Table of Contents

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

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: 001-32979

THRESHOLD PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3409596**
(State or other jurisdiction of incorporation or organization)	**(IRS employer Identification number)**
1300 Seaport Boulevard, Redwood City, CA	**94063**
(Address of principal executive office)	**(Zip Code)**

(650) 474-8200

(Registrant's telephone number, including area code)

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

Title of Each Class	**Name of Each Exchange On Which Registered**
Common Stock $0.001 Par Value	**NASDAQ Global Market**

Securities registered pursuant to Section 12(g) of the act: None

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☒

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant based upon the closing price of the Common Stock on the NASDAQ Global Market on June 30, 2007 was $24,947,742. Shares of Common Stock held by each executive officer and director and by each person or group who owns 5% or more of the outstanding Common Stock at June 30, 2007 have been excluded. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

On February 29, 2008 there were 37,410,793 shares of the registrant's common stock outstanding.

Documents incorporated by reference: Portions of the Proxy Statement for Registrant's Annual Meeting of Stockholders to be held May 13, 2008, or the Proxy Statement, are incorporated herein by reference into Part III.

Threshold Pharmaceuticals, Inc.
TABLE OF CONTENTS

PART I

This annual report on Form 10-K, including the sections entitled "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We may, in some cases, use words such as "project," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could," "potentially," "will," or "may," or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements may include statements about:

- our ability to commence, and the timing of, clinical trials for our TH-302, glufosfamide, and 2DG development programs;
- the completion and success of any clinical trials that we commence;
- the timing of results of our clinical trials;
- our receipt of regulatory approvals;
- our ability to establish and maintain intellectual property rights in our product candidates;
- whether any product candidates that we are able to commercialize are safer or more effective than other marketed products, treatments or therapies;
- our research and development activities, including development of new product candidates, and projected expenditures;
- our ability to complete preclinical and clinical testing successfully for new product candidates that we may develop or license;
- our ability to have manufactured sufficient supplies of active pharmaceutical ingredient, or API, and drug product for clinical testing and commercialization;
- our ability to obtain licenses to any necessary third party intellectual property;
- our ability to retain and hire necessary employees and appropriately staff our development programs;
- our cash needs; and
- our financial performance.

There are a number of important factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements. These important factors include those that we discuss in this annual report on Form 10-K under the caption "Risk Factors." You should read these factors and the other cautionary statements made in this annual report on Form 10-K as being applicable to all related forward-looking statements wherever they appear in this annual report on Form 10-K. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Unless the context requires otherwise, in this annual report on Form 10-K the terms "Threshold," "Threshold Pharmaceuticals," "we," "us" and "our" refer to Threshold Pharmaceuticals, Inc. Threshold Pharmaceuticals, Inc., our logo and Metabolic Targeting are our trademarks. Other trademarks, trade names and service marks used in this annual report on Form 10-K are the property of their respective owners.

ITEM 1. BUSINESS

We are a biotechnology company focused on the discovery and development of drugs targeting the microenvironment of solid tumors as novel treatments for patients living with cancer. The microenvironment of solid tumors is characterized by, among other things, hypoxia or lack of oxygen, disordered angiogenesis, and the upregulation of glucose transport. This hypoxic environment is known to be resistant to standard chemotherapy

and radiation. It is thought to be responsible for the poor prognosis of many solid tumors and treating the hypoxic environment is currently believed to be a significant unmet medical need. Our product candidates are designed to selectively target the hypoxic microenvironment of tumors either by selective toxin activation in the case of our hypoxia activated prodrug (HAP) program, including TH-302, or potentially utilizing the consequences of increased uptake of glucose in cancer cells relative to most normal cells. Our product candidates, glufosfamide and 2-deoxyglucose ("2DG"), share certain structural characteristics with glucose but act instead as chemotherapeutic toxins when taken up by a cell.

Our focus is on product candidates for the treatment of patients living with cancer. We have three product candidates for which we have exclusive worldwide marketing rights:

- TH-302, which we discovered, is our lead product candidate for the potential treatment of patients with cancer. It is a novel drug candidate that is selectively activated under the hypoxic conditions typical of essentially all solid tumors. In May 2007, we announced the filing of an investigational new drug application ("IND") with the FDA for TH-302, and in July 2007, we initiated a Phase 1 clinical trial evaluating the safety and preliminary efficacy of TH-302 in patients with advanced solid tumors. We expect to present interim results for this clinical trial by Q2 2008 and complete enrollment by Q4 2008.
- Glufosfamide is our most advanced product candidate for the potential treatment of patients with cancer. In February 2007, we announced that our Phase 3 clinical trial did not reach its primary endpoint of a statistically significant survival benefit for patients with metastatic pancreatic cancer that relapsed following chemotherapy with gemcitabine. In July 2006, we completed enrollment in the Phase 2 stage of a clinical trial of glufosfamide plus gemcitabine for the first-line treatment of pancreatic cancer, for which top line results were announced in December 2006 and final results, which included promising tumor response and survival data, were announced in third quarter of 2007. In 2007, we initiated a Phase 2 clinical trial of glufosfamide in soft tissue sarcoma and in January 2008, we announced that enrollment was complete and that the clinical trial provided evidence of clinical activity. In 2007, we also initiated two Phase 2 clinical trials of glufosfamide in platinum-resistant ovarian cancer and recurrent sensitive small cell lung cancer. In October 2007 and January 2008, we announced the discontinuation of enrollment in the Phase 2 clinical trials of glufosfamide in recurrent sensitive small cell lung cancer and platinum-resistant ovarian cancer, respectively, due primarily to lack of efficacy.
- 2DG is our product candidate for the potential treatment of patients with cancer and is being evaluated in a Phase 1 clinical trial alone and in combination with docetaxel as a combination therapy. This clinical trial began in the first quarter of 2004 and we expect to complete enrollment and present top-line results for this clinical trial in Q2 2008.

We are working to discover additional novel drug candidates, particularly hypoxia activated prodrugs that will selectively target cancer cells.

Our Strategy

Our goal is to create a leading biotechnology company that develops and commercializes drugs based on targeting the tumor microenvironment. We focus on inactive prodrugs of known chemotherapeutic agents that undergo relatively selective activation in the tumor microenvironment and potentially allow for an improved safety and efficacy profile for the drug. Key elements of our strategy are to:

- *Develop TH-302 successfully.* We have an ongoing Phase 1 clinical trial to determine the maximum tolerated dose (MTD), dose limiting toxicities, safety, pharmacokinetics and preliminary efficacy of TH-302 in advanced solid tumors. We plan to further investigate TH-302 as a single agent and in combination with currently approved chemotherapies.
- *Develop glufosfamide through a partnership or external funding.* We are performing translational research to improve our knowledge of glufosfamide's mechanism of action and continue to analyze our clinical data to better understand the reasons why certain indications such as pancreatic cancer and soft

tissue sarcoma provide stronger efficacy signals than other clinical indications and why specific subgroups of patients within those indications appear to benefit from glufosfamide more than other subgroups. If successful, we may design further clinical trials to exploit the mechanism of action and partner the future development of glufosfamide or seek external funding for the same.

- *Complete Phase 1 clinical trial of 2DG and seek a partner or external funding for further development.* We have an ongoing Phase 1 clinical trial with 2DG to evaluate the safety, pharmacokinetics and maximum tolerated dose in patients with solid tumors. Interim analysis of the ongoing Phase 1 clinical trial suggests that in combination with docetaxel, 2DG provided antitumor activity in patients with non small cell lung carcinoma and head and neck cancers. Given our focus on prodrug therapeutics, we may seek a partner or external funding for continued development of this drug candidate.
- *Continue to broaden our pipeline by discovering and developing new compounds.* We are actively pursuing research programs to discover and develop novel therapies that address major currently unmet medical needs. We will continue to develop drug candidates from our hypoxia activated prodrug platform. We also plan to continue to evaluate additional in-licensing opportunities that build on our expertise and complement our current pipeline.
- *Build on our expertise in targeting the tumor microenvironment.* We intend to continue our focused approach in research and clinical development. We believe our expertise in this area gives us an advantage in the identification of new product candidates, therapeutic indications and technologies. We will also leverage the expertise of our scientific and clinical advisors and continue to enter into collaborations with other experts in the field.

Our Product Development Programs

The following table summarizes the status of our current and ongoing product development programs:

Product Candidate	Indication	Development Status	Expected Milestones
TH-302	Various solid tumors	• Phase 1 monotherapy	• Preliminary results in Q2 2008 and complete enrollment by Q4 2008.
	Various solid tumors	• Phase 1/2 combination therapy	• Commence clinical trial in 2008.
Glufosfamide	Pancreatic cancer		
	2nd line monotherapy	• Phase 3 completed and results announced in Q1 and Q3 2007	• No further development without partner or external funding in this indication
	1st line combination with gemcitabine	• Phase 2 completed and results announced in Q3 2007	• No further development without partner or external funding in this indication
	Soft tissue sarcoma	• Phase 2 completed and results announced in Q1 2008.	• No further development without partner or external funding in this indication
2DG	Various solid tumors	• Phase 1	• Complete enrollment and announce results in Q2 2008.

Market Opportunities

Current Therapies for Cancer

Many different approaches are used in treating cancer, including surgery, radiation and drugs or a combination of these approaches. Drugs used to treat cancer include chemotherapeutics, hormones and immune-based therapies. Traditionally, strategies for designing cancer therapies have focused on killing cancer cells that exhibit rapid division and growth, and most conventional cancer drugs have been evaluated and optimized using cellular and animal models that reflect rapid cell growth.

However, most solid tumors are actually composed of both rapidly and slowly dividing cells. Conventional cancer treatments are not designed to target the slowly dividing cells found in portions of solid tumors and therefore typically do not succeed in killing all cancerous cells. As a tumor grows, its vasculature is disordered and chaotic, leaving portions of the tumor with regions where the oxygen concentration is significantly lower than in healthy tissues. This condition is called Tumor Hypoxia. Solid tumors have significant hypoxic regions, and because these regions have limited access to the blood supply and oxygen, the cells in them divide slowly, making them resistant to traditional chemotherapy and radiation treatment, which target rapidly dividing cells. Similarly, chemotherapeutic agents delivered in the blood supply are less able to penetrate into hypoxic regions because they are more distant from the blood supply. Moreover, many scientists now believe that hypoxia can lead to genetic mutations, which can give rise to drug resistance and enhanced metastatic potential. Thus, therapeutics that target hypoxic zones could provide significant additional anti-tumor activity and clinical benefit over current chemotherapeutic and radiation therapies.

Another disadvantage of current cancer therapies that target rapidly dividing cells is their toxic side effects. Because rapidly dividing cells are also found in many healthy tissues, particularly the gastrointestinal tract, bone marrow and hair follicles, nearly all conventional chemotherapy drugs cause severe side effects, such as diarrhea and reduction in blood cell production, which may lead to bleeding, infection and anemia, as well as other side effects, such as hair loss. Likewise, radiation generally cannot be administered without causing significant damage to healthy tissue surrounding a tumor. Since TH-302 and glufosfamide are inactive prodrugs, it is believed that they should not produce the typical adverse side effects associated with chemotherapy observed in otherwise normal healthy tissues. Since our prodrugs are designed to undergo tumor selective activation, we anticipate that they should have a favorable safety profile and produce less toxicity to normal tissues at the doses that are effective in treating tumors than is the case with traditional therapies.

Prostate Cancer

The American Cancer Society estimates that 218,890 people were diagnosed with prostate cancer in the United States in 2007, and approximately 27,050 people died from the disease.

Lung Cancer

The American Cancer Society estimates that 213,380 people were diagnosed with lung cancer in the United States in 2007, and approximately 160,390 people died from the disease.

Pancreatic Cancer

The American Cancer Society estimates that 37,170 patients were diagnosed with pancreatic cancer in the United States in 2007, and approximately 33,370 patients died from the disease. Only 15-20% of newly diagnosed patients are eligible for surgery, which is typically followed by radiation and chemotherapy. Patients with inoperable pancreatic cancer are treated with radiation and chemotherapy, or in the case of advanced disease, chemotherapy alone as the advantages of radiation are reduced. Gemcitabine is the standard of care for the first-line therapy of advanced metastatic pancreatic cancer. Tarceva was recently approved as a combination therapy with gemcitabine for the first line treatment of pancreatic cancer. Eli Lilly reported worldwide sales of Gemzar (gemcitabine) for all indications to be over $1.4 billion in 2006.

Soft Tissue Sarcoma

The American Cancer Society estimates that 9,220 people will be diagnosed with soft tissue sarcoma in the United States in 2007, and approximately 3,560 people will die from the disease. Soft tissue sarcoma is a rare and diverse form of cancer originating in various soft tissues such as fat, muscle, nerve, vascular tissue and other connective tissues. Soft tissue sarcoma patients are treated with surgery whenever possible with or without radiation and chemotherapy. Radiation and chemotherapy alone or in combination are also used for advance or recurrent disease or used when surgery is not possible.

TH-302

Our primary lead product candidate for cancer is TH-302, a novel prodrug candidate we discovered. Preclinically, it is preferentially activated under severe hypoxic conditions and has demonstrated potent anticancer activity in multiple preclinical cancer models. TH-302 combines a 2-nitroimidazole oxygen-sensing trigger with a masked DNA crosslinker. Upon activation in oxygen deficient zones, TH-302 is converted selectively to the drug's active form, dibromo isophosphoramide mustard, a potent alkylator. TH-302 targets levels of severe hypoxia that are found in tumors but are rare in normal tissues – this is how selective targeting of the tumor occurs. After conversion to the active form of the drug, the hypoxic cells are exposed to high concentrations of released cytotoxic agent, which can also diffuse into the adjacent regions of the tumor. We believe that TH-302 will be less likely to produce the systemic toxicity caused by most cytotoxic chemotherapies, while targeting the hypoxic regions of tumors known to be more difficult to treat with standard therapies.

As part of an internal review, we recently discovered inaccurate information regarding aspects of two sets of TH-302 preclinical experiments that has previously been presented. The results of the studies remain positive and strongly support the ongoing clinical investigation of TH-302. In addition to all of the standard toxicity and pharmacokinetic studies that are required to enable an investigational new drug (IND) application, numerous *in vitro* and *in vivo* efficacy studies with TH-302 have been conducted. A summary of the pre-clinical efficacy studies with TH-302 follows. Approximately 8 different human tumor-derived cell lines, representing 7 different tumor types, were evaluated for their sensitivity to TH-302 and all were shown to have enhanced sensitivity to TH-302 under hypoxic conditions compared to higher oxygen concentrations. No cell lines that were investigated were resistant to TH-302 under hypoxic conditions. In addition, we have also evaluated TH-302 in ectopic xenograft models of cancer, in which human tumor cells are implanted beneath the skin of mice and permitted to grow as tumors. More than 20 of these studies were conducted using 5 different tumor types and multiple drug combinations. In all of these models, the combination of TH-302 with either chemotherapeutic agents or radiation consistently added efficacy above that seen with the single agent chemotherapeutic. In the first half of 2006, we conducted animal studies of TH-302 in orthotopic mouse models of human cancer to assess the efficacy of TH-302 in treating a variety of cancer types. In an orthotopic model, human cancer cells are implanted into the corresponding mouse tissue, and tumors are allowed to develop before treatment. In these models, TH-302 demonstrated promising efficacy when used in combination with standard chemotherapeutic agents. In an orthotopic mouse model of human pancreatic cancer, in which mice were treated with either gemcitabine or gemcitabine in combination with TH-302, complete responses were observed in 1 out of 8 animals treated with TH-302 in combination with gemcitabine. In comparison, no complete responses were seen following single-agent gemcitabine. In a similar mouse model of human prostate cancer, complete responses were observed in 4 out of 8 animals treated with TH-302 in combination with taxol. In comparison, no complete responses were reported with single-agent taxol. In 2007, TH-302 was also tested in combination with docetaxel therapy in a metastatic mouse model of human hormone refractory prostate cancer. The combination of TH-302 with docetaxel resulted in 8 out of 10 complete responses. In comparison, 3 out of 10 complete responses were reported with single-agent docetaxel. These preclinical results, which reflect our overall experience with cell-based assays and animal models, indicate that combination therapies with TH-302 may be efficacious in the treatment of different tumor types. There can be no assurance, however, that these animal studies will accurately predict the results of human clinical trials.

We commenced a Phase 1 clinical trial of TH-302 in July 2007. This is a dose-escalation clinical trial to determine the maximum tolerated dose, dose limiting toxicity, safety, pharmacokinetics and preliminary efficacy of weekly dosing of TH-302. The clinical trial is intended to enroll up to 48 patients with advanced solid tumors. Up to six patients per dose level are participating in the currently ongoing dose escalation phase of the trial, which has reached the fifth dosing cohort. A MTD has not yet been established, but once that has occurred, six additional patients will be enrolled at the MTD level. We expect to announce preliminary data from the clinical trial in the second quarter of 2008. While the duration of the Phase 1 clinical trial depends on the number of dose cohorts required to achieve the maximum tolerated dose and the timing and frequency of dose limiting toxicity, we expect to complete enrollment by Q4 2008.

Providing our Phase 1 safety clinical trial provides favorable results, we plan on initiating a complete Phase 1/2 clinical trial to explore the efficacy of TH-302 in combination with chemotherapy. This clinical trial will incorporate at least two different treatment arms with each arm combining another agent with TH-302. Separate dosing regimens will be established for each of the treatment combinations. One treatment arm will likely include TH-302 in combination with docetaxel and another treatment arm will likely include TH-302 in combination with gemcitabine. These combination arms may allow further development in hormone refractory prostatic carcinoma and metastatic pancreatic cancer. These indications have been highlighted in view of the high degree of hypoxia exhibited by these cancers and the therapeutic effect of TH-302 on these cancers in orthotopic xenograft and other preclinical models. The Phase 1 portion of these combination trials will also support the use of combinations in other indications where docetaxel and gemcitabine are the standard of care such as non small cell lung cancer. It is anticipated that the combination clinical trials will incorporate three weekly doses of TH-302 and the full dose of the combination agent as part of a standard four week cycle. Enrollment in the complete Phase 1/2 clinical trial is anticipated to start in 2008.

In addition, if the single agent TH-302 tumor response data from the Phase 1 clinical trial are supportive, we plan to initiate a single-agent Phase 2 clinical trial.

Glufosfamide

Another product candidate for cancer, glufosfamide, is a small molecule prodrug for the treatment of pancreatic and a variety of other cancers. Glufosfamide combines the active part of an approved alkylator, isophosphoramide, a member of a widely used class of chemotherapy drugs, with a glucose molecule to mask the activity of isophosphoramide. Because of its glucose component and a tumor cell's increased need for glucose, glufosfamide may be preferentially transported into tumors compared to most normal tissues. Most cancers and isolated cancer cell lines over-express the family of glucose transporters due to the increased energy requirement needed to feed uncontrolled proliferation of cancer cells. While the functional role of many of the glucose transporters is not well established, it has been shown that malignant tumors express more glucose transporters and are assumed to undergo enhanced glucose metabolism. Furthermore the linkage between glucose and the alkylator is thought to be cleaved by endogenous enzymes to release the active drug. It is possible that the activities of these enzymes are greater in tumor cells in general, or in specific types of tumor cells in particular, than in normal cells of the body, leading to an enhanced cleavage of the glufosfamide prodrug to the active cytotoxin and glucose in the tumor cells. With glucose as the major side product, glufosfamide has fewer side effects than other drugs in its class, which are known to cause hemorrhagic cystitis, a serious condition characterized by severe bladder bleeding, unless another protective drug is co-administered.

We believe that the potential unique mechanism of action of glufosfamide, its advantage of generating less toxic metabolites, and demonstrated activity in animal studies and human clinical trials make it well-positioned to potentially replace conventional alkylating agents. Based on activity seen in all clinical trials to date, we believe that glufosfamide may offer an improvement over conventional therapies for the treatment of pancreatic cancer and soft tissue sarcoma.

We had been developing glufosfamide as a single agent for the second-line treatment of metastatic pancreatic cancer, and in combination with gemcitabine for the first-line treatment of inoperable, locally advanced and/or metastatic pancreatic cancer.

In August 2006, we completed enrollment in a pivotal Phase 3 clinical trial of glufosfamide for the treatment of patients with metastatic pancreatic cancer who have failed treatment with gemcitabine. On February 26, 2007, we announced the results of our Phase 3 clinical trial in patients with metastatic pancreatic cancer who had relapsed after gemcitabine chemotherapy. While the overall survival in patients in the glufosfamide arm was 18% higher compared to those who received best supportive care alone, the result was not statistically significant. The primary efficacy comparison of overall survival was based on 261 deaths and did not reach statistical significance (p=0.19); the hazard ratio of glufosfamide to BSC was 0.85 (95% confidence interval of 0.66 to 1.08). The median survival of patients who were treated with glufosfamide was 105 days versus 84 days for the patients who received BSC. No new or unexpected safety signals were observed. Adverse events, including renal toxicity and hematologic toxicity, were similar to those observed in previous clinical trials of glufosfamide. The most common drug-related toxicities in the glufosfamide-treated patients were nausea and vomiting. Glufosfamide for the treatment of second-line pancreatic cancer was granted Fast Track designation by the FDA in 2004, which provides for expedited regulatory review for new drugs that demonstrate the potential to address unmet medical needs for the treatment of serious or life-threatening conditions. In September 2006, we received orphan drug designation for glufosfamide from the FDA.

