with current good manufacturing practice, or cGMP regulations, before the respective product candidates can be approved. In the event these facilities do not receive a satisfactory cGMP inspection for the manufacture of our product candidates, we may need to fund additional modifications to our manufacturing process, conduct additional validation studies, or find alternative manufacturing facilities, any of which would result in significant cost to us as well as a delay of up to several years in obtaining approval for such product candidate. In addition, our contract manufacturers, and any alternative contract manufacturer we may utilize, will be subject to ongoing periodic inspection by the FDA and corresponding state and foreign agencies for compliance with cGMP regulations, similar foreign regulations and other regulatory standards. We do not have control over our contract manufacturers' compliance with these regulations and standards. Any failure by our third-party manufacturers or suppliers to comply with applicable regulations could result in sanctions being imposed on them (including fines, injunctions and civil penalties), failure of regulatory authorities to grant marketing approval of our product candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and criminal prosecution.

We rely on third parties to conduct our clinical trials, and their failure to perform their obligations in a timely or competent manner may delay development and commercialization of our product candidates.

We are using clinical research organizations to oversee our ongoing TH-070 and glufosfamide clinical trials and expect to use the same or similar organizations for our future clinical trials. There are numerous alternative sources to provide these services. However, we may face delays outside of our control if these parties do not perform their obligations in a timely or competent fashion or if we are forced to change service providers. This risk is heightened for our clinical trials conducted outside of the United States, where it may be more difficult to ensure that studies are conducted in compliance with FDA requirements. Completion of our ongoing and future studies of glufosfamide and potential future studies of TH-070 are and will be dependent upon the accrual of patients at clinical sites outside the United States. Any third-party that we hire to conduct clinical trials may also provide services to our competitors, which could compromise the performance of their obligations to us. If we experience significant delays in the progress of our clinical trials and in our plans to file NDAs, the commercial prospects for product candidates could be harmed and our ability to generate product revenue would be delayed or prevented.

We may rely on strategic collaborators to market and sell our potential treatment for BPH, TH-070, either outside the United States or worldwide and our potential cancer products outside the United States.

We have no sales and marketing experience. We may contract with strategic collaborators to sell and market, when and if approved, TH-070 for the treatment of symptomatic BPH either outside the United States or worldwide and our cancer products outside the United States. We may not be successful in entering into collaborative arrangements with third parties for the sale and marketing of any products. Any failure to enter into collaborative arrangements on favorable terms could delay or hinder our ability to develop and commercialize our product candidates and could increase our costs of development and commercialization. Dependence on collaborative arrangements will subject us to a number of risks, including:

- we may not be able to control the amount or timing of resources that our collaborators may devote to the product candidates;
- we may be required to relinquish important rights, including intellectual property, marketing and distribution rights;
- we may have lower revenues than if we were to market and distribute such products ourselves;
- should a collaborator fail to commercialize one of our product candidates successfully, we may not receive future milestone payments or royalties;
- a collaborator could separately move forward with a competing product candidate developed either independently or in collaboration with others, including our competitors;
- our collaborators may experience financial difficulties;

- business combinations or significant changes in a collaborator's business strategy may also adversely affect a collaborator's willingness or ability to complete its obligations under any arrangement; and
- our collaborators may operate in countries where their operations could be adversely affected by changes in the local regulatory environment or by political unrest.

Risks Related to Our Intellectual Property

TH-070 and 2DG are known compounds that are not protected by patents on the composition of the molecules.

TH-070 and 2DG are known compounds that are no longer eligible for patent protection on the composition of the molecules. A patent of this nature, known as a compound per se patent, excludes others from making, using or selling the patented compound, regardless of how or for what purpose the compound is formulated or intended to be used. Consequently, these compounds and certain of their uses are in the public domain. Acraf, S.p.a. once marketed TH-070 in certain European countries for the treatment of cancer, and we cannot prevent its sale for that indication or for any indications where we have not received patent protection. We have an issued U.S. patent for the use of TH-070 for the treatment of BPH and we may obtain patents for TH-070 to treat BPH outside the U.S., but there may be off-label use of competitive products even for our patented indication.

We have an issued U.S. patent for the use of orally administered 2DG for the treatment of cancer at certain doses and administration schedules, and we have in-licensed one issued patent that covers the treatment of breast cancer with 2DG in combination with paclitaxel or docetaxel. We also have applications related to the issued licensed patent that cover other 2DG combination therapies, but we cannot be certain that any other patent application under this license will be issued. Others may develop and market 2DG for the treatment of cancer, however, if they develop treatments using dosing and administration schedules or combination therapies outside the scope of our patents or in contravention of our patent rights.

Metabolic Targeting is not protected by patents, and others may be able to develop competitive drugs using this approach.