In September 2007, we announced the results from the Phase 2 clinical trial of glufosfamide in combination with gemcitabine for the treatment of advanced pancreatic cancer. Glufosfamide was generally well tolerated in combination with gemcitabine with no new unexpected adverse events. In the Phase 2 clinical trial, 29 patients were treated, of which 28 patients with pancreatic adenocarcinoma previously untreated with chemotherapy were evaluated for response. Overall, five patients achieved a confirmed partial response and one other patient achieved an unconfirmed partial response for a response rate of 21%. In addition, 11 of 28 (39%) patients had stable disease. The median progression-free was 3.7 months and median overall survival was 6.0 months. The 6-month survival and 12-month survival were 50% and 32%, respectively. The safety data in this Phase 2 glufosfamide and gemcitabine combination clinical trial suggest the incidence of treatment-related nephrotoxicity may be slightly higher than what was observed in previous experience with either of these agents used individually.

Soft tissue Sarcoma

In January 2008, we announced the preliminary results of a multi-center Phase 2 clinical trial of glufosfamide for the treatment of patients with soft tissue sarcoma who had failed one or two prior systemic treatments. Twenty-two patients with metastatic and/or advanced unresectable soft tissue sarcoma previously treated with one or two prior systemic therapies enrolled in the Phase 2, open-label, clinical trial at various sites in the United States. The primary efficacy endpoint of the clinical trial was the objective response rate. The secondary endpoints of the clinical trial included duration of response, progression-free survival, overall survival and various safety parameters. Tumor response was evaluated at baseline and every six weeks using the Response Evaluation Criteria In Solid Tumors (RECIST). Eight of 18 (44%) evaluable patients demonstrated clinical benefit with a RECIST assessment of stable disease or partial response. The most common severe adverse event was renal failure (five patients). Renal toxicity was higher than in other glufosfamide clinical trials.

2DG

2DG, our product candidate for the treatment of solid tumors, is in a Phase 1 clinical trial. 2DG is an orally administered small molecule that employs Metabolic Targeting to treat solid tumors by directly inhibiting glycolysis. Because tumor cells in general, and those in hypoxic zones in particular, are dependent on glycolysis for survival, tumor cells are particularly sensitive to the effect of 2DG. This compound is a synthetic glucose analog that distributes selectively to tumor tissue because of metabolic changes related to increased glucose consumption. Because tumor cells exhibit increased levels of glucose transport proteins, these cells actively transport 2DG into the cells. Once inside the cell, 2DG interferes with cellular mechanisms for generating energy by competing with glucose for key enzymes in glycolysis. The *in vivo* efficacy of 2DG has been studied in mouse and rat models of certain cancers, including sarcomas, adenocarcinomas, leukemias, melanomas and bladder, colon and breast tumors. In particular, treatment with 2DG, alone and in combination with other chemotherapy

resulted in increased lifespan or a reduction in tumor growth in many of these models. Animal studies suggest that 2DG and docetaxel may work together to kill cancer cells with greater efficacy than either drug alone, without increased risk of side-effects. We are developing 2DG based on its specificity for targeting tumor cells and extensive human safety data, as well as demonstrated animal efficacy that we and our collaborators at the University of Miami published in *Cancer Research* in January 2004.

We launched a Phase 1 clinical trial of 2DG in January 2004. This is a dose-escalation clinical trial to determine the safety, blood levels and maximum tolerated dose of daily oral doses of 2DG given alone or in combination with docetaxel. The clinical trial is intended to enroll up to 50 patients with previously treated refractory advanced solid tumors. The clinical trial is designed to evaluate the effect of 2DG alone and in combination with docetaxel on tumor growth, and provide a preliminary assessment of efficacy, as assessed by computer tomography. Initial data from this clinical trial, reported at American Society of Clinical Oncology, or ASCO, 2005, suggest that 2DG is well tolerated when administered daily for one week every other week. We are evaluating daily administration of 2DG, which is the schedule we believe will ultimately give 2DG the best opportunity to demonstrate efficacy in this setting. We expect to complete enrollment in this clinical trial and present top line results in the second quarter of 2008.

Provided our safety clinical trial yields acceptable results, we intend to seek a partner or external funding to support the continued development of 2DG. We would choose indications and appropriate combination therapies for our Phase 2 program based on the results of the ongoing Phase 1clinical trial.

Discovery Research

We have research programs focused on targeting the tumor microenvironment of solid tumors particularly the severely hypoxic compartments in solid tumors. Solid tumors possess chaotic and insufficient blood flow resulting in regions which are hypoxic or otherwise starved for oxygen. These extremely low oxygen conditions are not found in normal tissues and these hypoxic zones are found in virtually all solid tumors. The hypoxic zones of tumors are known to be resistant to standard chemotherapeutics and to radiation therapy. Tumor hypoxia correlates with poor prognosis in cancer patients and represents a significant unmet medical need. The general nature of hypoxia in solid tumors offers the possibility for cancer therapeutics which broadly are useful in many indications with an associated large market opportunity.

Our most advanced efforts targeting these regions are the design and development of novel cytotoxic prodrug compounds. A prodrug is an inactive compound that is converted in the human body by enzymatic processes that result in the formation of an active drug. The prodrug concept is well established in chemotherapy and, was initially only employed to modify the pharmacokinetic properties of compounds through non-specific activation processes. More recently has the concept been applied to the design of agents that are selectively activated in tumor tissues through specific activation processes.

Our prodrugs have two distinct parts, a toxic portion (the chemotherapeutic toxin) and an attached trigger molecule. To prevent general toxicity, the trigger molecule masks the toxin until the prodrug is activated by the low oxygen concentration in the hypoxic zones of solid tumors. Once activated, the toxin kills cells in its vicinity. We have designed prodrugs that are triggered only at the very low oxygen levels found in these hypoxic regions. Our experiments indicate that we can achieve a greater than 100-fold difference in cytotoxicity between cells in normal oxygen levels and hypoxic cells. Our lead investigational drug, TH-302, currently in a Phase 1 clinical trial, was our first product candidate from this program. TH-302 is highly selective and produces a conventional DNA cross-linking toxin upon activation. Hypoxia activated prodrugs of other toxin classes are being pursued. Lead compounds have demonstrated promising *in vitro* activity, and additional characterization, evaluation and optimization of these compounds is currently underway.

Our expertise includes broad capabilities in lead synthesis, assay development and*in vitro* and *in vivo* compound evaluation. Our medicinal chemistry expertise allows us to turn initially promising compounds generated by our chemists into drug candidates. We believe that our research focus combined with our medicinal chemistry expertise provide us with the capacity to identify, discover and develop novel therapies.

During the years ended December 31, 2007, 2006, and 2005, we spent $23.4 million, $46.3 million, and $36.0 million, respectively, on research and development activities.

Manufacturing and Supply

The production of TH-302, glufosfamide and 2DG employs small molecule organic chemistry procedures that are standard for the pharmaceutical industry. We currently rely on contract manufacturers for the manufacture of active pharmaceutical ingredient, or API, and final drug product of TH-302, glufosfamide and 2DG. We intend to continue to use our financial resources to accelerate the development of our product candidates rather than diverting resources to establish our own manufacturing facilities.

We expect that we have sufficient supply of glufosfamide drug product to meet the needs of those patients that continue to receive glufosfamide in the ongoing clinical trials. If we partner or secure external funding for the continued development of glufosfamide, we will be dependent on contract manufacturers to produce additional API and drug product.

We expect that we have sufficient supply of 2DG drug product to complete our 2DG clinical trial, but if the establishment of the maximum tolerated dose requires more enrollees than we have projected, we may experience a significant delay in our 2DG clinical program.

We are currently using contract manufacturers to manufacture TH-302 API and TH-302 drug product. We have scheduled manufacturing to meet our clinical supply needs for 2008. If we are not successful in manufacturing sufficient quantities of TH-302 API and drug product, we may experience a significant delay in our TH-302 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. These products will need to satisfy all cGMP manufacturing requirements, including passing product specifications. Our inability to satisfy these requirements could delay our clinical programs.

License and Development Agreements

Glufosfamide License

In August 2003, we entered into an agreement with Baxter International, Inc., and Baxter Healthcare S.A., or together, Baxter, for the licensing and development of glufosfamide. Under this agreement, we have an exclusive worldwide license and/or sublicense under Baxter's patent rights, proprietary information, and know-how relating to glufosfamide to develop and commercialize products containing glufosfamide for the treatment of cancer. Baxter's patent rights include one issued United States patent and 24 foreign counterparts related to glufosfamide, as well as one foreign patent related to its manufacture. Baxter has agreed to provide us with all of its information related to glufosfamide, including animal study data.

In consideration for our licenses under this agreement, we paid an upfront license fee of $100,000 and development milestone payments of $100,000 and $1.3 million. We are obligated to make certain additional development milestone payments, with the next such payment of $1.0 million due in connection with the filing of a new drug application with the FDA for glufosfamide. Future milestone payments in connection with the development of glufosfamide and United States and foreign regulatory submissions and approvals could equal $8.0 million, and sales-based milestone payments could total up to $17.5 million. Following regulatory approval, we will be obligated to pay up to mid-single digit royalties to Baxter based on sales of glufosfamide products.

This agreement remains in effect until terminated by either party. We may terminate the agreement at will upon 60 days prior written notice to Baxter. Baxter may terminate this agreement if we:

- fail to meet our obligations under the agreement to develop and commercialize a glufosfamide product, and we have not cured this breach within 90 days after receiving a notice from Baxter;
- discontinue development of glufosfamide products for a continuous period of 12 months, in a manner that is inconsistent with our then-current plan to develop glufosfamide products, and we have not cured this breach within 90 days after receiving a notice from Baxter;
- are in material breach of any other term of the agreement, which is not cured within 60 days of any notice by Baxter; or
- become insolvent.

Glufosfamide Asian Development Agreement

In November 2004, we entered into a Development Agreement with MediBIC Co. Ltd. MediBIC is a publicly traded Japanese biotechnology company focused on developing therapeutic compounds in partnership with non-Japanese biotechnology firms and providing consulting services in the design, management, and data analysis of clinical trials using pharmacogenomic platforms developed internally and in collaboration with other companies. By working with MediBIC, we believe that we will be able to develop glufosfamide in Asian countries more quickly than by undertaking such efforts on our own or with other third parties. Pursuant to this agreement, we agreed with MediBIC on a development plan for glufosfamide for the treatment of pancreatic cancer in certain Asian countries, including Japan, South Korea, India, China, Taiwan and Hong Kong. We have also received an exclusive, royalty-free license to MediBIC's know-how for the manufacture, sale, and distribution of glufosfamide products for the treatment of cancer worldwide. In connection with the Development Agreement, we granted to MediBIC a non-exclusive license to use our confidential information relating to glufosfamide for the limited purpose of preparing the development plan and any associated marketing plans as authorized under the Development Agreement, and a non-exclusive license to use our confidential information for the time necessary for MediBIC to perform its obligations under the development plan.

Under this agreement, in December 2004 we received an upfront payment of $4.75 million to support the development of glufosfamide in the Asian countries covered by the agreement and, under a separate but related agreement, an option payment of $250,000. We are responsible for all development activities and MediBIC has no other funding obligations. We have agreed to pay MediBIC a percentage of net sales or net revenues from the sales of glufosfamide products for the treatment of cancer by us or third parties in the Asian countries covered by the agreement. We may also be required to pay MediBIC a percentage of up-front or milestone payments we receive from any third-party sublicensee of ours for the development of a glufosfamide product for the treatment of cancer in those Asian countries.

We may terminate the agreement at any time by making certain payments to MediBIC ranging from $7.0 million to $15.0 million, depending on the stage of development of the glufosfamide product. Otherwise, the agreement will continue until the expiration of the last-to-expire patent in a country in the Asian countries covered by the agreement that is owned or controlled by us and claims glufosfamide, its use for the treatment of cancer or a process to make such compound in such country.

2DG License

In November 2002, we entered into an exclusive license agreement with Dr. Theodore J. Lampidis and Dr. Waldemar Priebe. This agreement gives us exclusive worldwide rights to international patent application US01/07173, to all of its United States counterpart and priority applications, and any United States and foreign patents and patent applications that claim priority from such applications. Two United States patents and one foreign patent licensed under this agreement have been issued. These patents and the related applications cover the treatment of cancer with 2DG or certain other glycolytic inhibitors, alone or in combination with certain other cancer drugs.

In consideration for this license, we have reimbursed Drs. Lampidis and Priebe for patent costs and will bear all future patent costs incurred under this agreement. We are also obligated to make certain milestone payments, including milestone payments of up to $700,000 in connection with the filing and approval of a new drug application, or NDA, for the first product covered by the licensed patents, as well as royalties based on sales of such products. This license terminates upon the last to expire issued patent covering the technology licensed under it. We have the right to terminate the license at will upon written notice to Drs. Lampidis and Priebe.

The United States government funded research conducted by Drs. Lampidis and Priebe and, therefore, the research is subject to certain federal regulations. For example, under the "march-in" provisions of the Bayh-Dole Act, which governs the transfer of technology developed under federal grants and contracts, the government may have the right under limited circumstances to grant licenses to the technology.

Patents and Proprietary Rights

Our policy is to patent the technologies, inventions and improvements that we consider important to the development of our business. As of December 31, 2007, we owned or held exclusive license to United States, PCT, and foreign patents and patent applications relating to our research and development programs.

Intellectual Property Related to TH-302

Our TH-302 product candidate and its use in the treatment of cancer are claimed in US and corresponding foreign patent applications in major market countries owned by us. We are seeking compound *per se* patent protection for TH-302 as well as claims directed to its use, alone or in combination with other cancer drugs, in the treatment of cancer. We also own other United States, international, and foreign national patent applications relating to the results of our research on hypoxia-activated prodrugs and their use as cancer drugs and related reagents and methods.

Intellectual Property Related to Glufosfamide

Our glufosfamide product candidate is covered by one issued United States patent and 24 issued foreign counterpart patents, as well as one issued foreign patent relating to a method for its manufacture, which are owned by Baxter and exclusively licensed to us. The major European market counterparts of the United States patent expire in 2009, and the United States patent expires in 2014. Under the Hatch-Waxman Act in the United States, and similar laws in Europe, there are opportunities to extend the term of a patent for up to five years. There can be no assurance that we will obtain such extension. We also own one United States patent application and foreign patent applications describing the use of glufosfamide, alone or in combination with other cancer drugs, including gemcitabine, to treat pancreatic cancer, including gemcitabine-resistant pancreatic cancer and certain other types of cancer, including sarcoma and lymphoma. There can be no assurance that any of our patent applications will issue in major market countries.

Intellectual Property Related to 2DG

Our 2DG product candidate is protected by three issued United States patents, one allowed United States patent application and corresponding foreign applications relating to the use of 2-DG in the treatment of cancer. The term of two of the issued United States patents and one allowed application, which we have licensed from the inventors, lapses in 2020, without patent term extension.

The patent positions of companies like ours are generally uncertain and involve complex legal and factual questions. Our ability to maintain and solidify our proprietary position for our technology will depend on our success in obtaining effective claims and enforcing those claims once granted. We do not know whether any of our patent applications will result in the issuance of any patents, even for patent applications that have been allowed. Moreover, an issued patent does not guarantee us the right to practice the patented technology or

commercialize the patented product. Other 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 or render us unable to stop competitors from marketing related products as well as shorten the term of patent protection that we may have for our products. 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 that do not infringe our intellectual property rights. For these reasons, we may have competition for our products. Moreover, because of the extensive time required for development, testing and regulatory review of a potential therapeutic product, it is possible that, before any of our products 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.

We also rely on trade secrets, technical know-how and continuing innovation to develop and maintain our competitive position. We seek to protect our proprietary information by requiring our employees, consultants, contractors, outside scientific collaborators and other advisors to execute non-disclosure and assignment of invention agreements on commencement of their employment or engagement. Agreements with our employees also forbid them from using third party trade secret or other confidential information in their work. We also require confidentiality or material transfer agreements from third parties that receive our confidential data or proprietary materials.

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. This exemption does not apply to commercialization activities, however, if our product candidates are commercialized, the possibility of a patent infringement claim against us increases. While we attempt to ensure that our clinical product candidates 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, there can be no assurance that they do not, and competitors or other parties may assert that we infringe their proprietary rights in any event.

Competition

We operate in the highly competitive segment of the pharmaceutical market comprised of pharmaceutical and biotechnology companies that research, develop and commercialize products designed to treat cancer. Many of our competitors have significantly greater financial, manufacturing, marketing and product development resources than we do. Large pharmaceutical companies in particular have extensive experience in clinical testing and in obtaining regulatory approval for drugs. These companies also have significantly greater research capabilities than we do. In addition, many universities and private and public research institutes are active in cancer research, some in direct competition with us. We also compete with these organizations to recruit scientists and clinical development personnel.

Each cancer indication for which we are developing products has a number of established medical therapies with which our candidates will compete. Most major pharmaceutical companies and many biotechnology companies are aggressively pursuing cancer development programs, including traditional therapies and therapies with novel mechanisms of action. Our TH-302 product candidate for targeting the tumor hypoxia may eventually compete with other companies who are developing drugs that target tumor hypoxia such as Novacea and Proacta Incorporated. A number of biotechnology and pharmaceutical companies are marketing and/or developing cancer therapeutics competing in prostate, lung, pancreatic and soft tissue sarcoma. Such companies include: AstraZeneca PLC, Genentech, Inc., Bristol-Myers Squibb Company, Eli Lilly and Company, GlaxoSmithKline plc, Hoffmann LaRoche, Inc., Johnson & Johnson, Merck KGaA, Novartis AG, Pfizer, Inc., Amgen Inc., ImClone Systems, Inc., Millennium Pharmaceuticals, Inc., OSI Pharmaceuticals, Inc., Telik, Inc., Sunesis Pharmaceuticals, Inc., Ariad Pharmaceuticals, Inc. and Ziopharm, Inc.

Governmental Regulation and Product Approval

The manufacturing and marketing of our potential products and our ongoing research and development activities are subject to extensive regulation by the FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries.

United States Regulation

Before any of our products can be marketed in the United States, they must secure approval by the FDA. To secure this approval, any drug we develop must undergo rigorous preclinical testing and clinical trials that demonstrate the product candidate's safety and effectiveness for each chosen indication for use. This extensive regulatory process controls, among other things, the development, testing, manufacture, safety, efficacy, record keeping, labeling, storage, approval, advertising, promotion, sale, and distribution of biopharmaceutical products.

In general, the process required by the FDA before investigational drugs may be marketed in the United States involves the following steps:

- pre-clinical laboratory and animal tests;
- submission of an IND, which must become effective before human clinical trials may begin;
- adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug for its intended use;
- pre-approval inspection of manufacturing facilities and selected clinical investigators; and
- FDA approval of a NDA, or of a NDA supplement (for subsequent indications).

Preclinical Testing

In the United States, drug candidates are tested in animals until adequate proof of safety is established. These preclinical studies generally evaluate the mechanism of action of the product and assess the potential safety and efficacy of the product. Tested compounds must be produced according to applicable current good manufacturing practice, or cGMP, requirements and preclinical safety tests must be conducted in compliance with FDA and international regulations regarding good laboratory practices, or GLP. The results of the preclinical tests, together with manufacturing information and analytical data, are generally submitted to the FDA as part of an IND, which must become effective before human clinical trials may commence. The IND will automatically become effective 30 days after receipt by the FDA, unless before that time the FDA requests an extension or raises concerns about the conduct of the clinical trials as outlined in the application. If the FDA has any concerns, the sponsor of the application and the FDA must resolve the concerns before clinical trials can begin. Submission of an IND may not result in FDA authorization to commence a clinical trial. A separate submission to the existing IND must be made for each successive clinical trial conducted during product development, and the FDA must grant permission for each clinical trial to start and continue. Regulatory authorities may require additional data before allowing the clinical trials to commence or proceed from one Phase to another, and could demand that the trials be discontinued or suspended at any time if there are significant safety issues. Furthermore, an independent institutional review board, or IRB, for each medical center proposing to participate in the conduct of the clinical trial must review and approve the clinical protocol and patient informed consent before the center commences the clinical trial.

Clinical Trials

Clinical trials for new drug candidates are typically conducted in three sequential phases that may overlap. In Phase 1, the initial introduction of the drug candidate into human volunteers, the emphasis is on testing for safety or adverse effects, dosage, tolerance, metabolism, distribution, excretion, and clinical pharmacology. Phase 2 involves clinical trials in a limited patient population to determine the initial efficacy of the drug candidate for specific targeted indications, to determine dosage tolerance and optimal dosage and to identify possible adverse side effects and safety risks. Once a compound shows evidence of effectiveness and is found to have an acceptable safety profile in Phase 2 clinical trials, pivotal Phase 3 clinical trials are undertaken to more

fully evaluate clinical outcomes and to establish the overall risk/benefit profile of the drug, and to provide, if appropriate, an adequate basis for product labeling. During all clinical trials, physicians monitor patients to determine effectiveness of the drug candidate and observe and report any reactions or safety risks that may result from use of the drug candidate. The FDA, the IRB, or the sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects are being exposed to an unacceptable health risk.

The data from the clinical trials, together with preclinical data and other supporting information that establishes a drug candidate's safety, are submitted to the FDA in the form of a NDA or NDA supplement (for approval of a new indication if the product candidate is already approved for another indication). Under applicable laws and FDA regulations, each NDA submitted for FDA approval is usually given an internal administrative review within 45 to 60 days following submission of the NDA. If deemed complete, the FDA will "file" the NDA, thereby triggering substantive review of the application. The FDA can refuse to file any NDA that it deems incomplete or not properly reviewable. The FDA has established internal substantive review goals of six months for priority NDAs (for drugs addressing serious or life threatening conditions for which there is an unmet medical need) and 10 months for regular NDAs. The FDA, however, is not legally required to complete its review within these periods, and these performance goals may change over time. Moreover, the outcome of the review, even if generally favorable, is not typically an actual approval, but an "action letter" that describes additional work that must be done before the NDA can be approved. The FDA's review of a NDA may involve review and recommendations by an independent FDA advisory committee. The FDA may deny approval of a NDA or NDA supplement if the applicable regulatory criteria are not satisfied, or it may require additional clinical data and/or an additional pivotal Phase 3 clinical trial. Even if such data are submitted, the FDA may ultimately decide that the NDA or NDA supplement does not satisfy the criteria for approval.