We do not have issued patents or patent applications that would prevent others from taking advantage of Metabolic Targeting generally to discover and develop new therapies for cancer, BPH or other diseases. Consequently, our competitors may seek to discover and develop potential therapeutics that operate by mechanisms of action that are the same or similar to the mechanisms of action of our product candidates.

We are dependent on patents and proprietary technology, both our own and those licensed from others. If we or our licensors fail to adequately protect this intellectual property or if we otherwise do not have exclusivity for the marketing of our products, our ability to commercialize products could suffer.

Our commercial success will depend in part on our ability and the ability of our licensors to obtain and maintain patent protection sufficient to prevent others from marketing our product candidates, as well as to successfully defend and enforce these patents against infringement and to operate without infringing the proprietary rights of others. We will only be able to protect our product candidates from unauthorized use by third parties to the extent that valid and enforceable patents cover our product candidates or they are effectively protected by trade secrets. If our patent applications do not result in issued patents, or if our patents, or those patents we have licensed are found to be invalid, we will lose the ability to exclude others from making, using or selling the inventions claimed therein. We have a limited number of patents and pending patent applications.

The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date in the United States. The laws of many countries may not protect intellectual property rights to the same extent as United States laws, and those countries may lack adequate rules and procedures for defending our intellectual property rights. Changes in either patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property. We do not know whether any of our patent applications will result in the issuance of any patents and we cannot predict the breadth of claims that may be allowed in our patent applications or in the patent applications we license from others.

The degree of future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- we or our licensors might not have been the first to make the inventions covered by each of our or our licensors' pending patent applications and issued patents, and we may have to participate in expensive and protracted interference proceedings to determine priority of invention;
- we or our licensors might not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative product candidates or duplicate any of our or our licensors' product candidates;
- our or our licensors' pending patent applications may not result in issued patents;
- our or our licensors' issued patents may not provide a basis for commercially viable products or may not provide us with any competitive advantages or may be challenged by third parties;
- others may design around our or our licensors' patent claims to produce competitive products that fall outside the scope of our or our licensors' patents;
- we may not develop or in-license additional patentable proprietary technologies related to our product candidates; or
- the patents of others may prevent us from marketing one or more of our product candidates for one or more indications that may be valuable to our business strategy.

Moreover, an issued patent does not guarantee us the right to practice the patented technology or commercialize the patented product. Third parties may have blocking patents that could be used to prevent us from commercializing our patented products and practicing our patented technology. Our issued patents and those that may be issued in the future may be challenged, invalidated or circumvented, which could limit our ability to prevent competitors from marketing related product candidates or could limit the length of the term of patent protection of our product candidates. In addition, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages against competitors with similar technology. Furthermore, our competitors may independently develop similar technologies. Moreover, because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that, before any of our product candidates can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantage of the patent. For glufosfamide, the major European counterparts to the U.S. patent expire in 2009 and the U.S. patent expires in 2014. Patent term extension may not be available for these patents.

We rely on trade secrets and other forms of non-patent intellectual property protection. If we are unable to protect our trade secrets, other companies may be able to compete more effectively against us.

We rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect, especially in the pharmaceutical industry, where much of the information about a product must be made public during the regulatory approval process. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third party illegally obtained and is using our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States may be less willing to or may not protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

If we are sued for infringing intellectual property rights of third parties or if we are forced to engage in an interference proceeding, it will be costly and time consuming, and an unfavorable outcome in that litigation or interference would have a material adverse effect on our business.

Our ability to commercialize our product candidates depends on our ability to develop, manufacture, market and sell our product candidates without infringing the proprietary rights of third parties. Numerous United States and foreign issued patents and pending patent applications, which are owned by third parties, exist in the general field of cancer and BPH therapies or in fields that otherwise may relate to our product candidates. We are also aware of a patent that claims certain agents, including 2DG, to inhibit the import of glucose-6-phosphate into the endoplasmic reticulum of a cell. We do not know whether administration of 2DG for our intended uses inhibits such import. If it does, we would be required to license the patent or risk that a claim of infringement could be made. If we are shown to infringe, we could be enjoined from use or

sale of the claimed invention if we are unable to prove that the patent is invalid. In addition, because patent applications can take many years to issue, there may be currently pending applications, unknown to us, which may later result in issued patents that our product candidates or any other compound that we may develop, may infringe, or which may trigger an interference proceeding regarding one of our owned or licensed patents or applications. There could also be existing patents of which we are not aware that our product candidates may inadvertently infringe or which may become involved in an interference proceeding.