Data Review and Approval

Satisfaction of FDA requirements or similar requirements of state, local, and foreign regulatory agencies typically takes several years and requires the expenditure of substantial financial resources. Information generated in this process is susceptible to varying interpretations that could delay, limit, or prevent regulatory approval at any stage of the process. Accordingly, the actual time and expense required to bring a product to market may vary substantially. We cannot be certain that we will submit applications for required authorizations to manufacture and/or market potential products or that any such application will be reviewed and approved by the appropriate regulatory authorities in a timely manner, if at all. Data obtained from clinical activities is not always conclusive and may be susceptible to varying interpretations, which could delay, limit, or prevent regulatory approval. Success in early stage clinical trials does not ensure success in later stage clinical trials. Even if a product candidate receives regulatory approval, the approval may be significantly limited to specific disease states, patient populations, and dosages, or have conditions placed on them that restrict the commercial applications, advertising, promotion, or distribution of these products.

Once issued, the FDA may withdraw product approval if ongoing regulatory standards are not met or if safety problems occur after the product reaches the market. In addition, the FDA may require testing and surveillance programs to monitor the effect of approved products which have been commercialized, and the FDA has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs. The FDA may also request additional clinical trials after a product is approved. These so-called Phase 4 studies may be made a condition to be satisfied after a drug receives approval. The results of Phase 4 studies can confirm the effectiveness of a product candidate and can provide important safety information to augment the FDA's voluntary adverse drug reaction reporting system. The product may be subject to withdrawal of the approval if effectiveness is not confirmed in the Phase 4 studies. Any products manufactured or distributed by us pursuant to FDA approvals would be subject to continuing regulation by the FDA, including record-keeping requirements and reporting of adverse experiences with the drug. Drug manufacturers and their subcontractors are required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with good manufacturing practices, which impose certain procedural and documentation requirements upon us and our third-party

manufacturers. We cannot be certain that we or our present or future suppliers will be able to comply with the cGMP regulations and other FDA regulatory requirements. If our present or future suppliers are not able to comply with these requirements, the FDA may halt our clinical trials, require us to recall a drug from distribution, or withdraw approval of the NDA for that drug. Furthermore, even after regulatory approval is obtained, later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market.

The FDA closely regulates the marketing and promotion of drugs. Approval may be subject to post-marketing surveillance and other record keeping and reporting obligations, and involve ongoing requirements. Product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing. A company can make only those claims relating to safety and efficacy that are approved by the FDA. Failure to comply with these requirements can result in adverse publicity, warning letters, corrective advertising, and potential civil and criminal penalties. Physicians may prescribe legally available drugs for uses that are not described in the product's labeling and that differ from those tested by us and approved by the FDA. Such off-label uses are common across medical specialties. Physicians may believe that such off-label uses are the best treatment for many patients in varied circumstances. The FDA does not regulate the behavior of physicians in their choice of treatments. The FDA does, however, restrict manufacturers' communications on the subject of off-label use.

Fast Track Approval

The Federal Food, Drug and Cosmetic Act, as amended, and FDA regulations provide certain mechanisms for the accelerated "Fast Track" approval of potential products intended to treat serious or life-threatening illnesses that have been studied for safety and effectiveness and that demonstrate the potential to address unmet medical needs. The procedures permit early consultation and commitment from the FDA regarding the preclinical and clinical trials necessary to gain marketing approval. Provisions of this regulatory framework also permit, in certain cases, NDAs to be approved on the basis of valid indirect measurements of benefit of product effectiveness, thus accelerating the normal approval process. Certain potential products employing our technology might qualify for this accelerated regulatory procedure. Even if the FDA agrees that these potential products qualify for accelerated approval procedures, the FDA may deny approval of our drugs or may require additional clinical trials before approval. The FDA may also require us to perform post-approval, or Phase 4, studies as a condition of such early approval. In addition, the FDA may impose restrictions on distribution and/or promotion in connection with any accelerated approval, and may withdraw approval if post-approval studies do not confirm the intended clinical benefit or safety of the potential product.

Orphan Drug Designation

Under the Orphan Drug Act, the FDA may grant orphan drug designation to drugs intended to treat a rare disease or condition, which is generally a disease or condition that affects fewer than 200,000 individuals in the United States. Orphan drug designation must be requested before submitting a NDA. After the FDA grants orphan drug designation, the identity of the therapeutic agent and its potential orphan use are disclosed publicly by the FDA. Orphan drug designation does not convey any advantage in or shorten the duration of the regulatory review and approval process. If a product that has orphan drug designation subsequently receives FDA approval for the disease for which it has such designation, the product is entitled to orphan product exclusivity, which means that the FDA may not approve any other applications to market the same drug for the same disease, except in limited circumstances, for seven years. These circumstances are an inability to supply the drug in sufficient quantities or a situation in which a new formulation of the drug has shown superior safety or efficacy. This exclusivity, however, also could block the approval of our product for seven years if a competitor obtains earlier approval of the same drug for the same indication.

In September 2006, the FDA granted orphan drug designation to glufosfamide, for the treatment of pancreatic cancer. For those indications meeting the orphan drug requirements, we intend to seek orphan drug designation for the cancer indications that our drug product candidates are intended to treat. Obtaining FDA approval to market a product with orphan drug exclusivity may not provide us with a material commercial advantage.

Anti-Kickback and False Claims Laws

In the United States, we are subject to various federal and state laws pertaining to healthcare "fraud and abuse," including anti-kickback and false claims laws. The federal Anti-Kickback Law makes it illegal for any person, including a prescription drug manufacturer (or a party acting on its behalf) to knowingly and willfully solicit, offer, receive or pay any remuneration, directly or indirectly, in exchange for, or to induce, the referral of business, including the purchase, order or prescription of a particular drug, for which payment may be made under federal healthcare programs such as Medicare and Medicaid. Violations of the law are punishable by up to five years in prison, criminal fines, administrative civil money penalties, and exclusion from participation in federal healthcare programs. In addition, many states have adopted laws similar to the federal Anti-Kickback Law. Some of these state prohibitions apply to referral of patients for healthcare services reimbursed by any source, not only the Medicare and Medicaid programs. Due to the breadth of these laws, and the potential for additional legal or regulatory change addressing some of our practices, it is possible that our practices or our relationships with physicians might be challenged under anti-kickback laws, which could harm us.

False claims laws prohibit anyone from knowingly presenting, or causing to be presented, for payment to third-party payors (including Medicare and Medicaid) claims for reimbursed items or services, including drugs, that are false or fraudulent, claims for items or services not provided as claimed, or claims for medically unnecessary items or services. Our future activities relating to the reporting of wholesaler or estimated retail prices for our products, the reporting of Medicaid rebate information and other information affecting federal, state and third-party reimbursement of our products, and the sale and marketing of our products, are subject to scrutiny under these laws. In addition, pharmaceutical companies have been prosecuted under the federal False Claims Act in connection with their off-label promotion of drugs. Penalties for a violation include three times the actual damages sustained by the government, plus mandatory civil penalties of between $5,500 and $11,000 for each separate false claim. In addition, certain states have enacted laws modeled after the federal False Claims Act. If the government were to allege that we were, or convict us of, violating these false claims laws, we could be subject to a substantial fine and suffer a decline in our stock price.

Drug Price Competition and Patent Term Restoration Act of 1984

Under the Drug Price Competition and Patent Term Restoration Act of 1984, known as the Hatch-Waxman Amendments, a portion of a product's patent term that was lost during clinical development and application review by the FDA may be restored. The Hatch-Waxman Amendments also provide for a statutory protection, known as nonpatent market exclusivity, against the FDA's acceptance or approval of certain competitor applications. The Hatch-Waxman Amendments also provide the legal basis for the approval of abbreviated new drug applications, or ANDAs, for generic drugs.

Patent term restoration can compensate for patent life lost during product development and the regulatory review process by returning up to five years of patent life for a patent that covers a new product or its use. This period is generally one-half the time between the effective date of an IND (falling after issuance of the patent) and the submission date of a NDA, plus the time between the submission date of a NDA and the approval of that application. Patent term restorations, however, are subject to a maximum extension of five years, and the patent term restoration cannot extend the remaining term of a patent beyond a total of 14 years. The application for patent term extension is subject to approval by the United States Patent and Trademark Office in conjunction with the FDA. It takes at least six months to obtain approval of the application for patent term extension. Up to five years of interim one year extensions are available if a product is still undergoing development or FDA review at the time of its expiration.

The Hatch-Waxman Amendments also provide for a period of statutory protection for new drugs that receive NDA approval from the FDA. If a new drug receives NDA approval as a new chemical entity, meaning that the FDA has not previously approved any other new drug containing the same active moiety, then the Hatch-Waxman Amendments prohibit an abbreviated new drug application or a NDA where the applicant does not own or have a legal right of reference to all of the data required for approval, or a "505(b)(2)" NDA, to be submitted

by another company for a generic version of such drug, with some exceptions, for a period of five years from the date of approval of the NDA. The statutory protection provided pursuant to the Hatch-Waxman Amendments will not prevent the filing or approval of a full NDA. In order to gain approval of a full NDA, however, a competitor would be required to conduct its own preclinical investigations and clinical trials. If NDA approval is received for a new drug containing an active ingredient that was previously approved by the FDA but the NDA is for a drug that includes an innovation over the previously approved drug, for example, a NDA approval for a new indication or formulation of the drug with the same active ingredient, and if such NDA approval was dependent upon the submission to the FDA of new clinical investigations, other than bioavailability studies, then the Hatch-Waxman Amendments prohibit the FDA from making effective the approval of an ANDA or a 505(b)(2) NDA for a generic version of such drug for a period of three years from the date of the NDA approval. This three year exclusivity, however, only covers the innovation associated with the NDA to which it attaches. Thus, the three year exclusivity does not prohibit the FDA, with limited exceptions, from approving ANDAs or 505(b)(2) NDAs for drugs containing the same active ingredient but without the new innovation.

While the Hatch-Waxman Amendments provide certain patent term restoration and exclusivity protections to innovator drug manufacturers, it also permits the FDA to approve ANDAs for generic versions of their drugs. The ANDA process permits competitor companies to obtain marketing approval for a drug with the same active ingredient for the same uses but does not require the conduct and submission of clinical trials demonstrating safety and effectiveness for that product. Instead of safety and effectiveness data, an ANDA applicant needs only to submit data demonstrating that its product is bioequivalent to the innovator product as well as relevant chemistry, manufacturing and control data. The Hatch-Waxman Amendments also instituted a third type of drug application that requires the same information as a NDA including full reports of clinical and preclinical studies except that some of the information from the reports required for marketing approval comes from studies which the applicant does not own or have a legal right of reference. This type of application, a “505(b)(2) NDA,” permits a manufacturer to obtain marketing approval for a drug without needing to conduct or obtain a right of reference for all of the required studies.

Finally, the Hatch-Waxman Amendments require, in some circumstances, an ANDA or a 505(b)(2) NDA applicant to notify the patent owner and the holder of the approved NDA of the factual and legal basis of the applicant’s opinion that the patent listed by the holder of the approved NDA in FDA’s Orange Book is not valid or will not be infringed (the patent certification process). Upon receipt of this notice, the patent owner and the NDA holder have 45 days to bring a patent infringement suit in federal district court and obtain a 30-month stay against the company seeking to reference the NDA. The NDA holder could still file a patent suit after the 45 days, but if they did, they would not have the benefit of the 30-month stay. Alternatively, after this 45-day period, the applicant may file a declaratory judgment action, seeking a determination that the patent is invalid or will not be infringed. Depending on the circumstances, however, the applicant may not be able to demonstrate a controversy sufficient to confer jurisdiction on the court. The discovery, trial and appeals process in such suits can take several years. If such a suit is commenced, the Hatch-Waxman Act provides a 30-month stay on the approval of the competitor’s ANDA or 505(b)(2) NDA. If the litigation is resolved in favor of the competitor or the challenged patent expires during the 30-month period, unless otherwise extended by court order, the stay is lifted and the FDA may approve the application. Under regulations recently issued by the FDA, and essentially codified under the recent Medicare prescription drug legislation, the patent owner and the NDA holder have the opportunity to trigger only a single 30-month stay per ANDA or 505(b)(2) NDA.

Foreign Approvals

In addition to regulations in the United States, we will be subject to a variety of foreign regulations governing clinical trials and commercial sales and distribution of our products. Whether or not we obtain FDA approval for a product, we must obtain approval of a product by the comparable regulatory authorities of foreign countries before we can commence clinical trials or marketing of the product in those countries. The approval process varies from country to country, and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country.

Under European Union regulatory systems, we may submit marketing authorizations either under a centralized or decentralized procedure. The centralized procedure provides for the grant of a single marketing authorization that is valid for all European Union member states. The decentralized procedure provides for mutual recognition of national approval decisions. Under this procedure, the holder of a national marketing authorization may submit an application to the remaining member states. Within 90 days of receiving the applications and assessment report, each member state must decide whether to recognize approval.

The policies of the FDA and foreign regulatory authorities may change and additional government regulations may be enacted which could prevent or delay regulatory approval of our investigational drugs or approval of new diseases for our existing products. We cannot predict the likelihood, nature or extent of adverse governmental regulation that might arise from future legislative or administrative action, either in the United States or abroad.

Other Government Regulation

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 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.

Employees

As of December 31, 2007, we had 30 employees, including 12 who hold Ph.D. and/or M.D. degrees. Twenty three of our employees are engaged in research and development, and our remaining employees are management or administrative staff. None of our employees is subject to a collective bargaining agreement. We believe that we have good relations with our employees.

Our Corporate Information

We were incorporated in Delaware on October 17, 2001. Our principal executive offices are located at 1300 Seaport Boulevard, Suite 500, Redwood City, California, 94063. Our telephone number is (650) 474-8200.

Available Information

We file electronically with the Securities and Exchange Commission, or SEC, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The SEC maintains an Internet site that contains reports, proxy information and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is http://www.sec.gov. The materials are also available at the SEC's Public Reference Room, located at 100 F Street, Washington, D.C. 20549. The public may obtain information through the public reference room by calling the SEC at 1-800-SEC-0330.

You may obtain a free copy of our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports on the day of filing with the SEC on our website at http://www.thresholdpharm.com or by contacting the Investor Relations Department at our corporate offices by calling (650) 474-8200.

ITEM 1A. RISKFACTORS

RISKS RELATED TO OUR BUSINESS

Risks Related to Drug Discovery, Development and Commercialization

We are substantially dependent upon the success of our product candidates. Clinical trials may not demonstrate efficacy or lead to regulatory approval.

We will not be able to commercialize our drug candidates 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 us, have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in earlier clinical trials.

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 clinical testing may not be indicative of results in future clinical trials;
- clinical 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 clinical 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 clinical trials. This is particularly true with respect to diseases with relatively small patient populations.

Pre-clinical studies of our product candidates may not predict the results of their human clinical trials.

Pre-clinical studies, including studies of our product candidates in animal models of disease, may not accurately predict the result of human clinical trials of those product candidates. In particular, promising animal studies suggesting the efficacy of TH-302 for the treatment of different types of cancer may not accurately predict the ability of TH-302 to treat cancer effectively in humans. TH-302 may be found not to be efficacious in treating cancer, alone or in combination with other agents, when studied in human clinical 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.

Our product candidates are based on targeting the microenvironment of solid tumors, which currently are unproven approaches to therapeutic intervention.

Our product candidates are designed to target the microenvironment either by harnessing the hypoxia for selective toxin activation in the case of TH-302 and our HAP program or potentially utilizing the increased uptake of glucose or enhanced activation of glufosfamide in cancer cells relative to most normal cells. Our product candidates, glufosfamide and 2DG, share certain structural characteristics with glucose but act instead as poisons when taken up by a cancer cell. We have not, nor to our knowledge has any other company, received regulatory approval for a drug based on either of these approaches. We cannot be certain that our approaches 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 these targeting approaches, 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.

Certain anti-tumor drugs being developed by us, such as TH-302, glufosfamide and 2DG, are expected to have undesirable side effects. The extent, severity and clinical significance of these effects may not be apparent initially and may be discovered during drug development or even post-approval. These expected side effects or other side effects 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 TH-302, glufosfamide and 2DG clinical trials will need to be redesigned or will be completed on schedule, if at all. Clinical trials can be delayed for a variety of reasons, including adverse safety events experienced during our clinical trials and delays in:

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

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.

In September 2006, the FDA granted orphan drug designation to glufosfamide, for the treatment of pancreatic cancer. For those drugs that meet the eligible requirements, we intend to seek orphan drug designation for the cancer indications that our drug 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.

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 TH-302, 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 United States 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 clinical trial sponsors are required to post the general purpose of these clinical trials, as well as the eligibility criteria, location and contact information of the clinical trials. Since the establishment of this registry, there has been significant public debate focused on broadening the types of clinical 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 clinical 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 trials 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 clinical trial 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 continue to incur significant losses for the foreseeable future, 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, and we expect to incur losses for the foreseeable future. We have devoted, and will continue to devote for the foreseeable future, substantially all of our resources to research and development of our product candidates. For the year ended December 31, 2007, we had a net loss of $30.7 million and an accumulated deficit of $165.3 million. Clinical trials are costly. We do not expect to generate any revenue from the sale of our product candidates in the near term, and we expect to continue to have significant losses.

To attain profitability, we will need to develop products successfully and market and sell them effectively. We cannot predict when we will become profitable, if at all. 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 we fail to become profitable, or if we are unable to fund our continuing losses, we would be unable to continue our research and development programs.

We are likely to require 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 lawsuits involving us or our product candidates.

We believe that our cash, cash equivalents and marketable securities will be sufficient to fund our projected operating requirements through the first quarter of 2009, including completing our current and planned clinical trials, conducting research and discovery efforts towards additional product candidates, working capital and general corporate purposes. Additional funds will be required to in-license or otherwise acquire and develop additional products or programs. 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 expect to need to raise additional capital or incur indebtedness to continue to fund our future operations. We may seek to raise capital through a variety of sources, including:

- the public equity market;
- private equity financing;
- collaborative arrangements; and/or
- public or private debt.

Our ability to raise additional funds will depend on our clinical and regulatory events, our ability to identify promising in-licensing opportunities, and factors related to financial, economic, and market conditions, 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 at all. If adequate funds are not available, we may be required to significantly reduce or refocus our operations or to obtain funds through arrangements that may require us to relinquish rights to certain of our products, technologies or potential markets, any of which could delay or require that we curtail or eliminate some or all of our development programs or otherwise have a material adverse effect on our business, financial condition and results of operations.

In addition, our ability to raise additional capital may be dependent upon our stock being quoted on the NASDAQ Global Market. On October 19, 2007, we received a notice from the Listing Qualifications Department of The NASDAQ Stock Market indicating that the Company does not comply with the $1.00 minimum bid price requirement for continued listing set forth in NASDAQ Marketplace Rule 4450(a)(5). The notice further stated that pursuant to Marketplace Rule 4450(e)(2), we will be provided 180 calendar days, or until April 16, 2008 to regain compliance. If, at any time before April 16, 2008, the bid price of our common stock closes at $1.00 per share or more for a minimum of 10 consecutive business days, and if we remain in compliance with other listing requirements, NASDAQ will notify Threshold that we have regained compliance with NASDAQ's Marketplace Rules. NASDAQ may, in its sole discretion, require the Company to maintain a closing bid price of at least $1.00 per share for a longer period before determining that the Company has demonstrated the ability to maintain long-term compliance. There can be no assurance that we will be able to satisfy the criteria for continued listing on the NASDAQ Global Market.

If we are unable to secure additional financing on a timely basis or on terms favorable to us, we may be required to cease or reduce certain research and development projects, to sell some or all of our technology or assets or to merge all or a portion of our business with another entity. Insufficient funds may require us to delay, scale back, or eliminate some or all of our activities, and if we are unable to obtain additional funding, there is uncertainty regarding our continued existence.

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

We expect to need to 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 a timely basis or 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 may be necessary to relinquish some rights to our product candidates.

Our success depends in part on retaining and motivating key personnel and, if we fail to do so, it may be more difficult for us to execute our business strategy. As a small organization we are dependent on key employees and may 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, President and Chief Medical Officer, Dr. John M. Curd and Senior Vice President of Discovery Research, Dr. Mark G. Matteucci. We do not have employment agreements with Drs. Selick, Curd or Matteucci. The loss of the services of Drs. Selick, Curd or Matteucci 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 development of additional product candidates.

In August 2006, we announced a plan to reduce the number of full-time employees by 29 employees. In October 2007, we announced a plan to reduce the number of full-time employees from 44 to 32 employees. As of December 31, 2007, we had 30 employees. Our success will depend on our ability to retain and motivate remaining personnel and hire additional qualified personnel when required. 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 retention, motivation and recruitment efforts, we may be unable to execute our business strategy.

The reduction in our work force may cause difficulties in conducting operations and maintaining an effective work environment.