The biotechnology and biopharmaceutical industries are characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. For so long as our product candidates are in clinical trials, we believe our clinical activities fall within the scope of the exemptions provided by 35 U.S.C. Section 271(e) in the United States, which exempts from patent infringement liability activities reasonably related to the development and submission of information to the FDA. As our clinical investigational drugs progress toward commercialization, the possibility of a patent infringement claim against us increases. While we attempt to ensure that our active clinical investigational drugs and the methods we employ to manufacture them, as well as the methods for their use we intend to promote, do not infringe other parties' patents and other proprietary rights. However, we cannot be certain they do not, and competitors or other parties may assert that we infringe their proprietary rights in any event.

We may be exposed to future litigation based on claims that our product candidates, or the methods we employ to manufacture them, infringe the intellectual property rights of others. Our ability to manufacture and commercialize our product candidates may depend on our ability to demonstrate that the manufacturing processes we employ and the use of our product candidates do not infringe third-party patents. If third-party patents were found to cover our product candidates or their use or manufacture, we could be required to pay damages or be enjoined and therefore unable to commercialize our product candidates, unless we obtained a license. A license may not be available to us on acceptable terms, if at all.

RISKS RELATED TO OUR INDUSTRY

If our competitors are able to develop and market products that are more effective, safer or more affordable than ours, or obtain marketing approval before we do, our commercial opportunities may be limited.

Competition in the biotechnology and pharmaceutical industries is intense and continues to increase, particularly in the area of cancer treatment. Most major pharmaceutical companies and many biotechnology companies are aggressively pursuing oncology development programs, including traditional therapies and therapies with novel mechanisms of action. Our cancer product candidates face competition from established biotechnology and pharmaceutical companies, including sanofi-aventis Group, Eli Lilly and Company, Pfizer and SuperGen and from generic pharmaceutical manufacturers. In particular, our glufosfamide product candidate for pancreatic cancer will compete with Gemzar, marketed by Eli Lilly and Company, and 5-flurouracil, or 5-FU, a generic product which is sold by many manufacturers. In addition, Camptosar®, marketed by Pfizer, Avastin®, marketed by Genentech, Inc., Erbitux®, marketed by Imclone Systems Incorporated and Bristol-Myers Squibb Company, and Taxotere®, marketed by the sanofi-aventis Group, are under investigation as possible combination therapies for first-line treatment of pancreatic cancer. Additionally OSI Pharmaceuticals and Genentech market Tarceva® as a combination therapy with gemcitabine for the first-line treatment of pancreatic cancer. Therion Biologics has reported that they have completed enrollment in a Phase 3 trial for PANVAC™-VF, a vaccine, for the second-line treatment for pancreatic cancer.

Currently available BPH drugs are marketed by large pharmaceutical companies with significantly more experience and resources than we have. Our TH-070 product candidate for the treatment of symptomatic BPH will compete with alpha adrenergic receptor blockers, including Flomax®, co-marketed and distributed by Boehringer Ingelheim, Abbott Laboratories and Astellas Pharma Inc., Cardura®, marketed by Pfizer, and Xatral®, marketed by the sanofi-aventis Group and with 5-alpha reductase inhibitors, including Proscar®, marketed by Merck, and Avodart®, marketed by GlaxoSmithKline. In addition, we are aware that several other companies are developing drugs to treat BPH. We also will compete with other treatment alternatives such as surgery and other non-drug interventions.

We also face potential competition from academic institutions, government agencies and private and public research institutions engaged in the discovery and development of drugs and therapies. Many of our competitors have significantly greater financial resources and expertise in research and development, preclinical testing, conducting clinical trials, obtaining regulatory approvals, manufacturing, sales and marketing than we do. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established pharmaceutical companies.

Our competitors may succeed in developing products that are more effective, have fewer side effects and are safer or more affordable than our product candidates, which would render our product candidates less competitive or noncompetitive.

These competitors also compete with us to recruit and retain qualified scientific and management personnel, establish clinical trial sites and patient registration for clinical trials, as well as to acquire technologies and technology licenses complementary to our programs or advantageous to our business. Moreover, competitors that are able to achieve patent protection, obtain regulatory approvals and commence commercial sales of their products before we do, and competitors that have already done so, may enjoy a significant competitive advantage.

There is a substantial risk of product liability claims in our business. If we do not obtain sufficient liability insurance, a product liability claim could result in substantial liabilities.

Our business exposes us to significant potential product liability risks that are inherent in the development, manufacturing and marketing of human therapeutic products. Regardless of merit or eventual outcome, product liability claims may result in:

- delay or failure to complete our clinical trials;
- withdrawal of clinical trial participants;
- decreased demand for our product candidates;
- injury to our reputation;
- litigation costs;
- substantial monetary awards against us; and
- diversion of management or other resources from key aspects of our operations.