The reductions in our work force in August 2006 and October 2007 imposed significant added responsibilities on remaining management and other employees, including the need to consolidate job functions and to conduct operation with fewer employees. We expect that we may need to increase our use of various third parties in order to continue and conduct some operations. Our ability to manage our operations and outside relationships will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. If we are unable to do this effectively, it may be difficult for us to execute our business strategy.

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-302, 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.

Our initial supplies of glufosfamide were prepared by a subsidiary of Baxter International, Inc. and were used to initiate some of our clinical trials. We subsequently relied on new contract manufacturers for the manufacturing of glufosfamide API and drug product. If we seek a partner to continue development of glufosfamide, we will be dependent on contract manufacturers to produce additional API and drug product. If we are not successful, we may experience a significant delay in our glufosfamide clinical development program.

Our existing supply of 2DG clinical trial material may not be sufficient for our ongoing clinical trials through 2008. If it is not sufficient, we may experience a significant delay in our 2DG clinical program.

Our contract manufacturers have produced sufficient TH-302 API and drug product for the initial stage of our Phase 1 clinical trial, which commenced in July 2007. Additional clinical trial material will be manufactured as required. If we are not successful in manufacturing sufficient TH-302 clinical trial material, we may experience a significant delay in our TH-302 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. The products will need to satisfy all cGMP manufacturing requirements, including passing specifications. Our inability to satisfy these requirements could delay our clinical programs.

To date, we believe drug supply for 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 some of 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 a clinical research organization to oversee one of our glufosfamide clinical trials and may 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 clinical trials are conducted in compliance with FDA requirements. 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 products.

We have no sales and marketing experience. We may contract with strategic collaborators to sell and market our products, when and if approved. 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

2DG is a known compound that is not protected by patents on the composition of the molecule.

2DG is a known compound that is no longer eligible for patent protection on the composition of the molecule. 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, this compound and certain of its uses are in the public domain.

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 two issued U.S. patents that cover the treatment of certain cancers with 2DG in combination with other specific anti-cancer agents. 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.

Hypoxia Activated Prodrug technology is not a platform technology broadly protected by patents, and others may be able to develop competitive drugs using this approach.

We have not issued patents or patent applications that would prevent others from taking advantage of Hypoxia Activated Prodrug technology generally to discover and develop new therapies for cancer 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 HAP product candidates.

Metabolic Targeting by targeting the increased uptake of glucose and the increased reliance on glycolysis as an energy source in cancer cells is not protected by patents, and others may be able to develop competitive drugs using this approach.

We have not issued patents or patent applications that would prevent others from taking advantage of targeting the increased uptake of glucose and the increased reliance of glycolysis as an energy source in solid tumors to discover and develop new therapies for cancer 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 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, Astrazeneca PLC, Genentech, Inc., Eli Lilly and Company and Pfizer, Inc. and from generic pharmaceutical manufacturers. In particular, our drug candidates for pancreatic cancer will compete with Gemzar, marketed by Eli Lilly and Company, doxorubicin, cisplatin, paclitaxel, ifosfamide, and 5-flurouracil, or 5-FU, a generic product which is sold by many manufacturers. In addition, several drugs marketed for different indications, such as Camptosar®, marketed by Pfizer, Inc., Erbitux®, marketed by Imclone Systems Inc. and Bristol-Myers Squibb Company, Taxotere®, marketed by the Sanofi-Aventis Group, Xeloda®, marketed by Roche, Avastin®, marketed by Genentech, Inc., Nexavar®, marketed by Onyx Pharmaceuticals, Inc. and Bayer AG, and Alimta®, marketed by Eli Lilly and Company, are under investigation as possible combination therapies or monotherapy for pancreatic, ovarian, small cell lung cancers and soft tissue sarcoma. Additionally OSI Pharmaceuticals, Inc. and Genentech, Inc. market Tarceva® as a combination therapy with gemcitabine for the first-line treatment of pancreatic cancer. In addition, a number of companies, including Novacea, Inc. and Proacta Inc., have compounds in clinical trials that target the hypoxic zones of tumors, as our TH-302 clinical product candidate is intended to do, and Sanofi-Aventis recently completed a Phase 3 clinical trial on Tirapazamine, a hypoxically activated prodrug, and while Sanofi-Aventis has released rights to the compound to the innovator SRI, another company may pursue further clinical development of the compound.

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

Our common stock may be delisted from the NASDAQ Global Market.

On October 19, 2007, we received a notice from the Listing Qualifications Department of The NASDAQ Stock Market indicating that the Company does not comply with the $1.00 minimum bid price requirement for continued listing set forth in NASDAQ Marketplace Rule 4450(a)(5). The notice further stated that pursuant to Marketplace Rule 4450(e)(2), we will be provided 180 calendar days, or until April 16, 2008, to regain compliance. If, at any time before April 16, 2008, the bid price of our common stock closes at $1.00 per share or more for a minimum of 10 consecutive business days, and if we remain in compliance with other listing requirements, NASDAQ will notify the Company that we have regained compliance with NASDAQ's Marketplace Rules. NASDAQ may, in its sole discretion, require the Company to maintain a closing bid price of at least $1.00 per share for a longer period before determining that the Company has demonstrated the ability to maintain long-term compliance. There can be no assurance that we will be able to satisfy the criteria for continued listing on the NASDAQ Global Market.

The notice further indicates that if compliance with the minimum bid price rule is not regained by April 16, 2008, NASDAQ will provide written notification that our common stock will be delisted. At that time we may appeal the NASDAQ's determination to a Listing Qualifications Panel. Alternatively, we may apply to transfer the listing of our common stock to The NASDAQ Capital Market if we satisfy the requirements for initial inclusion set forth in Marketplace Rule 4310(c), other than the minimum bid price requirement of Marketplace Rule 4310(c)(4). If the application is approved, we will be afforded the remainder of a second additional 180-day compliance period to regain compliance with the minimum bid price rule while on the NASDAQ Capital Market.

We will continue to monitor the bid price for our common stock and consider various options available to us if our common stock does not trade at a level that is likely to regain compliance. To maintain our listing on the NASDAQ Global Market, we are also required, among other things, to either maintain stockholders' equity of at least $10 million or a market value of at least $50 million. While we currently satisfy the stockholders' equity requirement, we may not continue to do so.

The price of our common stock has been and may continue to be volatile.

The stock markets in general, the markets for biotechnology stocks and, in particular, the stock price of our common stock, 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;
- 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. On July 5 and July 18, 2007, purported shareholder class action complaints, alleging violations of the federal securities laws, were filed against the Company, its Chief Executive Officer Harold E. Selick and its former Chief Financial Officer Janet I. Swearson in the United States District Court for the Southern District of New York. On September 14, 2007, these lawsuits were ordered transferred to the United States District Court for the Northern District of California. The securities lawsuits, which have been consolidated into a single proceeding, allege claims arising under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of an alleged class of purchasers of our common stock from the date of our initial public offering of securities on February 4, 2005 through July 14, 2006. Plaintiffs allege generally that the defendants violated the federal securities laws by, among other things, making material misstatements or omissions concerning our Phase II and Phase III clinical trials of Lonidamine (TH-070). Management believes that the allegations of the complaints are without merit and intends to defend against the actions vigorously. Due to the early stage of these actions, we are unable to

reasonably predict the outcome of this matter at this time. Although we believe our directors and officer's insurance coverage is adequate, if our defense of the suit is unsuccessful, there can be no assurances that the insurance will substantially cover any resulting claim or that the premiums for directors and officers insurance will not be substantially higher in the future.

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 February 29, 2008, our officers, directors and holders of 5% or more of our outstanding common stock beneficially own approximately 43.8% 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.

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.

In addition, in August 2006, our board of directors adopted a preferred shares rights agreement, the provisions of which could make it more difficult for a potential acquirer to consummate a transaction without the approval of our board of directors.

ITEM 1B. UNRESOLVEDSTAFF COMMENTS

None.

ITEM 2. PROPERTIES

We sublease approximately 33,700 square feet of laboratory and office space in Redwood City, California under an agreement that terminates in February 2010. We lease an additional 6,489 square feet of laboratory space in Redwood City, California under an agreement that terminates in February 2010. On February 3, 2006, we entered into a lease for additional 34,205 square feet of office space at our Redwood City headquarters that terminates in 2011 and extends our lease on the current space to 2011. We believe these facilities are suitable and adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

On July 5 and July 18, 2007, purported shareholder class action complaints, alleging violations of the federal securities laws, were filed against the Company, its Chief Executive Officer Harold E. Selick and its former Chief Financial Officer Janet I. Swearson in the United States District Court for the Southern District of New York. On September 14, 2007, these lawsuits were ordered transferred to the United States District Court for the Northern District of California. The securities lawsuits, which have been consolidated by the Court into a single proceeding, allege claims arising under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of an alleged class of purchasers of the Company's common stock from the date of the Company's initial public offering of securities on February 4, 2005 through July 14, 2006. Plaintiffs allege generally that the defendants violated the federal securities laws by, among other things, making material misstatements or omissions concerning the Company's Phase II and Phase III clinical trials of Lonidamine (TH-070). Management believes that the allegations of the complaints are without merit and intends to defend against the actions vigorously. The Company cannot reasonably predict the outcome of this matter at this time.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote for our stockholders, through solicitation of proxies or otherwise, in the fourth quarter of our fiscal year ended December 31, 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been traded on the NASDAQ Global Market under the symbol "THLD" since February 4, 2005. Prior to that time there was no public market for our stock. The following table lists quarterly information on the price range of our common stock based on the high and low reported sale prices for our common stock as reported by The NASDAQ Global Market for the periods indicated below. These prices do not include retail markups, markdowns or commissions.

	High	Low
Year Ended December 31, 2007:		
First Quarter	$ 4.10	$ 1.44
Second Quarter	$ 2.24	$ 1.19
Third Quarter	$ 1.30	$ 0.65
Fourth Quarter	$ 0.96	$ 0.51
Year Ended December 31, 2006:		
First Quarter	$ 15.69	$ 12.80
Second Quarter	$ 16.98	$ 3.00
Third Quarter	$ 3.66	$ 1.42
Fourth Quarter	$ 4.23	$ 2.46

We estimate that there were approximately 80 holders of record of our common stock as of February 29, 2008.

Dividends

We have never declared or paid any dividends on our capital stock. We currently intend to retain any future earnings to fund the development and expansion of our business, and therefore we do not anticipate paying cash dividends on our common stock in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in future financing instruments and other factors our board of directors deems relevant.

Recent Sales of Unregistered Securities

None.

Use of Proceeds From Sale of Registered Securities

(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
10/01/2007 to 10/31/2007	—	$ —	—	—
11/01/2007 to 11/30/2007	10,374	$ 0.53	—	—
12/01/2007 to 12/31/2007	—	$ —	—	—

* 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.

Equity Compensation Plans

The following table provides certain information with respect to all of our equity compensation plans in effect as of December 31, 2007:

	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders	2,983,232	$ 2.12	3,137,237
Equity compensation plans not approved by stockholders	—	—	—
Total	2,983,232	$ 2.12	3,137,237(1)(2)

(1) Includes 803,525 shares of common stock issuable under our 2004 Employee Stock Purchase Plan.

(2) On January 1, 2006, and annually thereafter, the authorized shares for the 2004 Equity Incentive Plan will automatically be increased by a number of shares equal to the lesser of:

- 5% of the number of the Company's shares issued and outstanding prior to the preceding December 31;
- 1,214,402 shares; or
- an amount determined by the Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

We are a development stage company. The following selected statement of operations data for the years ended December 31, 2007, 2006 and 2005 and balance sheet data as of December 31, 2007 and 2006 have been derived from our audited financial statements included elsewhere in this Annual Report on Form 10-K. The following selected statement of operations data for years ended December 31, 2004 and 2003, and balance sheet data as of December 31, 2005, 2004 and 2003 are derived from our audited financial statements not included in this Annual Report on Form 10-K. The selected financial data set forth below have been prepared in accordance with accounting principles generally accepted in the United States of America and should be read together with our financial statements and the related notes to those financial statements, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations," appearing elsewhere in this Annual Report on Form 10-K. As discussed in Note 9 in Item 8 "Financial Statements and Supplementary Data", on January 1, 2006, the Company began accounting for stock options and stock purchase rights 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.

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
Revenue	$ 1,436	$ 1,461	$ 690	$ —	$ —
Operating expenses:					
Research and development (1)	23,375	46,267	35,991	16,327	6,252
General and administrative (1)	10,411	14,453	11,235	7,649	2,057
Total operating expenses	33,786	60,720	47,226	23,976	8,309
Loss from operations	(32,350)	(59,259)	(46,536)	(23,976)	(8,309)
Interest and other income, net	1,841	3,729	2,159	443	65
Interest expense	(155)	(156)	(31)	(33)	(59)
Net loss	(30,664)	(55,686)	(44,408)	(23,566)	(8,303)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	—	—	—	—	(40,862)
Net loss attributable to common stockholders	(30,664)	(55,686)	$(44,408)	$(23,566)	$(49,165)
Net loss per common share:					
Basic and diluted	$ (0.83)	$ (1.53)	$ (1.63)	$ (20.25)	$(501.68)
Weighted average number of shares used in per common share calculations:					
Basic and diluted	37,058	36,337	27,173	1,164	98
(1) Includes employee and non-employee non-cash stock-based compensation of:					
Research and development	$ 2,413	$ 5,008	$ 5,951	$ 2,960	$ 313
General and administrative	$ 3,496	$ 5,141	3,470	3,015	753

	As of December 31,				
	2007	2006	2005	2004	2003
			(In thousands)		
Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$22,693	$52,810	$ 99,654	$ 28,665	$40,818
Working capital	17,884	43,698	90,655	21,967	40,177
Total assets	25,814	57,034	102,101	32,213	41,270
Notes payable, less current portion	337	1,247	151	382	242
Total liabilities	6,227	12,796	12,733	8,847	1,126
Redeemable convertible preferred stock	—	—	—	49,839	49,839
Total stockholders' equity (deficit)	19,587	44,238	89,368	(26,473)	(9,695)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties, including those set forth under the heading "Risk Factors" and elsewhere in this Annual Report on Form 10-K. Our actual results and the timing of selected events discussed below could differ materially from those expressed in, or implied by, these forward-looking statements.

Overview

We are a biotechnology company focused on the discovery and development of drugs targeting the microenvironment of solid tumors as novel treatments for patients with cancer. The microenvironment of solid tumors is characterized by, among other things, hypoxia or lack of oxygen disordered angiogenesis and the upregulation of glucose transport. This hypoxic environment is known to be resistant to standard chemotherapy and radiation. It is thought to be responsible for the poor prognosis of many solid tumors and treating the hypoxic environment is currently believed to be a significant unmet medical need. Our product candidates are designed to selectively target the hypoxic microenvironment of tumors either by selective toxin activation in the case of our hypoxia activated prodrug (HAP) program, including TH-302, or potentially utilizing the consequences of increased uptake of glucose in cancer cells relative to most normal cells. Our product candidates, glufosfamide and 2-deoxyglucose ("2DG"), share certain structural characteristics with glucose but act instead as chemotherapeutic toxins when taken up by a cell.

Our clinical focus is on product candidates for the treatment of patients with cancer. We have three product candidates for which we have exclusive worldwide marketing rights:

- TH-302, which was discovered by Threshold, is our lead product candidate for the potential treatment of patients with cancer. It is a novel drug candidate that is activated under the severe hypoxic conditions typical of essentially all solid tumors. In May 2007, we announced the filing of an investigational new drug application ("IND") with the FDA for TH-302, and in July 2007, we initiated a Phase 1 clinical trial evaluating the safety and preliminary efficacy of TH-302 in patients with advanced solid tumors. We expect to present top line results for this clinical trial by Q2 2008 and complete enrollment by Q4 2008.
- Glufosfamide is our most advanced product candidate for the potential treatment of patients with cancer. In February 2007, we announced that our Phase 3 clinical trial did not reach its primary endpoint of a statistically significant survival benefit for patients with metastatic pancreatic cancer that relapsed following chemotherapy with gemcitabine. In July 2006, we completed enrollment in the Phase 2 stage of a clinical trial of glufosfamide plus gemcitabine for the first-line treatment of pancreatic cancer, for which top line results were announced in December 2006 and final results, which included promising tumor response and survival data, were announced in third quarter of 2007. In 2007 we initiated a Phase 2 clinical trial of glufosfamide in soft-tissue sarcoma and in January 2008, we announced that enrollment was complete and that the clinical trial provided evidence of clinical activity. In 2007 we also initiated two Phase 2 clinical trials of glufosfamide in platinum-resistant ovarian cancer and recurrent sensitive small cell lung cancer. In October 2007 and January 2008, we announced the discontinuation of enrollment in the Phase 2 trials of glufosfamide in recurrent sensitive small cell lung cancer and platinum-resistant ovarian cancer, respectively, due to lack of efficacy.
- 2DG is our product candidate for the potential treatment of patients with cancer and is being evaluated in a Phase 1 clinical trial alone and in combination with docetaxel as a combination therapy. This clinical trial began in the first quarter of 2004 and we expect to complete enrollment and present top-line results for this clinical trial in Q2 2008.

We are working to discover additional novel drug candidates, particularly hypoxia activated prodrugs that will selectively target cancer cells.

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 $38.1 million, and in October 2005, we completed an offering of common stock that raised net proceeds of $62.4 million. As of December 31, 2007, we had cash, cash equivalents and marketable securities of $22.7 million. The net loss for 2007 was $30.7 million and the cumulative net loss since our inception through December 31, 2007 was $165.3 million.

In October, 2007, we adopted a plan to reduce our operating expenses and refocus our research and development efforts. The plan included eliminating 12 positions, or approximately a 27% reduction in staff affecting all areas of the Company. As a result of the staffing reduction we incurred severance benefits of approximately $1.2 million in the fourth quarter of 2007. Annual cash savings from the reduction in salary and benefit expenses are estimated to be approximately $2 million, beginning in 2008.

We expect to continue to incur losses from operations in the future. We expect that expenses will decrease in 2008 compared to 2007 due to a reduced workforce and reduced number of patients in smaller and fewer clinical trials, and that our cash, cash equivalents and marketable securities will be sufficient to fund our projected operating requirements through the first quarter of 2009, including completing our current and planned clinical trials and conducting research and discovery efforts toward additional product candidates. Research and development expenses may fluctuate significantly from period to period as a result of the progress and results of our clinical trials. See detailed discussion in Liquidity and Capital Resources regarding raising capital for funding future operations beyond the first quarter of 2009.

Revenue

We have not generated any revenue from the sale of our product candidates since our inception and do not expect to generate any revenue from the sale of our product candidates in the near term. Through 2007, we recognized $3.6 million in revenue related to a $5.0 million upfront payment received in connection with a 2004 agreement with MediBIC Co., Ltd., or MediBIC, 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 continue through 2008. We are responsible for all development activities under this agreement.

Research and Development Expenses

Research and development expenses consist primarily of costs of conducting clinical trials, salaries and related costs for personnel including non-cash stock-based compensation, costs of clinical materials, costs for research projects and preclinical studies, costs related to regulatory filings, and facility costs. Contracting and consulting expenses are a significant component of our research and development expenses as we rely on consultants and contractors in many of these areas. We recognize expenses as they are incurred. Our accruals for expenses associated with preclinical and clinical studies and contracts associated with clinical materials are based upon the terms of the service contracts, the amount of services provided and the status of the activities. We expect annual research and development expenses will decrease significantly in the future as we progress with a reduced workforce and smaller clinical trials. From inception through December 31, 2007, we incurred an aggregate of $130.4 million on research and development expenses, including non-cash stock-based compensation expense.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related costs for our personnel in the executive, finance, patent, accounting and other administrative functions, including non-cash stock-based compensation, as well as consulting costs for functions for which we either do not staff or only partially staff, including public relations, market research and recruiting. Other costs include professional fees for legal and accounting services, insurance and facility costs. From inception through December 31, 2007, we incurred an aggregate of $46.3 million on general and administrative expenses, including non-cash stock-based compensation expense.

Stock-Based Compensation

Prior to January 1, 2006, we used the intrinsic method of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* ("APB No. 25"), in accounting for employee stock options, and present disclosure of pro forma information required under SFAS No. 123, *"Accounting for Stock-Based Compensation"* ("SFAS No. 123") as amended by SFAS No. 148, *"Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123"* ("SFAS No. 148"). For stock options granted to employees no compensation expense was recognized unless the exercise price was less than fair market value at the date of grant. Stock-based compensation expense was recognized under APB No. 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.) In anticipation of our initial public offering which was completed in February 2005, we determined that, for accounting purposes, the deemed fair value of our common stock was greater than the exercise price for certain options. As a result, we have recorded deferred stock-based compensation for these options of $0.5 million, $20.4 million and $2.3 million for the years ended December 31, 2005, 2004 and 2003, respectively. This expense, which is a non-cash charge, has been amortized over the period in which the options vest, which is generally four years. The amortization of this expense recognized for the years ended December 31, 2007, 2006 and 2005 was $2.8 million, $4.4 million, and $5.3 million, respectively. Beginning January 1, 2006, we began accounting for stock-based compensation using the fair value method prescribed by SFAS No. 123 "*Share-Based Payment.—An Amendment of FASB Statements No. 123 and 95"* ("SFAS No. 123(R)"), issued by the Financial Accounting Standards Board in December 2004. Refer to the discussion of accounting treatment of stock based compensation below under ***Critical Accounting Policies***.

Results of Operations for the Years Ended December 31, 2007 and 2006

Revenue

For the years ended December 31, 2007 and 2006, we recognized $1.4 million and $1.5 million in revenue related to a $5.0 million upfront payment received in connection with a 2004 agreement with MediBIC for the development of glufosfamide in Japan and several other Asian countries. 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 $23.4 million for the year ended December 31, 2007, compared to $46.3 million for the year ended December 31, 2006. The $22.9 million decrease in expenses is due to a $14.6 million decrease in clinical and development expenses and $6.1 million in lower staffing and facilities expenses due to a lower headcount compared to the prior year. In addition, stock-based compensation expense decreased by $2.6 million primarily due to a reduction in the number of employees and consultants compared to the prior year, as well as lower valuations for 2007 stock option grants resulting from a lower stock price.

Research and development expenses by project (in thousands)	Years ended December 31, 2007	2006	2005
Glufosfamide	$ 11,877	$ 17,018	$ 12,009
TH-302	5,079	2,410	—
2DG	1,130	1,640	2,498
Discovery research	5,338	9,552	7,642
TH-070	(49)	15,647	13,842
Total research and development expenses	$ 23,375	$ 46,267	$ 35,991

Research and development expenses associated with glufosfamide were $11.9 million for 2007 and $17.0 million for 2006. This decrease was due to a $4.4 million decrease in clinical and manufacturing expenses and a $0.7 million decrease in staffing expenses. Research and development expenses associated with our internally discovered compound TH-302 were $5.1 million for 2007 and $2.4 million for 2006, primarily due to the compound's progress through preclinical studies towards the IND filing in April 2007 and commencement of the Phase 1 clinical trial in July 2007. Research and development expenses associated with 2DG were $1.1 million for 2007 and $1.6 million for 2006, due to $0.1 million decrease in employee-related expenses and a $0.4 million decrease in clinical and manufacturing as the Phase 1 clinical trial nears completion. Discovery research and development expenses were $5.3 million for 2007 and $9.6 million for 2006. The decrease was primarily due to the allocation of resources towards our TH-302 program, and lower staffing and facilities expenses to support our other discovery research programs. Research and development expenses associated with TH-070 were ($49,000) for 2007 and $15.7 million for 2006. This decrease in expenses was due to costs associated with fully-enrolled clinical trials in the 2006 period, followed by the discontinuation and close out of the program beginning in July 2006. For 2007, we incurred expenses less than previous estimated accruals.

We expect to continue to devote substantial resources to research and development in future periods as we complete our current clinical trials, start additional clinical trials and continue our discovery efforts. Research and development expenses are expected to decrease in 2008 compared to 2007 due to smaller and fewer clinical trials and a reduced workforce.

General and Administrative

General and administrative expenses were $10.4 million for 2007, compared to $14.5 million for 2006. The $4.1 million decrease reflects $1.9 million in lower staffing expense, $1.6 million decrease in stock-based compensation, and $0.9 million in lower consulting expenses. These reductions in expenses were partially offset by $0.3 million in higher facilities expense.

We currently expect our general and administrative expenses to decrease in 2008 due to lower employee-related costs as a result of 2007 staff reductions.

Interest and Other Income

Interest and other income for 2007 was $1.8 million compared to $3.7 million for 2006. The decrease was primarily due to lower invested cash, cash equivalents and marketable securities balances during 2007 compared to the prior year.

Interest Expense

Interest expense for the years ended December 31, 2007 and 2006 was $0.2 million and $0.2 million, respectively.

Results of Operations for the Years Ended December 31, 2006 and 2005

Revenue

For the years ended December 31, 2006 and 2005, we recognized $1.5 million and $0.7 million in revenue related to a $5.0 million upfront payment received in connection with a 2004 agreement with MediBIC for the development of glufosfamide in Japan and several other Asian countries. 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 $46.3 million for the year ended December 31, 2006 compared to $36.0 million for the year ended December 31, 2005. The $10.3 million increase in expenses is due to a $6.1 million increase in clinical and development expenses and $4.6 million in higher staffing and facilities expenses, including $0.6 million in severance expense related to staff reductions. In addition, stock-based compensation expense decreased by $0.9 million primarily due to a $3.4 million decrease in non-employee stock based compensation expense and amortization of our deferred stock compensation charge partially offset by a $2.5 million increase in employee stock based compensation as result of our adoption of SFAS 123(R) beginning January 1, 2006.

Research and development expenses associated with glufosfamide were $17.0 million for the 2006 and $12.0 million for 2005. This increase is due to a $3.3 million increase in clinical and manufacturing expenses and a $1.5 million increase in staffing expenses. Research and development expenses associated with TH-070 were $15.6 million for 2006 and $13.9 million for the 2005. This increase in expenses was due to an increase of $2.7 million in expenses associated with our Phase 2 United States clinical trial (initiated in June 2005) and our EU Phase 3 clinical trial (initiated in August 2005). These increases were partially offset by $0.7 million in lower stock based compensation and staffing expenses for the TH-070 project. Research and development expenses associated with our internally discovered compound TH-302 were $2.4 million in 2006, as the compound progressed through preclinical studies. Research and development expenses associated with 2DG were $1.6 million for 2006 and $2.5 million for 2005. This decline was primarily due to lower clinical expenses. Discovery research and development expenses were $9.6 million for 2006 and $7.6 million for 2005. The $2.0 million increase was primarily due to increases in staffing costs to support expansion of our discovery research programs.

General and Administrative

General and administrative expenses were $14.5 million for 2006, compared to $11.2 million for 2005. The $3.3 million increase reflects $1.4 million increase in staffing expenses including $0.4 million in severance expense related to staff reductions, an increase in stock-based compensation expenses of $1.7 million primarily due to the adoption of SFAS 123(R) and additional expenses associated with being a public company.

Interest and Other Income

Interest income for 2006 was $3.7 million compared to $2.2 million for 2005. The increase was primarily due to higher invested cash balances and higher average interest rates during 2006 compared to the prior year due to proceeds received from our follow-on offering completed in October 2005.

Interest Expense

Interest expense for the years ended December 31, 2006 and 2005 was $0.2 million and $31,000, respectively, reflecting the increase in the balance of our note payable due to $2.6 million of borrowing in 2006 against our amended loan and security agreement.

Liquidity and Capital Resources

We have incurred net losses since inception through December 31, 2007 of $165.3 million. We have not generated any product revenues and do not expect to generate revenue from the sale of product candidates in the near term. 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 our common stock, raising net 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.

At December 31, 2007, we had cash, cash equivalents and marketable securities of $22.7 million compared to $52.8 million and $99.7 million at December 31, 2006 and 2005, respectively.

Net cash used in operating activities for the years ended December 31, 2007, 2006 and 2005 was $29.2 million, $46.4 million and $29.9 million, respectively. For the year ended December 31, 2007, cash used in operations was attributable to the net loss for the year after adding back non-cash charges for stock-based compensation expense, depreciation and amortization expenses, a decrease in accrued liabilities and a decrease in deferred revenue. For the year ended December 31, 2006, cash used in operations resulted from the net loss for the year after adding back non-cash charges for stock-based compensation expense, depreciation and amortization expenses and deferred revenue. For the year ended December 31, 2005, cash used in operations resulted from the net loss for the year after adding back non-cash charges for stock-based compensation expense, additional accruals for clinical and development expenses and personnel-related expenses, depreciation expense and deferred revenue.

Net cash provided by investing activities for the year ended December 31, 2007 was $13.1 million, primarily due to proceeds from sales and maturities of investments of $35.2 million, offset by purchases of marketable securities of $22.1 million. Net cash used in investing activities was $2.4 million and $11.5 million for the years ended December 31, 2006 and 2005, respectively, primarily due to purchases of marketable securities of $42.9 million and $38.9 million in 2006 and 2005, respectively, capital spending of $2.4 million and $1.2 million in 2006 and 2005, respectively, partially offset by sales of marketable securities of $43.2 million and $28.4 million in 2006 and 2005, respectively.

Net cash used in financing activities was $0.9 million for the year ended December 31, 2007, primarily due to repayments of notes payable during the year partially offset by proceeds from the sale of stock under the employee stock purchase plan. Net cash provided by financing activities was $2.3 million for the year ended December 31, 2006, which was primarily attributable to borrowings under a loan and security agreement, net of repayments and to lesser extent cash from stock option exercises and sale stock under the employee stock purchase plan. Net cash provided by financing activities was $102.0 million for the year ended December 31, 2005, primarily from the two public offerings completed during the year: our initial public offering that was completed in February and raised $38.1 million of net proceeds, and our follow-on offering that was completed in October and raised $62.4 million of net proceeds.

We expect 2008 cash requirements to be in the range of $17.0 million to $20.0 million. We believe that our cash, cash equivalents and marketable securities as of December 31, 2007 will be sufficient to fund our projected operating requirements through the first quarter of 2009, including completing our current and planned trials, conducting research and discovery efforts towards additional product candidates, 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.

We expect to need to raise additional capital or incur indebtedness to continue to fund our future operations. We may seek to raise capital through a variety of sources, including:

- the public equity market;
- private equity financing;

- collaborative arrangements; and/or
- public or private debt.

Our ability to raise additional funds will depend on our clinical and regulatory events, our ability to identify promising in-licensing opportunities, and factors related to financial, economic, and market conditions, 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 adequate funds are not available, we may be required to significantly reduce or refocus our operations or to obtain funds through arrangements that may require us to relinquish rights to certain of our products, technologies or potential markets, any of which could delay or require that we curtail our development programs or otherwise have a material adverse effect on our business, financial condition and results of operations. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities would result in ownership dilution to our existing stockholders.

In addition, our ability to raise additional capital may be dependent upon our stock being quoted on the NASDAQ Global Market. On October 19, 2007, we received a notice from the Listing Qualifications Department of The NASDAQ Stock Market indicating that the Company does not comply with the $1.00 minimum bid price requirement for continued listing set forth in NASDAQ Marketplace Rule 4450(a)(5). The notice further stated that pursuant to Marketplace Rule 4450(e)(2), we will be provided 180 calendar days, or until April 16, 2008 to regain compliance. If, at any time before April 16, 2008, the bid price of our common stock closes at $1.00 per share or more for a minimum of 10 consecutive business days, and if we remain in compliance with other listing requirements, NASDAQ will notify the Company that we have regained compliance with NASDAQ's Marketplace Rules. NASDAQ may, in its sole discretion, require the Company to maintain a closing bid price of at least $1.00 per share for a longer period before determining that the Company has demonstrated the ability to maintain long-term compliance. There can be no assurance that we will be able to satisfy the criteria for continued listing on the NASDAQ Global Market.

The notice further indicates that if compliance with the minimum bid price rule is not regained by April 16, 2008, NASDAQ will provide written notification that our common stock will be delisted. At that time we may appeal the NASDAQ's determination to a Listing Qualifications Panel. Alternatively, we may apply to transfer the listing of our common stock to The NASDAQ Capital Market if we satisfy the requirements for initial inclusion set forth in Marketplace Rule 4310(c), other than the minimum bid price requirement of Marketplace Rule 4310(c)(4). If the application is approved, we will be afforded the remainder of a second additional 180-day compliance period to regain compliance with the minimum bid price rule while on the NASDAQ Capital Market.

We will continue to monitor the bid price for our common stock and consider various options available to us if our common stock does not trade at a level that is likely to regain compliance. To maintain our listing on the NASDAQ Global Market, we are also required, among other things, to either maintain stockholders' equity of at least $10 million or a market value of at least $50 million. While we currently satisfy the stockholders' equity requirement, we may not continue to do so.

If we are unable to secure additional financing on a timely basis or on terms favorable to us, we may be required to cease or reduce certain research and development projects, to sell some or all of our technology or assets or to merge all or a portion of our business with another entity. Insufficient funds may require us to delay, scale back, or eliminate some or all of our activities, and if we are unable to obtain additional funding, there is uncertainty regarding our continued existence.

Obligations and Commitments

In March 2003, we entered into a loan and security agreement with a financial institution 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 December 31, 2007. At December 31, 2007, all

borrowing under this facility had been fully repaid. In April 2006, we amended the existing loan and security agreement 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. We borrowed $2.6 million under this facility, which will be repaid over a 36-month period from the date of borrowing. The interest rate on these borrowings was approximately 7.2% per annum. At December 31, 2007, the total amount due under this facility was $1.2 million.

We may borrow up to an additional $1.4 million for equipment purchases. The amended agreement requires us to maintain the lower of 85% of our total cash and cash equivalents or $10.0 million at the financial institution. At December 31, 2007, we were in compliance with this covenant.

In August 2004, we entered into a noncancelable facilities sublease agreement that expires on February 28, 2010 for our headquarters in Redwood City, California. On April 1, 2005, we entered into a noncancelable facilities lease agreement that expires on February 28, 2010 for additional laboratory space in Redwood City, California.

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 to September 30, 2011. The lease is for a period of 66 months, beginning on April 1, 2006 with respect to the additional square footage and will begin 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 are also 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.

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 December 31, 2007, are as follows (in thousands):

	Within one year	One to three years	Four to five years	After five years	Total
Facilities sublease and lease	$1,358	$ 2,860	$ 1,129	$ —	$5,347
Notes payable, principal and interest	971	342	—	—	1,313
Purchase commitments	1,145	—	—	—	1,145
Total	$3,474	$ 3,202	$ 1,129	$ —	$7,805

In November 2004, we entered into an agreement with MediBIC to develop glufosfamide in Japan and several other Asian countries, and received an upfront payment of $5.0 million contingent upon the finalization of the clinical development plan. In July 2005, we finalized the development plan with MediBIC and began recognizing revenue from the upfront payment on a straight-line basis over the development period, currently estimated to be through 2008. We are responsible for all development activities under this agreement. We will also be required to make royalty payments upon product commercialization. We may terminate the agreement at any time by making certain payments ranging from $7.0 million to $15.0 million, depending on the stage of development of the glufosfamide product in Japan.

In August 2003, we entered into an agreement with Baxter International and Baxter Healthcare S.A., together Baxter, for the licensing and development of glufosfamide. Under this agreement, we paid Baxter an upfront license fee of $0.1 million and a $0.1 million development milestone in 2003. We also made a

development milestone payment of $1.3 million in November 2004 and we are obligated to make certain additional development milestone payments, with the next payment due in connection with the filing of a new drug application with the FDA for glufosfamide. We will be required to make a milestone payment of $1.0 million within 30 days of filing an NDA for glufosfamide with the FDA. Future milestone payments in connection with the development of glufosfamide and United States and foreign regulatory submissions could total up to $8.0 million, and sales-based milestone payments could total up to $17.5 million. Following regulatory approval, we will be obligated to pay up to mid-single digit royalties to Baxter based on sales of glufosfamide products. We cannot be certain when, if ever, we will have to make development or sales-based milestone or royalty payments to Baxter.

Under our license agreement with Dr. Theodore J. Lampidis and Dr. Waldemar Priebe for rights under a patent and certain patent applications that generally cover the treatment of cancer with 2DG in combination with certain other cancer drugs, we are obligated to make certain milestone payments, including milestone payments of up to $0.7 million in connection with the filing and approval of an NDA for the first product covered by the licensed patents, as well as royalties based on sales of such products. We cannot be certain when, if ever, we will have to make these milestone or royalty payments.

Off-Balance Sheet Arrangements

As of December 31, 2007, 2006 and 2005, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. Therefore, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Income Taxes

We incurred net operating losses for the years ended December 31, 2007, 2006 and 2005 and, accordingly, we did not pay any federal or state income taxes. As of December 31, 2007, we had accumulated approximately $129 million in both federal and state net operating loss carryforwards to reduce future taxable income. If not utilized, our federal and state net operating loss carryforwards begin to expire in 2021 and 2013 for federal and state tax purposes, respectively. Our net operating loss carryforwards are subject to certain limitations on annual utilization in case of changes in ownership, as defined by federal and state tax laws.

At December 31, 2007, we had research credit carryforwards of approximately $3.3 million and $2.2 million for federal and California state income tax purposes, respectively. If not utilized, the federal carryforwards will expire in 2021 through 2027. The California state research credit can be carried forward indefinitely.

We have not recorded a benefit from our net operating loss or research credit carryforwards because we believe that it is uncertain that we will have sufficient income from future operations to realize the carryforwards prior to their expiration. Accordingly, we have established a valuation allowance against the deferred tax asset arising from the carryforwards.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosures. We review our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ

from these estimates under different assumptions or conditions. While our significant accounting policies are described in more detail in the notes to our consolidated financial statements included in this Annual Report on Form 10-K, we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our consolidated financial statements.

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 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 financial statements were estimated using a Black-Scholes option valuation model.

The fair value of our common stock for options granted through the date of the initial public offering in February 2005 was originally estimated by our board of directors, with input from management. We did not obtain contemporaneous valuations by an unrelated valuation specialist. Subsequently, we reassessed the valuations of common stock relating to grants of options during the period from January 1, 2005 through the date of our initial public offering and the years ended December 31, 2004 and 2003. As disclosed more fully in Note 9 of the notes of our consolidated financial statements, we granted stock options and restricted common stock with exercise prices ranging from $0.16 to $0.53 per share during the period from January 1, 2005 through the date of our initial public offering and the years ended December 31, 2004 and 2003. In addition, we determined that the fair value of our common stock increased from $0.16 to $16.39 per share during that period.

For financial reporting purposes, we have recorded stock-based compensation representing the difference between the estimated fair value of common stock and the option exercise price. Because shares of our common stock were not publicly traded before our initial public offering in February 2005, we determined the estimated fair value based upon several factors, including significant milestones attained, sales of our redeemable convertible preferred stock, changes in valuations of existing comparable publicly-registered biotech companies, trends in the broad market for biotechnology stocks and the expected valuation we would obtain in an initial public offering. Although it was reasonable to expect that the completion of our initial public offering would add value to the shares as a result of increased liquidity and marketability, the amount of additional value could not be measured with precision or certainty. We amortize employee stock-based compensation on a straight-line basis for equity instruments subject to fixed accounting. We amortize employee stock-based compensation in accordance with the provisions of FASB Interpretation No. 28, *"Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans"* for equity instruments subject to variable accounting.

We account for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, *"Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods, or Services."* As a result, the non-cash charge to operations for non-employee options with vesting or other performance criteria is affected each reporting period by changes in the estimated fair value of our common stock. The two factors

which most affect these changes are the fair value of the common stock underlying stock options for which stock-based compensation is recorded and the volatility of such fair value. If our estimates of the fair value of these equity instruments change, it would have the effect of changing compensation expenses.

Preclinical and Clinical Trial Accruals

Most of our preclinical and clinical trials are performed by third party contract research organizations, or CROs, and clinical supplies are manufactured by contract manufacturing organizations, or CMOs. Invoicing from these third parties may be monthly based upon services performed or based upon milestones achieved. We accrue these expenses based upon our assessment of the status of each clinical trial and the work completed, and upon information obtained from the CROs and CMOs. Our estimates are dependent upon the timeliness and accuracy of data provided by the CROs and CMOs regarding the status and cost of the studies, and may not match the actual services performed by the organizations. This could result in adjustments to our research and development expenses in future periods. To date we have had no significant adjustments.

Marketable Securities

We classify all of our marketable securities as available-for-sale. We carry these investments at fair value, based on quoted market prices, and unrealized gains and losses are included in accumulated other comprehensive income which is reflected as a separate component of stockholders' equity. The amortized cost of securities in this category is adjusted for amortization of premiums and accretions of discounts to maturity. Such amortization is included in interest income. Realized gains and losses are recorded in our statement of operations. If we believe that an other-than-temporary decline exists, it is our policy to record a write-down to reduce the investments to fair value and record the related charge as a reduction of interest income.

Accounting for Income Taxes

Our income tax policy records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying balance sheets, as well as operating loss and tax credit carry forwards. We have recorded a full valuation allowance to reduce our deferred tax assets, as based on available objective evidence; it is more likely than not that the deferred tax assets will not be realized. In the event that we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the deferred tax assets would increase net income in the period such determination was made.

Recent Accounting Pronouncements

In June 2007, the Emerging Issues Task Force ("EITF") ratified consensus EITF Issue No. 07-3 *"Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities"* ("EITF 07-3"), which concluded that non-refundable advance payments for goods or services for use in research and development activities should be deferred and capitalized. EITF 07-3 is effective for the Company beginning in the first quarter of fiscal year 2008. We do not expect the adoption of EITF 07-3 to have a material impact on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *"Fair Value Measures"* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, the FASB anticipates that for some entities, the application of SFAS No. 157 will change current practice. We are required to adopt SFAS No. 157 for financial statements in the first quarter of 2008. We do not expect the adoption of SFAS No. 157 to have a material impact on our consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159) "*The Fair Value Option for Financial Assets and Financial Liabilities*." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS 159 will be effective for us beginning January 1, 2008. We are currently evaluating the impact of SFAS No. 159 on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007),*Business Combinations (*" SFAS No. 141(R)"), which replaces SFAS No. 141, establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the impact of the adoption of SFAS No. 141(R) on our consolidated financial statements.