If we succeed in marketing products, product liability claims could result in an FDA investigation of the safety or efficacy of our products, our manufacturing processes and facilities or our marketing programs. An FDA investigation could also potentially lead to a recall of our products or more serious enforcement actions, or limitations on the indications for which they may be used, or suspension or withdrawal of approval.

We have product liability insurance that covers our clinical trials up to an $8 million annual aggregate limit. We intend to expand our insurance coverage to include the sale of commercial products if marketing approval is obtained for our product candidates or any other compound that we may develop. However, insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost or at all, and the insurance coverage that we obtain may not be adequate to cover potential claims or losses.

Even if we receive regulatory approval to market our product candidates, the market may not be receptive to our product candidates upon their commercial introduction, which would negatively affect our ability to achieve profitability.

Our product candidates may not gain market acceptance among physicians, patients, healthcare payors and the medical community. The degree of market acceptance of any approved products will depend on a number of factors, including:

- the effectiveness of the product;
- the prevalence and severity of any side effects;
- potential advantages or disadvantages over alternative treatments;
- relative convenience and ease of administration;
- the strength of marketing and distribution support;
- the price of the product, both in absolute terms and relative to alternative treatments; and
- sufficient third-party coverage or reimbursement.

If our product candidates receive regulatory approval but do not achieve an adequate level of acceptance by physicians, healthcare payors and patients, we may not generate product revenues sufficient to attain profitability.

If third-party payors do not adequately reimburse patients for any of our product candidates, if approved for marketing, we may not be successful in selling them.

Our ability to commercialize any products successfully will depend in part on the extent to which reimbursement will be available from governmental and other third-party payors, both in the United States and in foreign markets. Even if we succeed in bringing one or more products to the market, the amount reimbursed for our products may be insufficient to allow us to compete effectively and could adversely affect our profitability.

Reimbursement by a governmental and other third-party payor may depend upon a number of factors, including a governmental or other third-party payor's determination that use of a product is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;
- appropriate for the specific patient;
- cost-effective; and
- neither experimental nor investigational.

Obtaining reimbursement approval for a product from each third-party and governmental payor is a time-consuming and costly process that could require us to provide supporting scientific, clinical and cost-effectiveness data for the use of our products to each payor. We may not be able to provide data sufficient to obtain reimbursement.

Eligibility for coverage does not imply that any drug product will be reimbursed in all cases or at a rate that allows us to make a profit. Interim payments for new products, if applicable, may also not be sufficient to cover our costs and may not become permanent. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used, may be based on payments allowed for lower-cost drugs that are already reimbursed, may be incorporated into existing payments for other products or services, and may reflect budgetary constraints and/or Medicare or Medicaid data used to calculate these rates. Net prices for products also may be reduced by mandatory discounts or rebates required by government health care programs or by any future relaxation of laws that restrict imports of certain medical products from countries where they may be sold at lower prices than in the United States.

The health care industry is experiencing a trend toward containing or reducing costs through various means, including lowering reimbursement rates, limiting therapeutic class coverage and negotiating reduced payment schedules with service providers for drug products. The Medicare Prescription Drug, Improvement and Modernization Act of 2003, or MMA, became law in November 2003 and created a broader prescription drug benefit for Medicare beneficiaries. The MMA also contains provisions intended to reduce or eliminate delays in the introduction of generic drug competition at the end of patent or nonpatent market exclusivity. The impact of the MMA on drug prices and new drug utilization over the next several years is unknown. The MMA also made adjustments to the physician fee schedule and the measure by which prescription drugs are presently paid, changing from Average Wholesale Price to Average Sales Price. The effects of these changes are unknown but may include decreased utilization of new medicines in physician prescribing patterns, and further pressure on drug company sponsors to provide discount programs and reimbursement support programs. There have been, and we expect that there will continue to be, federal and state proposals to constrain expenditures for medical products and services, which may affect reimbursement levels for our future products. In addition, the Centers for Medicare and Medicaid Services frequently change product descriptors, coverage policies, product and service codes, payment methodologies and reimbursement values. Third-party payors often follow Medicare coverage policy and payment limitations in setting their own reimbursement rates and may have sufficient market power to demand significant price reductions.

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

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 product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our profitability will be negatively affected.

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.

Our research and development activities use biological and hazardous materials that are dangerous to human health and safety or the environment. We are subject to a variety of federal, state and local laws and regulations governing the use, generation, manufacture, storage, handling and disposal of these materials and wastes resulting from these materials. We are also subject to regulation by the Occupational Safety and Health Administration, or OSHA, the California and federal environmental protection agencies and to regulation under the Toxic Substances Control Act. OSHA or the California or federal Environmental Protection Agency, or EPA, may adopt regulations that may affect our research and development programs. We are unable to predict whether any agency will adopt any regulations that could have a material adverse effect on our operations. We have incurred, and will continue to incur, capital and operating expenditures and other costs in the ordinary course of our business in complying with these laws and regulations.

Although we believe our safety procedures for handling and disposing of these materials comply with federal, state and local laws and regulations, we cannot entirely 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.

We may not be able to conduct, or contract with others to conduct, animal testing in the future, which could harm our research and development activities.

Certain laws and regulations relating to drug development require us to test our product candidates on animals before initiating clinical trials involving humans. Animal testing activities have been the subject of controversy and adverse publicity. Animal rights groups and other organizations and individuals have attempted to stop animal testing activities by pressing for legislation and regulation in these areas and by disrupting these activities through protests and other means. To the extent the activities of these groups are successful, our research and development activities may be interrupted or delayed.

RISKS RELATED TO OUR COMMON STOCK

The price of our common stock may be volatile.

The stock markets in general and the markets for biotechnology stocks in particular, have experienced extreme volatility.

Price declines in our common stock could result from general market and economic conditions and a variety of other factors, including:

- adverse results or delays in our clinical trials of TH-070, glufosfamide or 2DG;
- announcements of FDA non-approval of our product candidates, or delays in the FDA or other foreign regulatory agency review process;
- adverse actions taken by regulatory agencies with respect to our product candidates, clinical trials, manufacturing processes or sales and marketing activities;
- announcements of technological innovations, patents or new products by our competitors;
- regulatory developments in the United States and foreign countries;
- any lawsuit involving us or our product candidates;
- announcements concerning our competitors, or the biotechnology or pharmaceutical industries in general;
- developments concerning any strategic alliances or acquisitions we may enter into;
- actual or anticipated variations in our operating results;

- changes in recommendations by securities analysts or lack of analyst coverage;
- deviations in our operating results from the estimates of analysts;
- sales of our common stock by our executive officers, directors and five percent stockholders or sales of substantial amounts of common stock;
- changes in accounting principles; and
- loss of any of our key scientific or management personnel.

In the past, following periods of volatility in the market price of a particular company's securities, litigation has often been brought against that company. If litigation of this type is brought against us, it could be extremely expensive and divert management's attention and our company's resources.

If our officers, directors and largest stockholders choose to act together, they may be able to control our management and operations, acting in their best interests and not necessarily those of other stockholders.

As of April 28, 2006, our officers, directors and holders of 5% or more of our outstanding common stock beneficially own approximately 46.7% of our common stock. As a result, these stockholders, acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. The interests of this group of stockholders may not always coincide with the interests of other stockholders, and they may act in a manner that advances their best interests and not necessarily those of other stockholders.

A significant portion of our total outstanding shares have been restricted from immediate resale subsequent to our initial public offering in February 2005 and follow-on offering in October 2005, but these shares are now tradable subject to Rule 144. If there are substantial sales of our common stock, the price of our common stock could decline.

Sales of substantial amounts of our common stock in the public market could adversely affect the price of our common stock. As of April 28, 2006, 37,287,538 shares of common stock were outstanding. Up to 10,101,839 of those shares are held by affiliates and may only be sold in compliance with the volume limitations of Rule 144. These volume limitations restrict the number of shares that may be sold by an affiliate in any three-month period to the greater of 1% of the number of shares then outstanding, which equals approximately 372,875, or the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

Our certificate of incorporation, our bylaws and Delaware law contain provisions that could discourage another company from acquiring us and may prevent attempts by our stockholders to replace or remove our current management.

Provisions of Delaware law, where we are incorporated, our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace or remove our board of directors. These provisions include:

- authorizing the issuance of "blank check" preferred stock without any need for action by stockholders;
- providing for a classified board of directors with staggered terms;
- requiring supermajority stockholder voting to effect certain amendments to our certificate of incorporation and bylaws;
- eliminating the ability of stockholders to call special meetings of stockholders;
- prohibiting stockholder action by written consent; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(b) In connection with our initial public offering on February 4, 2005, we sold 6,112,601 shares of our common stock for net offering proceeds to us after deducting expenses totaling $38.1 million. In connection with our offering completed on October 28, 2005, we sold 6,399,222 shares of our common stock for net offering proceeds to us after deducting expenses totaling $62.4 million. As of March 31, 2006, we used approximately $39.3 million of the net proceeds of our initial public offering and follow-on offering, including approximately $25.8 million for the clinical development of glufosfamide, TH-070 and 2DG, $6.2 million for research and development of additional product candidates, and approximately $7.3 million for working capital, capital expenditures and other general corporate purposes. The balance of net offering proceeds has been invested in short-term investment grade securities and cash equivalent instruments.