ITEM 7A. QUANTITATIVEAND QUALITATIVE DISCLOSURE OF MARKET RISKS

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 weighted 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 increase in the interest rates of one percentage point 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 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Threshold Pharmaceuticals, Inc.
(a development stage enterprise)

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Threshold Pharmaceuticals, Inc. and its subsidiary (the "Company") (a development stage enterprise) at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 and cumulatively for the period from October 17, 2001 (date of inception) to December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation for the year end December 31, 2006.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 12, 2008

THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,404	$ 28,450
Marketable securities	11,289	24,360
Prepaid expenses and other current assets	516	547
Total current assets	23,209	53,357
Property and equipment, net	2,097	3,169
Restricted cash	483	483
Other assets	25	25
Total assets	$ 25,814	$ 57,034
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,022	$ 619
Accrued clinical and development expenses	1,240	4,320
Accrued liabilities	717	2,286
Deferred revenue, current portion	1,437	1,437
Notes payable, current portion	909	997
Total current liabilities	5,325	9,659
Deferred revenue, less current portion	—	1,436
Notes payable, less current portion	337	1,247
Deferred rent	565	454
Total liabilities	6,227	12,796
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $0.001 par value:		
Authorized: 2,000,000 shares authorized; no shares issued and outstanding.	—	—
Common stock, $0.001 par value:		
Authorized: 150,000,000 shares; Issued and outstanding: 37,368,336 and 37,345,890 shares at December 31, 2007 and 2006, respectively.	37	37
Additional paid-in capital	185,702	182,840
Deferred stock-based compensation	(834)	(3,975)
Accumulated other comprehensive income (loss)	3	(7)
Deficit accumulated during the development stage	(165,321)	(134,657)
Total stockholders' equity	19,587	44,238
Total liabilities and stockholders' equity	$ 25,814	$ 57,034

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

THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Years Ended December 31,			Cumulative Period from October 17, 2001 (date of inception) to December 31, 2007
	2007	2006	2005	
Revenue	$ 1,436	$ 1,461	$ 690	$ 3,587
Operating expenses:				
Research and development	23,375	46,267	35,991	130,426
General and administrative	10,411	14,453	11,235	46,312
Total operating expenses	33,786	60,720	47,226	176,738
Loss from operations	(32,350)	(59,259)	(46,536)	(173,151)
Interest and other income, net	1,841	3,729	2,159	8,264
Interest expense	(155)	(156)	(31)	(434)
Net loss	(30,664)	(55,686)	(44,408)	(165,321)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	—	—	—	(40,862)
Net loss attributable to common stockholders	$ (30,664)	$ (55,686)	$ (44,408)	$ (206,183)
Net loss per common share:				
Basic and diluted	$ (0.83)	$ (1.53)	$ (1.63)	
Weighted average number of shares used in per common share calculations:				
Basic and diluted	37,058	36,337	27,173	

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

THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD
FROM OCTOBER 17, 2001 (DATE OF INCEPTION) TO DECEMBER 31, 2007
(in thousands, except share and per share data)

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount					
Issuance of restricted common stock to a founder and member of the Board of Directors in October 2001 for cash at $0.02 per share	151,800	$ —	$ 2	$ —	$ —	$ —	$ 2
Net loss	—	—	—	—	—	(236)	(236)
Balances, December 31, 2001	151,800	—	2	—	—	(236)	(234)
Issuance of restricted common stock to a member of the Board of Directors for cash at $0.16 per share in January 2002	22,770	—	4	—	—	—	4
Issuance of common stock pursuant to exercise of stock options for cash at $0.16 per share	2,428	—	—	—	—	—	—
Deferred stock-based compensation	—	—	25	(25)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	1	—	—	1
Non-employee stock-based compensation	—	—	21	—	—	—	21
Components of other comprehensive income (loss):							
Unrealized loss on marketable securities	—	—	—	—	(1)	—	(1)
Net loss	—	—	—	—	—	(2,458)	(2,458)
Comprehensive loss							(2,459)
Balances, December 31, 2002	176,998	—	52	(24)	(1)	(2,694)	(2,667)
Issuance of common stock pursuant to exercise of stock options for cash at $0.16 per share	7,711	—	1	—	—	—	1
Issuance of a warrant to purchase Series A redeemable convertible preferred stock	—	—	44	—	—	—	44
Beneficial conversion feature related to issuance of Series B redeemable convertible preferred stock	—	—	40,862	—	—	—	40,862
Deemed dividend related to beneficial conversion feature of Series B redeemable convertible preferred stock	—	—	(40,862)	—	—	—	(40,862)
Deferred stock-based compensation, net of cancellations	—	—	2,332	(2,332)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	810	—	—	810
Non-employee stock-based compensation	—	—	256	—	—	—	256
Components of other comprehensive income (loss):							
Change in unrealized gain (loss) on marketable securities	—	—	—	—	164	—	164
Net loss	—	—	—	—	—	(8,303)	(8,303)
Comprehensive loss							(8,139)
Balances, December 31, 2003	184,709	—	2,685	(1,546)	163	(10,997)	(9,695)
Issuance of common stock pursuant to exercise of stock options for cash	3,518,304	4	874	—	—	—	878
Deferred stock-based compensation, net of cancellations	—	—	20,385	(20,385)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	5,294	—	—	5,294
Non-employee stock-based compensation	—	—	681	—	—	—	681
Repurchase of unvested common stock	(12,446)	—	(6)	—	—	—	(6)

THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)—(Continued)
FOR THE PERIOD
FROM OCTOBER 17, 2001 (DATE OF INCEPTION) TO DECEMBER 31, 2007
(in thousands, except share and per share data)

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount					
Components of other comprehensive income (loss):							
Change in unrealized gain (loss) on marketable securities	—	—	—	—	(59)	—	(59)
Net loss	—	—	—	—	—	(23,566)	(23,566)
Comprehensive loss							(23,625)
Balances, December 31, 2004	3,690,567	4	24,619	(16,637)	104	(34,563)	(26,473)
Issuance of common stock in an initial public offering for cash of $7.00, per share, net of issuance costs of $4.6 million	6,112,601	6	38,129	—	—	—	38,135
Issuance of common stock for cash of $10.46 per share, net of issuance costs of $4.5 million	6,399,222	6	62,389	—	—	—	62,395
Issuance of common stock pursuant to exercise of warrants	19,269	—	—	—	—	—	—
Conversion of convertible preferred stock upon initial public offering	20,552,812	21	49,818	—	—	—	49,839
Issuance of common stock pursuant to stock plans	508,626	—	557	—	—	—	557
Deferred stock-based compensation, net of cancellations	—	—	3,321	(3,321)	—	—	—
Reversal of deferred stock-based compensation related to employee terminations	—	—	(2,862)	2,862	—	—	—
Amortization of deferred stock-based compensation	—	—	(416)	5,740	—	—	5,324
Non-employee stock-based compensation	—	—	4,097	—	—	—	4,097
Repurchase of unvested common stock	(51,525)	—	(18)	—	—	—	(18)
Components of other comprehensive income (loss):							
Change in unrealized gain (loss) on marketable securities	—	—	—	—	(80)	—	(80)
Net loss	—	—	—	—	—	(44,408)	(44,408)
Comprehensive loss							(44,488)
Balances, December 31, 2005	37,231,572	37	179,634	(11,356)	24	(78,971)	89,368
Issuance of common stock pursuant to stock plans	276,772	—	518	—	—	—	518
Reversal of deferred stock-based compensation related to employee terminations	—	—	(2,970)	2,970	—	—	—
Amortization of deferred stock-based compensation	—	—	—	4,411	—	—	4,411
Stock-based compensation	—	—	5,738	—	—	—	5,738
Repurchase of unvested common stock	(162,454)	—	(80)	—	—	—	(80)
Components of other comprehensive income (loss):							
Change in unrealized gain (loss) on marketable securities	—	—	—	—	(31)	—	(31)
Net loss	—	—	—	—	—	(55,686)	(55,686)
Comprehensive loss							(55,717)
Balances, December 31, 2006	37,345,890	$ 37	$ 182,840	$ (3,975)	$ (7)	$ (134,657)	$ 44,238

THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)—(Continued)
FOR THE PERIOD
FROM OCTOBER 17, 2001 (DATE OF INCEPTION) TO DECEMBER 31, 2007
(in thousands, except share and per share data)

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount					
Issuance of common stock pursuant to stock plans	120,879	—	128	—	—	—	128
Reversal of deferred stock-based compensation related to employee terminations	—	—	(304)	304	—	—	—
Amortization of deferred stock-based compensation	—	—	—	2,837	—	—	2,837
Stock-based compensation	—	—	3,072	—	—	—	3,072
Repurchase of unvested common stock	(98,433)	—	(34)	—	—	—	(34)
Components of other comprehensive income (loss):							
Change in unrealized gain (loss) on marketable securities	—	—	—	—	10	—	10
Net loss	—	—	—	—	—	(30,664)	(30,664)
Comprehensive loss							(30,654)
Balances, December 31, 2007	37,368,336	$ 37	$ 185,702	$ (834)	$ 3	$ (165,321)	$ 19,587

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

THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,			Cumulative Period from October 17, 2001 (date of inception) to December 31, 2007
	2007	2006	2005	
Cash flows from operating activities:				
Net loss	$ (30,664)	$ (55,686)	$ (44,408)	$ (165,321)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	1,040	938	573	2,795
Stock-based compensation expense	5,909	10,149	9,421	32,542
Amortization of debt issuance costs	—	—	—	44
(Gain) loss on sale of investments, property and equipment	9	(41)	—	(27)
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	32	16	(272)	(541)
Accounts payable	403	(618)	257	1,022
Accrued clinical and development expenses	(3,080)	(180)	4,057	1,240
Accrued liabilities	(1,569)	128	1,114	717
Deferred rent	111	307	69	565
Deferred revenue	(1,436)	(1,437)	(690)	1,437
Net cash used in operating activities	(29,245)	(46,424)	(29,879)	(125,527)
Cash flows from investing activities:				
Acquisition of property and equipment	(42)	(2,405)	(1,162)	(4,936)
Acquisition of marketable securities	(22,083)	(42,915)	(38,874)	(136,367)
Proceeds from sales and maturities of marketable securities	35,228	43,238	28,413	125,152
Restricted cash	—	(291)	85	(483)
Net cash provided by (used in) investing activities	13,103	(2,373)	(11,538)	(16,634)
Cash flows from financing activities:				
Proceeds from redeemable convertible preferred stock, net	—	—	—	49,839
Proceeds from issuance of common stock, net of offering expenses	94	438	102,357	102,480
Proceeds from issuance of notes payable	—	2,616	—	3,616
Repayment of notes payable	(998)	(754)	(332)	(2,370)
Net cash provided by (used in) financing activities	(904)	2,300	102,025	153,565
Net increase (decrease) in cash and cash equivalents	(17,046)	(46,497)	60,608	11,404
Cash and cash equivalents, beginning of period	28,450	74,947	14,339	—
Cash and cash equivalents, end of period	$ 11,404	$ 28,450	$ 74,947	$ 11,404
Supplemental disclosures:				
Cash paid for interest	$ 155	$ 156	$ 31	$ 389
Non-cash investing and financing activities:				
Deferred stock-based compensation	$ (304)	$ (2,970)	$ 459	$ 19,511
Conversion of redeemable convertible preferred stock	$ —	$ —	$ 49,839	$ 49,839
Deferred offering expenses in connection with IPO	$ —	$ —	$ (1,287)	$ —
Change in unrealized gain (loss) in marketable securities	$ 10	$ (31)	$ (80)	$ 3
Fair value of redeemable convertible preferred stock warrant	$ —	$ —	$ —	$ 44
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	$ —	$ —	$ —	$ 40,862
Accrued cost of acquisition of property and equipment	$ —	$ —	$ (589)	$ —

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

THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations and Basis of Presentation

Threshold Pharmaceuticals, Inc. (the "Company") was incorporated in the State of Delaware on October 17, 2001. The Company is a biotechnology company focused on the discovery and development of drugs targeting the microenvironment of solid tumors.

In June 2005, the Company formed a wholly-owned subsidiary, THLD Enterprises (UK), Limited in the United Kingdom in connection with conducting clinical trials in Europe. As of December 31, 2007, there has been no financial activity related to this entity.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Company and its wholly owned subsidiary, and reflect the elimination of intercompany accounts and transactions.

Liquidity

The Company has product candidates in various stages of development as well as discovery and, since inception, has devoted substantially all of its time and efforts to performing research and development, raising capital and recruiting personnel. The Company has incurred significant losses since its inception. At December 31, 2007, the Company had an accumulated deficit of $165.3 million. The Company expects to need to raise additional capital or incur indebtedness to continue to fund our future operations. The Company may seek to raise capital through a variety of sources, including:

- the public equity market;
- private equity financing;
- collaborative arrangements; and/or
- public or private debt.

The Company's ability to raise additional funds will depend on its clinical and regulatory events, its ability to identify promising in-licensing opportunities, and factors related to financial, economic, and market conditions, many of which are beyond its control. The Company cannot be certain that sufficient funds will be available when required or on satisfactory terms. If adequate funds are not available, the Company may be required to significantly reduce or refocus its operations or to obtain funds through arrangements that may require the Company to relinquish rights to certain of its products, technologies or potential markets, any of which could delay or require that the Company curtail its development programs or otherwise have a material adverse effect on its business, financial condition and results of operations. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities would result in ownership dilution to existing stockholders.

The Company believes that its cash, cash equivalents and marketable securities as of December 31, 2007 will be sufficient to fund its projected operating requirements through the first quarter of 2009, including completing its current and planned trials, conducting research and discovery efforts towards additional product candidates, working capital and general corporate purposes. Additional funds will be required to in-license or otherwise acquire and develop additional products or programs. The Company intends to seek funds through arrangements with collaborators or others that may require the Company to relinquish rights to certain product candidates that it might otherwise seek to develop or commercialize independently. Additionally, the Company

may need or choose to raise additional capital or incur indebtedness to continue to fund its operations in the future. The Company's ability to raise additional funds will depend on the Company's clinical and regulatory events and factors related to financial, economic, and market conditions, many of which are beyond its control. The Company cannot be certain that sufficient funds will be available when required or on satisfactory terms. If necessary funds are not available, the Company may have to delay, reduce the scope or eliminate some of its research and development, which could delay the time to market for any of its product candidates.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. All cash and cash equivalents are held in the United States of America in financial institutions or money market funds, which are unrestricted as to withdrawal or use.

Restricted Cash

Restricted cash represents two certificates of deposit held at a financial institution that serve as collateral for the Company's facility lease and sublease agreement.

Marketable Securities

The Company classifies its marketable securities as "available-for-sale." Such marketable securities are recorded at fair value and unrealized gains and losses are recorded as a separate component of stockholders' equity until realized. Realized gains and losses on sale of all such securities will be reported in net loss, computed using the specific identification cost method. The Company places its marketable securities primarily in U.S. government securities, money market funds, corporate bonds and commercial paper.

Fair value of financial instruments

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of the notes payable at December 31, 2007 and 2006 approximates fair value. Estimated fair values for marketable securities, which are separately disclosed elsewhere, are based on quoted market prices for the same or similar instruments.

Concentration of credit risk and other risks and uncertainties

Financial instruments which potentially subject the Company to concentrations of risk consist principally of cash and cash equivalents. The Company's cash and cash equivalents are invested in deposits with two major financial institutions in the United States of America that management believes are creditworthy. The Company is exposed to credit risk in the event of default by the financial institutions for amounts in excess of Federal Deposit Insurance Corporation insured limits. The Company performs periodic evaluations of the relative credit standings of these financial institutions and limits the amount of credit exposure with any institution.

Any products developed by the Company will require approval from the U.S. Food and Drug Administration ("FDA") or foreign regulatory agencies prior to commercial sales. There can be no assurance that the Company's products will receive the necessary approvals. If the Company is denied such approvals or such approvals are delayed, it could have a material adverse effect on the Company.

The Company has three drug candidates in development, none of which have received regulatory approval. To achieve profitable operations, the Company must successfully develop, test, manufacture and market its products. There can be no assurance that any such products can be developed successfully or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products will be successfully marketed. These factors could have a material adverse effect on the Company's future financial results.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets, generally three years. Leasehold improvements are amortized using the straight-line method over the estimated useful life of the improvement, or the lease term, if shorter. Accordingly, leasehold improvements are being amortized over lease terms of approximately 4-5 years. Maintenance and repairs are charged to operations as incurred. Upon sale or retirement of assets, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations.

Impairment of long-lived assets

In accordance with the provisions of Statement of Financial Accounting Standards Board ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," ("SFAS No. 144") the Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Under SFAS No. 144, an impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The Company considers various valuation factors, principally discounted cash flows, to assess the fair values of long-lived assets. As of December 31, 2007, the Company has not incurred any such impairment losses.

Comprehensive income (loss)

Comprehensive income (loss) generally represents all changes in stockholders' equity (deficit) except those resulting from investments or contributions by stockholders. The Company's net loss and unrealized gain (loss) on available-for-sale marketable securities represent the only components of other comprehensive loss.

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104 "Revenue Recognition" and Emerging Issues Task Force (EITF) Issue 00-21 "Revenue Arrangements with Multiple Deliverables" (EITF 00-21). In connection with the Company's agreement with MediBIC, the Company recognizes revenue from the non-refundable, upfront payment ratably over the term of its performance under the agreements. The upfront payment received, pending recognition as revenue, is recorded as deferred revenue and classified as a short-term or long-term liability on the balance sheet to be amortized over the period of deferral.

Research and development expenses

Research and development expenses are charged to research and development expense as incurred. Research and development expenses consist of salaries and benefits, laboratory supplies, consulting fees and fees paid to third party contract research and manufacturing organizations.

Preclinical and Clinical Trial Accruals

Most of the Company's preclinical and clinical trials are performed by third party contract research organizations (CROs), and clinical supplies are manufactured by contract manufacturing organizations (CMOs). Invoicing from these third parties may be monthly based upon services performed or based upon milestones achieved. The Company accrues these expenses based upon its assessment the status of each clinical trial and the work completed, and upon information obtained from the CROs and CMOs. The Company's estimates are dependent upon the timeliness and accuracy of data provided by the CROs and CMOs regarding the status and cost of the studies, and may not match the actual services performed by the organizations. This could result in adjustments to the Company's research and development expenses in future periods. To date the Company has had no significant adjustments.

Income taxes

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company adopted Financial Accounting Standards Board ("FASB") Interpretation 48,*Accounting for Uncertainty in Income Taxes*("FIN 48"), on January 1, 2007. As a result of the implementation of FIN 48, the Company recorded a $1.5 million reduction to deferred tax assets for unrecognized tax benefits, all of which is currently offset by a full valuation allowance and the Company therefore did not record any adjustment to the beginning balance of accumulated deficit on the balance sheet. During the year ended December 31, 2007, the Company's unrecognized tax benefits remain unchanged from January 1, 2007 and the Company does not anticipate having any unrecognized benefits over the next twelve months.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2007, the Company had no accrued interest or penalties due to the Company's net operating losses available to offset any tax adjustment. The Company currently has no federal or state tax examinations in progress nor has it had any federal or state tax examinations since its inception. As a result of the Company's net operating loss carryforwards, all of its tax years are subject to federal and state tax examination.

Segments

The Company has one reportable segment and uses one measurement of profitability to manage its business. All long-lived assets are maintained in the United States of America.

Stock-based compensation

Prior to January 1, 2006, the Company used the intrinsic method of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"*("APB No. 25"), in accounting for employee stock options, and present disclosure of pro forma information required under SFAS No. 123, *"Accounting for Stock-Based Compensation"* ("SFAS No. 123") as amended by SFAS No. 148, *"Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123"* ("SFAS No. 148"). For stock options granted to employees no compensation expense was recognized unless the exercise price was less than fair market value at the date of grant. Stock-based compensation expense was recognized under APB No. 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.) In anticipation of the Company's initial public offering, which was completed in February 2005, the Company determined that, for accounting

purposes, the deemed fair value of our common stock was greater than the exercise price for certain options. As a result, the Company recorded deferred stock-based compensation for these options of $0.5 million, $20.4 million and $2.3 million for the years ended December 31, 2005, 2004 and 2003, respectively. This expense, which is a non-cash charge, has been amortized over the period in which the options vest, which is generally four years. The amortization of this expense recognized for the years ended December 31, 2007, 2006 and 2005 was $2.8 million, $4.4 million and $5.3 million, respectively.

Beginning January 1, 2006, the Company began accounting for stock-based compensation using the modified prospective transition method prescribed by SFAS No. 123(R) "*Share-Based Payment—An Amendment of FASB Statements No. 123 and 95"*("SFAS No. 123(R)"), issued by the Financial Accounting Standards Board in December 2004. SFAS No. 123(R) requires measurement of all employee stock-based compensation awards using a fair-value method and recording of such expense in the consolidated financial statements over the requisite service period. See Note 9 "Equity Incentive Plans" for further discussion.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services", which require that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest.

Recent accounting pronouncements

In June 2007, the Emerging Issues Task Force ("EITF") ratified consensus EITF Issue No. 07-3 *"Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities"* ("EITF 07-3"), which concluded that non-refundable advance payments for goods or services for use in research and development activities should be deferred and capitalized. EITF 07-3 is effective for the Company beginning in the first quarter of fiscal year 2008. The Company does not expect the adoption of EITF 07-3 to have a material impact on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *"Fair Value Measures"* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, the FASB anticipates that for some entities, the application of SFAS No. 157 will change current practice. The Company will be required to adopt SFAS No. 157 for financial statements in the first quarter of 2008. The Company does not expect the adoption of SFAS No. 157 to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159) "*The Fair Value Option for Financial Assets and Financial Liabilities*." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS 159 will be effective for the Company beginning January 1, 2008. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007),*Business Combinations (*" SFAS No. 141(R)"), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS No. 141(R) on its consolidated financial statements.

NOTE 2—NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing net loss 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, common stock subject to repurchase, warrants and redeemable convertible preferred stock. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net loss per common share follows (in thousands):

	Years Ended December 31,		
	2007	2006	2005
Numerator:			
Net loss attributable to common stockholders	$(30,664)	$(55,686)	$(44,408)
Denominator:			
Weighted-average number of common shares outstanding	37,426	37,394	29,098
Less: Weighted-average shares subject to repurchase	(368)	(1,057)	(1,925)
Weighted-average number of common shares outstanding used in computing basic and diluted net loss per common share	37,058	36,337	27,173
Basic and diluted net loss per common share	$ (0.83)	$ (1.53)	$ (1.63)

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

	December 31,		
	2007	2006	2005
Options to purchase common stock	2,983	2,075	926
Common stock subject to repurchase	122	615	1,475
Shares issuable related to the ESPP	38	69	40

NOTE 3—MARKETABLE SECURITIES

The Company invests in highly-liquid, investment-grade securities. The following is a summary of the Company's available-for-sale securities at December 31, 2007 and 2006:

As of December 31, 2007 (in thousands):	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
Money market funds	$ 3,386	$ —	$ —	$ 3,386
Corporate bonds	2,353	1	(2)	2,352
Government securities	8,542	3	—	8,545
Commercial paper	7,230	—	—	7,230
Asset-backed securities	793	2	—	795
	22,304	6	(2)	22,308
Less cash equivalents	(11,018)	(1)	—	(11,019)
Total marketable securities	$ 11,286	$ 5	$ (2)	$ 11,289

As of December 31, 2006 (in thousands):	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
Money market funds	$ 2,952	$ —	$ —	$ 2,952
Corporate bonds	6,078	2	(2)	6,078
Government securities	13,223	2	(9)	13,216
Commercial paper	29,181	4	—	29,185
Asset-backed securities	900	—	—	900
	52,334	8	(11)	52,331
Less cash equivalents	(27,967)	(4)	—	(27,971)
Total marketable securities	$ 24,367	$ 4	$ (11)	$ 24,360

There were no gross realized gains or losses in 2007. Gross realized gains on sales of marketable securities in 2006 and 2005 were $41,000 and $34,000, respectively.

As of December 31, 2007, weighted average days to maturity for the Company's available for sale securities was 34 days, with the longest maturity being June 2008.

The following table provides the breakdown of the marketable securities with unrealized losses at December 31, 2007 (in thousands):

	In loss position for less than twelve months	
As of December 31, 2007 (in thousands):	Fair Value	Unrealized Loss
Corporate bonds	$ 948	$ (2)

The gross unrealized losses related to marketable securities are primarily due to a decrease in the fair value of debt securities. The Company has determined that the gross unrealized losses on its marketable securities at December 31, 2007 are temporary in nature. The Company reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, credit quality and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

NOTE 4—PROPERTY AND EQUIPMENT

Property and equipment comprise the following (in thousands):

	December 31,	
	2007	2006
Computer and office equipment	$ 866	$ 901
Laboratory equipment	1,238	1,202
Leasehold improvements	2,795	2,787
	4,899	4,890
Less: Accumulated depreciation and amortization	(2,802)	(1,721)
Total property and equipment, net	$ 2,097	$ 3,169

Depreciation and amortization expense was $1.1 million, $0.9 million, $0.6 million and $2.8 million for the years ended December 31, 2007, 2006 and 2005, and, cumulatively, for the period from October 17, 2001 (date of inception) to December 31, 2007, respectively.

Certain laboratory, computer and office equipment with a cost basis of approximately $0.6 million is collateral for borrowings under the loan and security agreement with Silicon Valley Bank.

NOTE 5—ACCRUED LIABILITIES

Accrued liabilities comprise the following (in thousands):

	December 31,	
	2007	2006
Payroll and employee related expenses	$431	$ 1,610
Professional services	119	384
Other accrued expenses	167	292
Total Accrued liabilities	$717	$ 2,286

In August 2006, the Company adopted a plan to reduce its operating expenses, following its decision to discontinue development of TH-070 for benign prostatic hyperplasia. The plan included a reduction of 29 full-time employees in both research and development and general and administrative areas of the Company. As a result of the staffing reduction, the Company incurred severance benefits of approximately $1.0 million during the quarter ended September 30, 2006. The payout of the accrued severance benefits was completed in the fourth quarter of 2006.

In October 2007, the Company adopted a plan to reduce its operating expenses and refocus its research and development efforts. The plan included a reduction of 12 positions in both research and development and general and administrative areas of the Company. As a result of the staffing reduction, the Company incurred severance benefits of approximately $1.2 million in the fourth quarter of 2007. The Company made payments on severance benefits of $1.1 million in the fourth quarter of 2007. The Company anticipates the remaining balance will be paid in the first quarter of 2008.

The following table sets forth an analysis of the restructuring accrual at December 31, 2007 (in thousands):

	Severance and benefits
Balance at December 31, 2005	$ —
Charges	1,035
Cash paid	(1,035)
Balance at December 31, 2006	$ —
Charges	1,156
Cash paid	(1,036)
Balance at December 31, 2007	$ 120

NOTE 6—NOTES PAYABLE

On March 27, 2003, the Company entered into a loan and security agreement with Silicon Valley Bank to borrow up to $1.0 million for working capital and equipment purchases. The Company borrowed the full amount under this facility as of December 2004, which will be repaid over a 36-month period from the date of borrowing, at an average interest rate of 5.8% per annum. In connection with the agreement, the Company issued Silicon Valley Bank a warrant to purchase 38,000 shares of Series A redeemable convertible preferred stock, which was fully exercised in 2005. At December 31, 2007, all borrowings under this facility were paid in full.

In April 2006, the Company amended the existing loan and security agreement 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. The Company borrowed $2.6 million under this facility, which will be repaid over a 36-month period from the date of borrowing. The interest rate on these borrowings was approximately 7.2% per annum.

At December 31, 2007, future principal payments under the amended loan and security agreement are as follows (in thousands):

Year Ending December 31,	
2008	$ 909
2009	337
Total	$ 1,246

Under the amended loan and security agreement, the Company is required to maintain the lower of 85% of its total cash and cash equivalents or $10.0 million with the financial institution. Borrowings under the equipment line of credit are collateralized by the related equipment. At December 31, 2007, the Company was in compliance with all covenants in the agreement.

NOTE 7—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 consolidated balance sheets. On August 31, 2004, the Company entered into a noncancelable facility sublease agreement for 33,700 square feet of laboratory and office space. The lease was effective October 1, 2004 and expires February 2010. On April 1, 2005 the Company entered into a noncancelable facility operating lease for approximately 6,489 square feet of laboratory space, which expires in February 2010. In connection with the execution of the lease, the Company paid a security deposit of approximately $25,000.

In February 2006, the Company entered into a new lease for an additional 34,205 square feet of space and an increase in the lease term for the existing space located at the Company's headquarters in Redwood City, California to September 30, 2011. The lease is for a period of 66 months, beginning on April 1, 2006 with respect to the additional square footage and will begin 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 Ended December 31,	
2008	$ 1,358
2009	1,398
2010	1,462
2011	1,129
Future minimum rental payments	$ 5,347

Rent expense for the years ended December 31, 2007, 2006, 2005 and, cumulatively, for the period from October 17, 2001 (date of inception) to December 31, 2007 was $1.3 million, $1.1 million, $0.6 million, and $4.3 million, respectively.

The Company's purchase commitments at December 31, 2007 were $1.1 million, which are primarily for the manufacture and testing of active pharmaceutical ingredient (API) or drug product for clinical testing.

License agreements

In November 2002, the Company entered into an exclusive license agreement with certain individuals for rights to certain patent applications. Under the terms of the agreement, the Company was required to make aggregate upfront payments of approximately $15,000. Based on the early stage of development and the uncertainty of the feasibility of the licensed technology, the upfront fees were expensed immediately as incurred. The Company is also required to make various milestone payments up to $0.7 million in connection with regulatory filings and approvals and additional royalty payments upon product commercialization. No milestone or royalty payments have been made as of December 31, 2007.

In August 2003, the Company entered into an exclusive worldwide license and development agreement with Baxter International and Baxter Healthcare S.A., together Baxter for certain patent rights and technology associated with glufosfamide and its drug candidates in development. Under the terms of the agreement, the Company made an initial upfront payment of $0.1 million and in December 2003, another milestone payment of $0.1 million. In November 2004, the Company made an additional milestone payment of $1.3 million. The Company will be required to make a milestone payment of $1.0 million within 30 days of filing a NDA for glufosfamide with the FDA. Total additional milestone payments in connection with the development of glufosfamide and United States of America and foreign regulatory submissions and approvals could total $8.0 million. In addition, based on the attainment of specified sales thresholds the Company could be required to make payments totaling $17.5 million. The Company will also be required to make royalty payments upon product commercialization. No royalty payments have been made as of December 31, 2007.

In November 2004, the Company entered into an agreement with MediBIC Co. Ltd. (MediBIC) to develop glufosfamide in Japan and several other Asian countries, and received an upfront payment of $5.0 million contingent upon the finalization of the clinical development plan. In July 2005, the Company finalized the development plan with MediBIC and began recognizing revenue from the upfront payment on a straight-line basis over the development period, currently estimated to be through 2008. The Company is responsible for all development activities under this agreement. The Company will also be required to make royalty payments upon product commercialization. The Company may terminate the agreement at any time by making certain payments ranging from $7.0 million to $15.0 million, depending on the stage of development.

The unamortized portion of the upfront payment has been classified as deferred revenue on the Company's consolidated balance sheet at December 31, 2007 and 2006.

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.

Legal proceedings

On July 5 and July 18, 2007, purported shareholder class action complaints, alleging violations of the federal securities laws, were filed against the Company, its Chief Executive Officer Harold E. Selick and its former Chief Financial Officer Janet I. Swearson in the United States District Court for the Southern District of New York. On September 14, 2007, these lawsuits were ordered transferred to the United States District Court for the Northern District of California. The securities lawsuits, which have been consolidated by the Court into a single proceeding, allege claims arising under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of an alleged class of purchasers of the Company's common stock from the date of the Company's initial public offering of securities on February 4, 2005 through July 14, 2006. Plaintiffs allege generally that the defendants violated the federal securities laws by, among other things, making material misstatements or omissions concerning the Company's Phase II and Phase III clinical trials of Lonidamine (TH-070). Management believes that the allegations of the complaints are without merit and intends to defend against the actions vigorously. The Company cannot reasonably predict the outcome of this matter at this time.

NOTE 8—STOCKHOLDERS' EQUITY

Common stock

On February 4, 2005, the Company completed its initial public offering of 6.1 million shares of common stock for net proceeds totaling $38.1 million. On October 14, 2005, the Company completed a public offering of 6.4 million shares of its common stock for net proceeds totaling $62.4 million. Each share of common stock has the right to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared or paid as of December 31, 2007.

On October 24, 2001, shares of restricted stock were issued to the Company's founder and member of the Board of Directors under a restricted stock purchase agreement. In August 2005, the founder resigned from the Company and entered into a consulting and stock vesting agreement. Under the terms of this agreement, the vesting of his restricted stock accelerated at December 31, 2005, and compensation expense associated with the accelerated vesting of these options was recorded for his services as a consultant through December 31, 2005. On January 29, 2002, shares of restricted common stock were issued to a member of the Board of Directors under a restricted stock purchase agreement. The shares vest over a six-year period. The unvested shares of common stock are subject to repurchase by the Company in the event of termination of the consulting relationship. Included in common stock as of December 31, 2005 and 2004 for both awards are 4,849 and 55,168 shares subject to the Company's right of repurchase, respectively. As of December 31, 2007 and 2006, for both awards, there were no shares subject to the Company's right of repurchase.

Reverse Stock Split

On January 10, 2005, the Company's Board of Directors and stockholders approved a 1 for 1.6469 reverse stock split of the Company's common shares. The stock split was affected on January 26, 2005. All common share and per share amounts and the conversion ratios of the redeemable convertible preferred stock contained in the accompanying consolidated financial statements were retroactively adjusted to reflect the stock split.

Preferred Share Rights Agreement

On August 8, 2006, the board of directors adopted a Preferred Shares Rights Agreement. As part of this agreement, preferred stock purchase rights ("the rights") were distributed to stockholders of record as of August 23, 2006, at the rate of one right for each share of common stock held. The rights become exercisable only upon the acquisition, or the acquisition of the right to acquire, by a person or group of affiliated or associated persons, 15% or more of the outstanding shares of the Company's common stock. Once exercisable,

each right entitles the holder to purchase, at a price of $25.00, one one-thousandth of a share of Series A Participating Preferred Stock. For a limited period of time following the announcement of any such acquisition or offer, the rights are redeemable by the Company at a price of $0.01 per right. If the rights are not redeemed or exchanged, each right will then entitle the holder to receive, upon exercise of such right, a number of shares of the Company's common stock having a then current value equal to two times the purchase price of such right. Similarly, if the rights are not redeemed or exchanged and following the acquisition of 15% or more of the outstanding shares of the Company's common stock by a person or group of affiliated or associated persons, (i) the Company consolidates with or merges into another entity, (ii) another entity consolidates with or merges into the Company or (iii) the Company sells or otherwise transfers 50% or more of its consolidated assets or earning power, each right will then entitle the holder to receive, upon exercise of such right, a number of shares of common stock of the acquiring company having a then current value equal to two times the purchase price. For a limited period of time after the exercisability of the rights, each right, at the discretion of the board of directors, may be exchanged for one share of common stock per right. The Company has initially reserved 200,000 shares of preferred stock pursuant to the exercise of these rights. These rights expire on August 8, 2016.

NOTE 9—EQUITY INCENTIVE PLANS AND STOCK BASED COMPENSATION

2004 Equity Incentive Plan

On April 7, 2004, the Board of Directors adopted the 2004 Equity Incentive Plan (the "2004 Plan"), and received stockholder approval on January 10, 2005. The 2004 Plan became effective upon the completion of the Company's initial public offering and provides for the granting of incentive stock options, nonstatutory stock options, stock appreciation rights, stock awards and cash awards to employees and consultants. In 2005, 2,428,805 shares of common stock were authorized for issuance pursuant to the 2004 Plan, plus any shares which had been reserved but not issued under the 2001 Equity Incentive Plan (the "2001 Plan") or issued and forfeited after the date of the initial public offering, plus any shares repurchased at or below the original purchase price and any options which expire or become unexercisable after the initial public offering, thereafter plus all shares of common stock restored by the Board of Directors pursuant to the provision of the 2004 Plan that permits options to be settled on a net appreciation basis. The Company will not grant any options under the 2001 Plan after the effectiveness of the 2004 Plan. On January 1, 2006, and annually thereafter, the authorized shares will automatically be increased by a number of shares equal to the lesser of:

- 5% of the number of the Company's shares issued and outstanding prior to the preceding December 31;
- 1,214,402 shares;
- an amount determined by the Board of Directors.

On December 20, 2005, the Board of Directors approved an addition of 1,214,402 shares for issuance under the 2004 Plan effective January 1, 2006. On April 2, 2007, the Board of Directors approved an addition of 1,214,402 shares for issuance under the 2004 Plan effective January 1, 2007.

Activity under the 2001 Plan and 2004 Plan is set forth below:

	Shares Available for Grant	Outstanding Options		Weighted Average Exercise Price
		Number of Shares	Exercise Price	
Shares reserved at Plan inception	1,214,402	—	$ —	$ —
Balances, December 31, 2001	1,214,402	—	—	—
Options granted	(1,080,024)	1,080,024	0.16	0.16
Options exercised	—	(2,428)	0.16	0.16
Balances, December 31, 2002	134,378	1,077,596	0.16	0.16
Additional shares reserved	3,036,007	—	—	—
Options granted	(726,564)	726,564	0.16–0.26	0.16
Options exercised	—	(7,711)	0.16	0.16
Options canceled	5,568	(5,568)	0.16	0.16
Balances, December 31, 2003	2,449,389	1,790,881	0.16–0.26	0.16
Options granted	(2,222,333)	2,222,333	0.26–0.53	0.36
Options exercised	—	(3,518,304)	0.16–0.53	0.25
Options canceled	47,573	(47,573)	0.16–0.53	0.28
Balances, December 31, 2004	274,629	447,337	0.16–0.53	0.45
Additional shares reserved	2,428,805	—	—	—
Options granted	(947,187)	947,187	0.53–14.98	8.22
Options exercised	—	(453,317)	0.16–0.53	0.49
Options canceled	14,850	(14,850)	5.80–12.45	6.62
Options repurchased	63,969	—	0.16–0.53	0.41
Balances, December 31, 2005	1,835,066	926,357	0.16–14.98	8.29
Additional shares reserved	1,214,402	—	—	—
Options granted (1)	(4,466,000)	4,466,000	1.55–16.52	6.99
Options exercised	—	(132,143)	0.26–6.26	0.92
Options canceled (1)	3,185,413	(3,185,413)	0.53–16.52	10.48
Options repurchased	162,454	—	0.16–0.53	0.49
Balances, December 31, 2006	1,931,335	2,074,801	0.16–14.98	2.60
Additional shares reserved	1,214,402	—	—	—
Options granted	(1,700,500)	1,700,500	0.64–3.61	1.84
Options exercised	—	(2,027)	0.53–2.57	2.42
Options canceled	790,042	(790,042)	0.53–14.04	2.77
Options repurchased	98,433	—	0.26–0.53	0.35
Balances, December 31, 2007	2,333,712	2,983,232	0.16–14.98	2.12

(1) Includes 2,172,000 options that had a weighted average exercise price of $12.37, which were canceled and re-granted at an exercise price of $2.57 in September 2006.

At December 31, 2007, stock options outstanding and exercisable by exercise price were as follows:

	December 31, 2007				
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighed Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.16 – 2.00	1,328,142	9.16	$ 1.08	261,599	$ 1.07
$2.01 – 2.55	5,000	8.72	2.55	1,562	2.55
$2.56 – 2.57	1,128,573	7.44	2.57	615,893	2.57
$2.58 – 3.33	214,000	8.56	2.88	64,060	2.87
$3.34 – 3.45	35,000	8.85	3.44	11,874	3.43
$3.46 – 3.54	750	0.09	3.54	750	3.54
$3.55 – 6.26	251,767	8.02	3.66	83,329	3.77
$6.27 – 14.98	20,000	8.16	14.98	17,500	14.98
	2,983,232	8.35	$ 2.12	1,056,567	$ 2.53

The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2007 were $16,000 and $16,000, respectively. As of December 31, 2007, the ending vested and expected to vest was 2,918,655 and the aggregate intrinsic value of these options was $16,000. 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 December 31, 2007.

The total intrinsic value of stock options exercised during the years ended December 31, 2007 and 2006 were $2,000 and $0.5 million, respectively, determined at the date of the option exercise. Cash received from stock option exercises were $5,000 and $0.1 million for the years ended December 31, 2007 and 2006, respectively. 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 its current loss position.

On September 26, 2006, the Company cancelled 2,172,000 options of 70 eligible employees, consultants and directors that had a weighted average exercise price of $12.37 and re-granted 2,172,000 options at an exercise price of $2.57, which was the Company's closing price on September 29, 2006. As a result of the repricing of options of eligible employees and directors, the Company will incur an incremental stock-based compensation expense of approximately $1.5 million over the weighted average vesting period of the repriced options of 3.0 years. The incremental expense related to the repricing recorded for the years ended December 31, 2007 and 2006 was not significant.

Before the initial public offering in February 2005, the 2001 Plan allowed options to be exercised prior to vesting. Included in common stock at December 31, 2007 are 122,458 shares subject to repurchase related to options exercised prior to vesting.

2004 Employee Stock Purchase Plan

Effective with the initial public offering, the Board of Directors approved the 2004 Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan 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. For the year ended December 31, 2007, employees had purchased 118,852 shares of common stock under the Purchase Plan at an average price of $1.03. For the year ended December 31, 2006, employees had purchased 144,229 shares of common stock under the Purchase Plan at an average price of $3.14. For the year ended December 31, 2005, employees had purchased 55,309 shares of

common stock under the Purchase Plan at an average price of $5.95 per share. At December 31, 2007, plan participants had $26,000 withheld to purchase stock on February 15, 2008, which is included in accrued liabilities on the accompanying balance sheet. At December 31, 2007, 803,525 shares were authorized and available for issuance under the ESPP.

Directors Compensation Program

In December 2005, the Board of Directors approved revised compensation arrangements for non-employee directors of the Company. Effective January 1, 2006, non-employee directors receive an annual retainer $30,000, and, in addition, chairpersons of the Audit, Compensation and Nominating and Corporate Governance Committees receive annual retainers of $16,000, $14,000, and $10,000, respectively. In May 2005, each non-employee director was granted an option to purchase 15,000 shares of the Company's common stock under the Company's 2004 Equity Incentive Plan. In addition, at each annual meeting of stockholders of the Company, each non-employee director who has served as director at least six months prior to such meeting will receive an automatic grant of an option to purchase 15,000 shares of the Company's common stock. Pursuant to the provisions of the plan, in May 2007 and June 2006, each of the five non-employee directors received an automatic grant of 15,000 shares of the Company's common stock in each respective year. In addition in April 2007, pursuant to the provisions of the plan a newly elected non employee director received an automatic grant of 30,000 shares.

Stock- based Compensation

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 No.123(R), "*Share-Based Payment.—An Amendment of FASB Statements No. 123 and 95,"* 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 for the years ended December 31, 2007 and 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 were earned during the years ended December 31, 2007 and 2006 based on the recognition of the grant date fair value estimated in accordance with the original provisions of SFAS 123 over the service period, which is generally the vesting period;
- compensation cost for all stock-based awards granted or modified subsequent to January 1, 2006, that were earned during the years ended December 31, 2007 and 2006 based on the recognition of the grant date fair value estimated in accordance with the provisions of SFAS 123(R) over the service period, which is generally the vesting period; and
- compensation cost for options granted prior to the Company's initial public offering in February 2005 that were earned during the years ended December 31, 2007 and 2006 based on the grant date intrinsic value over the service period, which is generally the vesting period.

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.