(c) Issuer Purchases of Equity Securities

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	(a) Total number of shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
01/01/2006 to 03/31/2006	3,176 shares*	$ 0.53	0	0

* Shares repurchased from former employees upon termination of their employment pursuant to our contractual repurchase rights under the terms of the 2004 Amended and Restated Equity Incentive Plan.

ITEM 5. OTHER INFORMATION

In April 2006, we amended the existing loan and security agreement with Silicon Valley Bank to borrow up to an additional $4.0 million for working capital and equipment purchases. The interest rate for borrowings under this facility will be determined based on the 36-month U.S. Treasury note plus 2.25% on the date of borrowing. Upon the signing of the amendment, the Company borrowed $2.0 million under this facility, which will be repaid over a 36-month period from the date of borrowing. The interest rate on this borrowing is 7.2% per annum.

ITEM 6. EXHIBITS

Exhibits

The exhibits listed on the accompanying index to exhibits are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

SIGNATURES

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

Threshold Pharmaceuticals, Inc.

Date: May 15, 2006

/s/ Harold E. Selick

Harold E. Selick., Ph.D.
Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 2006

/s/ Janet I. Swearson

Janet I. Swearson
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
10.26	Amendment to Loan and Security Agreement by and between Registrant and Silicon Valley Bank, dated April 7, 2006.
31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a) of Harold E. Selick.
31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a) of Janet I. Swearson.
32.1	Certification pursuant to 18 U.S.C. Section 1350 of Harold E. Selick.
32.2	Certification pursuant to 18 U.S.C. Section 1350 of Janet I. Swearson.

Exhibit 10.26

THIRD AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment") is entered into this 7th day of April, 2006, by and between SILICON VALLEY BANK ("Bank") and THRESHOLD PHARMACEUTICALS, INC., a Delaware corporation ("Borrower") whose address is 1300 Seaport Boulevard, Redwood City, California 94063.

RECITALS

A. Bank and Borrower have entered into that certain Loan and Security Agreement dated as of March 27, 2003, as amended by that certain Loan Modification Agreement by and between Bank and Borrower dated as of March 31, 2004, and as further amended by that certain Loan Modification Agreement by and between Bank and Borrower dated as of March 9, 2005 (as the same may from time to time be further amended, modified, supplemented or restated, the "Loan Agreement").

B. Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.

C. Borrower has requested that Bank amend the Loan Agreement to (i) add a supplemental equipment term loan facility, and (ii) make certain other revisions to the Loan Agreement as more fully set forth herein.

D. Bank has agreed to so amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

2. Amendments to Loan Agreement.

2.1 Section 2 (LOAN AND TERMS OF PAYMENT). Section 2 is amended by adding the following section immediately after Section 2.1.2 as Section 2.1.3:

2.1.3 Supplemental Equipment Advances.

(a) Availability. Through March 31, 2007 (the "Supplemental Equipment Availability End Date"), Bank shall make advances (each, a "Supplemental Equipment Advance" and, collectively, "Supplemental Equipment Advances") not exceeding the Supplemental Equipment Line. Supplemental Equipment Advances will be available in two (2) tranches of Two Million Dollars ($2,000,000) each ("Tranche One" and "Tranche Two", respectively). A single Supplemental Equipment Advance under Tranche One (the "Tranche One Supplemental Equipment Advance") shall be available on the Supplemental Equipment Closing Date. Borrower shall not be required to submit invoices supporting the Tranche One Supplemental Equipment Advance. Supplemental Equipment Advances under Tranche Two (the "Tranche Two Supplemental Equipment Advances") shall be available through the Supplemental Equipment Availability End Date. Supplemental Equipment Advances may only be used to finance Eligible Equipment purchased within ninety (90) days (determined based upon the applicable invoice date of such Eligible Equipment) before the date of each Supplemental Equipment Advance, and no Supplemental Equipment Advance may exceed one hundred percent (100%) of the total invoice for Eligible Equipment, excluding taxes, shipping, warranty charges, freight discounts and installation expenses relating to such Eligible Equipment. After repayment, no Supplemental Equipment Advance may be reborrowed.

(b) Supplemental Equipment Advances. To obtain a Supplemental Equipment Advance, Borrower must notify Bank (the notice is irrevocable) by facsimile no later than 12:00 p.m. Pacific time one (1) Business Day before the day on which the Supplemental Equipment Advance is to be made. The notice in the form of Exhibit B (Payment/Advance Form) must be signed by a Responsible Officer or designee and include a copy of the invoice for the Eligible Equipment being financed.