Stock-based compensation expense recognized under SFAS 123(R) and APB 25 in the Company's consolidated statement of operations for the years ended December 31, 2007 and 2006 related to stock options and ESPP were $5.9 million and $10.1 million, respectively.

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 the Company's ESPP was estimated using the following weighted-average assumptions for the years ended December 31, 2007, 2006 and 2005:

	Years ended December 31,		
	2007	2006	2005
Employee Stock Options			
Risk-free interest rate	4.49%	4.59%	3.66%
Expected life (in years)	6.00	5.73	4.0
Dividend yield	—	—	—
Volatility	77%	77%	68%
Weighted-average fair value of stock options granted	$1.28	$4.49	$7.35
Employee Stock Purchase Plan			
Risk-free interest rate	4.55%	5.00%	3.11%
Expected life (in years)	1.25	1.25	1.25
Dividend yield	—	—	—
Volatility	67%	67%	67%
Weighed-average fair value of ESPP purchase rights	$0.39	$1.13	$3.24

To determine the expected term of the Company's employee stock options granted during the years ended December 31, 2007 and 2006, the Company utilized the simplified approach as defined by SEC Staff Accounting Bulletin No. 107, *"Share-Based Payment"* ("SAB 107"). To determine the risk-free interest rate, the Company utilized an average interest rate based on U.S. Treasury instruments with a term consistent with the expected term of the Company's awards. To determine the expected stock price volatility for the Company's stock options for the years ended December 31, 2007 and 2006, the Company examined historical volatilities for industry peers as the Company did not have sufficient trading history for its common stock and utilized a median of the historical volatilities of the Company's industry peers. The Company will continue to analyze the expected stock price volatility and expected term assumption as more historical data for the Company's common stock becomes available. The expected stock price volatility for the Company's ESPP for the years ended December 31, 2007 and 2006 was based on expected stock price volatilities of the Company's industry peers, as well as the historical volatility of the Company's common stock as the Company had trading history for its common stock in excess of the expected term of the stock 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 Company's initial public offering in February 2005, the Company issued options to certain employees under the 2001 Plan 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 No. 25, the Company has recorded deferred stock-based compensation 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 amortized to expense 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. In accordance with the requirements of APB 25, the Company recorded deferred stock-based compensation aggregating $19.5 million, net of forfeitures. Through December 31, 2007, the Company amortized approximately $18.7 million of such compensation expense, net of forfeitures, with approximately $2.8 million, $4.4 million and $5.3 million being amortized for the years ended December 31, 2007, 2006 and 2005, respectively.

In May 2004, the Company granted 386,778 options to employees to purchase shares of common stock at $0.53 per share. These options contained a call feature that allowed the Company to cancel the options by January 31, 2005 if the Company did not complete an initial public offering by December 31, 2004. If the Company had elected to exercise this call feature, the outstanding options would have been cancelled and any shares purchased pursuant to exercise of the options would be immediately repurchasable by the Company at the original purchase price. Stock compensation expense was amortized in accordance with the provisions of FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" for these awards subject to variable accounting. On December 14, 2004 the Company's Board of Directors eliminated the call feature. Prior to the elimination of the call feature the Company applied variable accounting to these options, resulting in deferred stock-based compensation of $6.0 million and stock compensation expense of $2.4 million during the year ended December 31, 2004. Beginning in 2005, the remaining deferred stock-based compensation related to these options is being amortized on a straight-line basis over the remaining option vesting period.

Stock-based compensation expense As required by SFAS 123(R) the Company recognized $2.9 million and $4.7 million of stock-based compensation expense related to stock options granted and purchase rights granted subsequent to the Company's initial public offering in February 2005, under the Company's stock option plans, for the years ended December 31, 2007 and 2006, respectively, in addition to the amortization of deferred compensation above. As of December 31, 2007, the total unrecognized compensation cost related to unvested stock-based awards granted to employees under the Company's stock option plans was approximately $5.7 million before forfeitures. This cost will be recorded as compensation expense on a straight-line basis over the remaining weighted average requisite service period of approximately 3.0 years.

Non-employee Stock-based Compensation Expense

Stock-based compensation expense related to stock options granted to non-employees is recognized on a straight-line basis, as the stock options are earned. During the years ended December 31, 2007, 2006, 2005 and 2004, the Company issued options to non-employees. The options generally vest ratably over the time period the Company expects to receive services from the non-employee. The values attributable to these options are amortized over the service period and the unvested portion of these options was remeasured at each vesting date. The Company believes that the fair value of the stock options is more reliably measurable than the fair value of the services received. The fair value of the stock options granted were revalued at each reporting date using the Black-Scholes valuation model as prescribed by SFAS No. 123 using the following assumptions:

	Years Ended December 31,		
	2007	2006	2005
Risk-free interest rate	4.25%	4.63%	4.25%
Expected life (in years)	4.53	6.12	10
Dividend yield	—	—	—
Expected volatility	77%	77%	80%

The stock-based compensation expense will fluctuate as the fair market value of the common stock fluctuates. In connection with the grant of stock options to non-employees, the Company recorded stock-based compensation of approximately $0.1 million, $1.1 million and $4.1 million for the years ended December 31, 2007, 2006 and 2005, respectively. In August 2005, the president and founder of the Company resigned as president and entered into a consulting and stock vesting agreement. Under the terms of this agreement, the vesting of certain of his options accelerated at December 31, 2005, subject to certain conditions. Due to the change in status from that of an employee to a consultant, compensation expense associated with the accelerated vesting of these options was recorded for his services as a consultant through December 31, 2005.

Total stock-based compensation expense was allocated to research and development and general and administrative as follows (in thousands):

	Year Ended December 31,		
	2007	2006	2005
Stock-based compensation expense:			
Research and development	$ 2,413	$ 5,008	$ 5,951
General and administrative	3,496	5,141	3,470
	$ 5,909	$ 10,149	$ 9,421

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. 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 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 service period, which is generally the vesting periods of the awards (in thousands, except per share data):

	Year Ended December 31, 2005
Net loss attributable to common stockholders, as reported	$ (44,408)
Deduct: Employee total stock-based compensation determined under fair value method	(1,060)
Pro-forma net loss attributable to common stockholders	$ (45,468)
Net loss attributable to common stockholders per common share, basic and diluted:	
As reported	$ (1.63)
Pro-forma	$ (1.67)

Disclosures for the years ended December 31, 2007 and 2006 were 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 years ended December 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 total intrinsic value of stock options exercised during the year ended December 31, 2005 was $0.4 million, determined at the date of the option exercise. Cash received from stock option exercises was $0.2 million for the year ended December 31, 2005.

NOTE 10—INCOME TAXES

A reconciliation of income taxes at the statutory federal income tax rate to net income taxes included in the accompanying statements of operations is as follows (in thousands):

	2007	2006	2005
U.S. federal taxes (benefit) at statutory rate	$(10,426)	$(18,933)	$(15,099)
State federal income tax benefit	(1,840)	(3,642)	(2,428)
Unutilized (utilized) net operating losses	11,353	20,316	16,944
Stock-based compensation	582	1,068	200
Research and development credits	(726)	(1,702)	(738)
Tax assets not benefited	1,051	2,884	1,112
Other	6	9	9
Total	$ —	$ —	$ —

The tax effects of temporary differences that give rise to significant components of the net deferred tax assets are as follows (in thousands):

	December 31,		
	2007	2006	2005
Capitalized start-up costs	$ 401	$ 408	$ 408
Net operating loss carryforwards	51,248	40,729	24,043
Research and development credits	4,795	5,250	2,112
Deferred stock compensation	8,300	6,620	3,829
Other (accruals, reserves, depreciation)	1,597	1,983	674
Total deferred tax assets	66,341	54,990	31,066
Less: Valuation allowance	(66,341)	(54,990)	(31,066)
	$ —	$ —	$ —

At December 31, 2007, the Company had federal and state net operating loss carryforwards of approximately $129 million available to offset future taxable income. The Company's federal and state net operating loss carryforwards will begin to expire in 2021 and 2013, respectively, if not used before such time to offset future taxable income or tax liabilities. For federal and state income tax purposes, a portion of the Company's net operating loss carryforward is subject to certain limitations on annual utilization in case of changes in ownership, as defined by federal and state tax laws. The annual limitation may result in the expiration of the net operating loss before utilization.

At December 31, 2007, the Company had federal research and development tax credits of approximately $3.3 million, which will expire in years 2021 through 2027, and state research and development tax credits of approximately $2.2 million, which will have no expiration date.

The Company has established a valuation allowance against its deferred tax assets due to the uncertainty surrounding the realization of such assets. The valuation allowance increased by $11.4 million, $23.9 million and $18.8 million for the years ended December 31, 2007, 2006 and 2005.

NOTE 11—EMPLOYEE BENEFIT PLAN

In November 2002, the Company implemented a 401(k) Plan to provide a retirement savings program for the employees of the Company. The 401(k) Plan is maintained for the exclusive purpose of benefiting the 401(k) Plan participants. The 401(k) Plan is intended to operate in accordance with all applicable state and federal laws and regulations and, to the extent applicable, the provisions of Department of Labor regulations issued pursuant to ERISA Section 404(c). As of December 31, 2007, the Company has not made any contributions to the 401(k) Plan.

NOTE 12—QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents certain unaudited quarterly financial information for the eight quarters ended December 31, 2007. This information has been prepared on the same basis as the audited consolidated financial statements and includes all adjustments necessary to state fairly the unaudited quarterly results of operations.

2007	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(in thousands, except per share data)				
Revenue	$ 359	$ 359	$ 359	$ 359
Net loss attributable to common stockholders	$ (9,059)	$ (7,638)	$ (6,559)	$ (7,408)
Net loss per common share, basic and diluted	$ (0.25)	$ (0.21)	$ (0.18)	$ (0.20)
Weighted average number of shares used in basic and diluted per common share calculations	36,860	36,952	37,079	37,204
2006				
(in thousands, except per share data)				
Revenue	$ 359	$ 359	$ 359	$ 384
Net loss attributable to common stockholders	$ (13,826)	$ (15,527)	$ (16,713)	$ (9,620)
Net loss per common share, basic and diluted	$ (0.38)	$ (0.43)	$ (0.46)	$ (0.26)
Weighted average number of shares used in basic and diluted per common share calculations	35,949	36,178	36,502	36,711

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLSAND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation as of December 31, 2007, under the supervision and with the participation of our management, including our Chief Executive Officer and Senior Director, Finance and Controller, of the effectiveness of the design and operation of our disclosure controls and procedures, which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized and reported within required time periods and that the information accumulated and communicated to our management, including our Chief Executive Officer and Senior Director, Finance and Controller as appropriate, to allow timely decisions, regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Senior Director, Finance and Controller concluded that, as of such date, our disclosure controls and procedures were effective.

Management's report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Senior Director, Finance and Controller, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation requirements by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Senior Director, Finance and Controller, does not expect that our disclosure controls and procedures or our internal control over financial reporting 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 benefit 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 Threshold Pharmaceuticals, Inc. have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in internal controls over financial reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the fourth quarter of the year ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHERINFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be contained in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2007 and is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be contained in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2007 and is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be contained in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2007 and is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be contained in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2007 and is hereby incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be contained in our Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2007 and is hereby incorporated by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are being filed as part of this report:

(1) The following financial statements of the Company and the report of PricewaterhouseCoopers LLP are included in Part II, Item 8:

(2) All financial statement supporting schedules are omitted because the information is inapplicable or presented in the Notes to Consolidated Financial Statements.

EXHIBIT NUMBER	DESCRIPTION
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant
3.2(2)	Amended and Restated Bylaws of the Registration
3.3(10)	Certificate of Designations of Rights, Powers and Preferences of Series A Participating Preferred Stock of Registrant
4.1(3)	Specimen Certificate evidencing shares of common stock
4.3(3)	Amended and Restated Investor Rights Agreement dated as of November 17, 2003 among the Registrant and the parties listed therein
4.4(3)	Form of Amendment No. 1 to Amended and Restated Investor Rights Agreement among the Registrant and certain parties to the Amended and Restated Investor Rights Agreement
4.5(10)	Preferred Shares Rights Agreement, dated as of August 8, 2006, by and between Registrant and Mellon Investor Services LLC
4.6(10)	Form of Rights Certificate
10.1(3)+	2001 Equity Incentive Plan
10.3(3)+	2004 Employee Stock Purchase Plan
10.6†(3)	Agreement between the Registrant, Baxter International Inc., a Delaware corporation, and Baxter Oncology GmbH, a German corporation, dated as of August 5, 2003
10.7†(3)	Exclusive License Agreement by and between the Registrant, Dr. Theodore Lampidis and Dr. Waldemar Priebe, dated as of November 11, 2002
10.8(3)	Loan and Security Agreement by and between the Registrant and Silicon Valley Bank, dated March 27, 2003
10.9(3)+	Form of Indemnification Agreement by and between the Registrant and its officers and directors
10.10(11)†	Agreement by and between the Registrant and Aziende Chimiche Riunite Angelini Francesco - Acraf S.p.a. dated as of June 24, 2004
10.11(3)	Sublease by and between the Registrant and ArQule, Inc. dated as of August 31, 2004
10.12(3)	Offer Letter by and between the Registrant and William A. Halter dated as of September 3, 2004
10.13(3)	Offer Letter by and between the Registrant and George G.C. Parker dated as of September 3, 2004

EXHIBIT NUMBER	DESCRIPTION
10.14†(3)	Development Agreement by and between the Registrant and MediBIC Co. Ltd., dated as of November 30, 2004
10.15(3)+	Form of Change of Control Severance Agreement by and between the Registrant and each of Harold E. Selick, Janet I. Swearson, Mark G. Matteucci and Alan Colowick
10.18(3)	Letter Agreement amending Development Agreement by and between the Registrant and MediBIC Co. Ltd.
10.19(4)+	Employment Letter Agreement by and between the Registrant and Alan B. Colowick dated October 25, 2004
10.20(5)+	Amended and Restated 2004 Equity Incentive Plan
10.21(6)+	Consulting Agreement and Amendment to Stock Vesting Agreement by and between the Registrant and Dr. George F. Tidmarsh dated August 18, 2005
10.22(7)+	Offer Letter by and between the Registrant and Michael S. Ostrach dated as of September 2, 2005
10.24(8)	Triple Net Space Lease by and between the Registrant and Pacific Shores Investors, LLC, dated January 31, 2006
10.25(9)	Form of Notice of Grant of Stock Options and Stock Option Agreement
10.26(12)	Amendment to Loan and Security Agreement by and between the Registrant and Silicon Valley Bank, dated April 7, 2006
10.27(13)+	Agreement and Release by and between the Registrant and Janet I. Swearson dated August 9, 2006
10.28(10)	Offer Letter by and between the Registrant and Cathleen P. Davis, dated August 8, 2006
10.29(14)	Advisory Board Agreement by and between the Registrant and Alan B. Colowick dated October 13, 2006
10.30(15)+	Change of Control Severance Agreement by and between the Registrant and Michael S. Ostrach
10.31(16)+	Change of Control and Severance Agreement by and between the Registrant and Michael K. Brawer dated November 3, 2007
10.32(17)+	Change of Control and Severance Agreement by and between the Registrant and Kevin R. Kaster dated April 2, 2007
10.33(18)+	Change of Control and Severance Agreement by and between the Registrant and Cathleen P. Davis dated April 2, 2007
10.34(19)+	Offer Letter by and between the Registrant and John G. Curd dated October 3, 2007.
10.35(20)+	Change of Control and Severance Agreement by and between the Registrant and John G. Curd dated October 19, 2007
10.36(21)+	Offer Letter by and between the Registrant and Joel A. Fernandes dated November 1, 2007.
10.37(22)+	Amended offer letter by and between the Registrant and Michael K. Brawer, M.D. dated August 1, 2007.
10.38(23)+	Agreement and Release by and between the Registrant and Cathleen P. Davis dated November 2, 2007.
10.39(24)+	Agreement and General Release dated November 3, 2007 by and between Threshold Pharmaceuticals, Inc. and Kevin Kaster.

EXHIBIT NUMBER	DESCRIPTION
10.40(25)+	Agreement and General Release dated November 16, 2007 by and between Threshold Pharmaceuticals, Inc. and Michael Brawer.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
31.1	Certification Pursuant to Rule 15d-14 of the Securities and Exchange Act of 1934, as amended, as Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Rule 15d-14 of the Securities and Exchange Act of 1934, as amended, as Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Filed as exhibit 3.2 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004, and incorporated herein by reference.

(2) Filed as exhibit 3.4 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004, and incorporated herein by reference.

(3) Filed as the like number exhibit to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004, and incorporated herein by reference.

(4) Filed as the like number exhibit to our Quarterly Report on Form 10-Q filed on May 13, 2005, and incorporated herein by reference.

(5) Filed as the like number exhibit to our Current Report on Form 8-K filed on May 24, 2005, and incorporated herein by reference.

(6) Filed as exhibit 10.20 to our Current Report on Form 8-K filed on August 19, 2005, and incorporated herein by reference.

(7) Filed as the like number exhibit to our Current Report on Form 8-K filed on September 16, 2005, and incorporated herein by reference.

(8) Filed as the like number exhibit to our Current Report on Form 8-K filed on February 9, 2006, and incorporated herein by reference.

(9) Filed as the like number exhibit to our Current Report on Form 8-K filed on March 17, 2006, and incorporated herein by reference.

(10) Filed as the like number exhibit to our Current Report on Form 8-K filed on August 9, 2006, and incorporated herein by reference.

(11) Filed as the like number exhibit to our Annual Report on Form 10-K filed on March 28, 2006, and incorporated herein by reference.

(12) Filed as the like number exhibit to our Quarterly Report on Form 10-Q filed on May 15, 2006, and incorporated herein by reference.

(13) Filed as the like number exhibit to our Quarterly Report on Form 10-Q filed on November 9, 2006, and incorporated herein by reference.

(14) Filed as exhibit 10.29 to our Current Report on Form 10-K filed on March 15, 2007, and incorporated herein by reference.

(15) Filed as exhibit 10.27 to our Current Report on Form 8-K filed on August 9, 2006, and incorporated herein by reference.

(16) Filed as exhibit 10.31 to our Annual Report on Form 10-K filed on March 15, 2007, and incorporated herein by reference.

(17) Filed as exhibit 10.32 to our Current Report on Form 8-K filed on April 4, 2007, and incorporated herein by reference.

(18) Filed as exhibit 10.33 to our Current Report on Form 8-K filed on April 4, 2007, and incorporated herein by reference.

(19) Filed as exhibit 10.34 to our Current Report on Form 8-K filed on October 25, 2007, and incorporated herein by reference.

(20) Filed as exhibit 10.35 to our Current Report on Form 8-K filed on October 25, 2007, and incorporated herein by reference.

(21) Filed as exhibit 10.36 to our Current Report on Form 8-K filed on November 2, 2007, and incorporated herein by reference.

(22) Filed as exhibit 10.34 to our Current Report on Form 8-K filed on August 6, 2007, and incorporated herein by reference.

(23) Filed as exhibit 10.37 to our Quarterly Report on Form 10-Q filed on November 7, 2007, and incorporated herein by reference.

(24) Filed as exhibit 10.38 to our Current Report on Form 8-K filed on November 26, 2007, and incorporated herein by reference.

(25) Filed as exhibit 10.39 to our Current Report on Form 8-K filed on November 26, 2007, and incorporated herein by reference.

† Confidential treatment granted as to certain portions, which portions have been omitted and filed separately with the SEC.

+ Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

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

THRESHOLD PHARMACEUTICALS, INC.

March 12, 2008

By: /s/ HAROLD E. SELICK, PH.D.
Harold E. Selick, Ph.D.
Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ HAROLD E. SELICK, PH.D. **Harold E. Selick, Ph.D.**	Chief Executive Officer (principal executive officer)	March 12, 2008
/s/ JOEL A. FERNANDES **Joel A. Fernandes**	Senior Director, Finance and Controller (principal financial and accounting officer)	March 12, 2008
/s/ BRUCE C. COZADD **Bruce C. Cozadd**	Director	March 12, 2008
/s/ WILLIAM A. HALTER **William A. Halter**	Director	March 12, 2008
/s/ DAVID R. HOFFMANN **David R. Hoffmann**	Director	March 12, 2008
/s/ WILFRED E. JAEGER, M.D. **Wilfred E. Jaeger, M.D.**	Director	March 12, 2008
/s/ GEORGE G. C. PARKER, PH.D. **George G. C. Parker, Ph.D.**	Director	March 12, 2008
/s/ MICHAEL F. POWELL, PH.D. **Michael F. Powell, Ph.D.**	Director	March 12, 2008

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-126276, No. 333-134598, and No. 333-143130) of Threshold Pharmaceuticals, Inc. of our report dated March 12, 2008 relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 12, 2008

Exhibit 31.1

Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Harold E. Selick, certify that:

1. I have reviewed this Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent 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: March 12, 2008

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

Exhibit 31.2

Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Joel A. Fernandes, certify that:

1. I have reviewed this Form 10-K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent 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: March 12, 2008

/s/ JOEL A. FERNANDES
Joel A. Fernandes.
Senior Director, Finance and Controller

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 Annual Report of Threshold Pharmaceuticals, Inc (the "Company") on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Harold E. Selick, Chief Executive Officer of the Company, 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: March 12, 2008

/s/ Harold E. Selick, Ph.D.
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 Annual Report of Threshold Pharmaceuticals, Inc (the "Company") on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel A. Fernandes, Senior Director, Finance and Controller of the Company, 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: March 12, 2008

/s/ Joel A. Fernandes
Joel A. Fernandes
Senior Director, Finance and Controller