(c) Repayment. Each Supplemental Equipment Advance shall be payable in thirty six (36) consecutive equal monthly installments of principal and accrued interest, beginning on the first (1st) day of the first (1st) month following such Supplemental Equipment Advance and continuing on the first (1st) day of each month thereafter (each a "Supplemental Equipment Payment Date"). The final payment due on the applicable Supplemental Equipment Maturity Date shall include all outstanding principal and all accrued unpaid interest.

(d) Final Payment. On the earlier of (i) the final Supplemental Equipment Payment Date with respect to each Supplemental Equipment Advance, (ii) the termination of the Supplemental Equipment Line, or (iii) prepayment, Borrower shall pay, in addition to the outstanding principal, accrued and unpaid interest, and all other amounts due on such date with respect to such Supplemental Equipment Advance, an amount equal to the Supplemental Equipment Final Payment.

(e) Prepayment Upon an Event of Loss. Borrower shall bear the risk of any loss, theft, destruction, or damage of or to the Financed Equipment. If, during the term of this Agreement, any item of Financed Equipment becomes obsolete or

is lost, stolen, destroyed, damaged beyond repair, rendered permanently unfit for use, or seized by a governmental authority for any reason for a period equal to at least the remainder of the term of this Agreement (an "Event of Loss"), then, if no Event of Default has occurred or is continuing, within ten (10) days following such Event of Loss, at Borrower's option, Borrower shall (i) pay to Bank on account of the Obligations all accrued interest to the date of the prepayment, plus all outstanding principal owing with respect to the Financed Equipment subject to the Event of Loss; or (ii) repair or replace any Financed Equipment subject to an Event of Loss provided the repaired or replaced Financed Equipment is of equal or like value to the Financed Equipment subject to an Event of Loss and provided further that Bank has a first priority perfected security interest in such repaired or replaced Financed Equipment.

(d) Prepayment. At Borrower's option, so long as an Event of Default has not occurred and is not continuing, Borrower shall have the option to prepay all, but not less than all, of the Supplemental Equipment Loan Amount advanced by Bank under this Agreement, provided Borrower (a) provides written notice to Bank of its election to exercise to prepay the Supplemental Equipment Advance at least thirty (30) days prior to such prepayment, and (b) pays, on the date of the prepayment (i) all accrued and unpaid interest with respect to the Supplemental Equipment Advance through the date the prepayment is made; (ii) all unpaid principal with respect to the Supplemental Equipment Advance; (iii) a premium equal to the Make-Whole Premium; (iv) the Supplemental Equipment Final Payment; and (v) all other sums, if any, that shall have become due and payable hereunder with respect to this Agreement.

2.2 Section 2.2 (Interest Rate, Payments). Section 2.2(a) is amended by deleting it in its entirety and replacing it with the following:

(a) Interest Rate. (i) Each Equipment Advance shall continue to accrue interest on the outstanding principal balance at a fixed per annum rate determined as of the date of the applicable Funding Date equal to the greater of: (A) the Treasury Note Rate as of the applicable Funding Date plus three percent (3.0%) or (B) five and one-half percent (5.50%); and which rate shall remain fixed for the term of the relevant Equipment Advance. (ii) Each Supplemental Equipment Advance shall accrue interest on the outstanding principal balance for each Supplemental Equipment Advance at a fixed per annum rate equal to the Basic Rate, which shall be payable monthly. After an Event of Default, Obligations accrue interest at five percent (5.0%) above the rate effective immediately before the Event of Default. Interest is computed on a 360-day year for the actual number of days elapsed.

2.3 Section 6.2 (Financial Statements, Reports, Certificates). Section 6.2(a) is amended by deleting it in its entirety and replacing it with the following:

(a) Borrower will deliver to Bank: (i) as soon as available, but no later than forty five (45) days after the last day of each month, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations during the period certified by a Responsible Officer and in a form acceptable to Bank; (ii) as soon as available, but no later than one hundred twenty (120) days after the last day of

Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm acceptable to Bank in its reasonable discretion; (iii) within five (5) days of delivery, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt; (iv) within ten (10) days of filing, all reports on Form 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission or a link thereto on Borrower's or another website on the Internet; (v) as soon as available, but no later than forty five (45) days after fiscal year end, Borrower's financial projections for the upcoming fiscal year approved by Borrower's Board of Directors and in form and substance reasonably satisfactory to Bank; (vi) a prompt report of any legal actions pending or threatened against Borrower or any of its Subsidiaries that could result in damages or costs to Borrower or any of its Subsidiaries of One Hundred Fifty Thousand Dollars ($150,000) or more; and (vii) budgets, sales projections, operating plans and other financial information reasonably requested by Bank.

2.4 Section 13 (Definitions).

(a) The following terms and their respective definitions set forth in Section 13.1 are amended in their entirety and replaced with the following:

"**Credit Extension**" is any Equipment Advance, Supplemental Equipment Advance, or any other extension of credit by Bank for Borrower's benefit.

"**Financed Equipment**" is all present and future Eligible Equipment in which Borrower has any interest, the purchase of which is financed by an Equipment Advance or Supplemental Equipment Advance, as applicable.

(b) The following definitions are added to Section 13.1 of the Loan Agreement:

"Basic Rate" is the per annum rate of interest (based on a year of 360 days) equal to the sum of (a) U.S. Treasury note yield to maturity for a term equal to the Treasury Note Maturity as quoted in The Wall Street Journal on the Supplemental Equipment Funding Date, plus (b) the Loan Margin.

"Loan Margin" is two hundred twenty five (225) basis points.

"**Make-Whole Premium**" is an amount equal to five percent (5.0%) of the outstanding Supplemental Equipment Advance if the prepayment is made on or before the second (2nd) anniversary of the date hereof and three percent (3.0%) of the outstanding Supplemental Equipment Advance if the prepayment is made after the second (2nd) anniversary hereof, but before the Supplemental Equipment Maturity Date.

"**Supplemental Equipment Advance**" is defined in Section 2.1.3(a).

"**Supplemental Equipment Availability End Date**" is defined in Section 2.1.3(a).

"**Supplemental Equipment Closing Date**" is the date of this Amendment.

"**Supplemental Equipment Final Payment**" is a payment (in addition to and not a substitution for the regular monthly payments of principal plus accrued interest) due on the earlier of (a) the final Supplemental Equipment Payment Date for such Supplemental Equipment Advance or (b) the acceleration of such Supplemental Equipment Advance, equal to the Supplemental Equipment Loan Amount for such Supplemental Equipment Advance multiplied by the Final Payment Percentage.

"**Supplemental Equipment Final Payment Percentage**" is, for each Supplemental Equipment Advance, four percent (4.0%).

"**Supplemental Equipment Funding Date**" is the date a Supplemental Equipment Advance is made.

"**Supplemental Equipment Line**" is a Supplemental Equipment Advance or Supplemental Equipment Advances in an aggregate amount of up to Four Million Dollars ($4,000,000) outstanding at any time.

"**Supplemental Equipment Loan Amount**" in respect of each Supplemental Equipment Advance is the original principal amount of such Supplemental Equipment Advance.

"**Supplemental Equipment Maturity Date**" is, with respect to each Supplemental Equipment Advance, the final Supplemental Equipment Payment Date, but no later than March 31, 2010.

"**Supplemental Equipment Payment Date**" is defined in Section 2.1.3(c).

"Treasury Note Maturity" is thirty six (36) months.

3. Limitation of Amendments.

3.1 The amendments set forth in **Section 2**, above, are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

3.2 This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

4. Representations and Warranties. To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

4.1 Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

4.2 Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

4.3 The organizational documents of Borrower delivered to Bank on the March 27, 2003 remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

4.4 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

4.5 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

4.6 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on Borrower, except as already has been obtained or made; and

4.7 This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

5. Counterparts. This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

6. Effectiveness. This Amendment shall be deemed effective upon (a) the due execution and delivery to Bank of this Amendment by each party hereto, (b) Borrower's payment of an amendment fee in an amount equal to Twenty Thousand Dollars ($20,000) (the "Good Faith Deposit"), and (c) payment of Bank's legal fees and expenses in connection with the negotiation and preparation of this Amendment. Any portion of the Good Faith Deposit not utilized to pay Bank Expenses will be returned to Borrower.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

BANK

Silicon Valley Bank

By: /s/ Jason Hughes
Name: Jason Hughes
Title: Vice President

BORROWER

Threshold Pharmaceuticals, Inc.

By: /s/ Janet I. Swearson
Name: Janet I. Swearson
Title: Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Harold E. Selick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2006, of Threshold 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(s) 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)) 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) [Paragraph omitted pursuant to SEC Release 33-8238];

   (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 officers 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 function):

   (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 15, 2006

/s/ Harold E. Selick
Harold E. Selick, Ph.D.
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Janet I. Swearson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2006, of Threshold 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(s) 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)) 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) [Paragraph omitted pursuant to SEC Release 33-8238];

   (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 officers 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 function):

   (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 15, 2006

/s/ Janet I. Swearson

Janet I. Swearson
Chief Financial Officer

Exhibit 32.1

THRESHOLD PHARMACEUTICALS, INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Threshold Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Harold E. Selick, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2006

/s/ Harold E. Selick
Harold E. Selick, Ph.D.
Chief Executive Officer

Exhibit 32.2

THRESHOLD PHARMACEUTICALS, INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Threshold Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Janet I. Swearson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2006

/s/ Janet I. Swearson
Janet I. Swearson
Chief Financial Officer